RATING REPORT

Bank of Khyber

REPORT DATE:
June 27, 2023

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A+	A-1	A+	A-1
Rating Outlook	Stable		Stable	
Rating Date	*June 27, 2023*		*June 30, 2022*	

COMPANY INFORMATION	
Incorporated in 1991; scheduled in 1994	**External auditors:** M/s A.F. Ferguson & Co.
Public Limited Company	**Chairman of the Board:** Mr. Ikramullah Khan **Managing Director/Chief Executive Officer:** Mr. Muhammad Ali Gulfaraz
Key Shareholders (with stake 5% or more):	
Government of Khyber Pakhtunkhwa – 70.2%	
Ismail Industries Ltd – 24.4%	
Others (including general public) – 5.4 %	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Commercial Banks (June, 2020)
http://www.vis.com.pk/kc-meth.aspx

Bank of Khyber

OVERVIEW OF THE INSTITUTION

Bank of Khyber (BoK) was established under the Bank of Khyber Act, 1991 and acquired the status of a schedule bank in 1994. BoK is listed on Pakistan Stock Exchange Limited (PSX) and is one of the three provincial-government owned commercial banks operating in Pakistan.

Profile of MD/CEO

Mr. Muhammad Ali Gulfaraz is serving as the MD/CEO. Previously, he was member Board of Directors Fauji Foundation Pakistan. Mr. Muhammad holds his BA in economics and MSc in Managerial Economics from the University of California, Davis.

Profile of Chairman

Mr. Ikramullah khan is a civil servant and is presently serving as the Additional Chief Secretary Government of Khyber Pakhtunkhwa. He was appointed as the Chairman of the Board on Jan 11, 2023.

Financial Snapshot

Net Profit: 1QFY23: Rs. 939m; FY22: Rs. 455m; FY21: Rs. 1.1b.

Tier 1 Equity: 1QFY23: Rs. 15.1b; FY22: Rs. 16.0b; FY21: Rs. 15.2b.

RATING RATIONALE

Rating Rationale

The ratings assigned to BOK reflect its shareholding structure as the majority stake (70.2%) is held by the sub-sovereign, the Government of KPK followed by Ismail Industries Limited (24.4%). The ratings take into account the impact of downward movement in net worth and profitability in the outgoing year owing to a sizable deficit booked on investments and high operating expenses incurred on account of branch network growth and capacity building. However, the subsequent improvement in the profitability and efficiency indicators evidenced during the ongoing year is in built in the assigned ratings. Moreover, the Bank is focused towards enhancing its digital footprint for better customer experience and portfolio diversification. Given instances of fresh infection reported, weakening of asset quality indicators on account of impaired repayment capacity of businesses and obligors amid weak macroeconomic indicators remains a key concern from the rating perspective. VIS has been given to understand that the management is following a cautious approach in new to-bank lending, plans to enhance business relationships with existing blue chip and public sector clients, and aims to keep an optimal level of risk-free government-backed lending schemes to avoid potential credit risk headwinds in view of the prevailing economic conditions. In view of uncertain market conditions and increase in market interest rates, there was heightened market risk exposure as the net deficit on investments increased sizably on a timeline. However, the same is mitigated to some extent on account of the ongoing repositioning of the investment portfolio.

BOK's liquidity profile is sound and has improved during the review period, as evidenced by sizable coverage of liquid assets by deposits and borrowings. Moreover, additional liquidity available through growth of deposits was also channelized towards liquid avenues as the advances to deposit ratio declined in the ongoing year. Further, the concentration risk on the deposit side also reduced on a timeline. The largest deposit pertained to the government of KPK; however, this high-cost deposit was slightly tapered off during the outgoing year. In addition, asset-maturity mismatch exists in various buckets; however, liquidity risk arising from withdrawals is limited given that the largest depositors are public/sub-sovereign account holders. While declining on a timeline, the Capital Adequacy Ratio (CAR) is regulatory compliant and adequate for the assigned ratings; however, it needs to be recouped to release the developing pressure on ratings. The ratings capture the consolidation strategy opted by the management for both lending and investment portfolios for maintaining CAR of the Bank at desired levels. Moreover, the ratings remain dependent on improvement in asset quality indicators and market risk management of investment portfolio.

Economic Review

The economy is currently facing several challenges, including a decrease in foreign reserves, a devaluing currency, and high inflation levels. To combat rising inflation, caused by the commodity super cycle and effects of Ukraine war, the central bank has implemented stricter monetary policies, resulting in a significant increase in the policy rate. This has led to higher funding costs for banks and impacted borrower's debt servicing ability. As a result, banks are adjusting by increasing provisions for potential loan losses and writing off non-performing loans. The economic slowdown will likely prompt stricter lending standards with banks continuing to remain heavily invested in sovereign exposures. Counterbalancing this, rising interest rates should help banks maintain their margins, partially offsetting the decline in earnings and allowing for improved profitability. However, there is increased credit risk and market risk vulnerability, especially in the face of any potential interest rate or currency fluctuations, which could impact the capitalization levels of banks. Looking ahead, the medium to long-term outlook for the fiscal account is challenging because the government is struggling to expand its revenue base. Public debt accumulation is accelerating, crowding out private sector credit. This trend also increases the risk of potential sovereign debt restructuring. Given banking sector balance sheets are highly skewed towards Government paper, this could lead to liquidity and profitability challenges, particularly for small and medium-sized banks in the future.

Corporate Profile

The Bank of Khyber (BoK) was established under the Bank of Khyber Act, 1991 and was subsequently awarded the status of a schedule bank in 1994. BoK is listed on the Pakistan Stock Exchange (PSX) and is one of the three commercial banks owned by the provincial governments. The bank is operating through a network of 231 branches (FY21: 216) and 24 sub-branches (FY21: 14), including 119 (FY21: 110) Islamic branches and 112 (FY21: 106) conventional branches at end-FY22.

