



The Bank of Khyber



Condensed Interim
FINANCIAL INFORMATION
For the Period Ended September 30, 2020



Condensed Interim

FINANCIAL INFORMATION

For the Period Ended September 30, 2020

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CORPORATE INFORMATION

Board of Directors

Shakeel Qadir Khan	Chairman
Atif Rahman	
Maqsood Ismail Ahmad	
Asad Muhammad Iqbal	
Javed Akhtar	
Rashid Ali Khan	

Managing Director / CEO

Ihsan Ullah Ihsan (Acting)

Board Audit Committee

Asad Muhammad Iqbal	Chairman
Atif Rahman	
Javed Akhtar	
Rashid Ali Khan	

Board Human Resource & Remuneration Committee

Maqsood Ismail Ahmad	Chairman
Asad Muhammad Iqbal	
Rashid Ali Khan	
Managing Director	

Board Risk Management Committee

Maqsood Ismail Ahmad	Chairman
Atif Rahman	
Javed Akhtar	
Rashid Ali Khan	
Managing Director	

Board I.T. Steering Committee

Atif Rahman	Chairman
Asad Muhammad Iqbal	
Rashid Ali Khan	
Managing Director	

Board Compliance Committee

Rashid Ali Khan	Chairman
Maqsood Ismail Ahmad	
Javed Akhtar	

Investment Committee

Maqsood Ismail Ahmad
Asad Muhammad Iqbal
Managing Director

Chairman

Chief Financial Officer

Rahat Gul (Acting)

Company Secretary

Zahid Sahibzada

Registered Office / Head Office**The Bank of Khyber**

24 – The Mall, Peshawar Cantt.

1st Floor, State Life Building, 34 – The Mall,
Peshawar Cantt., Pakistan

UAN# 00-92-91-111 95 95 95

URL: www.bok.com.pk

Auditors

EY Ford Rhodes
Chartered Accountants

Legal Advisors

Mr. Nisar Ahmed Khan
Advocate, Peshawar

M/s. Mohsin Tayebaly & Co., Karachi

Registrar and Share Registration Office

THK Associates (Pvt) Ltd.
1st Floor, 40-C, Block 6
P.E.C.H.S, Karachi – 75530
Pakistan.

Directors' Review

On behalf of the Board of Directors of the Bank of Khyber, I am pleased to present the condensed Interim Financial Statements of the Bank for the 3rd quarter ended September 30, 2020. The results are inclusive of Islamic Banking Operations:

Financial Highlights

The financial results of the Bank of Khyber for the 3rd quarter ended September 30, 2020 are as under:

	(Rs. in Million)	
	September 30, <u>2020</u>	December 31, <u>2019</u>
Total Assets	298,823	306,305
Deposits	192,999	182,168
Advances (Gross)	126,167	113,976
Investments (Net)	145,142	146,911

	(Rs. in Million)	
	Period Ended <u>2020</u>	September 30, <u>2019</u>
Operating Profit	4,208	1,060
Provision against non-performing advances/others	(1,413)	(160)
Profit before taxation	2,795	900
Taxation	(1,143)	(302)
Profit after tax	1,652	598

Performance Review

Due to decline in COVID-19 cases in the country and easing of lockdowns coupled with timely support and strong measures adopted by State Bank of Pakistan, the economy has shown improvement in growth outlook. In the backdrop of this situation, the Bank of Khyber adopted prudent approach in the circumstances and posted excellent financial results.

The Bank closed the 3rd quarter with profit before tax of Rs.2,795 million whereas profit after tax increased substantially and stood at Rs.1,652 million as compared to Rs.598 million for the same period of 2019. The major participants of the enhanced profitability remained increase in Mark-up / Interest earned and Capital gains whereas cost curtailed due to shedding of high cost deposits and downward discount rate.

The total assets stood at Rs.298,823 million. Deposits registered a growth of 6% and stood at Rs.192,999 million whereas with an increase of 11% from the year end 2019, advances reached Rs.126,167 million which mainly comprised of commodity financing. Investments closed at Rs.145,142 million at the close of the 3rd quarter.

At the end of the quarter under review, the Bank was operating with 169 branches and 5 sub-branches with 4 booths across the country wherein 84 branches were working as dedicated Islamic Banking Branches.

Future Outlook

With uncertainty over the Covid-19 pandemic fading out, the economy has shown momentum and many sectors have resumed activities. This trend will yield results in improved business environment paving the way to regain economic thrust and influence the overall business scenario.

The Bank remains cognizant of the challenging business environment and stands committed to its strategy of steady growth through diversification in products, services and outreach. The Bank is also focusing on increasing its customer base and mobilizing low cost deposit mix with an emphasis on prudent lending to maintain trend of stable profitability.

Credit Rating

JCR-VIS Credit Rating Company Ltd. (JCR-VIS) and The Pakistan Credit Rating Agency Limited (PACRA) have maintained the medium to long term and short term entity ratings of the Bank at “A” (Single A) and “A-1” (A One) respectively. Outlook on the assigned rating is “Stable”.

The ratings denote low expectation of credit risk emanating from strong capacity for timely payment of financial commitments.

Acknowledgement

The Board would like to thank the Provincial Government, State Bank of Pakistan and other regulatory authorities for their guidance and support. We are also grateful to our valued customers for their patronage and continued confidence in the Bank.

For and on behalf of the Board of Directors



Ihsan Ullah Ihsan
Managing Director (Acting)

Islamabad: October 28, 2020

THE BANK OF KHYBER
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2020

		(Un-audited) September 30, 2020	(Audited) December 31, 2019
	Note	----- Rupees in '000 -----	
ASSETS			
Cash and balances with treasury banks	6	14,072,388	12,137,805
Balances with other banks	7	5,312,607	8,230,072
Lendings to financial institutions	8	799,532	13,863,449
Investments	9	145,142,476	146,911,102
Advances	10	120,519,644	109,742,292
Fixed assets	11	3,221,755	3,334,670
Intangible assets	12	353,071	286,255
Deferred tax assets	13	529,748	1,031,154
Other assets	14	8,871,373	10,768,453
		298,822,594	306,305,252
LIABILITIES			
Bills payable	15	1,021,691	1,172,155
Borrowings	16	80,163,027	94,656,461
Deposits and other accounts	17	192,999,092	182,167,572
Liabilities against assets subject to finance lease		-	-
Subordinated debt		-	-
Deferred tax liabilities		-	-
Other liabilities	18	7,268,120	14,107,711
		281,451,930	292,103,899
NET ASSETS		17,370,664	14,201,353
REPRESENTED BY			
Share capital		10,002,524	10,002,524
Reserves		3,235,151	2,904,691
Surplus / (deficit) on revaluation of assets	19	1,236,528	(780,670)
Unappropriated profit		2,896,461	2,074,808
		17,370,664	14,201,353
CONTINGENCIES AND COMMITMENTS	20		

The annexed notes 1 to 38 form an integral part of these condensed interim financial statements.


 Managing Director


 Chief Financial Officer


 Director



 Director


 Director

THE BANK OF KHYBER
**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2020**

Note	Quarter ended		Period ended	
	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
	Rupees in '000			
Mark-up/return/interest earned	21 6,004,996	7,032,126	20,831,364	17,304,352
Mark-up/return/interest expensed	22 4,096,265	5,728,555	15,688,668	13,538,822
Net mark-up/ interest income	1,908,731	1,303,571	5,142,696	3,765,530
NON MARK-UP/INTEREST INCOME				
Fee and commission income	23 101,986	91,684	260,875	287,072
Dividend income	6,275	2,477	10,893	7,912
Foreign exchange income	125,370	53,973	384,637	143,170
Income / (loss) from derivatives	-	-	-	-
Gain on securities	24 (44,467)	17,519	1,704,710	19,711
Other income	25 38,239	35,081	98,010	94,841
Total non-markup/interest income	227,403	200,734	2,459,125	552,706
Total income	2,136,134	1,504,305	7,601,821	4,318,236
NON MARK-UP/INTEREST EXPENSES				
Operating expenses	26 1,101,554	1,188,052	3,293,800	3,140,359
Workers Welfare Fund	-	-	-	-
Other charges	27 31,523	40,017	99,349	117,488
Total non-markup/interest expenses	1,133,077	1,228,069	3,393,149	3,257,847
PROFIT BEFORE PROVISIONS	1,003,057	276,236	4,208,672	1,060,389
Provisions and write offs - net	28 241,264	14,935	1,413,498	160,580
PROFIT BEFORE TAXATION	761,793	261,301	2,795,174	899,809
Taxation	29 315,666	161,655	1,142,875	301,998
PROFIT AFTER TAXATION	446,127	99,646	1,652,299	597,811
Basic and diluted earnings per share	30 0.45	0.10	1.65	0.60

The annexed notes 1 to 38 form an integral part of these condensed interim financial statements.


