



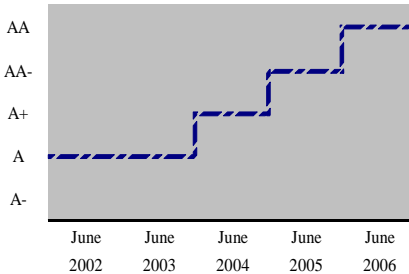
The Bank of Punjab (BoP)

Ratings (June 2006)

The Bank of Punjab

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

LT-RATING HISTORY



Financial Data

PKR (mln)

	31-Dec-05	31-Dec-04
Total Assets	111,154.2	66,320.4
Equity	6,776.9	4,420.5
Net Income	2,353.2	1,368.2
ROA (%)	2.65	2.49
ROE (%)	42.03	36.62
Equity/ Total Assets (%)	6.10	6.67
SBP CAR	12.23	12.85

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RATING RATIONALE

ASSESSMENT

- The bank's ratings reflect its robust performance and strong risk absorption capacity. BOP's regional brand equity and its extensive branch network make it well positioned to capitalize on these inherent strengths despite the intensifying competition. Meanwhile, the management has made significant progress in terms of technological upgradation and human resource development for improving operational efficiency as well as service quality.
- The bank continued with its improving trend in performance through organic growth with substantial increase in deposits as well as advances. This volume expansion was augmented by enhanced spreads, which increased despite the inclining cost of funds due to a higher proportionate increase in lending rates. Net interest revenue was supported by significant dividend income, emanating mainly from the bank's holding of NIT units. Meanwhile, the decreasing trend in non-interest costs as a proportion of revenue continued. Non-fund based income- though registering a modest YoY increase - continues to remain lower than peers. Although the bank's spreads are likely to come under pressure - as already reflected in 1Q06 - they are likely to remain higher than most peers. Consequently, performance indicators are not likely to be materially affected, going forward.
- In order to ensure optimum fund mobilisation and deployment, the management is considering branch consolidation through relocation, without network expansion. This is expected to further improve the bank's cost structure. Commercial business constitutes the bulk of the bank's business. However, target areas for growth include, as in the previous year, SME, consumer finance, and agriculture segments. To achieve this growth, the bank plans to leverage on the strategic advantage provided by its rural branch penetration through tailor-made products adapted to specific area needs. The bank also plans to remain active in money market operations, and commence high-end banking centres in urban areas to aid in resource mobilisation as part of its medium term strategy.
- Asset quality, in relative terms, is showing an improving trend as reflected in the declining ratio of impaired lending to equity. Additionally, these NPLs are largely covered by mortgaged properties in which the current market value is higher than the recorded collateral value. While the bank is expected to continue on its high growth trajectory, collateralization of the credit portfolio by mortgages, government guarantees, pledge of stocks and liquid securities are mitigating factors against the potential risk. Additionally, increased penetration into SME and Consumer finance segments is expected to alleviate concentration in the loan book. The relatively higher level of risk associated with unsecured consumer finance is mitigated by the bank's policy of obtaining insurance.
- The management is engaged in continuous up gradation of technological and human resource base. In terms of technology, almost all of the bank's branches are online on a real-time basis. While the number of proprietary ATMs is very limited relative to its peers, the bank plans to more than double this number by year-end. It is also developing an in-house software to prepare itself for the gradual implementation of Basle II. A comprehensive risk management system, owing to initiatives kicked off in the previous year, is taking a distinct form. Additionally, a risk review department has been formed in 2005.
- The bank's investment portfolio has been, and is expected to be, dominated by government securities and NIT units. The bank also has significant investment in TFCs; the associated credit risk is minimised by only investing in TFCs with above investment grade credit rating. The bank's holding of NIT units renders a substantial revaluation surplus, which lends support to the capital structure. The bank's liquidity, emanating from its holdings of government securities, is adequate. The selection of counterparties in the money market is mainly dependant on structured credit evaluation, which also dictates the level of exposure. Additionally, well-defined counter party limits are in place.
- The bank's equity continues to expand owing to the ultraconservative policy of the entire profit's retention. Despite some decline in CAR owing to enlargement of the financing portfolio, as well as the proportion of equity in relation to total assets, it remains well placed among peers, and its current level is considered adequate for the targeted volume growth.

SUPPORT

- In PACRA's view, BoP can expect support from the Government of Punjab (GOP), were it to prove necessary. This view is reinforced by the provisions of the BoP Act that stipulates continued retention of majority shareholding by GOP.

BACKGROUND

- The Bank of Punjab was established under the BoP Act 1989. The bank is currently operating with a 266 branch network concentrated in the province of Punjab. BoP is principally involved in short-term lending and providing other general banking services. The Board of Directors comprises ten members, with six nominees of the GOP and the rest elected by other shareholders. While the bank's branch network is concentrated in Punjab, the proportion of business generated outside Punjab is increasing in line with the management's strategy. Six of the thirteen branches opened in 2005 were outside Punjab, bringing the total number of branches outside Punjab to thirteen, and the management plans a further increase in coming years.
- The bank's current Chief Executive/President, who took charge in May 2003, is serving on a five-year contract. The incumbent is a professional banker having extensive experience of banking in Pakistan and abroad. He is assisted by a team of experienced professionals.
- The Chief Executive has succeeded in bringing about a change in the strategic focus of the bank's long-term policy objectives by capitalizing on BoP's potential strengths and eliminating some of its inherent organizational weaknesses. The success of his initiatives are demonstrated in the bank's flattering performance indicators.