Shareholding structure of the bank remained unchanged during the period under review. The provincial government of Khyber Pakhtunkhwa (KPK) held a controlling stake followed by Ismail Industries Ltd (IIL) having a stake of 24.4% in the bank. IIL is one of the largest confectionary companies in Pakistan manufacturing a wide range of confectionary, biscuits and snacks under the brand names of Candyland, Bisconni and Snackcity. Shareholding pattern of the bank is tabulated below:

Shareholding Pattern	FY21	FY22
Government of Khyber Pakhtunkhwa	70.2%	70.2%
Ismail Industries Ltd	24.4%	24.4%
Others (including general public)	5.4%	5.4%

Board Profile

The Board of Directors (BoD) at BoK consists of 7 members (FY21: 6), with a mix of representatives of government and from the private sector. The Board is chaired by Mr. Ikramullah Khan. Composition of the BoD changed as Ms. Saleha Asif, Director tendered her resignation, which was accepted on December 21, 2022. Subsequent to the year end, her casual vacancy was filled by Dr. Aliya Hashmi Khan. The incoming director Dr. Aliya Hashmi is an illustrious educationist with a proven track record of achievements and performances in the field of education, research, initiatives and implementation. Dr. Aliya has 35 years of rich experience of imparting education and is contributing to research and policy development in the areas of Labor Economics, Human Resource Development and Macroeconomic Policy. She also remained member of different government and non-government organizations and is Chair of National Poverty Estimation Committee, Ministry of Planning, Development and Special Initiatives, Government of Pakistan. She has been awarded with the President's Medal – Mohtarma Fatima Jinnah 2010 in the category of Higher Education. The BoD consists of 5 independent directors including female director, 2 non-executive directors and 1 executive director. The BOD composition snapshot is given below:

Directors	Status
Muhammad Ali Gulfaraz	Managing Director/CEO
Ikramullah Khan	Chairman/ Non-Executive
Muhammad Ayaz	Non-Executive
Mir Javed Hashmat	Independent
Dr. Aliya Hashmi Khan	Independent
Syed Asad Ali Shah	Independent
Tahir Jawaid	Independent
Abid Sattar	Independent

The bank convened six BoD meetings with 100% attendance during FY22 to discuss and approve annual, half yearly and quarterly financial statements, SBP inspection report, quarterly Shariah review report, TORs of IT steering committee and discussion on business strategy. Moreover, extracts of minutes of BoD committees' meetings was also presented for discussion.

The BoD has established five standing committees to effectively perform its oversight function, which include Board Audit Committee (BAC), Board Human Resource and Remuneration Committee (BHR&RC), Board Risk Management Committee (BRMC), Board Compliance Committee (BCC), Board IT Steering Committee (BITC). In line with the best corporate governance practices, the BoD committees are chaired by either independent director or non-executive director.

Senior Management

During FY22, several positions were vacant including that of Company Secretary, Group Head Islamic Banking Group-Divisional Head Law Division & Group Head-Treasury. By end-Mar'23, all positions mentioned above were still being looked after on officiating basis except Group Head-Treasury as Syed Furrukh Zaeem joined BoK as Senior Executive Vice President / Group Head, Treasury & Investment Banking Group. Mr. Zaeem is a seasoned Banker and possesses more than 26 years of diversified experience which includes 17 years at senior management level positions. He has demonstrated expertise in Treasury & Capital Markets, Corporate Banking & Financial Institutions in leading domestic and foreign banks. Before joining BOK, he was associated with United Bank Limited, American Express Bank and JS Bank.

Moreover, Mr. Asim Bashir was appointed as Group Head Digital & Consumer Banking Group in Oct'22. Mr. Asim Bashir, Group Head Digital Banking has over 25 years of experience that specializes in digital channel transformation, business process reengineering, strategic planning, and partnerships. He started his career in Bank of America in Pakistan after which he went on to serve Union Bank Limited and Askari Bank. Furthermore no key positions were vacant at end-1QFY23.

Information and Technology

Under the challenging and competitive operating environment owing to the delicate economic activities, the Bank sustained its focus towards long-term multi-pronged strategy, driven towards continuous augmentation of innovative technology-based service offerings to customers through enhancing digital platforms, strengthening risk management and optimizing operating efficiencies. Implementation of Temenos T-24 core banking software was completed on Jun'21 despite the outbreak of Covid-19. Integration of T-24 core banking system has reduced the likelihood of any data pipeline errors or delays and ensures that data-analysis and decision making is carried out timely and accurately since all the data is now centralized and available on real-time. Necessary processes and system improvements are continuously being done to yield maximum benefit from the new system. Moreover, the Bank also has a mobile banking application to provide convenient and easy access banking facilities to its customers. Emphasis remains on the efforts to enhance capacities in the digital banking area through which the customers were carrying out banking transactions through their mobile phones and internet. These technological advancements will also help in targeting growth for consumer and SME portfolio of the Bank.

Branch Network

The Bank at the end of the outgoing year, was operating with 231 branches (FY21: 216 branches) and 24 sub-branches all over the country including Gilgit Baltistan, erstwhile FATA and Azad Jammu & Kashmir. A total of 119 branches (FY21: 110) were functioning as dedicated Islamic Banking branches and the remaining 112 (FY21: 106) were conventional branches. Moreover, the Bank also has presence in all public sector universities of KPK serving over hundred thousand students and now plans to expand its foot print in all KPK police training institutions and increase its customer base by capturing the market of new police trainees. The branch network of BoK is primarily concentrated in KPK.

