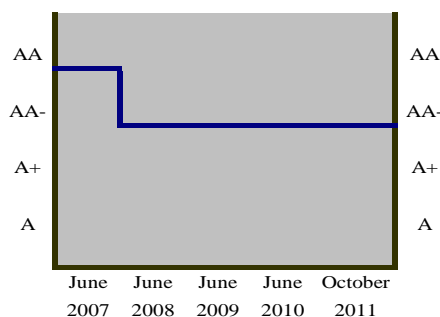


RATINGS (DECEMBER 2011)
THE BANK OF PUNJAB (BOP)

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

LT RATING HISTORY



FINANCIAL DATA

PKR in mln

	Sep-11*	Dec-10*	Dec-09*
Total Assets	260,329	235,174	222,841
Gross Advances	151,909	150,138	151,517
Deposits	219,146	208,176	190,865
Investments	86,894	58,393	57,983

*Based on unaudited management accounts

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PROFILE

■ The Bank of Punjab, established under the BoP Act 1989 and listed on all three stock exchanges of the country, operates a vast network – largely in Punjab – of 273 branches. The Government of Punjab (GoP) 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 conversion of current deposit money and injection of further capital by GoPb would enhance the Punjab Government’s share in the bank.

■ Naeemuddin Khan, the president of the bank since Sep-08, has over 27 years of diversified banking experience in marketing, corporate credit, international finance and special asset management. The Deputy-CEO, – Mr. Khalid Siddiq Trimizey, a veteran in the banking industry, has been associated with reputed international and domestic banks during his career.

RATING RATIONALE AND KEY DRIVERS

- The ratings primarily reflect strong association of the bank with the Government of Punjab as majority shareholder. This association has benefited the bank in terms of capital acquisition though at a cost, sustainable – indeed growing – deposit base, and relaxation for provisioning against major infected exposures. Nevertheless, the standalone financial profile of the bank is relatively weak. This is attributed to sizeable non-earning assets – mainly non-performing loans – having a dual impact on the bank’s net interest margin and heightened provisioning requirement.
- The new management has taken several initiatives to streamline the bank’s operations, strengthen systems and controls, and improve efficiency; though the ensuing results lag behind targeted achievement. However, a sizeable portion of the infected portfolio is expected to be declassified as a result of recent recovery and restructuring exercise. This would reduce the provisioning requirement while adding to the bank’s revenue generation ability, enabling BoP to achieve pre-provisioning break-even on a MoM basis shortly. Furthermore, additional capital injection is planned shortly. As these plans are executed, it would lead the bank to comply with the regulatory requirements over the medium term.

ASSESSMENT

■ Ever since the collapse in 2008, the bank has been trying to mend its financial profile, which came under pressure especially due to bad loans. Because the impact of such loans was phenomenal on the bank’s profitability and equity, the bank obtained exemption to withhold its financial statements from the public domain. The management is now trying to publish audited accounts for 2011, with simultaneous release of previous financial statements. In all the period, the sponsoring shareholder stood by the bank. They provided PKR 10bln as subscription money while facilitating a sustainable deposit base to the bank. GoPb supported in obtaining certain relaxations from the regulator. The bank is pursuing several means to regularize or recover its impaired finances from the borrowers. These efforts have yielded results, though the targeted achievement is yet to come.

■ Realizing the criticality of portfolio infection, the bank has been very selective in lending and that only to the extent of pre-crisis level. Its gross advances stood at PKR 153bln by end-Dec08 and now they stand at PKR 152bln by end-Sep11. This has ensured that infection may emanate from previous lending decisions but not from the lending of new management. However, the management increased its focus on deposit mobilization through launch of new schemes and utilization of existing outreach. This helped in achieving reasonable growth in the overall deposit base (9M11: PKR 219bln, Dec08: PKR 164bln). The direct and indirect deposits of the Punjab Government increased from PKR 83bln in 2008 to PKR 109bln in Jun11. The growth in deposit base was mainly dominated by high cost fixed deposits. Although there is a high customer concentration in the deposit base, comfort can be drawn from their association with the Government of Punjab.

■ During 2011, the bank is still incurring negative net interest margin, though the extent of the same has come down and the bank’s interest income has equalized interest expense from August onwards on a MoM basis. However, the bank is unable to absorb its operational cost, which is increasing due to branch expansion and inflationary impact. The growth in non-markup income is muted, providing no respite against incremental cost. Going forward, the bank would benefit from regularized accounts as their income would flow through the income statement and additional revenue being generated from fresh equity injection planned by Dec2011.

■ The fundamental and core issue of the bank is its infected portfolio, which constitutes a dominant portion of the total advances. Out of approximately PKR 70bln NPLs, an amount of above PKR 50bln is under active process, wherein the bank is making recovery through reduction plan, debt property swap, litigation or restructuring. This amount does not include the bank’s exposure towards Harris Group and Dewan Group, the former is subject to the decision of Supreme Court. The bank has made provision to the tune of PKR 21bln. The bank needs to make further provisioning of PKR 23bln. With a net equity of PKR 9bln at end-Sep11, the bank anticipates reversal of earlier provisioning plus additional capital to be able to absorb this impact.

■ A healthy increase was observed in the investment portfolio on YoY basis resultantly augmenting the bank’s liquidity. The increase, majorly financed through enhanced deposits, is mainly dominated by Government Securities. This is in line with the management’s strategy to improve the overall liquidity position and reduce the credit and market risk for the bank.

■ A major portion of the bank’s equity base has been eroded on account of massive provisioning due to hefty infected loan portfolio. This adversely impacted the bank’s risk absorption capacity. The bank remains non-compliant with the MCR and CAR requirements, though it has sought relaxation from the regulator in this regard. The bank plans to acquire further capital from the sponsor alongwith converting the current share deposit money into capital. This would enable the bank to make provision against uncovered portion while meeting MCR requirement. However, its CAR would remain short of regulatory benchmark, for which relaxation may be sought, though its modalities may vary.