



The Bank of Khyber



**CONDENSED INTERIM
FINANCIAL INFORMATION**

For the Period Ended June 30, 2021

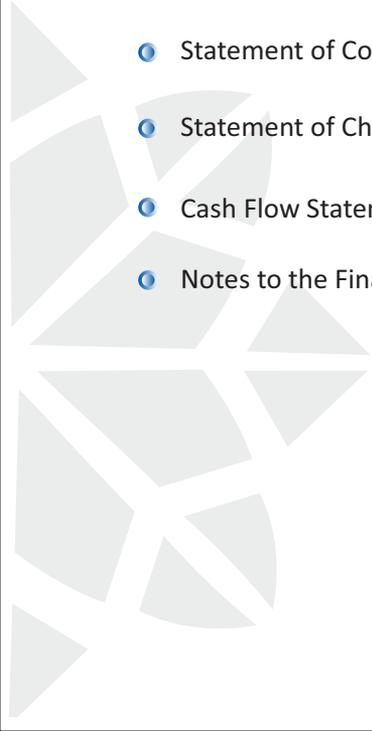
Condensed Interim

FINANCIAL INFORMATION

For the Period Ended June 30, 2021

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CORPORATE INFORMATION

Board of Directors

Shahab Ali Shah	Chairman / Non-Executive Director
Atif Rehman	Non-Executive Director
Maqsood Ismail Ahmad	Non-Executive Director
Asad Muhammad Iqbal	Independent Director
Javed Akhtar	Independent Director
Rashid Ali Khan	Independent Director
Saleha Asif	Independent Director

Managing Director / CEO

Muhammad Ali Gulfaraz

Shariah Board

Mufti Muhammad Zahid	Chairman
Mufti Muhammad Arif Khan	Member
Mufti Abdul Wahab	Member
Qazi Abdul Samad	Resident Member (RSBM)

Board Audit Committee

Asad Muhammad Iqbal	Chairman
Atif Rehman	Member
Javed Akhtar	Member

Board Human Resource & Remuneration Committee

Saleha Asif	Chairperson
Maqsood Ismail Ahmad	Member
Rashid Ali Khan	Member
Managing Director	Member

Board Risk Management Committee

Maqsood Ismail Ahmad	Chairman
Atif Rehman	Member
Javed Akhtar	Member
Rashid Ali Khan	Member

Board I.T Steering Committee

Javed Akhtar	Chairman
Asad Muhammad Iqbal	Member
Saleha Asif	Member

Board Compliance Committee

Rashid Ali Khan	Chairman
Javed Akhtar	Member
Saleha Asif	Member

Board Investment Committee

Atif Rehman	Chairman
Maqsood Ismail Ahmad	Member
Asad Muhammad Iqbal	Member
Managing Director	Member

Chief Financial Officer

Irfan Saleem Awan

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 information of the Bank along with Auditors' Review Report for the half year ended June 30, 2021. The results are inclusive of Islamic Banking Operations.

Financial Highlights

The financial results of the Bank of Khyber for the half year ended June 30, 2021 are as under:

	(Rs. in Million)	
	June 30 2021	December 31 2020
Total Assets	328,777	288,300
Deposits	251,599	203,072
Advances (Gross)	114,440	134,907
Investments (Net)	168,980	113,479

	(Rs. in Million)	
	Period Ended June 30	
	2021	2020
Operating Profit	1,306	3,205
Provision against non-performing advances/others	(378)	(1,172)
Profit before taxation	928	2,033
Taxation	(320)	(827)
Profit after tax	608	1,206

Performance Review

The management of COVID-19 has been quite effective in Pakistan since its outbreak in Q1-2020. Nonetheless, like rest of the world, our country is currently passing through the fourth wave of COVID-19 amid the emergence of Delta variant, implying that there are still unforeseen risks. However, the management is continuously monitoring the evolving business and economic environment to proactively take necessary actions to counter its possible impacts on the Bank's portfolio.

Despite a challenging business environment, the Bank of Khyber performed satisfactorily for the period under review. In order to cater to deterioration in asset quality, the Bank has taken measures and made necessary provisions in the balance sheet.

For the half year ended June 30, 2021, the Bank posted Rs.928 million profit before tax whereas profit after tax stood at Rs.608 million as compared to Rs.1,206 million for the same period of 2020.

The total assets of the Bank rose to Rs.328,777 million from Rs.288,300 million at year-end 2020. With an increase of 24%, deposits stood at Rs.251,599 million whereas advances decreased by 18% to Rs.114,440 million. This decrease is mainly attributed to settlement of commodity financing. In order to mitigate the interest rate risk, the Bank diverted its focus from long term investment in PIBs to short term TBills and as a result, Investments increased 49% to Rs.168,980 million.

At the end of the half year 2021, the Bank was operating with 190 branches, 12 sub-branches and 7 booths throughout the country wherein 96 branches were working as dedicated Islamic Banking Branches.

Future Outlook

The economy has been showing a fragile recovery. However, it will continue to face high uncertainty owing to the challenges posed by the COVID-19 pandemic on several economic fronts. Since the government is easing the lockdowns and allowing many sectors to resume activities therefore, it is expected to improve the business environment paving the way to regain economic momentum.

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

VIS Credit Rating Company Limited (VIS) has upgraded the medium to long term entity rating of the Bank from 'A' (Single A) to 'A+' (Single A Plus) while maintaining short-term rating at 'A-1' (A-One). The medium to long-term rating of 'A+' denotes good credit quality, with adequate protection factors. Outlook on the assigned rating is 'Stable'

The Pakistan Credit Rating Agency Limited (PACRA) has maintained the medium to long term and short term entity rating of the Bank at "A" (Single A) and "A-1" (A One). 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 the 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 and the staff members for their hard work and consistent performance.

For and on behalf of the Board of Directors



Muhammad Ali Gulfaraz
Managing Director

Peshawar: August 26, 2021



EY Ford Rhodes
Chartered Accountants
Eagle Plaza 75-West, Fazlul Haq Road
Blue Area, P.O. Box 2388
Islamabad 44000, Pakistan

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INDEPENDENT AUDITORS' REVIEW REPORT

TO THE MEMBERS OF THE BANK OF KHYBER

REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

Introduction

We have reviewed the accompanying condensed interim statement of financial position of The Bank of Khyber ("the Bank") as at 30 June 2021, and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim statement of changes in equity, and condensed interim cash flow statement, and notes to the condensed interim financial statements for the six-month period then ended (here-in-after referred to as the "condensed interim financial statements"). Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements is not prepared, in all material respects, in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting.

Other matters

The figures for the condensed interim profit and loss account and condensed interim statement of comprehensive income for the three months period ended 30 June 2021 and 2020 have not been reviewed, as we are required to review only the cumulative figures for the six-month period ended 30 June 2021.

The engagement partner on the audit resulting in this independent auditors' report is Ahsan Shahzad.

