RATING REPORT

Bank of Khyber

REPORT DATE:
June 30, 2025

RATING ANALYSTS:
Musaddeq Ahmed Khan
musaddeq@vis.com.pk

RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity Rating	AA-	A1	A+	A1
Outlook/Rating Watch	Stable		Stable	
Rating Action	*Upgrade*		*Reaffirmed*	
Date	*June 30, 2025*		*June 28, 2024*	

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
Key Shareholders (with stake 5% or more):	**Managing Director/Chief Executive Officer:** Mr. Hassan Raza
Government of Khyber Pakhtunkhwa – 70.2%	
Ismail Industries Ltd – 24.4%	

APPLICABLE METHODOLOGY
VIS Financial Institution https://docs.vis.com.pk/Methodologies%202024/Financial-Institution-v2.pdf **VIS Rating Scale** https://docs.vis.com.pk/docs/VISRatingScales.pdf

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 Chairman

Mr. Ikramullah Khan is a Civil Servant of the Pakistan Administrative Service (PAS) group. He has been appointed as Chairman on the Board of the Bank by virtue of his position as Additional Chief Secretary, Government of Khyber Pakhtunkhwa. Mr. Ikramullah Khan holds an MSc in International Relations. He has served in various administrative capacities and has attended multiple national and international training programs.

Profile of CEO

Mr. Hassan Raza has been appointed as the Managing Director and CEO of the Bank. He holds degrees in B.Com, MBA (Finance), and M.A. Economics, and has also completed the Cambridge Advanced Leadership Program from the University of Cambridge, Judge Business School, UK. He is a Certified Director from the Institute of Chartered Accountants of Pakistan. Mr. Raza is a seasoned banker with over 30 years

RATING RATIONALE

The entity ratings assigned to BoK reflect its sponsorship profile, being owned in majority by the government of Khyber Pakhtunkhwa. During the period under review, BoK significantly expanded its asset base, reflected mostly in investment portfolio growth, while also focusing on improving advance-to-deposit ratio. Portfolio expansion remained focused on the corporate segment, although efforts were underway to diversify exposure towards consumer, SME, and Shariah-compliant sectors.

Asset quality indicators posted improvement, with a decline in net infection ratios and a substantial increase in coverage levels under the IFRS-9 provisioning framework. While temporary fluctuations were observed in the gross advance portfolio till 1QCY25, however these did not have material impact of the credit risk profile of the Bank. The investment book remained concentrated in sovereign instruments with short-duration and floating-rate profiles, containing both credit and market risk.

On the funding side, BoK's deposit base demonstrated stability, supported by growing contributions from low-cost retail and government-related accounts. Liquidity indicators remained above regulatory thresholds throughout the period, with the Bank continuing to demonstrate a strong capacity to meet funding obligations under stress scenarios.

Profitability remained stable, with an uptick in core earnings driven by volumetric growth in earning assets. Non-markup income remained stable, although strategic focus on remittances, trade services, and fee-based products is expected to broaden revenue streams going forward. Cost rationalization, digital enablement, and operational optimization remain key components of the Bank's efficiency strategy.

BoK's capitalization remained sound, with capital adequacy indicators comfortably above regulatory requirements. Although slight moderation in capital ratios was observed due to asset expansion, capital quality remained sound, with limited reliance on supplementary capital instruments.

The Bank continues to pursue its Shariah-conversion roadmap, with a portion of the asset book and branch network already aligned with Islamic principles. The transition remains a key strategic focus and is expected to pave the way for business opportunities, particularly in underserved regions. To complement its business growth, the Bank is prudently expanding its branch network apart from increasing its digital footprint. Going forward, further improvement in asset quality, core profitability, and liquidity metrics, amid a changing macroeconomic and interest rate environment will remain important from a ratings perspective.

Banking Sector

In 2024, Pakistan's banking sector remained resilient, supported by improving macroeconomic conditions. Inflation receded from the previous year's highs, the currency stabilized, and fiscal consolidation progressed, enabling steadier economic activity. The aggregate balance sheet of commercial banks expanded significantly — rising by *of experience, having served in senior roles at leading local and international banks. Prior to joining the Bank, he served as the MD/CEO of Pak China Investment Company.*

.

approximately 15.8% during the year to reach around PKR 53.7 tn. As of Dec'24, deposits had grown by about 9.2% year-on-year to over PKR 31.8 tn, driven by favorable interest rates during much of the year and financial inclusion efforts.