Taking cognizance of the fact that the outreach of branch network has direct implications on the services, the Bank focused on concentrating and broadening its services through the extended branch network to provide efficient banking services to its valued customers. For FY23, the Bank aims to continue its focus on expanding its branch network as per the branch expansion strategy. To satisfy the needs of diverse range of clientele, the Bank has also taken concrete measures through augmentation of digital banking and conventional banking services all across Pakistan. The table below presents province-wise breakdown of branches:

Province/ Territory	FY21	FY22
KPK	149	160
Punjab	34	37
Sindh	12	11
Baluchistan	9	7
Capital Territory Area	8	13
Azad Jammu & Kashmir	3	2
Gilgit Baltistan	1	1
Total	**216**	**231**

Financial Analysis

Asset & Investment Mix

During FY22, BOK's asset base slightly reduced in contrast to a 24.3% growth witnessed in previous year; the decline was largely manifested in the investment portfolio. Similar to the banking industry, BOK's asset mix features a higher tilt towards sovereign securities, as reflected by the proportion share of investment portfolio representing almost half of total asset base at end-1QFY23. Net advances exhibited a mixed trend with slight increase at end-FY22 in line with lending activities reverting back to normal post pandemic crisis. However, the advances portfolio significantly reduced by 17% on account of adjustment of commodity financing at end-1QFY23. The snapshot of assets mix is presented in table below:

(Rs. in b)	FY21	%	FY22	%	1QFY23	%
Cash & balances	29.5	8.2	19.8	5.7	26.0	8.0
Lending to FIs	5.0	1.4	7.6	2.2	13.2	4.1
Investment	184.4	51.4	173.7	50.4	161.4	49.7
Advances(net)	124.5	34.7	127.5	37.0	104.4	32.2
Operating Assets	5.1	1.4	5.6	1.6	5.5	1.7
Other Assets	10.0	2.8	10.7	3.1	14.1	4.3
Total Assets	358.6	100	344.9	100	324.6	100

In absolute terms, the investment portfolio declined during the rating review period; the same was a function of consolidation and repositioning strategy implemented by the management to rationalize the impact of increasing interest rate scenario prevalent. Further, credit risk emanating from investment portfolio is consider low as government securities accounted for 95% (FY22: 95%; FY21: 94%) of the investment portfolio at end-1QFY23. The table below presents the investment portfolio *(carrying values)* position at end-FY22:

Investments (Rs. m)	Dec'21	Dec'22
PIBs	55,081	89,464
T-Bills	92,873	46,879
Non-Gov Debt - Listed	4,386	3,426
Non-Gov Debt - Unlisted	4,924	4,261
Shares - Listed	390	247
Shares - Unlisted	74	79
Ijarah Sukuk	25,425	29,223
Subsidiary/Associate	93	90
Mutual Funds	1,153	0
Total	**184,399**	**173,669**

MTM Losses Staggering:

The State Bank of Pakistan (SBP) has allowed BoK to stagger the unrealized mark-to-market (MTM) losses on certain PIBs amounting to Rs. 26.5b held in its available-for-sale portfolio. The cumulative unrealized MTM losses amounted to Rs. 2.1b at end-FY22. According to the relaxation letter issued by SBP, MTM losses on these PIBs were to be recorded as 25% by Sept'22, 50% by Dec'22, 75% by Mar'23 and 100% by Jun'23. Furthermore, the Bank was required to adjust the outstanding staggered amount of revaluation deficit from distributable profits, for declaring cash dividend (if any), during the relaxation period. The Bank availed the benefit of the said relaxation and did not account for the impact of Rs. 1.04b (50% of MTM losses) by end-FY22; the same resulted in a net of tax positive impact of Rs. 592m on the statement of financial position with corresponding positive impact on the statement of comprehensive income for the outgoing year. Further at end-1QFY23, in line with the SBP relaxation letter, the Bank had availed the relaxation of 25% of the MTM losses on such PIBs, having a net of tax positive impact of Rs. 449m on the condensed interim statement of comprehensive income was recorded. BoK also availed the benefit in the calculation of CAR and Leverage Ratio (LR) thereby resulting in a positive impact of 0.77% (FY22: 0.78%) and 0.21% (FY22: 0.23%) on CAR and LR respectively at end-1QFY23.

Government Securities:

In absolute terms, out of total government securities worth Rs. 153.4b, PIB portfolio amounted to Rs. 130.6b while Ijarah Sukuk represented the remaining amount of Rs. 22.5b at end-1QFY23. In view of the interest rate outlook and in order to mitigate market risk emanating from increasing benchmark rates, the Bank repositioned it portfolio and enhanced its floating rate PIB portfolio to Rs. 99.0b (FY22: Rs. 61.8b) accounting for 75.9% (FY22: 66.2%) of total PIB portfolio at end-1QFY23. As per the management, 95% of the increase in PIBs since FY21 is driven by floating rate securities. Moreover, the T-Bill portfolio had completely matured by end-1QFY23. Further, as per segregation by type, fixed PIBs worth Rs. 5.3b are categorized under Held to Maturity (HTM) therefore the same are not exposed to mark-to-mark losses emanating from interest rate movements. On the other hand, the remaining fixed rate PIBs amounting to Rs. 26.3b falling under AFS are susceptible to market risk. BoK had purchased fixed rate government securities in FY22 based on the market interest rate expectation at that point of time. However, due to subsequent sharp rise in market interest rates, the Bank booked a deficit of Rs. 1.2b on PIBs during the outgoing year as opposed to Rs. 574.3m booked in FY21. Subsequently, the aggregate deficit on investments increased to 1.8b (FY21: Rs. (795.8m)) with deficit on revaluation on assets recorded at Rs. 229.9m by end FY22. Going forward, with another 500bps interest rate hikes registered during the ongoing year, the deficit on investments surged to Rs. 3.8b at end-1QFY23. Further, given the majority of PIB portfolio fell under AFS, other comprehensive loss booked under revaluation of investments amounted to Rs. 1.1b (FY22: (Rs. 556.4m); FY21: (Rs. 818.2m)) with net deficit on investments increasing to Rs. 2.2b (FY22: (Rs. 1.0b); FY21: (Rs. 486.1m)) at end-1QFY23. The Macaulay duration of fixed rate PIBs other than HTM (Rs.26.3b) and floating rate PIBs (Rs. 99.3b) was recorded at 1.68 and 0.07years respectively at end-1QFY23. Moreover, the overall duration of investment portfolio including PIBs, Sukuk & TFCs was recorded at 0.40 years at end-1QFY23. As per the management, BoK expects to keep the remaining fixed rate instruments till maturity. The snapshot of PIB portfolio (at cost) is tabulated below:

Movement in PIBs (Rs. m)		
Issue Date	Dec'22	Mar'23
18-Jun-20	2,800	2,800
20-Aug-20	2,450	2,450
26-Aug-21	13,500	13,500
30-Dec-21	5,000	5,000
5-Aug-21	10,500	10,500
17-Jul-14	1,500	1,500
17-Jul-14	2,700	2,700
19-Sep-19	750	750

07-Oct-21	5,000	5,000
8-Sep-22	-	7,000
26-Mar-15	1,000	1,000
15-Oct-20	11,700	11,700
9-Feb-23	-	16,000
9-Feb-23	-	1,500
22-Oct-22	500	500
8-Sep-22	15,750	19,250
8-Sep-22	-	9,250
6-May-21	14,000	14,000
9-Aug-18	1,100	1,100
18-Jun-20	4,146	4,146
10-Dec-20	1,000	1,000
Total Fixed PIBs	**31,600**	**31,600**
Floater PIBs	**61,796**	**99,046**
Total PIB Portfolio	**93,396**	**130,646**

Going forward, the management plans to invest in floating rate securities only in the ongoing increasing benchmark rate scenario to mitigate market risk. The Bank will continue to closely monitor market developments – especially interest rate environment, volatility of FX rates and appropriately realign investment and business strategy to manage any downside on the Bank's balance sheet. In addition, under credit risk management policy, adequate procedures and limits are defined for ensuring that risk remains within the boundaries set.

Equity Market Investments:

Carrying value of equity market investments in listed and unlisted companies stood lower at Rs. 308.2m (FY22: Rs. 325.4m; FY21: Rs. 464.0m) at end-1QFY23 owing to liquidation of investments in several industries coupled with revision in market value of listed stocks. The listed equity portfolio primarily comprised of liquid dividend yielding stocks. Major equity exposures included oil & gas companies 23.8% (FY21: 17.2%), investment companies 16.8% (FY21: 12.3%), and refineries 15.0% (FY21: 19.7%) at end-Dec'22. During FY22, BoK completely liquidated the investments pertaining to glass & ceramics, technology & communication and textile weaving sectors. These investments carry market risk, however considering the size of the equity portfolio, the associated risk emanating from the same is considered minimal. On the other hand, dividend income on stock market investment was booked at Rs. 13.4m (FY21: 37.9m) during the outgoing year. Going forward, BoK's management has no plan to increase stock market exposure in the current year; moreover, there are plans to sell the present impaired portfolio. Net investment (carrying value) in unlisted shares amounted to Rs. 78.9m (FY21: Rs. 73.7m); the same included only one scrip namely Dawood Family Takaful. The provisioning against the unquoted investment remained unchanged at Rs.371.2m during the rating review period. Apart from the aforementioned, all other unquoted investments are non-earning distressed legacy assets which have been fully provided for.

Non-Government Debt Securities:

The investment in listed/unlisted non-government securities *(carrying values)* reduced to Rs. 7.6b (FY22: Rs.7.7b; FY21: Rs. 9.3b) primarily owing to disposal of securities at end-1QFY23. Around 79% (FY21: 91%) of the unlisted TFCs carried an 'AAA' rating at end of the outgoing year. However, almost three-fifths of the listed non-government securities were un-rated; hence, therefore carry heightened price and credit risk.

Credit Risk

BOK's gross advances increased slightly by 2.4% as opposed to a decline of 2.7% in the preceding year. Post COVID-19 pandemic, BoK embarked upon a cautious growth strategy through prudent client selection approach with maintenance of asset quality as the prime objective. Therefore, with industry advances growth outpacing BoK's, the Bank's market share, in terms of advances, declined to 1.1% (FY21: 1.3%) at end-FY22. The breakdown of gross advances is presented in the table below:

(Rs. in billions)	FY21	FY22	1QFY23
Conventional Advances	68.3	87.2	64.3
Islamic Financing	60.8	46.0	45.8
Bills Discounted & Purchased	2.1	1.7	1.8
Gross Advances	131.2	134.9	111.9

New disbursements were mainly channeled towards public sector, whereby cumulative exposure in M/S Food Department – Govt. of Punjab and PASSCO Wheat accumulated to Rs. 45.0b (FY21: Rs. 40.0b); the same as per the management's plan will be decreased during the outgoing year in line with effort to reduce sectoral concentration. Resultantly, the contribution of public sector lending remained constant at 49% (FY21: 49%). Within the private sector lending, new disbursements were mainly made to blue-chip companies pertaining to textile, edible oil, chemicals and feed sectors. Denomination of disbursements in private sector was relatively small with highest disbursement of Rs. 1.8b made during FY22. Top-5 and Top-10 funded and unfunded exposures amounted to Rs. 73.9b and Rs.81.7b and represented 4.63x and 5.12x of Tier-1 equity. In addition, the top-3 exposures aggregating to Rs. 65.4b, all public sector clients, accounted for 4.10x of Tier-1 equity. Given the Bank is largely backed by a sub-sovereign with major exposures being public sector clients the concentration risk is on a higher side. Nevertheless, the credit risk on the aforementioned is limited.

Going forward, the BoK plans to follow a cautious approach towards new to bank financing and primarily focus on lending to existing clients with tested track record. Further, on the asset side, apart from plans to deepen its business relationship with existing clients, the Bank intends to diversify financing portfolio by gradually moving from Government backed lending to private sector for fresh loans with potential of ancillary trade business. Moreover, in terms of sectoral focus low business risk essential sectors will remain a priority. Moreover, BoK also plans keep its focus on consumer financing including salary loan for KPK government employees and KPK police employees, SMEs supported by upcoming government schemes especially housing, and trade portfolio to improve markup spreads. In addition, as per medium term strategy opted, the Bank will rationalize lending to sectors/clients having high import dependence and enhance focus on sectors/clients working for import substitution and having export front available. Segment wise breakdown of overall advances portfolio is tabulated below:

Rs. Million	FY21	%	FY22	%
Corporate	114,179	87.0	115,872	85.9
SME	8,358	6.4	8,788	6.5
Agriculture	2,412	1.8	2,829	2.1
Staff Loans	2,966	2.3	3199	2.4
Consumer	3,251	2.5	4,224	3.1
Total	**131,166**	100.0	**134,912**	100.0