Chartered Accountants

Place: Islamabad

Date: 28 August 2021

**CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2021**

	(Un-audited) June 30, 2021	(Audited) December 31, 2020
Note	----- Rupees in '000 -----	
ASSETS		
Cash and balances with treasury banks	5 16,319,731	15,840,359
Balances with other banks	6 8,480,682	9,092,355
Lendings to financial institutions	7 13,510,000	7,297,519
Investments	8 168,980,497	113,478,994
Advances	9 108,173,819	129,063,377
Fixed assets	10 4,343,097	3,472,025
Intangible assets	11 482,988	532,167
Deferred tax assets	12 695,581	459,902
Other assets	13 7,790,440	9,063,193
	328,776,835	288,299,891
LIABILITIES		
Bills payable	14 931,430	944,140
Borrowings	15 50,077,341	57,063,018
Deposits and other accounts	16 251,598,588	203,071,658
Liabilities against assets subject to finance lease	-	-
Subordinated debt	-	-
Deferred tax liabilities	-	-
Other liabilities	17 9,481,947	9,449,525
	312,089,306	270,528,341
NET ASSETS	16,687,529	17,771,550
REPRESENTED BY		
Share capital	18 10,502,710	10,002,524
Reserves	3,456,683	3,335,048
Surplus on revaluation of assets	19 975,320	1,166,961
Unappropriated profit	1,752,816	3,267,017
	16,687,529	17,771,550
CONTINGENCIES AND COMMITMENTS	20	

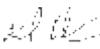
The annexed notes 1 to 39 form an integral part of these condensed interim financial statements.



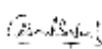
MANAGING DIRECTOR



CHIEF FINANCIAL OFFICER



DIRECTOR



DIRECTOR



DIRECTOR

**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

Note	Quarter ended		Period ended	
	April 01 to June 30, 2021	April 01 to June 30, 2020	January 01 to June 30, 2021	January 01 to June 30, 2020
	Rupees in '000			
Mark-up/return/interest earned	4,813,922	6,892,883	10,354,902	14,826,368
Mark-up/return/interest expensed	3,364,587	5,180,035	7,107,892	11,680,229
Net mark-up/ interest income	1,449,325	1,712,848	3,247,010	3,166,139
NON MARK-UP/INTEREST INCOME				
Fee and commission income	126,186	78,336	196,911	158,869
Dividend income	9,948	2,589	15,232	4,618
Foreign exchange income	86,327	83,096	322,178	259,267
Income / (loss) from derivatives	-	-	-	-
(Loss) / gain on securities	87,973	1,387,329	(88,639)	1,749,177
Other income	27,983	29,893	52,623	59,771
Total non-markup/interest income	338,417	1,581,243	498,305	2,231,722
Total income	1,787,742	3,294,091	3,745,315	5,397,861
NON MARK-UP/INTEREST EXPENSE				
Operating expenses	1,221,783	1,124,773	2,436,106	2,192,246
Workers Welfare Fund	-	-	-	-
Other charges	1,317	(12,802)	3,617	-
Total non-markup/interest expenses	1,223,100	1,111,971	2,439,723	2,192,246
PROFIT BEFORE PROVISIONS	564,642	2,182,120	1,305,592	3,205,615
Provisions and write offs - net	289,749	1,052,326	377,469	1,172,294
PROFIT BEFORE TAXATION	274,893	1,149,794	928,123	2,033,381
Taxation	106,205	491,850	319,946	827,209
PROFIT AFTER TAXATION	168,688	657,944	608,177	1,206,172
Basic and diluted earnings per share	0.16	0.63	0.58	1.15

The annexed notes 1 to 39 form an integral part of these condensed interim financial statements.



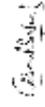
MANAGING DIRECTOR



CHIEF FINANCIAL OFFICER



DIRECTOR



DIRECTOR



DIRECTOR



**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

	Quarter ended		Period ended	
	April 01 to June 30, 2021	April 01 to June 30, 2020	January 01 to June 30, 2021	January 01 to June 30, 2020
	----- Rupees in '000 -----			
Profit after taxation	168,688	657,944	608,177	1,206,172
Other comprehensive income				
Items that may be reclassified to profit and loss account in subsequent periods:				
Net movement in fair value of available for sale securities - net of tax	68,169	1,102,340	(188,642)	2,851,331
Items that will not be reclassified to profit and loss account in subsequent periods:				
Movement in surplus on revaluation of non-banking assets - net of tax	-	-	(2,999)	-
Total comprehensive income	236,857	1,760,284	416,536	4,057,503

The annexed notes 1 to 39 form an integral part of these condensed interim financial statements.

MANAGING DIRECTOR

CHIEF FINANCIAL OFFICER

DIRECTOR

DIRECTOR

DIRECTOR

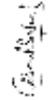
**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

	Share capital	Statutory reserve	Surplus / (deficit) on revaluation of			Total	
			Investments	Fixed assets	Non-banking assets		Unappropriated profit
Balance as at December 31, 2019 (audited)	10,002,524	2,904,691	(1,554,853)	774,183	-	2,074,808	14,201,353
Profit after taxation for the six months ended June 30, 2020	-	-	2,851,331	-	-	1,206,172	1,206,172
Other comprehensive income - net of tax	-	-	2,851,331	-	-	-	2,851,331
Transfer to statutory reserves	-	241,234	-	-	-	1,206,172	4,057,503
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 June 30, 2020 (un-audited)	10,002,524	3,145,925	1,296,478	774,183	-	(500,186)	17,758,870
Profit after taxation for the six months ended December 31, 2020	-	-	(964,353)	11,919	-	945,611	945,611
Other comprehensive income - net of tax	-	-	(964,353)	11,919	48,734	(29,031)	(932,731)
Transfer to statutory reserve	-	189,123	-	-	-	916,580	12,880
Balance as at December 31, 2020 (audited)	10,002,524	3,335,048	332,125	786,102	48,734	(189,123)	17,771,550
Profit after taxation for the six months ended June 30, 2021	-	-	(188,642)	-	(2,999)	608,177	608,177
Other comprehensive income - net of tax	-	-	(188,642)	-	(2,999)	-	(191,641)
Transfer to statutory reserve	-	121,635	-	-	-	608,177	416,536
Transactions with owners recorded directly in equity							
Final cash dividend for the year ended December 31, 2020 (Rs.1.50 per share)	-	-	-	-	-	(121,635)	-
Bonus shares issued for the year ended December 31, 2020 (Rs. 0.50 per share)	-	-	-	-	-	(1,500,557)	(1,500,557)
Balance as at June 30, 2021 (un-audited)	10,002,524	3,456,683	143,483	786,102	45,735	1,752,816	16,687,529

The annexed notes 1 to 39 form an integral part of these condensed interim financial statements.

 **MANAGING DIRECTOR**

 **CHIEF FINANCIAL OFFICER**

 **DIRECTOR**

 **DIRECTOR**

**CONDENSED INTERIM CASH FLOW STATEMENT (UN- AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

	January 01 to June 30, 2021	January 01 to June 30, 2020
	----- Rupees in '000 -----	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	928,123	2,033,381
Less: Dividend income	15,232	4,618
	912,891	2,028,763
Adjustments:		
Depreciation - Fixed assets	143,634	141,739
Depreciation - Non-banking assets acquired in satisfaction of claims	10,264	26,557
Depreciation - Right-of-use assets	206,630	166,513
Amortization	43,446	17,913
Provisions - net	377,469	1,172,234
Mark-up expense on lease liability against right-of-use assets	65,327	67,826
Unrealized gain on securities	(1,715)	(51,576)
Gain on early culmination of lease	(907)	(4,664)
Gain on sale of fixed assets	(9)	(61)
	844,139	1,536,481
	1,757,030	3,565,244
Decrease/ (Increase) in operating assets		
Lendings to financial institutions	(6,212,481)	4,258,685
Held-for-trading securities	384,837	(5,871,755)
Advances	20,466,970	(4,049,988)
Others assets (excluding advance taxation)	1,251,767	806,324
	15,891,093	(4,856,734)
Increase in operating liabilities		
Bills payable	(12,710)	(120,193)
Borrowings from financial institutions	(6,985,677)	(27,251,488)
Deposits	48,526,930	38,958,598
Other liabilities	795,773	(3,889,526)
	42,324,316	7,697,391
Income tax paid	(1,660,444)	(375,953)
Net cash flow generated from operating activities	58,311,995	6,029,948
CASH FLOW FROM INVESTING ACTIVITIES		
Net investments in available-for-sale securities	(57,998,656)	(2,827,547)
Net investments in held-to-maturity securities	1,881,696	1,971,470
Dividends received	15,232	4,618
Investments in operating fixed assets	(626,295)	(181,904)
Proceeds from sale of fixed assets	116	61
Net cash used in investing activities	(56,727,907)	(1,033,302)
CASH FLOW FROM FINANCING ACTIVITIES		
Dividend paid	(1,500,576)	(500,186)
Payment against lease liabilities	(215,813)	(188,907)
Net cash used in financing activities	(1,716,389)	(689,093)
Net (decrease)/ increase in cash and cash equivalents	(132,301)	4,307,553
Cash and cash equivalents at beginning of the period	24,932,714	20,367,877
Cash and cash equivalents at end of the period	24,800,413	24,675,430