Managing Director

Chief Financial Officer

Director

Director

Director

THE BANK OF KHYBER
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2020

	Quarter ended		Period ended	
	Three months ended	Three months ended	Nine months ended	Nine months ended
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	----- Rupees in '000 -----			
Profit after taxation	446,127	99,646	1,652,299	597,811
Other comprehensive income				
Items that may be reclassified to profit and loss account in subsequent periods:				
Net change in fair value of available for sale securities	(1,283,281)	1,278,295	3,103,386	856,966
Related deferred tax	449,148	(447,403)	(1,086,188)	(299,938)
	(834,133)	830,892	2,017,198	557,028
Total comprehensive income	(388,006)	930,538	3,669,497	1,154,839

The annexed notes 1 to 38 form an integral part of these condensed interim financial statements.


 Managing Director


 Chief Financial Officer


 Director


 Director


 Director



THE BANK OF KHYBER CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED SEPTEMBER 30, 2020

Balance as at December 31, 2018 (audited)

Profit after taxation for the nine months ended September 30, 2019
Other comprehensive income - net of tax

Transfer to statutory reserves

Balance as at September 30, 2019 (un-audited)

Profit after taxation for the three months ended December 31, 2019
Other comprehensive income - net of tax

Transfer to statutory reserve

Balance as at December 31, 2019 (audited)

Profit after taxation for the nine months ended September 30, 2020
Other comprehensive income - net of tax

Transfer to statutory reserve

Transactions with owners recorded directly in equity

Final cash dividend for the year ended December 31, 2019
(Rs.0.50 per share)

Balance as at September 30, 2020 (un-audited)

Share capital	Statutory reserve	Surplus / (deficit) on revaluation of		Unappropriated profit	Total
		Investments	Assets		
10,002,524	2,643,483	(2,878,875)	774,183	1,163,269	11,704,584
-	-	-	-	597,811	597,811
-	-	557,028	-	557,028	557,028
-	-	557,028	-	597,811	1,154,839
-	119,562	-	-	(119,562)	-
10,002,524	2,763,045	(2,321,847)	774,183	1,641,518	12,859,423
-	-	-	-	708,228	708,228
-	-	766,994	-	(133,292)	633,702
-	-	766,994	-	574,936	1,341,930
-	141,646	-	-	(141,646)	-
10,002,524	2,904,691	(1,554,853)	774,183	2,074,808	14,201,353
-	-	-	-	1,652,299	1,652,299
-	-	2,017,198	-	-	2,017,198
-	-	2,017,198	-	1,652,299	3,669,497
-	330,460	-	-	(330,460)	-
-	-	-	-	(500,186)	(500,186)
10,002,524	3,235,151	462,345	774,183	2,896,461	17,370,664

The annexed notes 1 to 38 form an integral part of these condensed interim financial statements.

Managing Director

Chief Financial Officer

Director

Director

Director

THE BANK OF KHYBER
CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2020

Note	Rupees in '000 -----	
	Nine months ended September 30, 2020	Nine months ended September 30, 2019
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	2,795,174	899,809
Less: Dividend income	10,893	7,912
	<u>2,784,281</u>	<u>891,897</u>
Adjustments:		
Depreciation - Fixed assets	209,163	243,454
Depreciation - Non banking assets acquired in satisfaction of claims	39,836	-
Depreciation - Right-of-use assets	233,893	136,152
Amortization	25,898	32,224
Provisions and write offs-net	1,413,498	160,580
Mark-up expense on lease liability against right-of-use assets	99,286	109,990
Unrealized loss on securities	19,370	-
Gain on sale of fixed assets	(72)	(219)
Gain on early culmination of lease modification	(4,666)	-
	<u>2,036,206</u>	<u>682,181</u>
	<u>4,820,487</u>	<u>1,574,078</u>
(Increase)/ Decrease in operating assets		
Lendings to financial institutions	13,063,917	(4,930,684)
Held-for-trading securities	(3,033,859)	(3,081,560)
Advances	(12,190,850)	(24,052,790)
Others assets (excluding advance taxation)	1,655,884	(3,872,762)
	<u>(504,908)</u>	<u>(35,937,796)</u>
Increase/(Decrease) in operating liabilities		
Bills payable	(150,464)	(27,375)
Borrowings from financial institutions	(14,493,434)	50,723,259
Deposits	10,831,520	16,088,113
Other liabilities (excluding current taxation)	(7,723,883)	5,435,187
	<u>(11,536,261)</u>	<u>72,219,184</u>
	<u>(478,525)</u>	<u>(220,978)</u>
Income tax paid	(7,699,207)	37,634,488
Net cash flow (used in) / generated from operating activities		
CASH FLOW FROM INVESTING ACTIVITIES		
Net investments in available-for-sale securities	5,866,147	(41,277,301)
Net investments in held-to-maturity securities	2,039,724	191,756
Dividends received	10,893	7,912
Investments in operating fixed assets	(380,794)	(447,248)
Proceeds from sale of fixed assets	74	352
Net cash flow generated from / (used in) investing activities		
	<u>7,536,044</u>	<u>(41,524,529)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Dividend paid	(500,186)	(44)
Payments of lease obligations	(319,533)	(281,640)
Net cash flow used in financing activities		
	<u>(819,719)</u>	<u>(281,684)</u>
Decrease in cash and cash equivalents		
	<u>(982,882)</u>	<u>(4,171,725)</u>
Cash and cash equivalents at beginning of the period	20,367,877	16,056,813
Cash and cash equivalents at end of the period	<u>19,384,995</u>	<u>11,885,088</u>

The annexed notes 1 to 38 form an integral part of these condensed interim financial statements.


Managing Director

Chief Financial Officer

Director

Director

Director

THE BANK OF KHYBER
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2020

1 STATUS AND NATURE OF BUSINESS

The Bank of Khyber ("the Bank") was established under The Bank of Khyber Act, 1991 and is principally engaged in the business of commercial banking and related services. The Bank acquired the status of a scheduled bank in 1994 and is listed on the Pakistan Stock Exchange Limited. The registered office of the Bank is situated at 24-The Mall, Peshawar Cantt, Peshawar and it has been temporarily shifted to 1st Floor, State Life Building, 34 - The Mall, Peshawar Cantt. The Bank operates 169 branches including 84 Islamic banking branches (2019: 169 branches including 84 Islamic banking branches). The long term credit ratings of the Bank assigned by The Pakistan Credit Rating Agency Limited (PACRA) and JCR-VIS are 'A' and 'A' respectively and the short-term credit ratings assigned are 'A-1' (A-One) and 'A-1' (A-One) respectively.

2 STATEMENT OF COMPLIANCE

2.1 These condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:

- International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Act, 2017;
- Provisions of and directives issued under the Banking Companies Ordinance, 1962 and the Companies Act, 2017; and
- Directives issued by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP).

Whenever the requirements of the Banking Companies Ordinance, 1962, the Companies Act, 2017 or the directives issued by the SBP and the SECP differ with the requirements of IAS 34 or IFAS, the requirements of the Banking Companies Ordinance, 1962, the Companies Act, 2017 and the said directives, shall prevail.

2.2 The SBP, vide BSD Circular No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement and International Accounting Standard 40, Investment Property for banking companies till further instructions. Further, according to a notification of SECP issued vide SRO 411 (I)/2008 dated April 28, 2008, IFRS 7 "Financial Instruments: Disclosure" has not been made applicable for banks. Moreover SBP vide BPRD circular No. 4, dated February 25, 2015 has deferred the applicability of Islamic Financial Accounting Standard (IFAS) 3, Profit and Loss Sharing on Deposits. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by SBP through its various circulars.

2.3 SECP vide its notification SRO 633 (I)/ 2014 dated July 10, 2014, adopted IFRS-10, Consolidated Financial Statements, effective from the periods starting from June 30, 2014. However, vide its notification SRO 56 (I)/ 2016 dated January 28, 2016, it has been notified that the requirements of IFRS-10 and section 228 of the Companies Act, 2017 will not be applicable with respect to the investment in mutual funds established under Trust structure.

2.4 IFRS 9 has been applicable in several overseas jurisdictions from January 1, 2018 and is progressively being adopted in others. The requirements of this standard are incorporated in the Bank's financial statements for the jurisdictions where IFRS 9 has been adopted. As per SBP's BPRD Circular Letter no. 4 dated October 23, 2019, the applicability of IFRS 9 to banks in Pakistan has been deferred to accounting periods beginning on or after January 1, 2021. The impact of the application of IFRS 9 in Pakistan on the Bank's financial statements is being assessed.