During the outgoing year, NPLs increased to Rs. 11.8b (FY21: Rs. 10.5b) owing to emergence of new delinquencies both in Conventional and Islamic Banking segment including Master Tiles (Rs. 500.0m), M.S Reshma Textile Limited (Rs. 562.3m) and Hussain Mills Limited (Rs. 310.8). Major impaired clients include Hascol with a cumulative exposure of Rs. 1.8b, HEC (Pvt.) Limited (Rs. 626.8m), Shabbir Feed Mills (Pvt.) Limited (Rs. 580.7m) and Brothers Sugar (Pvt.) Limited (Rs. 550.0m). Hascol exposure comprises L/Cs of Rs. 1.4b and running finance facility of around Rs. 400m. During FY21, the entire exposure of Hascol was fully provided by the Bank. Other main high-risk clients with delayed payments include Gulistan Textile (Pvt.) Limited, Pak Export (Pvt.) Limited, Dewan Farooq Motors, AA Flowmatic Engineering (Pvt) Limited, Naseem Enterprises Trading (Pvt.) Limited, Diamond Tyres (Pvt.) Limited, amongst others, having cumulative exposure value of Rs. 6.9b.

Based on business segments, highest NPLs emanated from corporate amounting to Rs. 9.3b (FY21: Rs. 8.1b) followed by SME at 1.9b (FY21: 2.0b), Consumer at Rs. 279.3m (FY21: Rs. 229.9m), Agriculture at Rs. 187.4m (FY21: Rs. 175.6m) and Others at Rs. 8.9m (FY21: Rs. 46.6m). Moreover, top-five sectors accounted for 71.7% (FY21: 43.3%) of the total NPLs at end-FY22. In terms of sector composition, highest NPL growth was evidenced in textile and miscellaneous manufacturing sectors. Meanwhile, sugar and petrochemical sectors remained unchanged while NPLs reported for trade and automobile declined during the outgoing year. Apart from the aforementioned changes, the NPL profiling for other sectors largely remained unchanged as of last year. List of top 5 sectors with highest NPLs is tabulated below:

Rs. Million	FY21	FY22
Textile	1,340	2,044
Sugar	848	848
Misc. Manufacturing	1,785	2,571
Trade	1,432	1,115
Petro Chemical	1,846	1,852
Total NPLs	10,521	11,756

Asset quality indicators, including gross and net infection, have depicted weakening on a timeline during the rating review period in line with higher incidence of NPLs. However, the provisioning coverage has remained constant during the period under review as the increase in specific provisioning was completely in sync with NPL growth as required under SBP guidelines. The asset quality indicators are tabulated below:

Rs. Millions	FY21	FY22	1QFY23
Gross Infection	8.0%	8.7%	10.6%
Net Infection	3.2%	3.5%	4.2%
Gross NPLs	10,521	11,756	11,833
Provisioning Charge	2,290	1,021	180
Provisioning Reversals	(1,517)	(241)	(75)
Provisioning Coverage	62.3%	62.2%	63.4%

The aging profile shows that 91% of total NPLs pertained to the loss category at end-1QFY23. As per the applicable prudential regulations BoK availed 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 NPLs for a maximum period of five years from the date of classification. As at end-1QFY23, the Bank availed cumulative benefit of FSV of Rs. 3.3b (FY22: Rs. 3.2b; FY21: Rs. 2.3b). Under the prudential regulations, increase in unappropriated profit net of tax amounting to Rs. 1.9b (FY22: Rs. 1.8b; FY21: Rs. 1.4b) is not available for the distribution of cash or stock dividend to shareholders or bonus to employees. The aging profile of NPLs is tabulated below:

	FY21	FY22	1QFY23
OAEM	161	140	246
Substandard	903	556	508
Doubtful	1,544	1,077	412
Loss	7,913	9,982	10,667
Total (Rs. In million)	10,521	11,756	11,833

Islamic Banking

The Islamic Banking Group (IBG) at BoK is headed by Mr. Ali Khan Arbab and comprises various divisions including operations & support, business development, asset, product development & research and sharia compliance. Oversight of the IBG is maintained by the Shariah Supervisory Committee (SSC). The SSC is chaired by Mufti Muhammad Zahid who is a reputed religious scholar.

Shariah compliance has always been the strength of IBG of BoK with zero tolerance policy on it. Asset base of IBG decreased to Rs. 95.2b (FY21: 113.7b) by end-FY22; the decline was mainly driven by reduction in Islamic financing and related assets to Rs. 45.4b (FY21: Rs. 60.5b) coupled with sizably lower balance held with other banks amounting to Rs. 653.3m as opposed to Rs. 9.7b at end of the preceding year. The dip in lending portfolio was dominated by reduced funding in the commodity segment. In terms of mode of lending, Running Musharika was recorded lower at Rs. 29.1b (FY21: 44.4b) accounting for 63.3% (FY21: 73.1%); despite significant decrease the same remained the highest mode of financing under Islamic Division. Apart from decrease in composition of Running Musharika during the outgoing year, the composition of all other major modes of financing increased marginally; however, the same still remained nominal in terms of total financing volume.

IBG's main target areas remain Agriculture and SMEs to foster development and generate economic activity. In addition, the focus would remain on existing blue-chip rated corporates to curtail asset quality deterioration and for proper management of risk weighted assets in capital adequacy. Further in terms of sector preferences, the Division aims to increase exposure in the health & pharma sector on account of stable and increasing demand of the health sector. Moreover, exposure in high import dependent sectors, automobile and steel, possessing sizable cyclicality to economic downturns and high forex risk is planned to be rationalized. Advances to Deposit ratio (ADR) exhibited a declining trend on a timeline owing to reduction in advances along with growth manifested in current deposits primarily in individual and CASA accounts. On the other hand, slight uptick was seen in ADR ratio at end-1QFY23 owing to reduction in saving deposits in a conscious effort by the management to shed high-cost deposits to improve spreads.. The largest deposit contribution was maintained by the Individual and Government (Federal & Provincial) sector at Rs. 29.5b (FY21: Rs. 23.7b) and Rs. 29.4b (FY21: Rs. 34.6b), respectively. The table below presents the position of deposits and advances of IBG:

(Rs. in billions)	FY21	FY22	1QFY23
Net Advances	60.5	45.4	45
Deposits	75.4	82.4	78.0
ADR (%)	80.2	55.1	57.8

IBG's deposit mix primarily constituted of CASA recorded at 90.2% (FY21: 89.6%) of the total deposit base at end-FY22. In absolute terms, current and saving deposits augmented to Rs. 20.7b (FY21: Rs. 18.1b) and to Rs. 53.7b (FY21: Rs. 49.6b) respectively by end of the outgoing year. Deposit profile of IBG reflects lower concentration as compared to Conventional Banking with Top-50 depositors comprising around 40% of the total deposit base. Going forward, IBG's deposit target is set at Rs. 102.8b for FY23. In addition, the borrowing volumes also decreased significantly to Rs. 2.2b (FY21: Rs. 29.4b); therefore, total liabilities were recorded lower at Rs. 89.0b (FY21: Rs. 107.9b) at end-FY22.

Despite significant decline in overall asset base, IBG managed to post a higher profit earned amounting to Rs. 10.1b (FY21: Rs. 6.0b) during the outgoing year primarily on account of increase in yield on investments and financing portfolio; the higher yield on the asset side was a function of higher average benchmark rates recorded during the period under review. Similarly, the total profit expensed also stood higher at Rs. 4.6b (FY21: Rs. 2.7b) owing to increase in deposit base coupled with policy rates being at the very high end of the spectrum. However, owing to improvement of spreads, the net return reaped by BoK was recorded higher at Rs. 5.5b during FY22 as opposed to Rs. 3.3b in the preceding year. Further, an uptick was experienced in the non-markup income also largely comprising of fee, commission, forex and other income; the same stood at Rs. 402.9m (FY21: Rs. 377.3m) at end of the outgoing year. On the flip side, as a combined outcome of branch expansion and capacity building initiatives, administrative expenses increased to Rs. 3.1b (FY21: Rs. 2.4b) at end-FY22. The major increase in overheads was manifested in in staff related expenses and cost of utilities. Stemming from impairment recorded, BOK booked provisioning expense amounting to Rs. 268.7m in FY22 in contrast to a reversal of Rs. 262.9m booked in the preceding year. Nevertheless, owing to growth in net return, IBG reported healthy before tax profit of Rs. 2.5b (FY21: Rs. 1.5b); however, due to considerable increase in tax expense IBG posted an after-tax profit of Rs. 1.3b (FY21: Rs. 938.0m) during FY22. Accordingly, the equity base was recorded at Rs. 6.3b (FY21: Rs. 5.8b) at end-FY22 which included the impact of deficit on revaluation of assets to the tune of Rs. 408.4m (FY21: (Rs. 36.2m) booked during the outgoing year. The asset quality has remained manageable on account of a combined outcome of multiple factors including more than half of Islamic financing portfolio pertaining to risk-free government lending, large proportion of corporate portfolio comprising of blue-chip clients and SME portfolio largely located in KPK region where majority of businesses are relatively low-leveraged. After implementing the branch expansion strategy for the year 2022, including the spill over in 2023, the Bank will focus on consolidation. As per the central bank guidelines, commercial banks are required to shift 35% of its total operations to Islamic banking by 2025; although BOK is already well ahead in that aspect. Moreover, branch expansion from 2024 onwards will be focused more on Islamic branches rather than Conventional.

Liquidity Risk

BoK's liquidity profile is sound and has improved during the review period as evidenced from sizable coverage of liquid assets by deposits and borrowings (adjusted for collateral) recorded at end-1QFY23. Moreover, the liquidity indicators are supported by significant quantum of treasury operations. Incremental liquidity available through growth of deposits was channelized towards liquid avenues while the advances to deposit (ADR) ratio declined in the ongoing year; the reduction in the lending portfolio at end-1QFY23 was an outcome of deliberate reduction in the commodity financing portfolio. In absolute terms, the Bank's total liquid assets increased on a timeline largely constituting of government securities; subsequently, the liquid assets (adjusted) to total assets were also reported higher at 51.1% (FY22: 42.4%; FY21: Rs. 34.8%) at end-1QFY23. Given the fragile economic conditions, to limit undue strain on liquidity profile the management intends to not to exceed an ADR level of 50% for FY23. The liquidity indicators are tabulated below:

Rs. in billion	FY21	FY22	1QFY23
Liquid Assets (Collateral Adjusted)	124.8	146.3	165.9
Total Deposits & Borrowings (Collateral Adj)	237.9	260.3	264.2
Liquid Assets/Total Deposits & Borrowings	50.30%	54.5%	62.80%
ADR	59.1%	54.2%	44.3%
Total Deposits	221.9	248.9	252.4
Total Borrowings	110.1	66.3	46.5

The deposit base also exhibited an increasing trend during the rating review period; the same continues to remain an integral source of funding for the Bank. The increase in the deposit base is largely in tandem with the industry growth given with discount rate being at all-time high, the quantum increase in mark-up bearing saving deposits has been sizable as investment has been largely replaced by savings. This growth was mainly driven through new customer acquisitions and deepening of the existing portfolio base. Given CASA mobilization remained a pivotal point of the whole drive, the proportion of the same in overall deposit mic increased to 77.8% (FY22: 68.7%; FY21: 65.2%) at end-1QFY23. In addition, BoK aims improve the deposit mix with no significant anticipated increase in high-cost fixed deposits during the ongoing year to improve spreads.

Concentration risk on the liability side exhibited an improving trend as the contribution of top-50 depositors improved on a timeline to 40.5% (FY21: 45.9%; FY20: 45.9%) at end-FY22. The largest deposits pertained to Secretary Finance KP (GP Fund) deposit amounting to Rs. 21.2b (FY21: Rs. 31.4b). As per the plans, this high-cost deposit has been slightly tapered off by end of the outgoing year to manage the escalating cost of funds in the increasing benchmark rate scenario. Apart from the deposits pertaining to KP Government, no other deposit exceeded Rs. 8.0b mark. Going forward growth in deposit base is expected to emanate from expansion of branch network and development of new liability side products. Furthermore, in order to fuel sustained asset growth and manage strong liquidity position, deposit mobilization will remain important.