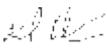
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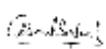
MANAGING DIRECTOR



CHIEF FINANCIAL OFFICER



DIRECTOR



DIRECTOR



DIRECTOR

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021

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 190 branches including 96 Islamic banking branches (December 31, 2020: 179 branches including 91 Islamic banking branches). The long term credit rating of the Bank assigned by The VIS Credit Rating Company Limited and Pakistan Credit Rating Agency Limited (PACRA) are 'A+' and 'A' respectively and the short-term credit ratings assigned are 'A-1' (A-One) and 'A-1' (A-One) respectively.

2 BASIS OF PREPARATION

- 2.1 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 profit 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 these financial statements as such, but are restricted to the amount of facility actually utilized and the appropriate portion of profit thereon.
- 2.2 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 (ICAP) as are notified under the provisions of Companies Act, 2017.
- 2.3 The financial results of the Islamic Banking Branches have been included in these condensed interim financial statements for reporting purpose, after eliminating the effects of inter-branch transactions and balances. Key financial figures of the Islamic Banking Branches are disclosed in note 36 to these condensed interim financial statements.
- 2.4 These condensed interim financial statements have 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.
- 2.5 In these condensed interim financial statements, the investment in associates is reported on the basis of direct equity interest and are not consolidated or accounted for by using equity method of accounting.

3 STATEMENT OF COMPLIANCE

- 3.1 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;
 - Provisions of and directives issued under 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.
- 3.2 The disclosures made in these condensed interim 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 financial statements do not include all the information and disclosures required for annual financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2020.
- 3.3 The SBP, vide BSD Circular No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 40, Investment Property for banking companies till further instructions. Further, according to a notification of SECP dated April 28, 2008, IFRS 7 "Financial Instruments: Disclosure" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these condensed interim financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by SBP through its various circulars.
- 3.4 SBP through BPRD Circular No. 04 of 2015 dated February 25, 2015 has deferred applicability of Islamic Financial Accounting Standard-3 for Profit & Loss Sharing on Deposits (IFAS-3) issued by the Institute of Chartered Accountants of Pakistan and notified by the Securities and Exchange Commission of Pakistan (SECP), vide their SRO No. 571 of 2013 dated June 12, 2013 for institutions offering Islamic financial services. The standard will result in certain new disclosures in the financial statements of the Bank as and when notified by SBP.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

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

4.1 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, 2020.

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

There are certain new standards and interpretations of and amendments to existing accounting and reporting standards that have become applicable to the Bank for accounting periods beginning on or after January 01, 2021. These are considered either not to be relevant or not to have any significant impact on the Bank's financial statements.

4.3 Standards, amendments to approved accounting standards that are not yet effective

State Bank of Pakistan, vide SBP BPRD circular no. 24, dated 05 July 2021, has further extended the applicable date of IFRS-9 implementation to annual periods beginning from January 01, 2022.

The impact of the application of IFRS 9 is being assessed and final instructions for its implementation are awaited from SBP.

4.4 Critical accounting estimates and judgements

The basis for accounting estimates adopted in the preparation of these condensed interim financial statements are the same as that applied in the preparation of the financial statements for the year ended December 31, 2020.

4.5 Financial risk management

The financial risk management objectives and policies adopted by the Bank are consistent with those disclosed in the financial statements for the year ended 31 December 2020.

In prior year, the Bank had rescheduled / restructured / deferred facilities for certain borrowers under COVID-19 relief measures announced by State Bank of Pakistan. The Bank continues to monitor the financial and operational performance of such borrowers and has maintained the additional general provision amounting to Rs. 422 million (December 31, 2020: Rs. 1,135 million). This change in estimate in general provision resulted from increase in the specific provision upon classification of previously rescheduled / restructured / deferred facilities as well as the management's reasonable estimate of the risk profile of the borrowers who had availed COVID-19 relief.

Moreover, the Bank is regularly conducting assessment of the credit portfolio to identify borrowers most likely to get affected due to changes in the business and economic environment.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

	(Un-audited) June 30, 2021	(Audited) December 31, 2020
	----- Rupees in '000 -----	
5 CASH AND BALANCES WITH TREASURY BANKS		
In hand:		
Local currency	3,224,506	3,736,533
Foreign currency	137,727	331,742
	3,362,233	4,068,275
With State Bank of Pakistan in:		
Local currency current account	11,360,117	10,940,891
Foreign currency current account	25,419	23,896
Foreign currency deposit account	102,482	84,792
	11,488,018	11,049,579
With National Bank of Pakistan in:		
Local currency current account	1,417,193	676,909
Local currency deposit account	702	311
Foreign currency deposit account	-	1,230
	1,417,895	678,450
Prize bonds	51,585	44,055
	16,319,731	15,840,359
6 BALANCES WITH OTHER BANKS		
In Pakistan		
In current accounts	3,652,799	1,963,147
In deposit accounts	619,088	1,327,882
	4,271,887	3,291,029
Outside Pakistan		
In current accounts	3,978,926	5,811,354
In deposit accounts	239,897	-
	4,218,823	5,811,354
Provision for doubtful placement with the bank	(10,028)	(10,028)
	8,480,682	9,092,355
7 LENDINGS TO FINANCIAL INSTITUTIONS		
Repurchase agreement lendings (Reverse Repo)	4,000,000	7,297,519
Placements with financial institutions	9,748,944	238,944
	13,748,944	7,536,463
Less: Provision held against lendings to financial institutions	(238,944)	(238,944)
Lendings to financial institutions - net of provision	13,510,000	7,297,519

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
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	(Un-audited) June 30, 2021	(Audited) December 31, 2020
	Rupees in '000	
8.3 Provision for diminution in value of investments	742,125	742,125
Opening balance		
Charge / (reversals)		
Charge for the period/ year	-	-
Reversals for the period/ year	(45,119)	-
Reversal on disposals/repayment	(45,119)	-
Closing balance	697,006	742,125

Category of classification	(Un-audited) June 30, 2021		(Audited) December 31, 2020	
	NPI	Provision	NPI	Provision
	Rupees in '000			
Domestic:				
Other assets especially mentioned	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	165,042	165,042	175,999	175,999
	165,042	165,042	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	165,042	165,042	175,999	175,999

8.5 The market value of securities classified as held-to-maturity amounted to Rs. 14,073 million as at June 30, 2021 (December 31, 2020: Rs. 16,039 million).

