

Directors' Review

On behalf of the Board of Directors of the Bank of Khyber, I am pleased to present the financial statements of the Bank for the quarter ended September 30, 2009. The results are inclusive of the results of Islamic Banking Operations.

Financial Highlights

Financial Highlights of the Bank for the period under review are as under:

	(Rs. in million)
Operating Profit	549
Provision against non- performing advances	(409)
Provision against diminution in value of investments	(450)
Provision for other Assets/Doubtful Placements	(28)
Profit / (Loss) before taxation	(338)
Taxation	33
Profit / (Loss) after tax	(305)
Total Assets	34,689
Advances (Gross)	13,171
Investments (Net)	16,644
Deposits	22,333

Financial Overview

Although the Bank was able to post an operating profit of Rs.549 million, an increase of 91% as compared with the half yearly results, the Bank had to book an after tax loss of Rs.305 million mainly as a result of provisions for diminution in value of investments and non-performing loans. Due to the prevailing uncertainty in the equity market, the market price of shares held in "Available for Sale" category had to be adjusted downward and provision for diminution in value of investments had to be taken into account. However, as the condition of equity market improves, the Bank may be able to reverse these provisions.

Further, the Bank has been affected by the continuing war against terrorism in the country. The severity of this war has been more pronounced in the N.W.F.P. where a majority of the Bank's network of branches is located.

Future Outlook

Due to the strict monetary measures adopted by the State Bank of Pakistan, the economy has finally started to show signs of relative stability. Inflation in August, 2009 eased to 10.7 percent, its lowest in 20 months. Foreign Exchange Reserves have risen to \$14.36 billion which mainly comprise of the IMF loan disbursement and expatriates' remittances. The Karachi Stock Exchange has also shown buoyancy but due to the continued wave of militancy in the country, the situation still remains volatile. The

banking system continued to show resilience against major risk factors. However, heightened credit risk remains a major source of concern for banks but prudent lending and strict vigilance may avert realization of the risk.

The Bank has received approval from State Bank of Pakistan for opening seven (7) new branches in main towns of the country viz. Karachi, Lahore, Multan, Sialkot, Rawalpindi, Peshawar and Swabi. This will invariably strengthen the Bank's presence in these strategic locations which will not only enhance its outreach but will ensure availability of banking services to the clients in these locations.

As disclosed in the financial statements, the Bank's minimum paid-up capital (net of losses) as at September 30, 2009 stands at Rs.5 billion. Further, in compliance with MCR requirements of the SBP, the Bank has to enhance the minimum capital (net of losses) to Rs.6 billion by the year end 2009.

Credit Rating

The JCR-VIS has maintained the Bank's credit ratings of 'BBB+' (Triple B plus) for long term whereas short term rating has been revised to 'A-3' (A-Three) from 'A-2' (A-Two). Outlook on the ratings is 'Stable'.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned 'BBB' (Triple B) for long term rating whereas 'A2' has been given for short term rating.

Acknowledgement

The Board would like to thank the 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 in these testing times.

For and on behalf of the Board of Directors

Peshawar: October 26, 2009

Bilal Mustafa
Managing Director