The total borrowings significantly reduced on a timeline basis during the period under review in line with elimination of Bai Muajjal borrowings (FY22: nil; FY21: Rs. 18.0b) coupled with decline in repurchase agreement and call borrowings to Rs. 35.6b (FY22: Rs. 55.2b; FY21: Rs. 76.2b) and 962.1m (FY22: Rs. 962.1m; FY21: Rs. 7.0b) at end-1QFY23. The decrease in the quantum of borrowings is in line with consolidation of investment and advances portfolio along with growth in deposit base. As per the management, the Bank targets to keep CAR levels in comfortable zone. At end-FY22, there was asset-liability mismatch in various buckets due to short-term borrowings procured to finance the investment portfolio along with saving deposits predominantly maturing within six months. The liquidity risk arising from maturity mismatch is largely mitigated through borrowing lines available with local banks. In addition, the withdrawal risk is also manageable given the largest depositors are public/sub-sovereign accounts that are relatively stickier in nature.

Profitability

BoK's profitability position has weakened during the outgoing year despite markup spreads largely remaining unchanged on account of significant uptick in operating expenses on account of branch network expansion to improve geographical footprint coupled with higher provisioning expense owing to increased infection ratios and diminution in value of investments particularly equity portfolio booked. The efficiency ratio increased to 78.2% (FY21: 67.6%) during FY22 resulting from increase in operational costs Therefore, the Bank reported a lower bottom line of Rs. 454.9m (FY21: Rs. 1.1b) during FY22.

Despite reduction in investment portfolio and only slight growth in advances book, total markup income earned almost doubled to Rs. 40.2b (FY21: Rs. 21.9b) predominantly on account of higher yield on advances and investments stemming from increasing trend evidenced in the policy rate during the outgoing year. Markup on advances and investments was recorded higher at Rs. 16.6b (FY21: Rs. 9.5b) and Rs. 18.6b (FY21: Rs. 9.9b) respectively during FY22. Subsequently, with sizable increase in yield on advances & investments, overall yield on interest bearing assets also increased by 420 basis points during the outgoing year. On the other hand, the markup expense also increased to Rs. 33.1b (FY21: Rs. 15.1b) in line with higher quantum of deposits along with increase in market interest rates. In absolute terms as a result, the growth in markup income was largely offset by increase in markup expense; therefore, the net markup income was recorded slightly higher than the prior year's level at Rs. 7.1b (FY21: Rs. 6.8b) during FY22. Nevertheless, the amplification of markup expense was relatively restricted and not much towering owing to repositioning of borrowing mix with reduction in costly repurchase borrowings, increased tilt towards deposits in the funding mix along with slight growth in non-interest-bearing current deposits. In line with the aforementioned, markup spreads of the Bank mostly remained intact at 2.50% (FY21: 2.53%) during the outgoing year. Going forward, markup spread of the bank is expected to improve mainly on account of notable reduction in proportion of high-cost deposits, increase in focus on low-cost Islamic Banking deposits, rationalization of exposure in highly competitive government commodity financing and channeling of disbursements towards corporate clients and higher yielding government backed consumer financing schemes. The breakup of yield on markup bearing assets is tabulated below:

	FY21	FY22
Return on mark-up bearing assets	7.2%	12.1%
Yield on Advances	7.6%	12.7%
Yield on Investments	8.1%	11.7%
Cost of Deposits	5.0%	8.6%
Cost of funding	5.4%	9.6%
Markup Spread	2.53%	2.50%

Non-markup income of the Bank increased to Rs. 1.4b (FY21: 1.0b) on account of increase in fee and commission income to Rs. 546.0m (FY21: Rs. 425.4m) primarily due to enhancement of commission on guarantees coupled with higher foreign exchange income recorded at Rs. 660.3m (FY21: Rs. 477.5m) in line with depreciation of the Pakistani rupee. The other income stood at Rs. 156.3m (FY21: Rs. 150.0m) during the outgoing year; the same mainly comprised of postal, swift & other services, rebate from financial institutions and reversal of impairment on non-banking assets. Further, operating expenses increased exponentially to Rs. 6.7b (FY21: 5.3b) due to branch network expansion to improve geographical footprint coupled with capacity building initiatives and impact of inflationary pressures during the rating review period. The provisioning expense booked was recorded higher stemming from Rs. 780.3 (FY21: Rs. 773.4m) and Rs. 130.2m (FY21: Rs. 50.1m) booked on advances and diminution of investments respectively during FY21.

However, despite the challenging economic conditions, the Bank managed to post a healthy net profit of Rs. 938.7m (1QFY22: Rs. 389.6m) during 1QFY23. The increase in profitability is mainly attributable to gradual repositioning of balance sheet carried out in view of current market interest rate movements, continuous focus on non-markup income and positive impact on the cost of deposits during the ongoing year due to certain one-off items. These factors have resulted in increase of both net interest income and non-markup income of the Bank on a timeline basis. Moreover, the reduction in quantum of borrowings has also helped in reducing the pressure on the bottom-line. The impact of improvement of efficiency ratio to 50.1% during 1QFY23 has been in built in the ratings. Going forward, in line with current economic environment, the rationalization of operating expenses coupled with management of asset quality will remain important from ratings perspective.

