



Rating Action

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PACRA ADJUSTS ENTITY RATINGS OF THE BANK OF PUNJAB

The Pakistan Credit Rating Agency (PACRA) has downgraded the long-term entity rating of the Bank of Punjab (BoP) to “AA-” (Double A Minus), while maintaining the short-term rating at “A1+” (A One Plus).

The rating action reflects the relative standing of BoP in the banking industry, wherein its peers have demonstrated better performance – in terms of efficient systems and controls, core profitability and asset quality. Moreover, the recent growth in advances has exposed the overall loan book of the bank to a higher degree of concentration risk. On the other hand, the concentration in deposit base has also increased, which could put pressure on the liquidity management. Although, the recent substantial provisioning against NPLs has diluted the risk absorption capacity of the bank, BoP still maintains a strong capital structure supplemented by sizeable revaluation surplus.

The Government of Punjab (GoPb) – majority shareholder of BoP – has recently nominated new members of the Board of Directors (BoD) and an interim President, after dissolution of the previous board and removal of the President. The new BoD members are distinguished professionals including seasoned bankers, prominent industrialists and civil servants. The new BoD is planning to take several initiatives to streamline the bank’s operations. However, owing to the institutional framework of BoP, the key shareholder can exert influence over the BoD that could potentially compromise its independence. Meanwhile, appointment of a new President and induction and retention of a resourceful and cohesive management team is crucial for the design and onwards implementation of the business strategy of the bank.

The bank’s ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments. However, further substantial deterioration in asset quality, in turn, impacting the bank’s risk absorption capacity and/or material delay in assembling of the key management team could have negative implications for the ratings.

About the bank: The Bank of Punjab, established under the BoP Act 1989, operates a network of 272 branches, mainly concentrated in the Punjab province. 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 GoPb and the rest elected by other shareholders. Currently, only GoPb nominated members are serving on the BoD.

Recently, the GoPb has amended the BoP Act and now it is not required to maintain a majority stake in BoP, paving way for future privatization of the bank.

The interim President of the bank, Mr. Sajjad Hussian, is an experienced banker and has been associated with BoP for around twelve years. He was heading the SME division of the bank before taking office as the President.

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