	Performing		Non performing		Total	
	Un-audited June 30, 2021	Audited December 31, 2020	Un-audited June 30, 2021	Audited December 31, 2020	Un-audited June 30, 2021	Audited December 31, 2020
	Rupees in '000					
Loans, cash credits, running finances, etc.	64,496,290	77,891,509	6,625,748	6,232,468	71,122,038	84,113,977
Islamic financing and related assets	39,849,984	48,208,466	1,172,434	823,842	41,022,418	49,032,308
Bills discounted and purchased	754,176	1,541,327	1,541,430	219,630	2,295,816	1,760,957
Advances - gross	105,100,450	127,631,302	9,339,822	7,275,940	114,440,272	134,907,242
Provision against advances						
- Specific	-	-	5,793,977	4,662,740	5,793,977	4,662,740
- General	472,476	1,181,125	-	-	472,476	1,181,125
	472,476	1,181,125	5,793,977	4,662,740	6,266,453	5,843,865
Advances - net of provision	104,627,974	126,450,177	3,545,845	2,613,200	108,173,819	129,063,377

	(Un-audited) June 30, 2021	(Audited) December 31, 2020
	Rupees in '000	
9.1 Particulars of advances (gross)		
In local currency	114,440,272	134,907,242
In foreign currency	-	-
	114,440,272	134,907,242

9.2 Advances include Rs. 9,339,822 million (December 31, 2020: Rs. 7,275,940 million) which have been placed under non-performing status as detailed below:

Category of classification	(Un-audited) June 30, 2021		(Audited) December 31, 2020	
	Non Performing Loans	Provision	Non Performing Loans	Provision
	Rupees in '000			
Domestic:				
Other assets especially mentioned	43,765	348	45,232	68
Substandard	232,175	22,765	352,950	9,975
Doubtful	3,101,459	1,061,325	1,615,105	225,044
Loss	5,962,423	4,709,539	5,262,653	4,427,653
	9,339,822	5,793,977	7,275,940	4,662,740
Overseas:				
Not past due but impaired	-	-	-	-
Overdue by:				
Upto 90 days	-	-	-	-
91 to 180 days	-	-	-	-
181 to 365 days	-	-	-	-
> 365 days	-	-	-	-
Total	9,339,822	5,793,977	7,275,940	4,662,740

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

9.3	Particulars of provision against advances	(Un-audited) June 30, 2021			(Audited) December 31, 2020		
		Specific	General	Total	Specific	General	Total
		----- Rupees in '000 -----					
	Opening balance	4,662,740	1,181,125	5,843,865	4,190,185	43,675	4,233,860
	Charge for the period / year	1,207,017	4,351	1,211,368	567,889	1,139,838	1,707,727
	Reversals	(75,780)	(713,000)	(788,780)	(95,334)	(2,388)	(97,722)
		1,131,237	(708,649)	422,588	472,555	1,137,450	1,610,005
	Closing balance	5,793,977	472,476	6,266,453	4,662,740	1,181,125	5,843,865

9.3.1 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 June 30, 2021 the Bank has availed cumulative benefit of forced sales value of Rs. 1,694,654 million (December 31, 2020: Rs. 1,429,839 million). Increase in unappropriated profit amounting to Rs. 1,033,739 million (December 31, 2020: Rs. 929,395 million) is not available for the distribution of cash or stock dividend to shareholders or bonus to employees.

9.3.2 General provision includes additional provision of Rs. 422 million (December 31, 2020: Rs.1,135 million) prudently held as a buffer in view of COVID-19 as disclosed in note 4.5.

10	FIXED ASSETS	Note	(Un-audited)	(Audited)
			June 30, 2021	December 31, 2020
			----- Rupees in '000 -----	
	Capital work-in-progress	10.1	1,410,191	928,839
	Property and equipment		1,660,575	1,665,483
	Right-of-use assets		1,272,331	877,703
	Total		4,343,097	3,472,025
10.1	Capital work-in-progress			
	Civil works		1,320,526	775,138
	Equipments		52,044	63,349
	Advances to suppliers		37,621	90,352
	Total	10.1.1	1,410,191	928,839

10.1.1 This also includes expenditure incurred on new head office building which is under construction.

10.2 Additions to fixed assets

Following additions have been made to fixed assets during the period.

	(Un-audited)	
	June 30, 2021	June 30, 2020
	----- Rupees in '000 -----	
Capital work-in-progress - net	481,352	70,566
Property and equipment		
Furniture and fixtures	8,554	720
Electrical, office and computer equipments	65,791	5,133
Vehicles	-	-
Books	26	-
Leasehold improvements	64,375	26,138
	138,746	31,991
Total	620,098	102,657

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

		(Un-audited)	
		June 30, 2021	June 30, 2020
		--- Rupees in '000 ---	
10.3	Disposals of fixed assets	Note	
	The net book value of fixed assets disposed off during the period is as follows:		
	Furniture and fixture	20	-
	Leasehold improvements	-	-
	Total	<u>20</u>	<u>-</u>
		(Un-audited) June 30, 2021	(Audited) December 31, 2020
		--- Rupees in '000 ---	---
11	INTANGIBLE ASSETS		
	Capital work in progress	-	11,926
	Licenses and computer softwares	482,988	520,241
		<u>482,988</u>	<u>532,167</u>
11.1	This amount of Rs. 11,926 million has been charged to operating expenses during the period ended June 30, 2021.		
		(Un-audited) June 30, 2021	June 30, 2020
		--- Rupees in '000 ---	
11.2	Additions to intangible assets		
	Following additions / transfers have been made to / from intangible assets during the period:		
	Additions to CWIP	-	75,070
	Directly purchased	6,197	4,277
		<u>6,197</u>	<u>79,347</u>
		(Un-audited) June 30, 2021	(Audited) December 31, 2020
		--- Rupees in '000 ---	
12	DEFERRED TAX ASSETS / (LIABILITIES) - NET	Note	
	Deferred tax assets arising in respect of:		
	Provision for balances with other banks	3,911	3,510
	Provision for diminution in value of investments	30,344	43,023
	Provision for other assets	3,842	14,648
	Accelerated accumulated depreciation	115,085	70,980
	Islamic Pool Management reserves	56,179	52,549
	Provision against loans and advances - net	607,196	480,266
		<u>816,557</u>	<u>664,976</u>
	Deferred tax liability arising in respect of:		
	Surplus on revaluation of investments	(91,735)	(178,832)
	Surplus on revaluation of non-banking assets	(29,241)	(26,242)
		<u>695,581</u>	<u>459,902</u>
13	OTHER ASSETS		
	Income / mark-up accrued in local currency	3,704,374	4,343,829
	Profit receivable on Bai Muajjal	2,540,078	2,540,078
	Advances, deposits and prepayments	68,225	104,910
	Branch adjustment account	-	369,668
	Pre-IPO investment	165,000	350,000
	Stationary and stamps on hand	64,955	58,230
	Non-banking assets acquired in satisfaction of claims	316,985	310,329
	Mark to market gain on forward foreign exchange contracts	387,624	334,416
	Employees benefits	316,439	335,447
	Clearing and settlement accounts / ATM receivable	66,495	254,164
	Acceptances	124,786	-
	Others	104,929	131,572
		<u>7,859,890</u>	<u>9,132,643</u>
	Less: Provision held against other assets	(144,426)	(144,426)
	Other Assets - net of provision	<u>7,715,464</u>	<u>8,988,217</u>
	Surplus on revaluation of non-banking assets acquired in satisfaction of claims	74,976	74,976
	Other assets - Total	<u>7,790,440</u>	<u>9,063,193</u>
13.1	Provision held against other assets		
	Advances for Pre-IPO	(100,000)	(100,000)
	Others	(44,426)	(44,426)
		<u>(144,426)</u>	<u>(144,426)</u>
14	BILLS PAYABLE		
	In Pakistan	931,430	944,140
	Outside Pakistan	-	-
		<u>931,430</u>	<u>944,140</u>