The divergence between deposit and asset growth is explained by superior equity growth and more notably interbank transactions backed by and channeled into the purchase of government securities to magnify positive spreads through volumes. A substantial portion of the deposit growth during the first three quarters of 2024 was also directed into government securities. In the final quarter, private-sector advances gained significant traction, as banks sought to comply with the regulatory directive mandating that outstanding advances be maintained above 40% & 50% of respective deposit bases, in order to avoid applicable incremental taxation of 16% & 10% respectively on the income attributable to Federal Government securities. However, the said tax was changed vide Income Tax (Amendment) Ordinance, 2024 issued in Dec'24

Financial performance in 2024 remained broadly stable. Aggregate after-tax profitability for the banking sector was largely unchanged, with SBP data indicating a marginal increase in after-tax profits to PKR 644.0 bn (2023: PKR 642.0 bn). The monetary easing initiated in June 2024, along with increased provisioning requirements, exerted pressure on returns. As a result, key profitability indicators—Return on Average Assets (ROAA) and Return on Average Equity (ROAE)—moderated slightly.

Capital buffers remained strong. The industry's capital adequacy ratio (CAR) rose to approximately 20.4% by end-2024 (2023: 19.4%), remaining well above the regulatory minimum. Banks benefited from strong deposit inflows—boosted by the SBP's digital and financial inclusion initiatives—and continued to maintain excess capital to mitigate systemic risks. In a move to enhance depositor confidence and systemic stability, the Deposit Protection Corporation (DPC) raised insured limits to PKR 1 mn per depositor in late 2024.

Asset quality continued to improve during 2024. The non-performing loan (NPL) ratio declined to approximately 6.3% (2023: 7.6%). Following the implementation of IFRS-9 in 2024, specific provisioning coverage for Stage-3 assets rose to 83.8% (2023: 81.3%), while general provisioning coverage against performing advances increased to 1.4% (2023: 0.9%). Regulatory authorities maintained a strong focus on prudent provisioning and risk management practices, including adherence to Basel III capital standards, which supported containment of credit risk. Large corporate borrowers generally remained creditworthy, underpinned by adequate liquidity and repayment capacity.

Looking ahead, Pakistan's commercial banking sector appears well-positioned, underpinned by strong fundamentals, though it must navigate a landscape of mixed opportunities and risks. The sharp monetary easing in the second half of 2024—reducing policy rates from 22% to around 11% by early 2025—was supported by a marked decline in inflation to single digits, creating room for continued gradual policy support. In this evolving macroeconomic environment, banks may face some compression in net interest margins, while the pace of credit expansion will depend on the strength of economic recovery and borrower demand. If growth momentum strengthens, lending to SMEs and consumers is expected to rebound, aided by regulatory incentives and targeted refinance schemes.

Simultaneously, sustained efforts in digital transformation and financial inclusion—including the expansion of instant payment systems and broader outreach to underserved market segments—are expected to improve operational efficiency and deepen market penetration. While fiscal and external vulnerabilities may moderate the pace of policy easing and credit growth, the sector enters 2025 with improved asset quality, strong capitalization, and ample liquidity buffers. Overall, the outlook remains one of cautious optimism, supported by continued regulatory facilitation and a more stable macroeconomic environment, laying the groundwork for gradual and broad-based sectoral growth.