2.5 The disclosures made in these condensed interim unconsolidated financial statements have been limited based on the format prescribed by the SBP vide BPRD Circular Letter No. 5 dated March 22, 2019 and IAS 34. These condensed interim unconsolidated financial statements do not include all the information and disclosures required for annual unconsolidated financial statements and should be read in conjunction with the unconsolidated financial statements for the year ended December 31, 2019.

THE BANK OF KHYBER
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2020

3 BASIS OF PREPARATION

- 3.1** In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan (SBP) has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by the banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under the respective arrangements (except for Murabaha financings accounted for under Islamic Financial Accounting Standard - 1 "Murabaha") are not reflected in this condensed interim financial information as such, but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up in price thereon. However, the Islamic banking branches of the Bank have complied with the requirements as set out in the Islamic Financial Accounting Standards (IFAS), issued by the Institute of Chartered Accountants of Pakistan and notified under the provisions of Companies Act, 2017.
- 3.2** These financial statements have been prepared under the historical cost convention except that certain operating fixed assets are stated at revalued amounts, certain investments and derivative financial instruments are stated at fair value and the recognition of certain employees benefits at present value, as disclosed in their respective notes.
- 3.3** This condensed interim financial information has been presented in Pakistani Rupee, which is the Bank's functional and presentation currency. The figures have been rounded off to the nearest thousand rupees, unless otherwise stated.
- 3.4** In this condensed interim financial information, investments in associate are reported on the basis of direct equity interest and are not consolidated or accounted for by using the equity method of accounting.
- 3.5** The financial results of the Islamic Banking Group have been included in this condensed interim financial information for reporting purpose, after eliminating the effects of inter-branch transactions and balances. Key financial figures of the Islamic Banking Group are disclosed in note 35 to these financial information.

4 EFFECTS OF COVID-19 ON THE BANK

The COVID – 19 pandemic has taken a toll on all economies and emerged as a contagion risk around the globe, including Pakistan. To counter its impact on businesses and economies, regulators /governments have introduced a host of measures on both the fiscal and economic fronts.

The State Bank of Pakistan (SBP) has also responded to the crisis by reducing the Policy Rate by 225 basis points to 11% in March 2020 , 200 basis points to 9% on April 16, 2020, 100 basis points to 8% on May 15, 2020 and by another 100 basis points to 7% on June 25, 2020. Besides, numerous other regulatory measures have been announced by the SBP to support business and economic activity which include, inter-alia, the

- Allowing banks to defer borrowers' principal loan payments by one year;
- Relaxing regulatory criteria for restructured/rescheduled loans for borrowers who require relief on account of principal repayment exceeding one year and / or mark-up.
- Relaxing the debt burden ratio for consumer loans from 50% to 60%;
- Reduction in the capital conservation buffer by 100 basis points to 1.5%;
- Increasing the regulatory limit on extension of credit to SMEs to Rs.180 million;
- Providing concessionary refinance facilities to Hospitals for financing equipment;
- To control unemployment, offered refinance facilities to customers for meeting their salary expense; and
- Besides, various other steps have been announced to dampen the effects of Covid-19.

COVID-19 is likely to impact banks in Pakistan on many fronts. This includes significant increase in overall credit risk and contraction of fee income due to overall slowdown in economic activity. Furthermore, since significant number of Bank's staff is working from home, there is increased operational risk in respect of business operations including enhanced cyber-security threat as increased number of customers are diverting to meet their banking needs through the digital channels.

THE BANK OF KHYBER
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2020

(a) Credit Risk Management and Asset Quality

The Risk Management function of the Bank is regularly conducting assessments of the credit portfolio to identify borrowers most likely to get affected due to changes in the business and economic environment. The Bank has further strengthened its credit review procedures in the light of COVID-19. The Bank is continuously reviewing the portfolio, to identify accounts susceptible to higher risk, resulting from the COVID-19 outbreak. The Bank's management has created a buffer against unforeseen loan losses and to preserve the quality of the Credit portfolio.

The Bank expects that several borrowers will be severely impacted by the pandemic. Therefore, many of such borrowers have availed the SBP enabled deferment / restructuring and rescheduling. However, the full potential effect of the economic stress is difficult to predict given the uncertain economic environment. Hence, management estimates that it is appropriate to maintain a general provision on the funded corporate advances at the rate 2.75% excluding:

- (a) Government Sector Advances;
- (b) Non-Performing loans; and
- (c) Consumer and Small Enterprises.

Management also provided for additional 1.15% general provision on Consumer and Small Enterprises.

These provisions are based on management's best estimate and in the current period an additional provision of Rs. 1,133 million has been recognized in the condensed interim profit and loss account.

The Bank is reviewing the potential impact of the COVID-19 outbreak on the inputs and assumptions for IFRS9 ECL measurement in light of available information. Overall, the COVID-19 situation remains fluid and is rapidly evolving at this point, which makes it challenging to reliably reflect impacts in ECL estimates. The Bank is assessing the situation as it develops and is in the process of accounting for the same in its ECL estimates.

(b) Liquidity Risk Management

In view of the relaxation granted by SBP for deferral of principal and rescheduling of loans there will be an impact on the maturity profile of the Bank. The Asset and Liability Committee (ALCO) of the Bank is continuously monitoring the liquidity position and the Bank is confident that the liquidity buffer currently maintained is sufficient to cater to any adverse movement in the cash flow maturity profile.

(c) Equity Risk Management

There is no significant impact of COVID-19 on the listed equity securities of the Bank classified as available-for-sale. The carrying amount of the Bank's investment in listed equity securities classified as available-for-sale, amounts to Rs. 319 million as at September 30, 2020. Impairment against these securities has already been recognized in the financial statements, as applicable. No relief has been obtained during the quarter on account of deferment of impairment.

(d) Operational Risk Management

The Bank is closely monitoring the situation and has invoked required actions to ensure the Health and safety of Bank staff alongside uninterrupted service to customers. The senior management of the Bank is continuously monitoring the situation in order to take timely decisions.

Business Continuity Plans (BCP) for respective areas are in place and tested. The Bank has enhanced monitoring of cyber-security risks during these times. The remote work capabilities were enabled for staff, where required, and related risk and control measures were assessed to ensure that the Bank's information assets are protected from emerging cyber threats and comply with the regulatory protocols required under the circumstances. The Bank is communicating with its customers on how they can avail the services from its digital/online channels also.

The Bank staff is working tirelessly to ensure that service levels are maintained, customer complaints are resolved and turnaround times are monitored so that the Bank continues to meet the expectations of all stakeholders.

(e) Capital Adequacy Ratio (CAR)

In order to encourage banks to continue lending despite anticipated pressure on profits, credit risk and liquidity, the SBP has relaxed the Capital Conservation Buffer (CCB) requirements to 1.5%, resulting in a 1% decline in CAR requirements for all Tiers.

**THE BANK OF KHYBER
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2020**

5 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS AND FINANCIAL RISK MANAGEMENT POLICIES

5.1 Significant Accounting Policies

The accounting policies, underlying estimates and judgments and method of computation followed in the preparation of these condensed interim financial statements are same as those applied in preparing the most recent annual financial statements of the Bank for the year ended December 31, 2019.

5.2 Standards, interpretations and amendments to approved accounting standards that are effective in the current period

There are certain amendments in standards that are mandatory for the Bank's current accounting period but are considered not to be relevant or do not have any significant effect on the Bank's operations. These include:

IAS 1 - Presentation of Financial Statements (Amendments)

IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (Amendments)

IFRS 3 - Definition of a Business (Amendments)

5.3 Standards amendments to approved accounting standards that are not yet effective

Except for IFRS 9, the Bank expects that adoption of other amendments to approved accounting standards will not affect its financial statements in the period of initial application.

- IFRS 9 'Financial Instruments' - SBP vide its BPRD Circular No. 04 of 2019 dated October 23, 2019 directed the banks in Pakistan to implement IFRS 9 with effect from January 01, 2021. IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The impact of the application of IFRS 9 on the Bank's financial statements is being assessed.

- Parallel run of IFRS 9 has been commenced starting July 01, 2020.

5.4 Critical accounting estimates and judgements

The basis for accounting estimates adopted in the preparation of this condensed interim financial information are the same as that applied in the preparation of the financial statements for the year ended December 31, 2019.

5.5 Financial risk management

The financial risk management objectives and policies adopted by the Bank are consistent with those disclosed in the most recent financial statements of the Bank for the year ended December 31, 2019 except for changes as mentioned in note 4.