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

15 BORROWINGS	(Un-audited)	(Audited)
	June 30, 2021	December 31, 2020
----- Rupees in '000 -----		
Secured		
Borrowings from State Bank of Pakistan under:		
- Export refinance scheme	3,834,900	4,071,206
- Long term financing facility	2,581,253	2,363,683
- Livestock dairy	-	79,096
- Refinance scheme for payment of wages and salaries	-	269,848
- Refinance facility for combating COVID-19	172,943	65,850
- Refinance and credit guarantee scheme for women entrepreneurs	62,945	-
	6,652,041	6,849,683
Bai Muajjal Borrowings	33,643,561	39,373,551
Repurchase agreement borrowings	8,789,724	6,839,784
Call borrowings	992,015	1,000,000
	43,425,300	47,213,335
Unsecured		
Call borrowings	-	3,000,000
Total	50,077,341	57,063,018

16 DEPOSITS AND OTHER ACCOUNTS

	(Un-audited)			(Audited)		
	June 30, 2021			December 31, 2020		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
----- Rupees in '000 -----						
Customers						
Current deposits	42,870,870	535,349	43,406,219	33,457,556	314,415	33,771,971
Saving deposits	116,414,806	55,534	116,470,340	87,112,806	81,919	87,194,725
Term deposits	76,483,646	23,423	76,507,069	71,942,281	83,701	72,025,982
Others	10,602,903	-	10,602,903	7,017,097	-	7,017,097
	246,372,225	614,306	246,986,531	199,529,740	480,035	200,009,775
Financial Institutions						
Current deposits	254,332	-	254,332	162,961	-	162,961
Saving deposits	4,357,725	-	4,357,725	2,898,922	-	2,898,922
	4,612,057	-	4,612,057	3,061,883	-	3,061,883
	250,984,282	614,306	251,598,588	202,591,623	480,035	203,071,658

17 OTHER LIABILITIES	(Un-audited)	(Audited)
	June 30, 2021	December 31, 2020
----- Rupees in '000 -----		
Mark-up/ return/ interest payable in local currency	5,136,420	3,898,706
Mark-up/ return/ interest payable in foreign currency	275	392
Unearned income - Bai Muajjal Sukuk	565,491	985,026
Tax payable	3,339	1,185,578
Lease liability against right-of-use assets	1,374,503	956,997
Unearned commission and income on bills discounted	152,700	60,504
Deferred income on government schemes	14,017	15,949
Deferred income murabaha	102,919	98,239
Branch adjustment account	3,622	-
Islamic pool management reserves	144,051	150,142
Accrued expenses	204,262	439,569
Unclaimed dividends	28,957	28,976
Share subscription money refund	1,091	1,091
Retention money	37,760	21,310
Bills payment system over the counter (BPS-OTC)	162,259	646,163
Charity fund	11,177	10,227
Security deposits against ijarah	284,462	294,956
Mark to market loss on forward foreign exchange contracts	503,974	436,049
Payable against purchase of securities	172,279	39,054
Acceptances	124,786	-
Levies and other taxes payable	105,348	29,560
Others	348,255	151,037
	9,481,947	9,449,525

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**
18 SHARE CAPITAL

18.1 Authorized capital	(Un-audited)	(Audited)		(Un-audited)	(Audited)
	June 30, 2021	December 31, 2020		June 30, 2021	December 31, 2020
Number of shares				--- Rupees in '000 ---	
1,500,000,000	1,500,000,000	Ordinary shares of Rs. 10 each.	15,000,000	15,000,000	
18.2 Issued, subscribed and paid up					
(Un-audited)	(Audited)		(Un-audited)	(Audited)	
June 30, 2021	December 31, 2020		June 30, 2021	December 31, 2020	
Number of shares				--- Rupees in '000 ---	
722,698,448	722,698,448	Ordinary shares of Rs. 10 each	7,226,984	7,226,984	
327,572,595	277,554,037	Fully paid in cash	3,275,726	2,775,540	
1,050,271,043	1,000,252,485	Issued as fully paid bonus shares	10,502,710	10,002,524	

18.3 During the period, 50,018,558 shares were issued as fully paid bonus shares in respect of the year ended December 31, 2020.

18.4 The Bank has only one class of shares and at reporting date, the Government of Khyber Pakhtunkhwa and Ismail Industries Limited held 737,318,644 (December 31, 2020: 702,208,233) and 256,555,982 (December 31, 2020: 244,339,031) ordinary shares respectively. Moreover, the Bank has no reserved shares under options.

19 SURPLUS ON REVALUATION OF ASSETS	(Un-audited)	(Audited)
	June 30, 2021	December 31, 2020
	Note --- Rupees in '000 ---	
Surplus on revaluation of		
- Available for sale (AFS) securities	235,218	510,957
- Deferred tax on AFS securities	(91,735)	(178,832)
	143,483	332,125
- Fixed assets	786,102	786,102
- Non-banking assets	74,976	74,976
- Deferred tax on non-banking assets	(29,241)	(26,242)
	45,735	48,734
Suplus on revaluation of assets - net of tax	975,320	1,166,961

20 CONTINGENCIES AND COMMITMENTS

-Guarantees	20.1	19,953,885	16,312,941
-Commitments	20.2	64,807,348	44,403,735
		84,761,233	60,716,676
20.1 Guarantees:			
Financial guarantees		6,573,725	1,454,556
Performance guarantees		10,296,444	14,163,233
Other guarantees		3,083,716	695,152
		19,953,885	16,312,941

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

	(Un-audited) June 30, 2021	(Audited) December 31, 2020
Note	--- Rupees in '000 ---	
20.2 Commitments:		
Documentary credits and short-term trade-related transactions		
- Letters of credit	6,239,664	5,222,843
Commitments in respect of:		
- Forward foreign exchange contracts	20,2.1 58,150,381	38,772,750
Commitments in respect of:		
- Purchase of shares	240,596	-
Commitments for acquisition of:		
- Operating fixed assets	60,511	241,912
- Intangible assets	116,196	166,230
	<u>64,807,348</u>	<u>44,403,735</u>
20.2.1 Commitments in respect of forward foreign exchange contracts		
Purchase	27,011,135	16,291,144
Sale	31,139,246	22,481,606
	<u>58,150,381</u>	<u>38,772,750</u>

20.3 The income tax assessments of the Bank have been finalized up to tax year 2020.

During financial year 2019, 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, creating a demand of Rs. 1.73 billion, by disallowing the entire amount of mark-up expense and others under section 21 (C) and ignoring section 165(2), wherein, all required information was already submitted with the Income tax department. Being aggrieved, the Bank had filed appeal with Commissioner Inland Revenue (Appeals), which is pending adjudication. A writ petition has also been filed with the Honourable Peshawar High Court. Moreover, the management of the Bank is confident that the said demand has no lawful ground and justifications therein, therefore is not sustainable before the law being devoid of merit.