Bank of Khyber Appendix I

FINANCIAL SUMMARY				(PKR in millions)
BALANCE SHEET	**31-Dec-22**	**31-Dec-23**	**31-Dec-24**	**31-Mar-25**
Total Investments	173,668.61	223,348.50	282,766.60	330,076.52
Gross Advances	134,912.76	109,703.06	159,623.60	81,129.89
Net Advances	127,515.21	101,587.58	146,881.97	68,462.88
Total Assets	344,984.12	383,186.48	477,563.87	457,753.65
Borrowings	66,263.17	50,460.56	133,531.77	75,458.66
Deposits & other accounts	248,905.98	289,291.56	277,641.99	338,619.98
Subordinated Loans	0.00	0.00	0.00	0.00
Paid Up Capital	11,027.91	11,027.91	11,579.36	11,579.36
Tier-1 Equity	15,958.80	19,747.85	19,861.16	19,902.65
Net Shareholders Equity (excl. revaluation surplus)	16,657.36	20,176.66	20,222.52	19,857.73
INCOME STATEMENT	**CY22**	**CY23**	**CY24**	**1QCY25**
Net Spread Earned	7,148.69	13,892.63	16,491.96	5,105.61
Net Provisioning / (Reversal)	902.14	705.09	(425.75)	(117.99)
Non-Markup Income	1,384.57	2,108.95	1,778.03	899.91
Operating Expenses	6,650.09	8,560.35	10,538.61	2,720.47
Profit/ (Loss) Before Tax	919.89	6,701.58	8,135.08	3,402.90
Profit / (Loss) After Tax	454.86	3,481.28	3,615.12	1,602.53
RATIO ANALYSIS	**CY22**	**CY23**	**CY24**	**1QCY25**
Market Share (Advances) (%)	1.13%	0.89%	1.00%	0.60%
Market Share (Deposits) (%)	1.11%	1.04%	0.92%	1.07%
Gross Infection (%)	8.71%	12.12%	8.33%	16.25%
Net Infection (%)	3.48%	5.18%	1.27%	2.53%
Specific Provisioning Coverage (%)	62.21%	60.34%	85.90%	86.61%
General Provisioning Coverage (%)	0.07%	0.10%	0.90%	1.84%
Net NPLs to Tier-1 Capital (%) (adj. for general prov.)	27.69%	26.56%	8.85%	8.35%
Cost of Deposits (%)	8.35%	13.68%	14.22%	8.14%
NIM (%)	2.46%	4.98%	4.86%	4.76%
Efficiency (%)	79.47%	53.80%	58.66%	50.32%
ROAA* (%)	0.13%	0.96%	0.84%	1.37%
ROAE* (%) (Net Shareholder Equity)	2.77%	18.90%	17.90%	31.99%
Liquid Coverage Ratio (%)	146.20%	201.40%	208.88%	260.76%
Net Stable Funding Ratio (%)	149.80%	181.00%	148.23%	239.58%
Liquid Assets to Deposits & Borrowings** (%)	54.56%	70.03%	63.65%	84.54%
Gross Advances to Deposits Ratio*** (%)	50.13%	34.77%	42.20%	17.43%
Tier-1 CAR (%)	14.80%	18.10%	15.67%	17.22%
Capital Adequacy Ratio (%)	14.90%	18.30%	17.81%	18.58%

* Annualized

** Adjusted for repo and collateral

*** Adjusted for SBP refinancing schemes

REGULATORY DISCLOSURES	Annexure-II
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				
30-June-25	AA-	A1	Stable	Upgrade
28-June-24	A+	A1	Stable	Reaffirmed
27-June-23	A+	A1	Stable	Reaffirmed
30-June-22	A+	A1	Stable	Reaffirmed
30-June-21	A+	A1	Stable	Upgrade
30-June-20	A	A1	Stable	Reaffirmed
26-June-19	A	A1	Stable	Reaffirmed
29-Jun-18	A	A1	Stable	Reaffirmed
29-Jun-17	A	A1	Stable	Reaffirmed
28-Jun-16	A	A1	Stable	Reaffirmed
30-Jun-15	A	A1	Stable	Reaffirmed
30-Jun-14	A	A1	Stable	Reaffirmed
28-Jun-13	A	A1	Stable	Maintained
29-Jun-12	A	A1	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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2025 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Due Diligence Meetings Conducted

Name	Designation	Date
1. Mr. Mudassar Iqbal	Chief Risk Officer	04th June 2025
2. Mr. Salman Ahmed Usmani	Chief - Treasury and Investment	
3. Mr. Nauman Qayum	Head - CIBG	
4. Mr. Rahat Gul	Financial Controller	