

## The Bank of Khyber

Acting Managing Director: Mr. Imran Samad

July 7<sup>th</sup>, 2014

**Analyst:** Maimoon Rasheed  
Syed Adil Hussain

Category	Latest	Previous
<b>Entity</b>	<b>A/A-1</b> Jun 30, '14	<b>A/A-1</b> Jun 28, '13
<b>Outlook</b>	<b>Stable</b> Jun 30, '14	<b>Stable</b> Jun 28, '13

### Rating Rationale

The ratings of The Bank of Khyber (BoK) take into account majority holding of a sub-sovereign – Government of Khyber Pakhtunkhwa (KPK). The ratings incorporate demonstrated support in the form of equity injection to meet the regulatory minimum capital requirement, as and when needed. KPK has also been exclusively availing financing for commodity operations from the bank. BoK also maintains one of the highest capital adequacy ratio amongst peers; this provides considerable room for growth and loss absorption capacity.

Liquidity profile of the institution is considered sound. The bank has been able to maintain the growth momentum in deposits while increasing the proportion of CASA in the deposit base. Concentration in deposits has also showcased improvement on a timeline basis, though it is still considered relatively high. However, stability has been witnessed in large ticket deposits as most of such deposits pertain to KPK and its related agencies. The management plans to further rationalize its deposit mix by increasing share of retail segment, going forward.

By end-FY13, the bank achieved a network of 100 branches. The management intends to set up 16 new branches during FY14. Currently, the bank operates with 44 Islamic banking branches; the proportion of deposits from this avenue is around one fifth of total deposits. The bank, in line with peers, has been able to achieve reduction in overall cost of deposits on account of a more favorable deposit mix and a downward revision in the discount rate. Going forward, the bank expects to bring cost of deposits further down by shedding some high cost deposits.

Growth in loan book was mainly manifested in commodity financing; credit risk arising from the same is considered minimal. However, largest portion of loan portfolio still comprises corporate book. The bank managed to improve asset quality indicators on account recoveries against NPLs along with relatively higher provisioning coverage. Fresh infection was witnessed during 1Q14; it has been partly regularized subsequently.

Investment portfolio of the bank continued to be dominated by government securities during the outgoing year. During 1Q14, the bank considerably increased the proportion of PIBs portfolio in the investment mix; interest rate risk related to these instruments is considered high. The bank's exposure in equity portfolio carry market risk, however considering the size of the equity portfolio, this risk is considered manageable.

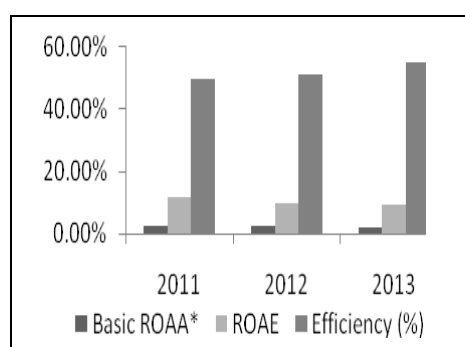
In line with overall banking sector of the country, BoK witnessed some pressure on spreads during 2013. The bank however was able to sustain performance primarily on account of volume expansion. The management may increase the proportion of non-fund based income in order to support the bottom line. Going forward, the bank plans to focus on quality corporate exposures across different sectors. Moreover, the bank intends to further expand commodity and wheat financing in the provinces of Punjab and KPK. Given the long term expansion plans of the bank, sufficient liquidity would need to be maintained while keeping asset quality in check.

The bank is in the process of replacing its existing decentralized system with a state-of-the-art Core Banking System (CBS). Implementation of the new CBS has been validated by a Business Process Improvement exercise being carried out by the bank; as per the management, CBS will go live in 2015. The position of Managing Director is vacant for an extended time. Stability in the core management team is critical in achieving the long term goals of the bank.

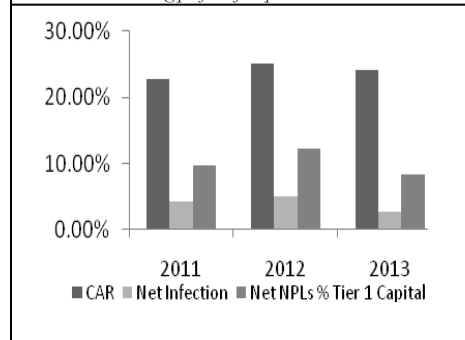
### Overview of the Institution

BoK was awarded the status of a scheduled bank in 1994. The bank is involved in the business of commercial, investment, and Islamic banking. BoK is one of the three provincial government banks in the country. The government of KPK holds around 72% stake in the bank. The financial statements for FY13 were audited by M/s M. Yousuf Adil Saleem & Co. – Chartered Accountants JCR-VIS

### Key Financial Trends



\* based on recurring profit before provision and taxation



	2011	2012	2013
Net Advances (Rs. in b)	22.3	26.7	35.5
Deposits (Rs.in b)	45.5	60.0	77.2
Deposit Cost (%)	8.2	7.9	6.2
Profit / (Loss) (Rs.in m)	872.3	1,078	1,154
Equity (Rs. in b)	9.7	10.8	11.9
CAR (%)	22.7	25.1	24
Liquid Assets % Deposits & Borrowings – adjusted for repo	66.6%	71.6%	67.4%
Net Infection (%)	4.3	5.0	2.8

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<b><u>RATING TYPE: ENTITY</u></b>				
30-Jun-14	A	Stable	A-1	Reaffirmed
28-Jun-13	A	Stable	A-1	Maintained
29-Jun-12	A	Stable	A-1	Upgrade
08-Feb-12	A-	Rating Watch – Developing	A-2	Rating Watch – Developing
02-Jul-11	A-	Positive	A-2	Reaffirmed
24-Dec-10	A-	Stable	A-2	Upgrade
29-Jun-10	BBB+	Positive	A-3	Maintained