During financial year 2011, the tax authorities issued an amended order for the tax year 2009 disallowing certain expenditure on account of lack of evidence for such expenditure resulting in an additional tax demand of Rs. 308.9 million. The Bank filed an appeal as well as rectification application against the said order. Based on rectification application, the order was amended and accordingly the additional demand was reduced to Rs. 256.349 million. During 2012, the Commissioner Inland Revenue (Appeals) [CIR (A)] through an order dated June 01, 2012 has deleted certain additions on account of disallowances except for the additions under certain heads of expenses having tax impact of approximately Rs. 23 million. The Bank had filed an appeal against the order of the Appellate Tribunal Inland Revenue (ATIR) in respect of remaining additions which also decided in favour of the Bank. Subsequently, CIR went in to appeal in Peshawar High Court. The management is confident that matter will be decided in Bank's favour.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

		(Un-audited)	
		For the six months ended	
		June 30, 2021	June 30, 2020
		----- Rupees in '000 -----	
21	MARK-UP/RETURN/INTEREST EARNED	Note	
	On:		
	a) Loans and advances	4,734,745	6,768,909
	b) Investments	4,418,795	6,844,848
	c) Profit on Sukuk bonds	877,331	796,908
	d) Lendings to Financial Institutions	308,076	320,084
	e) Balances with banks	15,955	95,619
		<u>10,354,902</u>	<u>14,826,368</u>
22	MARK-UP/RETURN/INTEREST EXPENSED		
	On:		
	a) Deposits	5,429,306	7,021,910
	b) Borrowings	1,613,259	4,570,493
	c) Lease liability	65,327	67,826
		<u>7,107,892</u>	<u>11,660,229</u>
23	FEE AND COMMISSION INCOME		
	Branch banking customer fees	6,338	5,774
	Consumer finance related fees	1,205	1,696
	Debit card related fees	48,080	22,418
	Investment banking fees	5,264	9,922
	Commission on trade	48,051	24,991
	Commission on guarantees	61,666	67,137
	Commission on remittances including home remittances	15,478	15,109
	Commission on foreign currency bills	9,201	9,896
	Others	1,628	1,946
		<u>196,911</u>	<u>158,889</u>
24	(LOSS) / GAIN ON SECURITIES		
	Realised	(90,354)	1,697,601
	Unrealised - held-for-trading	1,715	51,576
		<u>(88,639)</u>	<u>1,749,177</u>
24.1	Realised (loss) / gain on:		
	Federal Government Securities	(140,540)	1,679,803
	Shares	46,248	1,631
	Mutual funds	3,938	16,167
		<u>(90,354)</u>	<u>1,697,601</u>
25	OTHER INCOME		
	Postal, swift and other services	42,590	46,872
	Rental income from property	1,547	1,205
	Gain on sale of fixed assets - net	95	61
	Service income on Government schemes	4,725	3,573
	Gain on early culmination of lease modification	907	4,664
	Rebate from financial institutions	2,759	3,396
		<u>52,623</u>	<u>59,771</u>

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

		(Un-audited)	
		For the six months ended	
		June 30, 2021	June 30, 2020
		----- Rupees in '000 -----	
26	OPERATING EXPENSES		
	Total compensation expense	1,335,412	1,158,072
	Property expenses		
	Rent & taxes	475	567
	Utilities cost	68,370	65,372
	Security (including guards)	69,487	73,139
	Repair & Maintenance	2,461	1,150
	Depreciation - Right of use assets	206,630	166,513
	Depreciation - Non banking assets acquired in satisfaction of claims	10,264	26,557
	Depreciation	70,959	68,118
		428,646	401,416
	Information technology expenses		
	Software maintenance	17,542	46,137
	Hardware maintenance	12,503	17,261
	Depreciation	59,730	59,943
	Amortization	43,446	17,913
	Network charges	4,285	7,110
	ATM charges	60,192	66,059
		197,698	214,423
	Other operating expenses		
	Directors' fees and allowances	5,155	3,582
	Fees and allowances to Shariah Board	-	10
	Outsourced service cost	48,637	49,125
	Legal and professional charges	35,512	23,470
	Travelling and conveyance	29,145	27,661
	Cash carriage charges	26,538	20,774
	NIFT clearing charges	8,365	7,540
	Depreciation	12,945	13,678
	Communication	23,267	42,274
	Postage and courier charges	14,957	14,310
	Stationery and printing	25,693	26,537
	Advertisement and publicity	63,026	33,089
	Repair and maintenance	13,189	7,480
	Insurance expense	32,220	22,677
	Auditor's remuneration	6,073	8,732
	Brokerage and commission	34,103	29,195
	Rent and taxes	1,429	918
	Entertainment	16,831	12,298
	Donations	-	500
	Newspapers and periodicals	494	841
	Training and development	3,413	4,233
	Fees and subscriptions	2,026	1,911
	Deposit protection premium	47,741	44,767
	Others	23,591	22,733
		474,350	418,335
		2,436,106	2,192,246
27	OTHER CHARGES		
	Penalties imposed by State Bank of Pakistan	3,617	-
		3,617	-

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

		(Un-audited)	
		For the six months ended	
		June 30, 2021	June 30, 2020
		----- Rupees in '000 -----	
28	PROVISIONS & WRITE OFFS - NET	Note	
	Reversal of diminution in value of investments	8.3	(45,119)
	Provisions against loans and advances	9.3	1,172,234
			<u>377,469</u>
29	TAXATION		
	Current		471,527
	Prior periods		1,270,546
	Deferred		-
			40,500
			<u>(151,581)</u>
		29.1	<u>827,209</u>

29.1 This includes the impact of Super Tax levied at the rate of 4%.

		(Un-audited)	
		For the six months ended	
		June 30, 2021	June 30, 2020
		----- Rupees in '000 -----	
30	BASIC AND DILUTED EARNINGS PER SHARE		
	Profit for the period	<u>608,177</u>	<u>1,206,172</u>
		----- (Number of shares) -----	
	Weighted average number of ordinary shares	<u>1,050,271,043</u>	<u>1,050,271,043</u>
		----- (Rupees) -----	
	Basic and diluted earnings per share	<u>0.58</u>	<u>1.15</u>

30.1 There were no dilutive potential ordinary shares outstanding as at June 30, 2021 and June 30, 2020.

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 inputs that are not based on observable market data (i.e. unobservable inputs).

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

(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.

Unit of mutual funds

The fair value of investments in units of mutual funds are determined based on their net asset values as published at the close of each business day.

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 for fixed rate securities and PKFRV rates for floating rate PIB's (Reuters page).

Government of Pakistan (GoP) - Ijarah Sukuks

Fair values of GoP Ijarah Sukuks 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) and non-banking assets acquired in satisfaction of claims

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.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

