



Banks Pension Case Impact Lower than Expectation

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Banks expected to pay minimum pension of Rs8,000/month



- As per our channel checks and media reports, Supreme Court (SC) has asked the big 4 private Banks (HBL, UBL, MCB and ABL) to increase monthly pensions of the pensioners to Rs8,000/month with an annual increase of 5%. We await further details on the same however as per our initial impression, this could have an earnings impact of Rs1-4/sh, which is lower than market expectations. Further, this is only applicable for future pension obligations.
- To recall, SC had recently taken Suo Motu notice of pension policies of the big 4 private Banks in Pakistan. SC has termed monthly pension payment of pensioners by these top banks as very low and inadequate. Certain ex-employees of these banks had been fighting cases over a decade in various courts in order to get fair amount of pensions.
- It is to be noted that the above mentioned banks operates a pension scheme for those employees who opted for it, when the scheme was introduced in 1977. The scheme was valid for employees who joined these banks by up to 2001.
- To recall, Federal Govt. launched a pension scheme effective from May 1, 1977, directing that all the executives/officers of all nationalized banks would be paid pension. Later on in 1997, the Banks Nationalization Act, 1974 was substantially amended and the Board of Directors of these Banks were empowered to determine the personal policies. Hence, it is argued in the case that these top 4 Banks did not raise pension rates post privatization of the Nationalized banks in late 1990 and early 2000s.

Banks expected to pay minimum pension of Rs8,000/month

- For our analysis, we have assumed that banks will only be liable to pay higher amounts of pensions in future and we assume that banks are currently paying monthly average pension of Rs2,500 to pensioners. If banks are required to increase pension to Rs8,000, than banks will incur additional annual expense against the same and a provision will be taken on P&L against the future prospective expense. The provision will be the present value of the future annual expense, which will be a one time expense on P&L. Simultaneously, a fund will be created on balance sheet that will fund future expense on account of pensioners.
- We continue to maintain “Overweight” stance on banks with BAHL, HBL and UBL as Top Picks.

One time EPS impact on big banks

Bank	Employees under Pension scheme	Pension set at Rs8,000 Rs/share*
ABL	1,262	0.8
HBL	2,743	1.3
MCB	2,000**	1.2
UBL	6,829	3.9

Source: Company Accounts, Topline Research; *Pre-Tax; **Estimated

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