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	(Un-audited) September 30, 2020	(Audited) December 31, 2019
	----- Rupees in '000 -----	
6 CASH AND BALANCES WITH TREASURY BANKS		
In hand		
Local currency	2,755,812	2,157,981
Foreign currency	207,663	356,957
	2,963,475	2,514,938
With State Bank of Pakistan in		
Local currency current account	10,181,386	5,894,936
Foreign currency current account	49,794	42,353
Foreign currency deposit account	74,649	90,458
	10,305,829	6,027,747
With National Bank of Pakistan in		
Local currency current account	801,771	571,912
Local currency deposit account	311	3,002,591
Foreign currency deposit account	170	13,385
	802,252	3,587,888
Prize bonds	832	7,232
	<u>14,072,388</u>	<u>12,137,805</u>
7 BALANCES WITH OTHER BANKS		
In Pakistan		
In current accounts	1,724,540	2,427,921
In deposit accounts	2,152,554	4,683,413
	3,877,094	7,111,334
Outside Pakistan		
In current accounts	47,347	935,782
In deposit accounts	1,398,194	192,984
	1,445,541	1,128,766
Provision for doubtful placement with the bank	(10,028)	(10,028)
	<u>5,312,607</u>	<u>8,230,072</u>
8 LENDINGS TO FINANCIAL INSTITUTIONS		
Repurchase agreement lendings (Reverse Repo)	299,532	9,032,102
Bai Muajjal receivable with State Bank of Pakistan	-	2,831,347
Placements with financial institutions	738,944	2,238,944
	1,038,476	14,102,393
Less: Provision held against Lending to Financial Institutions	(238,944)	(238,944)
Lendings to Financial Institutions - net of provision	<u>799,532</u>	<u>13,863,449</u>



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8.1 Category of classification

	(Un-audited)		(Audited)	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Classified lending	Provision held	Classified lending	Provision held	
----- Rupees in '000 -----				
Domestic				
Loss	238,944	238,944	238,944	238,944
	238,944	238,944	238,944	238,944
Overseas				
Not past due but impaired	-	-	-	-
Overdue by:				
Up to 90 days	-	-	-	-
91 to 180 days	-	-	-	-
181 to 365 days	-	-	-	-
> 365 days	-	-	-	-
Total	238,944	238,944	238,944	238,944

(Un-audited)

	September 30, 2020		December 31, 2019	
	Cost / amortized cost	Provision for diminution	Surplus / (Deficit)	Carrying value
----- Rupees in '000 -----				
9 INVESTMENTS				
Investments by type:				
Held for trading securities				
Federal Government Securities	3,060,779	-	(18,947)	3,041,832
Shares	7,949	-	(423)	7,526
Mutual funds	-	-	-	-
	3,068,728	-	(19,370)	3,049,358
Available-for-sale securities				
Federal Government Securities	119,070,130	-	616,875	119,687,005
Shares	869,235	(566,126)	784,753	(566,126)
Non Government Debt Securities	6,092,569	(175,999)	5,946,378	5,954,484
	125,031,934	(742,125)	711,300	125,001,109
Held-to-maturity securities				
Federal Government Securities	16,051,505	-	-	16,051,505
Shares	18,091,229	-	-	18,091,229
	40,504	-	-	40,504
Associate				
Total Investments	145,192,671	(742,125)	691,930	145,142,476

9.2 Investments given as collateral

	(Un-audited)		(Audited)	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
----- Rupees in '000 -----				
Investments given as collateral				
Market Treasury Bills	50,819,513	54,309,223	50,819,513	54,309,223
Pakistan Investment Bonds	15,435,916	29,191,565	15,435,916	29,191,565
	66,255,429	83,500,788	66,255,429	83,500,788

These represent the market values of securities at reporting date.

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	(Un-audited) September 30, 2020	(Audited) December 31, 2019
	Rupees in '000	
9.3 Provision for diminution in value of investments		
Opening balance	742,125	842,005
Charge /(reversals)		
Charge for the period/ year	-	-
Reversals for the period/ year	-	(99,880)
Reversal on disposals	-	-
Closing balance	742,125	742,125

9.4 Particulars of provision against debt securities

Category of classification

Domestic

Other assets especially mentioned
Substandard
Doubtful
Loss

Overseas

Not past due but impaired

Overdue by:

Upto 90 days
91 to 180 days
181 to 365 days
> 365 days

Total

	(Un-audited) September 30, 2020		(Audited) December 31, 2019	
	NPI	Provision	NPI	Provision
	Rupees in '000			
Domestic				
Other assets especially mentioned	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	175,999	175,999	175,999	175,999
	175,999	175,999	175,999	175,999
Overseas				
Not past due but impaired	-	-	-	-
Overdue by:				
Upto 90 days	-	-	-	-
91 to 180 days	-	-	-	-
181 to 365 days	-	-	-	-
> 365 days	-	-	-	-
Total	175,999	175,999	175,999	175,999

9.5 The market value of securities classified as held-to-maturity amounted to Rs. 16,086 million as at September 30, 2020 (December 31, 2019: Rs. 17,036 million).

10 ADVANCES

	Performing		Non performing		Total	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
	Rupees in '000					
Loans, cash credits, running finances, etc.	67,107,127	63,059,355	5,634,091	4,546,955	72,741,218	67,606,310
Islamic financing and related assets	50,690,188	45,669,716	842,556	260,133	51,532,744	45,929,849
Bills discounted and purchased	1,683,410	220,363	219,630	219,630	1,903,040	439,993
Advances - gross	119,470,725	108,949,434	6,696,277	5,026,718	126,167,002	113,976,152
Provision against advances						
- Specific	-	-	4,465,162	4,190,185	4,465,162	4,190,185
- General	1,182,196	43,675	-	-	1,182,196	43,675
	1,182,196	43,675	4,465,162	4,190,185	5,647,358	4,233,860
Advances - net of provision	118,288,529	108,905,759	2,231,115	836,533	120,519,644	109,742,292

10.1 Particulars of advances (gross)

In local currency
In foreign currency

	(Un-audited) September 30, 2020	(Audited) December 31, 2019
	Rupees in '000	
	126,167,002	113,976,152
	126,167,002	113,976,152

10.2 Advances include Rs. 6,696,277 million (December 31, 2019: Rs. 5,026,718 million) which have been placed under non-performing status as detailed below:-

	(Un-audited) September 30, 2020		(Audited) December 31, 2019	
	Non performing loans	Provision	Non performing loans	Provision
	Rupees in '000			
Domestic				
Other assets especially mentioned	77,289	505	31,358	-
Substandard	208,538	7,864	96,415	3,676
Doubtful	1,558,385	256,598	220,469	22,501
Loss	4,852,065	4,200,195	4,678,476	4,164,008
	6,696,277	4,465,162	5,026,718	4,190,185
Overseas				
Not past due but impaired	-	-	-	-
Overdue by:				
Upto 90 days	-	-	-	-
91 to 180 days	-	-	-	-
181 to 365 days	-	-	-	-
> 365 days	-	-	-	-
Total	6,696,277	4,465,162	5,026,718	4,190,185

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10.3	Particulars of provision against advances	(Un-audited) September 30, 2020			(Audited) December 31, 2019		
		Specific	General	Total	Specific	General	Total
		----- Rupees in '000 -----					
	Opening balance	4,190,185	43,675	4,233,860	4,119,221	35,851	4,155,072
	Charge for the period / year	347,798	1,140,584	1,488,382	404,232	7,824	412,056
	Reversals	(72,821)	(2,063)	(74,884)	(333,268)	-	(333,268)
		274,977	1,138,521	1,413,498	70,964	7,824	78,788
	Closing balance	4,465,162	1,182,196	5,647,358	4,190,185	43,675	4,233,860

10.3.1 State Bank of Pakistan through BSD Circular No.1 dated October 21, 2011 has allowed benefit of the forced sales value (FSV) of plant & machinery under charge, pledged stocks & mortgaged residential, commercial and industrial properties (land and building only) held as collateral against Non-Performing Loans (NPLs) for a maximum of five years from the date of classification. As at September 30, 2020 the Bank has availed cumulative benefit of forced sales value of Rs. 1,156,461 million (2019: Rs. 572,478 million). Increase in unappropriated profit amounting to Rs. 751.70 million (2019: Rs. 372.11 million) is not available for the distribution of cash or stock dividend to shareholders or bonus to employees.

10.3.2 Till December 31, 2019, the Bank was maintaining general provision against its portfolio of loans and advances in accordance with Prudential Regulations which require a general provision only against the consumer finance and small enterprises. In the current period, the Bank has also made additional general provision as disclosed in note 4.

10.3.3 The Bank has approved deferment in respect of funded loans and advance facilities. Similarly, the Bank has also approved restructuring/ rescheduling to dampen the effects of COVID-19 as per regulatory relief announced by SBP. Accordingly, these advances continued to be categorized as performing advances.