32 SEGMENT INFORMATION

32.1 Segment details with respect to business activities

For the six months ended June 30, 2021 (Un-audited)					
Corporate Finance	Trading and Sales	Retail Banking	Commercial Banking	Total	
Rupees in 000					
Profit and loss					
Net mark-up / return / profit	1,075,071	1,305,102	100,361	766,476	3,247,010
Non mark-up / return / interest income	3,169	298,595	49,285	147,256	498,305
Total income	1,078,240	1,603,697	149,646	913,732	3,745,315
Segment direct expenses	722,025	1,231,442	53,516	432,740	2,439,723
Total expenses	722,025	1,231,442	53,516	432,740	2,439,723
Provisions	-	(45,120)	53,620	368,969	377,469
Profit before tax	356,215	417,375	42,510	112,023	928,123
As at June 30, 2021 (Un-audited)					
Cash and bank balances	4,224,682	9,522,892	287,197	10,765,642	24,800,413
Lendings to financial institutions	-	13,510,000	-	-	13,510,000
Investments	14,102,766	154,837,227	-	40,504	168,980,497
Advances - performing	59,669,942	-	5,026,730	39,931,302	104,627,974
Advances - non performing	-	-	169,913	3,375,932	3,545,845
Operating fixed assets/intangible assets	1,237,985	2,825,047	85,199	677,854	4,826,085
Deferred tax assets	29,522	5,976	2,032	658,051	695,581
Others	1,031,417	5,350,565	70,983	1,337,475	7,790,440
Total assets	80,296,314	186,051,707	5,642,054	56,786,760	328,776,835
Bills payable	599,321	18,488	153,942	159,679	931,430
Borrowings	6,652,041	8,789,724	-	34,635,576	50,077,341
Deposits and other accounts	161,889,000	4,994,000	41,583,000	43,132,588	251,598,588
Others	4,336,401	2,279,718	1,000,185	1,865,643	9,481,947
Total liabilities	173,476,763	16,081,930	42,737,127	79,793,486	312,089,306
Equity / Inter-segment (lending) / borrowing	(93,180,449)	169,969,777	(37,095,073)	(23,006,726)	16,687,529
Total equity and liabilities	80,296,314	186,051,707	5,642,054	56,786,760	328,776,835
Contingencies and commitments	5,158,587	58,417,483	77,988	21,107,175	84,761,233
For the six months ended June 30, 2020 (Un-audited)					
Corporate Finance	Trading and Sales	Retail Banking	Commercial Banking	Total	
Rupees in 000					
Profit and loss					
Net mark-up / return / profit	1,226,822	545,142	165,695	1,228,480	3,166,139
Non mark-up / return / interest income	2,887	2,032,868	24,114	171,853	2,231,722
Total Income	1,229,709	2,578,010	189,809	1,400,333	5,397,861
Segment direct expenses	691,656	1,073,748	48,311	378,531	2,192,246
Total expenses	691,656	1,073,748	48,311	378,531	2,192,246
Reversal of provisions	-	-	57,287	1,114,947	1,172,234
Profit before tax	538,053	1,504,262	84,211	(93,145)	2,033,381
As at December 31, 2020 (Audited)					
Cash and bank balances	6,375,161	6,862,166	306,644	11,388,743	24,932,714
Lendings to financial institutions	-	7,297,519	-	-	7,297,519
Investments	15,984,462	97,454,028	-	40,504	113,478,994
Advances - performing	80,660,394	-	4,680,875	41,108,908	126,450,177
Advances - non performing	-	-	116,214	2,496,986	2,613,200
Operating fixed assets/intangible assets	1,604,866	1,739,485	77,731	582,110	4,004,192
Deferred tax assets	28,392	535,378	1,420	-	565,190
Others	1,875,438	5,162,489	90,837	1,934,429	9,063,193
Total assets	106,528,713	119,051,065	5,273,721	57,551,680	288,405,179
Bills payable	623,133	9,441	141,621	169,945	944,140
Borrowings	7,849,683	6,839,784	-	42,373,551	57,063,018
Deposits and other accounts	134,027,293	2,030,717	30,460,749	36,552,899	203,071,658
Deferred tax liability	-	-	-	105,288	105,288
Others	4,440,822	2,585,140	862,398	1,561,165	9,449,525
Total liabilities	146,940,931	11,465,082	31,464,768	80,762,848	270,633,629
Equity / Inter-segment (lending) / borrowing	(40,412,218)	107,585,983	(26,191,047)	(23,211,168)	17,771,550
Total equity and liabilities	106,528,713	119,051,065	5,273,721	57,551,680	288,405,179
Contingencies and commitments	7,153,648	38,833,971	132,037	14,597,020	60,716,676

32.1.1 Geographical segment

The Bank conducts all its operations in Pakistan.

32.2 Comparative figures have been re-arranged during the period.

33 TRUST ACTIVITIES

The Bank is not engaged in any significant trust activities.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021

34 RELATED PARTY TRANSACTIONS

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 June 30, 2021			(Audited) As at December 31, 2020		
	Directors management personnel	Associate	Employee Funds	Directors	Associate management personnel	Employee Funds
	Rupees in '000					
Advances						
Opening balance	125,001	-	-	-	154,486	-
Addition during the period / year	94,034	-	-	-	41,810	-
Repaid during the period / year	(14,181)	-	-	-	(96,354)	-
Transfer (to) / in - net	-	-	-	-	(3,941)	-
Closing balance	204,854	-	-	-	126,001	-
Deposits and other accounts						
Opening balance	6,225	34,003	2,534,982	-	25,861	2,342,408
Received during the period / year	92,656	39,959	517,943	-	119,145	933,048
Withdrawn during the period / year	(86,398)	(39,643)	(516,208)	-	(119,280)	(38,868)
Transfer in / (out) - net	32	-	-	-	(19,231)	-
Closing balance	12,515	34,319	2,536,717	-	9,495	2,534,982
Other liabilities	62	933	65,491	-	192	915
Accrued markup	-	-	-	-	-	33,108
	For the six months ended June 30, 2021			For the six months ended June 30, 2020		
	Directors management personnel	Associate	Employee Funds	Directors	Associate management personnel	Employee Funds
	Rupees in '000					
Income						
Mark-up / return / interest earned	1,892	-	-	-	1,390	-
Expense						
Mark-up / return / interest expensed	231	1,848	89,150	-	350	1,413
Operating expenses	5,155	97,532	-	3,582	78,044	-

34.1 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 completely disclose such transactions.

Detailed related party disclosure for being government entity is disclosed as required under IAS-24 "Related Party Disclosures". Relevant details are referred in the following notes:

Particulars	Note
Investments	8.1
Shareholding	18

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

	(Un-audited) June 30, 2021	(Audited) December 31, 2020
---- Rupees in '000 ----		
35 CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS		
Minimum Capital Requirement (MCR):		
Paid-up capital (net of losses)	<u>10,502,710</u>	<u>10,002,524</u>
Capital Adequacy Ratio (CAR):		
Eligible common equity tier 1 (CET 1) capital	<u>14,368,543</u>	<u>15,550,165</u>
Eligible additional tier 1 (ADT 1) capital	<u>-</u>	<u>-</u>
Total eligible tier 1 capital	<u>14,368,543</u>	<u>15,550,165</u>
Eligible tier 2 capital	<u>1,289,539</u>	<u>1,814,447</u>
Total eligible capital (Tier 1 + Tier 2)	<u>15,658,082</u>	<u>17,364,612</u>
Risk weighted assets (RWAs):		
Credit risk	<u>64,483,976</u>	<u>61,803,516</u>
Market risk	<u>14,591,451</u>	<u>15,868,243</u>
Operational risk	<u>12,082,254</u>	<u>12,082,254</u>
Total	<u>91,157,681</u>	<u>89,754,013</u>
Common equity tier 1 capital adequacy ratio	<u>15.76%</u>	<u>17.33%</u>
Tier 1 capital adequacy ratio	<u>15.76%</u>	<u>17.33%</u>
Total capital adequacy ratio	<u>17.18%</u>	<u>19.35%</u>
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%	1.50%
Total capital plus CCB	11.50%	11.50%
Leverage Ratio (LR):		
Eligible tier-1 capital	14,368,543	15,550,165
Total exposures	<u>337,857,020</u>	<u>308,964,487</u>
Leverage ratio	<u>4.25%</u>	<u>5.03%</u>
Liquidity Coverage Ratio (LCR):		
Total high quality liquid assets	122,173,000	72,827,275
Total net cash outflow	<u>70,165,000</u>	<u>55,801,680</u>
Liquidity coverage ratio	<u>174.12%</u>	<u>130.51%</u>
Net Stable Funding Ratio (NSFR):		
Total available stable funding	161,239,829	144,132,642
Total required stable funding	<u>120,298,640</u>	<u>133,253,371</u>
Net stable funding ratio	<u>134.03%</u>	<u>108.16%</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021

36

ISLAMIC BANKING BUSINESS

The Bank is operating 96 (2020: 91) Islamic banking branches and 39 (2020: 39) Islamic banking windows as at June 30, 2021.

