

June 05, 2009

**Pakistan Market****BOP: 2008 Financial Results/'Under-Review'****MORNING BRIEFING**

KSE100 Index: Closing 6878.14 ↓ (-111.80)

After a long delay, Bank of Punjab (BOP) has finally released its full year 2008 annual results today posting a record loss of Rs10.1bn (Loss per share Rs19) as against a profit of Rs4.4bn (EPS Rs8.4) in 2007. The stock has been on the negative publicity radar ever since its 2007 annual accounts were qualified by the auditors on account of limitation of scope with regards to determining provisions on Rs8.6bn loans to 3 companies.

As a result, the share price remained subdued in 2009 as well down 17% compared to index gain of 17%. This decline was on top of 83% drop witnessed in 2008.

**Loss of Rs10.1bn mainly due to higher provisions**

The major highlight of the financial result is the massive Rs18.6bn provisions for non performing loans (14.3% of net advances) recognized by BOP. This is significantly higher than Rs8.6bn advances in question (audit qualification) last year and brings to the fore major investor question marks on the extent of the infected advances portfolio.

The scale of the provisioning can be judged by the fact the BOP share in the total listed sector provisions arrives at a massive 26%. Resultantly, the bank posted a loss of Rs10.1bn (loss per share Rs19) versus earnings of Rs4.4bn (EPS Rs8.4). This huge loss has significantly eroded the equity in the process with book value per share down to Rs7.1 (2007: Rs35.9).

**NII down 68%, Non interest income fell by 23%**

BOP's Net interest income (NII) fell sharply by 68% to Rs1.1bn as question marks regarding its going concern status meant sharp withdrawals by depositors. Therefore, the bank had to offer very high deposit rates in a bid to attract/maintain deposits which in turn squeezed spreads and interest margins. Moreover, absence of the one timer NIT redemption of Rs1.6bn resulted in 23% decline in non interest income to Rs4.2bn. Excluding the one timer, non interest income rose by 10% ably supported by higher dividend income from NIT.

**Rs1.1bn impairment loss deferred to 2009**

BOP like most of its contemporaries suffered from the equity market turmoil last year incurring an impairment loss of Rs1.1bn (Rs2.1 per share) on listed equity securities and mutual fund investments. Taking advantage of the State Bank's relaxation, BOP has deferred the recognition of entire amount in P&L to 2009. The said amount in accordance with the directive was recognized in equity and would have to be transferred to P&L on a quarterly basis adjusting for price movements. On a positive note, the improvement in equity markets (KSE up 17% from Dec 2008 levels), means a lower quantum would be recognized as impairment in 2009.

**Valuation: 'Under-Review'**

The just released financial results of BOP have brought about a major change in the financial position of the bank. As a result, pending release of its full year accounts and management discussion, we have placed BOP as 'Under-Review'. We would soon come up with our stance and future numbers related to bank once its detailed accounts are released.

**Table: Financial Highlights**

(Rs in mn)	2008	2007	%Δ
Mark-up interest earned	17,753	17,539	1%
Mark-up interest paid	(16,614)	(13,939)	19%
Net interest income	1,139	3,600	-68%
Provisions/write offs/reversal	(19,230)	(1,888)	919%
	(18,091)	1,712	NM
Non interest income	4,183	5,423	-23%
Operating expenditures	(2,925)	(2,289)	28%
Profit/(Loss) before tax	(16,833)	4,846	NM
Taxation	6,773	(400)	NM
Profit/(Loss) After Taxation	(10,060)	4,446	NM
Earnings/(Loss) per share	(19.0)	8.4	NM

Source: Company Announcement

**Also in focus****World Bank approves US\$900mn aid for Pakistan**

World Bank has approved a US\$900mn aid for Pakistan which aims at improving education & expanding development projects in Punjab and Sindh. The loans are offered at low interest rates with a 0.75% service free 10 year grace period and a 35-year term. This aid can further stem the forex reserves which have risen to US\$11.52bn as of May 30, 2009.

**JS Global Capital Limited**

6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

**Research:**

Tel: +92 (21) 2799005

Fax: +92 (21) 2800163

js.research@js.com

**Fixed Income Sales:**

Tel: +92 (21) 2799541-44

Fax: +92 (21) 2800165

tariq.usman@js.com

**Equity Sales:**

Tel: +92 (21) 2799513

Fax: +92 (21) 2800166

junaid.iqbal@js.com

**Corporate Finance:**

Tel: +92 (21) 2799005

Fax: +92 (21) 2800163

llyas.ahmed@js.com

**JS RESEARCH IS AVAILABLE ON BLOOMBERG & THOMSON REUTERS**

farhan.rizvi@js.com

92 (21) 111-574-111 (ext. 3096)