11	FIXED ASSETS	Note	(Un-audited) September 30, 2020	(Audited) December 31, 2019
			----- Rupees in '000 -----	
	Capital work-in-progress	11.1	711,897	503,430
	Property and equipment		1,629,771	1,759,294
	Right of use assets		880,087	1,071,946
	Total		3,221,755	3,334,670
11.1	Capital work-in-progress			
	Civil works		576,265	389,264
	Equipments		45,280	8,080
	Advances to suppliers		90,352	106,086
	Total		711,897	503,430

11.2 Additions to fixed assets

Following additions have been made to fixed assets during the period ended September 30, 2020:

	(Un-audited) September 30, 2020	(Audited) December 31, 2019
	----- Rupees in '000 -----	
Capital work-in-progress	208,467	211,783
Property and equipment		
Furniture and fixture	5,479	10,264
Electrical office and computer equipment	24,866	96,641
Vehicles	-	121
Books	35	39
Renovation	49,233	44,947
	79,613	152,012
Total	288,080	363,795

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		(Un-audited) September 30, 2020	(Audited) December 31, 2019
		--- Rupees in '000 ---	
11.3 Disposals of fixed assets	Note		
The net book value of fixed assets disposed off during the period:			
Furniture and fixture		2	87
Electrical office and computer equipment		-	73
Total		2	160
12 INTANGIBLE ASSETS			
Capital work in progress		310,322	226,693
Licenses and computer softwares		42,749	59,562
		353,071	286,255
12.1 Additions to intangible assets			
Following additions have been made to intangible assets during the period:			
Directly purchased		9,085	32,461
Additions to CWIP		83,629	226,693
Transfer from CWIP		-	(8,299)
		92,714	250,855
13 DEFERRED TAX ASSETS / (LIABILITIES) - NET			
Deferred tax assets arising in respect of:			
Provision for balances with other banks		3,510	3,510
Provision for diminution in value of investments		43,023	43,023
Provision for other assets		3,448	3,448
Accelerated tax depreciation		124,603	85,276
Islamic Pool Management reserve		57,144	47,810
Deficit on revaluation of investments		-	837,233
Provision against loans and advances - net		546,975	10,854
		778,703	1,031,154
Deferred tax liability arising in respect of:			
Surplus on revaluation of investments		(248,955)	-
		529,748	1,031,154
14 OTHER ASSETS			
Income / mark-up accrued in local currency		5,175,841	5,875,454
Profit receivable on Bai Muajjal		2,540,079	2,833,733
Advances, deposits and prepayments		138,101	51,940
Advance taxation (payments less provisions)		-	235,255
Branch adjustment account		-	280,825
Pre-IPO investment		100,000	600,000
Stationary and stamps on hand		53,328	36,590
Assets acquired in satisfaction of claims		329,503	369,339
Mark to market gain on forward foreign exchange contracts		202,775	88,606
Employees benefits		287,700	407,700
Others		188,472	133,437
		9,015,799	10,912,879
Less: Provision held against other assets	14.1	(144,426)	(144,426)
Other Assets - Total		8,871,373	10,768,453
14.1 Provision held against other assets			
Advances for Pre-IPO		100,000	100,000
Others		44,426	44,426
		144,426	144,426
15 BILLS PAYABLE			
In Pakistan		1,021,691	1,172,155
Outside Pakistan		-	-
		1,021,691	1,172,155

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16 BORROWINGS	(Un-audited)		(Audited)	
	September 30, 2020		December 31, 2019	
	----- Rupees in '000 -----			
Secured				
Borrowings from State Bank of Pakistan				
- Export refinance scheme			3,251,140	3,165,914
- Long term financing facility			1,757,601	1,531,984
- Livestock dairy			80,699	75,966
- Salary refinance scheme			198,938	-
			5,288,378	4,773,864
Bai Muajjal Borrowing			9,660,433	26,668,034
Repurchase agreement borrowings			56,274,216	60,714,563
			65,934,649	87,382,597
Unsecured				
Call borrowings			8,940,000	2,500,000
Total			80,163,027	94,656,461

17 DEPOSITS AND OTHER ACCOUNTS

	(Un-audited)			(Audited)		
	September 30, 2020			December 31, 2019		
	In local currency	In foreign currency	Total	In local currency	In foreign currency	Total
	----- Rupees in '000 -----					
Customers						
Current deposits	32,469,108	369,362	32,838,470	34,537,778	349,580	34,887,358
Saving deposits	85,733,511	56,572	85,790,083	69,985,691	215,904	70,201,595
Term deposits	65,466,036	-	65,466,036	67,682,671	-	67,682,671
Others	8,862,716	-	8,862,716	8,319,314	-	8,319,314
	192,531,371	425,934	192,957,305	180,525,454	565,484	181,090,938
Financial Institutions						
Current deposits	455	-	455	114,724	-	114,724
Saving deposits	41,332	-	41,332	961,910	-	961,910
	41,787	-	41,787	1,076,634	-	1,076,634
	192,573,158	425,934	192,999,092	181,602,088	565,484	182,167,572

18 OTHER LIABILITIES	(Un-audited)		(Audited)	
	September 30, 2020		December 31, 2019	
	----- Rupees in '000 -----			
Mark-up/ return/ interest payable in local currency		2,588,946		9,374,207
Mark-up/ return/ interest payable in foreign currency		85		555
Unearned income - Bai Muajjal Sukuk		1,213,717		1,872,952
Lease liability against right-of-use assets		938,565		1,090,747
Branch adjustment account		66,270		-
Unearned commission and income on bills discounted		66,532		68,810
Deferred income on government schemes		19,050		33,790
Deferred income on Islamic financing		131,553		151,809
Income reserve		36,107		14,009
Islamic pool management reserves		146,525		136,602
Accrued expenses		202,727		210,364
Unclaimed dividends		28,994		29,003
Share subscription money refund		1,091		1,091
Retention money		18,275		25,164
Bills payment system over the counter (BPS-OTC)		132,296		442,718
Mark up in suspense		38,871		38,927
Charity fund		10,076		21,593
Security deposits against ijarah		295,536		345,116
Tax payable		1,013,877		-
Mark to market loss on forward foreign exchange contracts		150,735		162,430
Intercity collection accounts		300		212
Others		167,992		87,612
		7,268,120		14,107,711

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		(Un audited) September 30, 2020	(Audited) December 31, 2019
	Note	Rupees in '000	
19 SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS			
Surplus/ (deficit) on revaluation of			
- Available for sale securities		711,300	(2,392,086)
- Fixed assets		774,183	774,183
		1,485,483	(1,617,903)
Deferred tax on (surplus)/ deficit on revaluation of:			
- Available for sale securities		(248,955)	837,233
- Fixed assets		-	-
		(248,955)	837,233
Suplus/(Deficit) on revaluation of assets - net of tax		1,236,528	(780,670)
20 CONTINGENCIES AND COMMITMENTS			
-Guarantees	20.1	15,445,098	15,054,505
-Commitments	20.2	47,585,436	36,682,215
		63,030,534	51,736,720
20.1 Guarantees:			
Financial guarantees		1,695,913	2,030,105
Performance guarantees		13,447,923	12,820,129
Other guarantees		301,262	204,271
		15,445,098	15,054,505
20.2 Commitments:			
Documentary credits and short-term trade-related transactions			
- Letters of credit		4,748,489	6,920,481
Commitments in respect of:			
- Forward foreign exchange contracts	20.3	32,323,148	19,026,323
- Forward government securities transactions	20.4	10,000,000	10,000,000
Commitments for acquisition of:			
- Operating fixed assets		407,061	416,496
- Intangible assets		106,738	318,915
		47,585,436	36,682,215
20.3 Commitments in respect of forward foreign exchange contracts			
Purchase		16,811,181	9,069,099
Sale		15,511,967	9,957,224
		32,323,148	19,026,323
20.4 Commitments in respect of forward government securities transactions			
Purchase		5,000,000	10,000,000
Sale		5,000,000	-
		10,000,000	10,000,000
20.5	The income tax assessments of the Bank have been finalized up to tax year 2019.		
20.6	During the previous year, the Assistant Commissioner Inland Revenue (IR) Peshawar passed an impugned order dated September 30, 2019 for the tax year 2014 under section 122(1) of the Income Tax Ordinance, 2001 by disallowing the entire amount of mark-up expense and others alleging section 21 (C) and ignoring section 165(2), wherein, all required information was already submitted with the Income tax department. Being aggrieved, the bank has filed appeal with Commissioner Inland Revenue (Appeals) and stay has been accomplished. We are sanguine that the demand of Rs.1.73 billion has no lawful grounds and justifications therein, therefore may not be sustainable before the law being devoid of merit.		