	Note	(Un-audited) June 30, 2021	(Audited) December 31, 2020
		— Rupees in '000 —	
STATEMENT OF FINANCIAL POSITION			
ASSETS			
Cash and balances with treasury banks		5,512,108	4,472,537
Balances with other banks		5,370,083	4,220,835
Due from financial institutions	36.1	9,010,000	-
Investments	36.2	19,596,583	18,981,353
Islamic financing and related assets - net	36.3	40,587,026	48,422,578
Fixed assets		569,938	511,040
Intangible assets		3	1,007
Other assets		3,726,914	3,733,109
Total Assets		84,372,655	80,342,459
LIABILITIES			
Bills payable		321,700	302,807
Due to financial institutions		792,943	10,427,385
Deposits and other accounts	36.4	74,297,692	58,999,639
Due to head office		533,689	148,459
Other liabilities		2,880,645	3,867,398
Total Liabilities		78,826,669	73,745,688
NET ASSETS		5,545,986	6,596,771
REPRESENTED BY			
Islamic banking fund		1,000,000	1,000,000
Reserves		42,903	46,698
Surplus on revaluation of assets		89,217	10,364
Unappropriated profit	36.5	4,413,866	5,539,709
		5,545,986	6,596,771
CONTINGENCIES AND COMMITMENTS			
	36.6		
The profit and loss account of the Bank's Islamic banking branches for the six months ended June 30, 2021 is as follows:			
	Note	(Un-audited) January 01 to June 30, 2021	(Un-audited) January 01 to June 30, 2020
		— Rupees in '000 —	
PROFIT AND LOSS ACCOUNT			
Profit / return earned	36.7	2,930,553	3,676,228
Profit / return expensed	36.8	1,312,239	1,726,997
Net profit / return		1,618,314	1,949,231
OTHER INCOME			
Fee and commission income		54,077	44,263
Dividend income		4,183	-
Foreign exchange income		104,106	123,926
Gain on securities		3,938	21,540
Other income		27,117	29,856
		193,421	219,585
		1,811,735	2,168,816
OTHER CHARGES			
Operating expenses		1,098,171	974,646
Other charges		267	-
		1,098,438	974,646
Profit before provisions		713,297	1,194,170
(Reversals) / provisions - net		(174,341)	380,358
Profit before taxation		887,638	813,812
Taxation		346,179	317,387
Profit after taxation		541,459	496,425

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

36.1 Due from financial institutions

Call Placement
Bai muajjal receivable from State Bank of Pakistan

	(Un-audited) June 30, 2021		(Audited) December 31, 2020	
	In local currency	In foreign currency	Total	In foreign currency
	9,010,000	-	9,010,000	-
	-	-	-	-
	9,010,000	-	9,010,000	-

(Un-audited)
June 30, 2021

(Audited)
December 31, 2020

36.2 Investments by segments:

Federal Government Securities:

-GoP Ijarah sukuk
-Bai Muajjal sukuk
Other non-government debt securities
-Power/gas and other sukuk
-Pakistan Energy Sukuk II
-Mutual Funds

	(Un-audited) June 30, 2021				(Audited) December 31, 2020			
	Cost	Provision for diminution	Surplus	Carrying value	Cost	Provision for diminution	Surplus	Carrying value
	7,121,438	-	49,717	7,171,155	6,494,331	-	2,769	6,497,100
	6,388,711	-	-	6,388,711	6,388,711	-	-	6,388,711
	3,353,631	-	9,500	3,363,131	5,636,429	-	7,594	5,644,023
	2,000,000	-	30,000	2,030,000	-	-	-	-
	643,586	-	643,586	643,586	450,590	-	929	451,519
	19,507,366	-	89,217	19,596,583	18,970,061	-	11,292	18,981,353

(Un-audited)
June 30, 2021

(Audited)
December 31,
2020

36.3 Islamic financing and related assets

Ijarah
Murabaha
Diminishing musharaka
Rituning musharaka
Istisna
Others
Gross Islamic financing and related assets
Less: provision against Islamic financings
- Specific
- General

	(Un-audited) June 30, 2021		(Audited) December 31, 2020	
	Cost	Carrying value	Cost	Carrying value
	683,331	815,074	1,939,304	1,222,883
	7,347,343	7,892,638	26,934,700	35,000,000
	92,249	4,076,517	25,199	4,076,517
	41,022,418	49,032,311	41,022,418	49,032,311

292,334	241,434
143,056	368,299
435,392	609,733
40,587,026	48,422,578

Islamic financing and related assets - net of provision

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

36.4 Deposits	(Un-audited) June 30, 2021			(Audited) December 31, 2020		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
	----- Rupees in '000 -----					
Customers						
Current deposits	22,095,718	84,665	22,180,383	17,032,205	49,082	17,081,287
Savings deposits	41,443,364	-	41,443,364	33,133,849	-	33,133,849
Term deposits	4,509,270	-	4,509,270	4,862,236	-	4,862,236
Others	2,455,164	-	2,455,164	1,853,437	-	1,853,437
	<u>70,503,516</u>	<u>84,665</u>	<u>70,588,181</u>	<u>56,881,727</u>	<u>49,082</u>	<u>56,930,809</u>
Financial Institutions						
Current Deposits	110,650	-	110,650	481	-	481
Savings deposits	3,598,861	-	3,598,861	2,068,349	-	2,068,349
	<u>74,213,027</u>	<u>84,665</u>	<u>74,297,692</u>	<u>58,950,557</u>	<u>49,082</u>	<u>58,999,639</u>
				(Un-audited) June 30, 2021	(Audited) December 31, 2020	
36.5 Islamic banking business unappropriated profit				----- Rupees in '000 -----		
Opening balance				5,539,709	6,033,117	
Add: Islamic banking profit for the period/year				887,638	1,391,703	
Less: Transfer to head office				(2,013,481)	(1,885,111)	
Closing balance				<u>4,413,866</u>	<u>5,539,709</u>	
36.6 Contingencies and commitments						
-Guarantees				4,795,762	3,765,062	
-Commitments				702,720	864,538	
				<u>5,498,482</u>	<u>4,629,600</u>	
				(Un-audited) For the six months ended		
				June 30, 2021	June 30, 2020	
36.7 Profit/return earned on financing, investments and placements				----- Rupees in '000 -----		
Financing				1,999,046	2,775,016	
Investments				877,331	796,908	
Placements				52,818	45,757	
Balances with banks				1,358	58,547	
				<u>2,930,553</u>	<u>3,676,228</u>	
36.8 Profit on deposits and other dues expensed						
Deposits and other accounts				878,358	1,295,991	
Due to Financial Institutions				413,892	407,022	
Lease liability				19,989	23,984	
				<u>1,312,239</u>	<u>1,726,997</u>	

37 Profit equalization reserve

The profit equalization reserves amounting to Rs. 42.903 million (2020: Rs. 46.698 million) classified in other liabilities, which has been presented as reserves in note 36.

38 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:

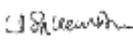
From	To	(Unaudited) January 01 to June 30, 2020 Rupees in '000
		Other charges
Mark up on lease liability	Mark up on lease liability	

39 DATE OF AUTHORIZATION FOR ISSUE

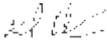
These condensed interim financial statements were authorised for issue in the Board of Directors meeting of the Bank held on 26 August, 2021.



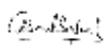
MANAGING DIRECTOR



CHIEF FINANCIAL OFFICER



DIRECTOR



DIRECTOR



DIRECTOR

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