



## Rating Action

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## Applicable Criteria and Related Research

- Banking Sector - Viewpoint | Dec-15
- Bank Rating Methodology

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## PACRA MAINTAINS RATINGS OF THE BANK OF KHYBER

The Pakistan Credit Rating Agency Limited (PACRA) has maintained long term and short term entity ratings of The Bank of Khyber [BoK] at 'A' (single A) and 'A1' (A One), respectively. These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

The ratings reflect association of the bank with the Government of Khyber Pakhtunkhwa (GoKP). The bank's standalone profile exhibits strengths. These include sound liquidity and high capital adequacy, supplemented by improving profitability. Spreads remained low, though showed stability. Although potential drag on equity is being contained, weakening in asset quality is a concern and needs management attention. Beefed-up treasury operations has helped the bank in registering significant capital gain. Resultantly, rise in total revenue has rationalized the Cost to Total Net Revenue ratio as compared to the peers. The bank still has reliance on large ticket deposits from Government of Khyber Pakhtunkhwa (GoKP) and its related agencies. However, stability is observed in such deposits over time. The bank is expanding its branch network with high focus on KPK; however, establishing footprints in other provinces is may be needed to better compete with established banks. The management plans to increase advances book with higher focus in SME and recently launched consumer financing. With desired credit growth, strengthening management information systems remains critical.

The ratings are dependent on bank's ability to hold its risk profile, while maintaining its relative market position. Improvement in the technology platform is critical to foster the control environment including reporting framework. Meanwhile, any significant infection in asset quality, thereby weakening the bank's risk absorption capacity, and/or any intervention compromising the governance standards would impact negatively.

**About the bank:** The Bank of Khyber (BoK), established in 1991 under the BoK Act, was awarded status of a scheduled bank in September 1994. The Government of Khyber Pakhtunkhwa (GoKP) has majority stake in BoK (70%), whereas, Ismail Industries with ~24% is the other major shareholder. The bank has a network of 130 branches out of which 64 are Islamic as at end Mar 16.

The board presently comprises eight members, out of which four are GoKP nominees, including two ex-officio members. The remaining includes one representative of Ismail Industries. Mr. Shams-ul-Qayyum, the Managing Director, associated with BoK since Oct 14, carries with him more than four decades of experience in the financial sector. He is supported by a seasoned management team.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity.

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