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		(Un-audited) September 30, 2020	(Un-audited) September 30, 2019
	Note	Rupees in '000	
21 MARK-UP/RETURN/INTEREST EARNED			
On:			
a) Loans and advances		9,118,710	9,282,124
b) Investments		9,907,321	6,208,045
c) Lendings to Financial Institutions		450,550	574,131
d) Balances with banks		111,641	29,343
e) Profit on Sukuk bonds		1,243,142	1,210,709
		<u>20,831,364</u>	<u>17,304,352</u>
22 MARK-UP/RETURN/INTEREST EXPENSED			
On:			
a) Deposits		9,564,369	11,033,564
b) Borrowings		6,124,299	2,505,258
		<u>15,688,668</u>	<u>13,538,822</u>
23 FEE AND COMMISSION INCOME			
Branch banking customer fees		42,432	29,731
Consumer finance related fees		2,970	4,167
Card related fees (debit and credit cards)		70,714	74,307
Investment banking fees		15,178	20,668
Commission on trade		5,461	9,747
Commission on guarantees		101,524	126,451
Commission on cash management		36	10
Commission on remittances including home remittances		19,603	18,556
Others		2,957	3,435
		<u>260,875</u>	<u>287,072</u>
24 GAIN ON SECURITIES			
Realised	24.1	1,724,080	19,711
Unrealised - held-for-trading		(19,370)	-
		<u>1,704,710</u>	<u>19,711</u>
24.1 Realised gain / (loss) on:			
Federal Government Securities		1,669,340	21,756
Shares		35,457	(812)
Non-Government Securities		1,895	(1,233)
Mutual funds		17,388	-
		<u>1,724,080</u>	<u>19,711</u>
25 OTHER INCOME			
Postal, swift and other services		75,737	68,813
Rent on property		2,266	19,197
Gain on sale of fixed assets - net		72	219
Gain on early culmination of lease modification		4,666	-
Service income on Government schemes		9,555	2,681
Rebate from financial institutions		5,714	3,931
		<u>98,010</u>	<u>94,841</u>

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	(Un-audited) September 30, 2020	(Un-audited) September 30, 2019
	Rupees in '000	
26 OPERATING EXPENSES		
Total compensation expense	1,802,176	1,838,063
Property expenses		
Rent & taxes	587	5,525
Utilities cost	110,259	108,886
Security (including guards)	110,309	93,976
Repair & Maintenance	2,525	2,592
Depreciation - Right of use assets	233,893	136,152
Depreciation - Non banking assets acquired in satisfaction of claims	39,836	-
Depreciation - Fixed assets	101,203	113,333
	598,612	460,464
Information technology expenses		
Software maintenance	76,485	60,249
Hardware maintenance	22,964	17,238
Depreciation	87,851	108,768
Amortization	25,898	32,224
Network charges	12,836	7,431
ATM charges	112,262	100,200
Others	-	1,477
	338,296	327,587
Other operating expenses		
Directors' fees and allowances	5,284	7,435
Fees and allowances to Shariah Board	10	320
Outsourced service cost	72,308	57,615
Legal and professional charges	31,958	30,850
Travelling and conveyance	37,352	45,832
Cash carriage charges	32,799	33,156
NIFT clearing charges	10,950	8,242
Depreciation	20,109	21,353
Communication	28,410	40,178
Postage and courier charges	21,235	15,045
Stationery and printing	37,725	34,457
Advertisement and publicity	31,383	31,819
Repair and maintenance	11,528	8,964
Insurance expense	31,822	34,029
Auditors remunerations	9,006	8,923
Brokerage and commission	45,522	33,414
Rent and taxes	1,524	866
Entertainment	21,685	20,118
Donations	600	-
News papers and periodicals	1,247	1,401
Training and development	5,666	6,526
Fees and subscription	5,055	6,239
Deposit protection premium	67,150	47,538
Others	24,388	19,925
	554,716	514,245
	3,293,800	3,140,359
27 OTHER CHARGES		
Penalties imposed by State Bank of Pakistan	63	7,498
Others - mark-up expense on lease liability against right-of-use assets	99,286	109,990
	99,349	117,488

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		(Un-audited) September 30, 2020	(Un-audited) September 30, 2019
		Rupees in '000	
28 PROVISIONS & WRITE OFFS - NET	Note		
Provisions for diminution in value of investments	9.3	-	-
Provisions against loans and advances	10.3	1,413,498	160,580
		<u>1,413,498</u>	<u>160,580</u>
29 TAXATION			
Current		1,707,782	432,238
Prior periods		19,875	(47,664)
Deferred		(584,782)	(82,576)
	29.1	<u>1,142,875</u>	<u>301,998</u>
29.1	Includes Super Tax, levied through Finance Act, 2020, at the rate of 4% on the taxable income for the period ended September 30, 2020		

		(Un-audited) September 30, 2020	(Un-audited) September 30, 2019
30 BASIC AND DILUTED EARNINGS PER SHARE			
Profit for the period - Rupees		1,652,299,000	597,811,071
Weighted average number of ordinary shares (Number)		1,000,252,485	1,000,252,485
Basic earnings per share - Rupees		<u>1.65</u>	<u>0.60</u>

31 FAIR VALUE MEASUREMENTS

The fair value of quoted investments other than those classified as held to maturity is based on quoted market prices. The fair value of unquoted equity investments is determined on the basis of break-up value of these investments as per their latest available audited financial statements. The fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to the absence of current and active market for these assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits, are frequently re-priced.

31.1 Fair value of financial assets

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using input for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

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The table below analyzes financial instruments measured at the end of the reporting period by the level in the fair value hierarchy in to which the fair value measurement is categorized:

(Un-audited)				
September 30, 2020				
	Level 1	Level 2	Level 3	Total
	Rupees in '000			
31.2 On balance sheet financial instruments				
Financial assets - measured at fair value				
Investments				
Federal Government Securities	-	122,728,837	-	122,728,837
Shares	318,994	-	-	318,994
Non-Government Debt Securities	-	1,942,400	-	1,942,400
Financial assets - disclosed but not measured at fair value				
Investments				
Federal Government Securities	-	16,051,505	-	16,051,505
Shares	-	56,258	-	56,258
Mutual funds	-	-	-	-
Non-Government Debt Securities	-	4,003,978	-	4,003,978
Associates	-	40,504	-	40,504
Off-balance sheet financial instruments - measured at fair value				
Forward purchase of foreign exchange	-	16,811,181	-	16,811,181
Forward sale of foreign exchange	-	15,511,967	-	15,511,967

(Audited)				
December 31, 2019				
	Level 1	Level 2	Level 3	Total
	Rupees in '000			
On balance sheet financial instruments				
Financial assets measured at fair value				
Available-for-sale securities				
- Federal Government Securities	-	116,391,361	-	116,391,361
- Shares in listed companies	270,554	-	-	270,554
- Non-Government Debt Securities	-	1,376,000	-	1,376,000
Financial assets - disclosed but not measured at fair value				
Investments				
Federal Government Securities	-	24,479,940	-	24,479,940
Shares	-	56,258	-	56,258
Non-Government Debt Securities	-	4,296,485	-	4,296,485
Associates	-	40,504	-	40,504
Off-balance sheet financial instruments - measured at fair value				
Forward purchase of foreign exchange	-	9,069,099	-	9,069,099
Forward sale of foreign exchange	-	9,957,224	-	9,957,224

The valuation techniques used for above assets are same as disclosed in the most recent annual financial statements.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

(a) Financial instruments in level 1

Financial instruments included in level 1 comprise of investments in listed ordinary shares.

(b) Financial instruments in level 2

Financial instruments included in level 2 comprise of Sukuku Bonds, Pakistan Investment Bonds, Market Treasury Bills, Term Finance certificates, FX options and Forward Exchange Contracts.

(c) Financial instruments in level 3

Currently, no financial instruments are classified in level 3.

Valuation techniques and inputs used in determination of fair values within level 1

Fully paid-up ordinary shares

Fair values of investments in listed equity securities are valued on the basis of closing quoted market prices available at the Pakistan Stock Exchange.

Valuation techniques and inputs used in determination of fair values within level 2

Pakistan Investment Bonds / Market Treasury Bills

Fair values of Pakistan Investment Bonds and Treasury Bills are derived using the PKRV rates (Reuters page).

Government of Pakistan (GoP) - Ijarah Sukuku

Fair values of GoP Ijarah Sukuku are derived using the PKISRV rates announced by the Financial Market Association (FMA) through Reuters. These rates denote an average of quotes received from eight different pre-defined / approved dealers / brokers.

