

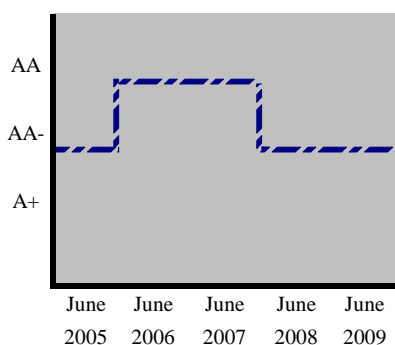


**RATINGS (JUNE 2009)**

**THE BANK OF PUNJAB (BOP)**

Entity	New	Previous
Long Term	AA-	AA-
Short Term	A1+	A1+
Outlook	Negative	-

**LT-RATING HISTORY**



**FINANCIAL DATA**

PKR (mln)

	31-Dec-08	31-Dec-07	31-Dec-06
Total Assets	185,909	234,974	164,855
Equity	5,057	15,110	10,659
Adj. Equity*	3,743	18,996	16,126
Net Income	(10,060)	4,446	3,804
ROA	n.a	2.2%	2.8%
ROE	n.a	34.5%	43.6%
CAR**	1.9%	9.7%	10.1%

\* Adjusted for Revaluation Surplus/ (Deficit)

\*\* Before PKR 10bln equity injection

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**RATING RATIONALE AND KEY DRIVERS**

- The ratings reflect the strong ownership structure of BoP and demonstrated support of the major shareholder – Government of Punjab (GoPb). The ratings incorporate the initiatives taken by the new management team to streamline the bank’s operations, strengthen systems and controls, and improve efficiency. Meanwhile, business prospects and the financial profile of the bank may remain stressed, especially in the short-term, owing to the expected drag in profitability emanating from deteriorated asset quality.
- The ratings are dependent on the continued support of the main sponsor, alongwith the continuity of the current management team. Further deterioration in asset quality, in turn, impacting the bank’s risk absorption capacity, would have negative implications for the ratings. Moreover, any politically motivated intervention in the company’s affairs, negatively impacting corporate governance standards, would be crucial for the ratings. Meanwhile, effectiveness of the strengthened risk management systems and controls, timely implementation of the core IT system and a sustainable risk management culture across the bank would also remain critical.

**ASSESSMENT**

- The domestic economy faced multiple challenges during 2008, arising from high inflation, deteriorating law and order situation, slowdown in GDP growth, and volatile stock market. This had negative repercussions for the banking industry’s credit quality and liquidity prospects. In case of BoP, having witnessed recent years of high profitability and strong growth, CY08 proved to be a difficult year, as its operations suffered due to a series of events including qualification of accounts, change in top management and questionable loan disbursement practices.
- Cognizant of the issues facing BoP, the new management, in an effort to streamline the bank’s operations and revive its reputation, has embarked on various initiatives including; a) consolidating BoP’s lending operations, b) rationalizing deposit costs, c) reviewing and strengthening risk management controls and systems, d) focused recovery and loan restructuring efforts, and e) improving HR policies. In this regard to enhance accountability and segregation of duties, the organizational structure has been revamped along two major functional lines; as business and support and control operations. The business units are headed by the Deputy-CEO, while the support units directly report to the President, thus ensuring clear lines of communication and responsibilities.
- The bank witnessed substantial deterioration in its asset quality, leading to a massive rise in NPLs (CY08: 1174%, CY07: 43%). The subsequent heavy provisioning resulted in BoP posting a substantial loss. The bank remained exposed to concentration risk, as the advances portfolio largely comprised the corporate sector (82%), with consumer, agriculture, and SME sectors representing a small portion. Furthermore, the mix within the segment remained highly concentrated as the bank took certain large credit exposures pertaining to few clients (Top 20 Advances: 51%).
- During 2008, the bank’s deposit base, due to reputation crisis and periods of tight liquidity, squeezed substantially. However, BoP continued to enjoy a distinct competitive advantage over its peers in the form of stable deposits by virtue of its ownership, as public and GoPb departmental deposits comprise majority (51%) of the deposit base. Meanwhile, the concentration of interest-rate sensitive private sector deposits also remained at moderate level (Top 10: 9.5%). Moreover, the bank’s liquidity position – a key focus area for new management – has improved, as reflected by government securities and investment held in marketable NIT units.
- In the backdrop of heavy losses and ensuing erosion of equity base, GoPb being the majority shareholder, provided its support to the bank and subsequent to the balance sheet date injected PKR 10bln, as advance subscription money against future issue of right shares by the bank. The capital injection has fortified the bank’s risk absorption capacity. Meanwhile, with an existing regulatory non-compliant CAR of 7.3% (post capital infusion) the bank has been granted compliance extension by the central bank till end-CY09.

**PROFILE**

- The Bank of Punjab, established under the BoP Act 1989, operates a vast network – largely in Punjab – of 272 branches. BoP is principally involved in lending and providing other general banking services. The Government of Punjab (GoPb) maintains majority stake in BoP (51%), whereas, 13% is owned by Employees Old Age Benefit Institution (EOBI) and the rest by various individuals, financial institutions and mutual funds.
- The overall control of the bank vests in the eight-member Board of Directors (BoD), of which six members, including the Chairman and the President, are nominated by GoPb. Currently, only GoPb nominees are serving on the BoD, while other shareholders have no representation. This issue is expected to be addressed in the upcoming annual general meeting. Moreover, owing to the institutional framework of BoP, the key shareholder can exert influence over the BoD that can compromise its independence. The BoD exercises close monitoring of the management’s policies and the bank’s operations through its three committees, namely i) Risk Management; ii) Human Resource; and iii) Audit. Mr. Naeemuddin Khan, having over 27 years of diversified banking experience, has taken over as the President of the bank. He is supported by a team of experienced professionals.

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