Capitalization

Paid-up capital of the Bank increased to Rs. 11.0b (FY21: Rs. 11.0b; FY21: Rs. 10.5b) by end-1QFY23 on account of issuance of bonus shares worth Rs. 525.2m through transfer of unappropriated profit as part of non-cash dividend for FY21 after approval of the shareholders in the outgoing year; these shares rank pari passu with existing shareholders. However, net shareholders' equity (excluding revaluation on fixed assets) slightly reduced to Rs. 15.6b (FY21: 15.8b) despite profit generation due to comprehensive loss booked on investments amounting to Rs. 556.4m at end-FY22. Therefore, the deficit on revaluation on investments was recorded higher at Rs. 1.0b at end-FY22 as opposed to Rs. 486.1m in the preceding year. Furthermore, the same trend continued in the ongoing year also as despite internal capital generation of Rs. 938.7m during 1QFY23, equity was recorded lower at Rs. 15.5b owing to additional deficit of Rs. 1.1b booked on investments with total deficit aggregating to Rs. 2.2b at end-1QFY23. Subsequently as a combined outcome of higher infection recorded along with dip in equity levels, net NPLs in relation to Tier-1 capital (adjusted for specific provisioning) were recorded higher at 29.0% (FY22: 27.7%, FY21: 25.9%) at end-Mar'23. CAR has remained constant at 14.7% (FY22: 14.9%; FY21: 14.7%) by end-1QFY23 despite dip in risk weighted assets to Rs. 103.5b (FY22: Rs. 107.6b; FY21: Rs. 105.3b) owing to reduction in total eligible capital to Rs. 15.2b (FY22: 16.0b; FY21: 15.5b) at end-1QFY23. Moreover, on account of relaxation provided by SBP to stagger the unrealized mark-to-market losses on certain PIBs in the AFS portfolio, BoK availed benefit on calculation of CAR of 0.78% and 0.77% at end-Mar'23 and end-Dec'22 respectively.

However, going forward, stringent monitoring and subsequent checks on asset quality and growth of lending & investment portfolio need to be in place to ease stress on capitalization indicators. Optimizing risk weighted assets growth would remain a key rating driver. As per the management, to conserve capital for sustenance and growth, BoK plans to follow a prudent dividend payout and capital strategy during the rating horizon. Although the current CAR is adequate for the assigned ratings; however, in case of non-restoration of CAR to pre-rating upgrade level there might be a downward pressure on the ratings. In this regard, VIS will closely monitor the CAR movements during the rating horizon.

The Bank of Khyber Annexure I

FINANCIAL SUMMARY (Rs. in billions)				
BALANCE SHEET	**31-Dec-20**	**31-Dec-21**	**31-Dec-22**	**31-Mar-23**
Total Investments	113,479	184,399	173,669	161,432
Gross Advances	134,907	131,166	134,913	111,917
Net Advances	129,063	124,549	127,515	104,414
Total Assets	288,300	358,606	344,984	324,652
Borrowings	57,063	110,069	66,263	46,521
Deposits & other accounts	203,072	221,876	248,906	252,448
Subordinated Sukuk (Tier I)	0	0	0	0
Tier-1 Equity	15,550	15,249	15,959	15,143
Net Shareholders Equity (excl. revaluation surplus)	16,605	16,218	16,657	17,597
INCOME STATEMENT	**31-Dec-20**	**31-Dec-21**	**31-Dec-22**	**31-Mar-23**
Net Mark-up Income	6,762	6,789	7,149	3,278
Net Provisioning charge	1,610	832	902	193
Non-Markup Income	2,878	1,023	1,385	420
Administrative Expenses	4,223	5,295	6,650	1,855
Profit Before Tax	3,806	1,680	920	1,647
Profit After Tax	2,152	1,104	455	939
RATIO ANALYSIS	**31-Dec-20**	**31-Dec-21**	**31-Dec-22**	**31-Mar-23**
Market Share (Advances) (%)	1.60%	1.30%	1.10%	0.90%
Market Share (Deposits) (%)	1.10%	1.10%	1.40%	1.20%
NPLs	7,276	10,521	11,756	11,833
Gross Infection (%)	5.40%	8.00%	8.71%	10.57%
Specific Provisioning Coverage (%)	64.08%	62.29%	62.21%	62.74%
Provisioning Coverage (%) (incl. general prov)	80.32%	62.90%	62.93%	63.41%
Net Infection (%)	2.00%	3.20%	3.48%	4.22%
Cost of Funds (%)	6.10%	5.39%	9.61%	N/A
Net NPLs to Tier-1 Capital (%)	15.6%	25.9%	27.7%	29.0%
Tier-1 CAR (%)	17.33%	14.47%	14.80%	14.63%
Gross Advances to Deposits Ratio (%)	60.40%	58.30%	54.20%	44.33%
Capital Adequacy Ratio (C.A.R) (%)	19.40%	14.70%	14.88%	14.70%
Markup Spread (%) **	1.90%	1.80%	2.50%	N/A
Efficiency (%)	54.30%	67.60%	78.20%	50.10%
LCR (%)	130.50%	157.90%	146.17%	178.48%
NSFR (%)	108.20%	129.70%	149.83%	172.21%
ROAA (%)	0.70%	0.40%	0.13%	0.28%
ROAE (%)	13.50%	6.50%	2.76%	5.74%
Adjusted Liquid Assets to Deposits & Borrowings (%) (No adjustment for REPO)	46.10%	50.30%	54.5%	62.80%
Adjusted Liquid Assets to Deposits & Borrowings (%) (Adjusted for REPO)	45.80%	50.30%	54.60%	63.00%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Annexure-III

Name of Rated Entity	Bank of Khyber
Sector	Commercial Banks
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
27-June-23	A+	A-1	Stable	Reaffirmed
30-June-22	A+	A-1	Stable	Reaffirmed
30-June-21	A+	A-1	Stable	Upgrade
30-June-20	A	A-1	Stable	Reaffirmed
26-June-19	A	A-1	Stable	Reaffirmed
29-Jun-18	A	A-1	Stable	Reaffirmed
29-Jun-17	A	A-1	Stable	Reaffirmed
28-Jun-16	A	A-1	Stable	Reaffirmed
30-Jun-15	A	A-1	Stable	Reaffirmed
30-Jun-14	A	A-1	Stable	Reaffirmed
28-Jun-13	A	A-1	Stable	Maintained
29-Jun-12	A	A-1	Stable	Upgrade

Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Due Diligence Meetings Conducted

Name	Designation	Date
Ali Khan Arbab	Officiating Group Head – Islamic Banking Group	22 May 2023
Syed Furrukh Zameem	Head Treasury	22 May 2023
Irfan Saleem Awan	Chief Financial Officer	22 May 2023