Term Finance, Bonds and Sukuk certificates

Investments in debt securities (comprising term finance certificates, bonds, Sukuk certificates and any other security issued by a company or a body corporate for the purpose of raising funds in the form of redeemable capital) are valued on the basis of the rates announced by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the methodology prescribed by the Securities and Exchange Commission of Pakistan. In the determination of the rates, the MUFAP takes into account the holding pattern of these securities and categorises these as traded, thinly traded and non-traded securities.

Valuation techniques and inputs used in determination of fair values within level 3

Operating fixed assets (Leasehold land)

Leasehold land are revalued on regular basis using professional valuers on the panel of Pakistan Banker's Association. The valuation is based on their assessment of market value of the properties.

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32 SEGMENT INFORMATION

32.1 Segment details with respect to business activities

Segment details with respect to business activities	(Un-audited)				Total
	For the nine months ended September 30, 2020				
	Corporate Finance	Trading and Sales	Retail Banking	Commercial Banking	
	Rupees in 000				
Profit and loss					
Net mark-up/return/profit	2,489,862	1,209,031	299,049	1,144,754	5,142,696
Non mark-up / return / interest income	21,216	2,071,607	73,684	292,618	2,459,125
Total income	2,511,078	3,280,638	372,733	1,437,372	7,601,821
Segment direct expenses	1,289,367	1,526,892	67,863	509,027	3,393,149
Total expenses	1,289,367	1,526,892	67,863	509,027	3,393,149
Provisions / (reversals)	-	-	60,527	1,352,971	1,413,498
Profit before tax	1,221,711	1,753,746	244,343	(424,626)	2,795,174

	(Un-audited)				
	As at September 30, 2020				
	Corporate Finance	Trading and Sales	Retail Banking	Commercial Banking	Total
Balance sheet	Rupees in 000				
Cash and bank balances	3,323,271	8,495,391	413,372	7,152,961	19,384,995
Lendings to financial institutions		799,532	-		799,532
Investments	16,051,505	129,050,467	-	40,504	145,142,476
Advances - performing	75,276,141	-	5,365,853	37,646,535	118,288,529
Advances - non performing			116,608	2,114,507	2,231,115
Operating fixed assets/intangible assets	1,251,190	536,224	536,224	1,251,188	3,574,826
Deferred tax assets	529,748				529,748
Others	5,710,770	209,433	623,742	2,327,428	8,871,373
Total assets	102,142,625	139,091,047	7,055,799	50,533,123	298,822,594
Bills payable	674,316	10,217	153,254	183,904	1,021,691
Borrowings	14,948,811	56,274,216	-	8,940,000	80,163,027
Deposits and other accounts	127,379,401	1,929,991	28,949,864	34,739,836	192,999,092
Deferred taxation		-	-	-	-
Others	4,866,643	835,283	425,569	1,140,625	7,268,120
Total liabilities	147,869,171	59,049,707	29,528,687	45,004,365	281,451,930
Equity	(45,726,546)	80,041,340	(22,472,888)	5,528,758	17,370,664
Total equity and liabilities	102,142,625	139,091,047	7,055,799	50,533,123	298,822,594
Contingencies and commitments	6,836,550	42,400,218	144,310	13,649,456	63,030,534

	(Un-audited)				
	For the nine months ended September 30, 2019				
	Corporate Finance	Trading and Sales	Retail Banking	Commercial Banking	Total
	Rupees in 000				
Profit and loss					
Net mark-up/return/profit	2,265,550	455,666	246,296	798,018	3,765,530
Non mark-up / return / interest income	265,745	204,737	12,475	69,749	552,706
Total Income	2,531,295	660,403	258,771	867,767	4,318,236
Segment direct expenses	1,584,137	263,644	40,041	1,370,025	3,257,847
Total expenses	1,584,137	263,644	40,041	1,370,025	3,257,847
Provisions / (reversals)	-	-	21,195	139,385	160,580
Profit before tax	947,158	396,759	197,535	(641,643)	899,809

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	(Audited)				
	As at December 31, 2019				
	Corporate Finance	Trading and Sales	Retail Banking	Commercial Banking	Total
Balance sheet	Rupees in 000				
Cash and bank balances	5,894,936	4,876,397	8,660,762	935,782	20,367,877
Lendings to financial institutions	-	13,863,449	-	-	13,863,449
Investments	13,546,197	133,364,905	-	-	146,911,102
Advances - performing	72,055,564	9,215,766	4,690,186	22,944,243	108,905,759
Advances - non performing	263,510	1,755,876	58,330	(1,241,183)	836,533
Operating fixed assets/intangible assets	-	-	-	3,620,925	3,620,925
Deferred tax assets	885,286	26,109	3,448	116,311	1,031,154
Others	5,964,368	496,990	291,879	4,015,216	10,768,453
Total assets	98,609,861	163,599,492	13,704,605	30,391,294	306,305,252
Bills payable	-	-	1,172,155	-	1,172,155
Borrowings	-	89,882,597	-	4,773,864	94,656,461
Deposits and other accounts	76,510,380	80,299,466	-	25,357,726	182,167,572
Others	5,925,239	6,218,679	-	1,963,793	14,107,711
Total liabilities	82,435,619	176,400,742	1,172,155	32,095,383	292,103,899
Equity	16,174,242	(12,801,250)	12,532,450	(1,704,089)	14,201,353
Total equity and liabilities	98,609,861	163,599,492	13,704,605	30,391,294	306,305,252
Contingencies and commitments	14,600,793	31,243,663	207,609	5,684,655	51,736,720

The Bank has related party relationship with its majority shareholders (Government of Khyber Pakhtunkhwa and Ismail Industries Limited), associates, directors, key management personnel, staff retirement benefit plan and other related parties.

Banking transactions with related parties are carried out in the normal course of business at agreed terms. Contribution to and accruals in respect of staff retirement benefit plan are made in accordance with actuarial valuations. Remuneration to the executives are determined in accordance with terms of their appointments.

Details of transactions with related parties during the period/year, other than those which have been disclosed elsewhere in these financial statements are as follows:

	(Un-Audited) As at September 30, 2020				(Audited) As at December 31, 2019			
	Directors	Key management personnel	Associate	Employee Funds	Directors	Key management personnel	Associate	Employee Funds
	----- Rupees in '000 -----							
Advances								
Opening balance	-	154,626	-	-	-	123,598	-	-
Addition during the period/ year	-	41,810	-	-	-	39,659	-	-
Repaid during the period/ year	-	(34,079)	-	-	-	(19,112)	-	-
Transfer (out)/ in - net	-	(11,502)	-	-	-	10,281	-	-
Closing balance	-	150,855	-	-	-	154,626	-	-
Deposits and other accounts								
Opening balance	-	25,661	28,659	2,342,408	-	24,081	30,067	2,185,683
Received during the period/ year	-	108,519	41,745	322,487	-	129,965	39,564	845,046
Withdrawn during the period/ year	-	(88,415)	(36,542)	(324,411)	-	(128,382)	(40,972)	(688,321)
Transfer in / (out) - net	-	(19,044)	-	-	-	(3)	-	-
Closing balance	-	26,721	33,862	2,340,484	-	25,661	28,659	2,342,408
Other liabilities	-	-	-	-	-	-	-	-
Accrued markup	-	43	-	144,385	-	289	1,718	58,716
	(Un-audited)				(Un-audited)			
	For the nine months ended September 30, 2020				For the nine months ended September 30, 2019			
	Directors	Key management personnel	Associate	Employee Funds	Directors	Key management personnel	Associate	Employee Funds
	----- Rupees in '000 -----							
Income	-	2,195	-	-	-	3,517	-	-
Expense	-	394	-	210,792	-	2,427	2,072	156,666
Operating expenses	5,284	118,270	-	-	-	293,407	-	-

333.1 Government of Khyber Pakhtunkhwa (GoKP) holds 70.20% shareholding in the Bank and therefore entities which are owned and / or controlled by the GoKP, or where the GoKP may exercise significant influence, are also related parties of the Bank. The Bank in the ordinary course of its business enters into transaction with various departments of the GoKP and its related entities however, it is impracticable to disclose these transactions. Such transactions include deposits from and provision of other banking services to such departments and entities.

