

The Bank of Khyber

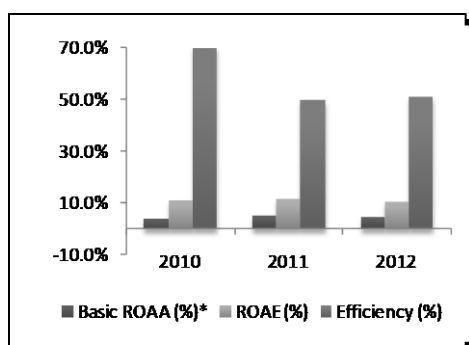
Acting Managing Director: Mr. Javed Hashmat

July 02, 2013

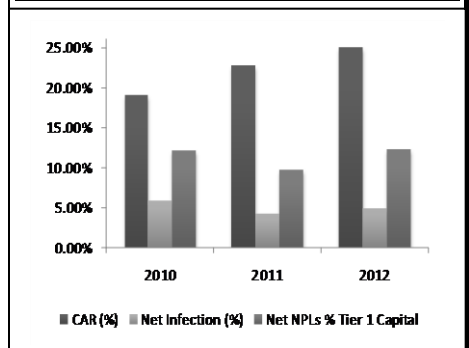
Analyst: Maimoon Rasheed
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Category	Latest	Previous
Entity	A/A-1 Jun 28, '13	A/A-2 Jun 29, '12
Outlook	Stable Jun 28, '13	Stable June 29, '12

Key Financial Trends



* based on recurring profit before provision and taxation



	2010	2011	2012
Net Advances (Rs. in b)	18.2	22.3	26.7
Deposits (Rs.in b)	37.0	45.5	60.0
Deposit Cost (%)	7.7	8.2	7.9
Profit / (Loss) (Rs.in m)	563.5	872.3	1,075
Equity (Rs. in b)	8.8	9.7	10.8
CAR (%)	19.1	22.7	25.1
Liquid Assets % Deposits & Borrowings	58%	63%	64%
Net Infection (%)	5.9	4.3	5.0

Rating Rationale

Over the years, The Bank of Khyber (BoK) has transformed into a steadily growing bank having presence in key cities of Pakistan. The bank continues to receive implicit financial support from Government of Khyber Pakhtunkhwa (KPK) which has placed sizeable portion of deposits with the bank. The bank's internal capital generation capacity has strengthened capitalization level which denotes overall improvement in loss absorption capacity of the bank. Existing capital adequacy ratio provides considerable cushion for growth. Furthermore, liquidity profile of the institution is considered sound. Growth momentum in deposits continued during FY12; deposits profile features concentration, with top-10 deposits comprising 40.5% of the total deposits (end-Dec'11: 42%) at end-Dec'12. Average cost of deposit was recorded at 7.9% depicting marginal improvement on timeline basis while proportion of CASA deposits in deposit mix improved to 50.6% (end-Dec'11: 45.2%). The management expects to rationalize its deposit mix by increasing share of retail segment, going forward.

As per target, the bank established 15 new branches during FY12, bringing total network to 77 branches. Moreover, 13 new branches (including Islamic banking branches) are planned to be set up by end-Dec'13. While maintaining cautions stance on consumer related loans, fresh disbursement were higher in other avenues. BoK has depicted reasonable growth in advances. Performing advances of the bank were higher by 17%, with strong growth manifested in corporate loan book. The bank's exposure to credit risk arising out of fresh disbursements during FY12 is considered manageable. Growth in advances was mainly due to active participation in financing for commodity operations of provinces. Since 2012, Government of KPK is exclusively availing commodity operations financing from BoK.

Islamic banking Group (IBG) maintains sound asset quality while cost of deposit of IBG is considerably lower than conventional operations based on high proportion of CASA deposits. The management is foreseeing sizeable growth in advances of IBG in on-going year. IBG has a decent share in overall profitability of the bank. Bulk of fresh deposits mobilized by the bank were channelized towards investments. Investment mix of the bank is highly tilted towards government securities which represents 92% of the total investment portfolio. Resultantly, credit risk arising out of investment portfolio is low. Overall spreads declined on a timeline basis on account of decline in interest rates, as a sizeable proportion of balance sheet is deployed in money market operations. On account of expansion in branch network, the bank's efficiency indicators have showcased slight weakening. Despite aforementioned aspects, profitability indicators depicted healthy growth during 2012.

There are some inherent limitations in the MIS deployed at the institution; the bank is in process of replacing existing software with outsourced Core Banking Application (CBA). The progress on implementation has slowed down since the management has simultaneously initiated Business Process Improvement (BPI) exercise. Timely implementation of CBA is considered important for maintaining sound control over growing business volumes. There was a change in the structure of risk department on a timeline basis. The ambit of risk department has been broadened; further the department has developed certain risk management policies during 2012. HR function has room for improvement; documentation process can be fine tuned in line with best practices. Meanwhile, new organogram has been designed which will be implemented in 3 phases to align institutional structure with peer banks.

Position of Managing Director (MD) is vacant since Mar'13. Hiring of new MD is in process. Meanwhile, Mr. Javed Hashmat has been appointed as acting MD. With the induction of new MD, strategic plan and course of action for network expansion and business growth will be evident over time.

Overview of the Institution

BoK acquired the status of a scheduled bank in 1994. The Government of KPK holds 70.2% of BoK. The bank is principally involved in the business of commercial, Investment, and Islamic banking. The management plans to construct state-of-the-art head office building, which will help in improving its corporate image and rationalize related costs. The financial statements for FY12 were audited by M/s M. Yousuf Adil Saleem & Co, which is on the panel of SBP's 'A' category auditors. JCR-VIS