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	(Un-audited) September 30, 2020	(Audited) December 31, 2019
	--- Rupees in '000 ---	
34 CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS		
Minimum Capital Requirement (MCR):		
Paid-up capital (net of losses)	10,002,524	10,002,524
Capital Adequacy Ratio (CAR):		
Eligible common equity tier 1 (CET 1) capital	15,249,442	13,204,421
Eligible additional tier 1 (ADT 1) capital	-	-
Total eligible tier 1 capital	15,249,442	13,204,421
Eligible tier 2 capital	1,864,089	-
Total eligible capital (Tier 1 + Tier 2)	17,113,531	13,204,421
Risk weighted assets (RWAs):		
Credit risk	57,041,623	58,970,352
Market risk	15,705,322	16,711,426
Operational risk	10,642,475	10,642,475
Total	83,389,420	86,324,253
Common equity tier 1 capital adequacy ratio	18.29%	15.30%
Tier 1 capital adequacy ratio	18.29%	15.30%
Total capital adequacy ratio	20.52%	15.30%
National minimum capital requirements prescribed by SBP.		
CET1 minimum ratio	6.00%	6.00%
ADT-1 minimum ratio	1.50%	1.50%
Tier 1 minimum ratio	7.50%	7.50%
Total capital minimum ratio	10.00%	10.00%
Capital conservation buffer (CCB- consisting of CET1 only)	1.50%	2.50%
Total capital plus CCB	11.50%	12.50%
Leverage Ratio (LR):		
Eligible tier-1 capital	15,249,442	13,204,421
Total exposures	337,062,922	305,453,822
Leverage ratio	4.52%	4.32%
Liquidity Coverage Ratio (LCR):		
Total high quality liquid assets	76,037,333	60,536,707
Total net cash outflow	53,467,000	48,785,693
Liquidity coverage ratio	142.21%	124.09%
Net Stable Funding Ratio (NSFR):		
Total available stable funding	142,680,000	132,085,894
Total required stable funding	121,510,000	111,614,902
Net stable funding ratio	117.42%	118.34%

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35

ISLAMIC BANKING BUSINESS

The Bank is operating 84 (2019: 84) Islamic banking branches and 39 (2019: 39) Islamic banking windows as at September 30, 2020.

		(Un-audited) September 30, 2020	(Audited) December 31, 2019
	Note	— Rupees in '000 —	
ASSETS			
Cash and balances with treasury banks		4,076,183	6,807,574
Balances with other banks		2,619,661	6,289,995
Due from financial institutions	35.1	-	4,831,347
Investments	35.2	17,588,024	11,602,166
Islamic financing and related assets - net	35.3	50,901,128	45,791,558
Fixed assets		478,639	610,038
Intangible assets		1,612	3,426
Due from head office		396,704	325,575
Other assets		4,659,789	4,410,288
Total Assets		80,721,740	80,671,967
LIABILITIES			
Bills payable		235,516	285,589
Due to financial institutions		14,056,848	18,891,848
Deposits and other accounts	35.4	56,746,490	50,079,326
Other liabilities		3,264,981	4,894,946
Total Liabilities		74,303,835	74,151,709
NET ASSETS		6,417,905	6,520,258
REPRESENTED BY			
Islamic banking fund		460,000	460,000
Reserves		45,533	42,141
Surplus/(Deficit) on revaluation of assets		17,224	(15,000)
Unappropriated profit	35.5	5,895,148	6,033,117
	35.6	6,417,905	6,520,258
CONTINGENCIES AND COMMITMENTS			

The profit and loss account of the Bank's Islamic banking branches for the nine months ended September 30, 2020 is as follows:

		(Un-audited) September 30, 2020	(Un-audited) September 30, 2019
	Note	— Rupees in '000 —	
Profit / return earned	35.7	5,039,706	4,812,244
Profit / return expensed	35.8	2,285,102	2,021,850
Net profit / return		2,754,604	2,790,394
OTHER INCOME			
Fee and commission income		66,593	73,419
Foreign exchange income		159,409	45,865
Gain on securities		20,299	4,306
Other income		49,004	30,798
		295,305	154,388
		3,049,909	2,944,782
OTHER CHARGES			
Operating expenses		1,467,849	1,184,520
Other charges		34,537	27,698
		1,502,386	1,212,218
Profit before provisions		1,547,523	1,732,564
Provisions and write offs		483,322	14,012
Profit before taxation		1,064,201	1,718,552
Taxation		415,038	670,233
Profit after taxation		649,163	1,048,319

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35.1 Due from financial institutions

Call lendings
 Bai muajjal receivable from State Bank of Pakistan

	(Un-audited) September 30, 2020		(Audited) December 31, 2019	
	In local currency	In foreign currency	Total	In foreign currency
	-	-	2,000,000	-
	-	-	2,831,347	-
	-	-	4,831,347	-

35.2 Investments by segments:

Federal Government Securities:

-GPI Ijarah sukuk
 -Bai Muajjal sukuk
 -Pakistan Energy Sukuk II
Other non-government debt securities
 -Powergas and other sukuk
 -Mutual Funds

	(Un-audited) September 30, 2020			(Audited) December 31, 2019		
	Cost	Provision for diminution	Surplus	Carrying value	Provision for diminution	Deficit
				Rupees in '000		
	5,246,049	-	4,476	5,250,525	1,500,000	-
	6,386,711	-	-	6,386,711	-	(15,000)
	2,000,000	-	-	2,000,000	-	-
	3,936,040	-	12,748	3,948,788	-	-
	-	-	-	3,728,455	-	-
	-	-	-	-	-	-
	17,570,800	-	17,224	17,588,024	11,617,166	(15,000)

35.3 Islamic financing and related assets

Ijarah
 Murabaha
 Diminishing musharaka
 Running musharaka
 Qarze hasna
 Istisna
Gross Islamic financing and related assets
Less: provision against Islamic financings
 - Specific
 - General

	(Un-audited) September 30, 2020		(Audited) December 31, 2019	
	Rupees in '000		Rupees in '000	
	907,640	1,073,168	907,640	1,073,168
	2,310,877	3,270,107	2,310,877	3,270,107
	6,697,156	5,583,883	6,697,156	5,583,883
	37,415,400	31,390,000	37,415,400	31,390,000
	-	900	-	900
	4,191,687	4,611,792	4,191,687	4,611,792
	51,522,742	45,929,850	51,522,742	45,929,850

Islamic financing and related assets - net of provision

	230,677	123,020
	390,937	15,272
	621,614	138,292
	50,901,128	45,791,558

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(Un-audited) September 30, 2020			(Audited) December 31, 2019			
	In local currency	In foreign currency	Total	In local currency	In foreign currency	Total
----- Rupees in '000 -----						
Customers						
Current deposits	16,422,219	49,734	16,471,953	17,920,864	57,675	17,978,539
Savings deposits	34,124,540	-	34,124,540	26,336,004	-	26,336,004
Term deposits	4,151,390	-	4,151,390	3,087,502	-	3,087,502
Others	1,997,594	-	1,997,594	2,490,098	-	2,490,098
	56,695,743	49,734	56,745,477	49,834,468	57,675	49,892,143
Financial Institutions						
Current Deposits	-	-	-	499	-	499
Savings deposits	1,013	-	1,013	186,684	-	186,684
	56,696,756	49,734	56,746,490	50,021,651	57,675	50,079,326
			(Un-audited) September 30, 2020		(Audited) December 31, 2019	
			----- Rupees in '000 -----			
35.5 Islamic banking business unappropriated profit						
Opening balance				6,033,117	4,598,387	
Add: Islamic banking profit for the period/year				1,064,201	2,355,848	
Less: Transfer to head office				(1,202,170)	(921,118)	
Closing balance				5,895,148	6,033,117	
35.6 Contingencies and commitments						
-Guarantees				3,570,075	5,270,767	
-Commitments				987,773	1,028,102	
				4,557,848	6,298,869	
			(Un-audited) September 30, 2020		(Un-audited) September 30, 2019	
			----- Rupees in '000 -----			
35.7 Profit/return earned of financing, investments and placement						
Profit earned on:						
Financing				3,718,259	3,590,374	
Investments				1,243,142	1,221,470	
Placements				78,305	400	
				5,039,706	4,812,244	
35.8 Profit on deposits and other dues expensed						
Deposits and other accounts				1,667,711	1,448,067	
Due to Financial Institutions				617,391	573,783	
				2,285,102	2,021,850	
36 Profit equalization reserve						
The profit equalization reserves amounting to Rs. 45.53 million (2019: Rs. 42.14 million) classified in other liabilities, which has been presented as reserves in note 35.						
37 GENERAL						
Comparative information has been re-classified, re-arranged or additionally incorporated in these condensed interim financial statements for the purpose of better presentation. The significant reclassification is as follows:						
			September 30, 2019			
			(Unaudited)			
			Rupees in '000			
From				To		
Operating expenses - Other operating expenses				Other charges - Others - mark-up expense on lease liability against right-of-use assets		
				109,990		

In addition to above, the effect of payment of lease obligation has now been separately disclosed in the condensed interim cash flow statement.

38 DATE OF AUTHORIZATION FOR ISSUE

These condensed interim financial statements were authorised for issue in the Board of Directors meeting of the bank held on October 28, 2020


Managing Director

Chief Financial Officer

Director

Director

Director

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