









Contents

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CORPORATE INFORMATION

Board of Directors

Ghulam Dastgir Akhtar	Chairman
Abdus Samad Khan	
Muhammad Asif	
Muhammad Maqsood Khan	
Maqsood Ismail	
Mir Javed Hashmat	

Managing Director / CEO

Bilal Mustafa

Audit Committee

Muhammad Asif	Chairman
Abdus Samad Khan	
Muhammad Maqsood Khan	
Mir Javed Hashmat	

Chief Financial Officer

Rahat Gul

Company Secretary

Zahid Sahibzada

Registered Office / Head Office

The Bank of Khyber, 24-The Mall,
Peshawar Cantt.
UAN# 00-92-91-111 95 95 95
URL: www.bok.com.pk

Auditors

Deloitte M. Yousuf Adil Saleem & Co.
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
Ground Floor, State Life Building No. 3
Dr. Ziauddin Ahmed Road
Karachi - 75530. Pakistan

AUDITORS' REPORT TO THE SHAREHOLDERS AND THE GOVERNMENT OF N.W.F.P. ON REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

Introduction

We have reviewed the accompanying condensed interim balance sheet of The Bank of Khyber ("the Bank") as at June 30, 2009 and the related condensed interim profit and loss account, condensed interim cash flow statement and condensed interim statement of changes in equity for the six months period then ended (here-in-after referred to as the "the condensed interim financial statements"). Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with approved accounting standards as applicable in Pakistan. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review. The figures of the condensed interim profit and loss account for the quarters ended June 30, 2009 and 2008 have not been reviewed, as we are required to review only the cumulative figures for the six months period ended June 30, 2009. The Financial Statement of the Bank for the six months period ended June 30, 2008 and for the year ended December 31, 2008 were reviewed and audited by another firm of Chartered Accountants who through their reports dated August 26, 2008 and March 3, 2009, expressed an unqualified conclusion and opinion thereon.

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 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 as at June 30, 2009 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

Chartered Accountants

Karachi

Date: August 29, 2009

DIRECTORS' REVIEW

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

Financial Highlights

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

	(Rs. in million)
Operating Profit	288
Provision against non-performing advances	(494)
Provision against diminution in value of investments	(341)
Provision for other Assets	(50)
Profit / (Loss) before taxation	(597)
Taxation	131
Profit / (Loss) after tax	(466)
Total Assets	33,778
Advances (Gross)	13,951
Investments (Net)	13,088
Deposits	23,289

Financial Overview

The Bank registered a pre-tax loss of Rs.597 million primarily due to provisions for diminution in value of investments, non-performing loans and other assets. Due to recession in the equity market, the market price of shares held in "Available for Sale" category had to be adjusted downward and provision for diminution in value of investments had to be taken into account. However, as the condition of equity market improves significantly, the Bank may be able to reverse these provisions. Further, majority of the Bank's branches are located in N.W.F.P province which has been badly hit by militant insurgency. Resultantly business activities have suffered tremendously and banking activities have seen a slump which is reflected in the reduction in demand for banking services and returns.

Future Outlook

Pakistan's economy is passing through a challenging phase. The uphill tasks to manage are high inflation which is almost doubled and is now running at 25 percent, widening budgetary / trade deficit and weakening rupee as compared to other currencies specially US Dollar. All this is occurring against the backdrop of the worst international economic crisis in sixty years. However, after having receipt of initial tranche of loan from the International Monetary Fund (IMF) and the strict monetary measures adopted by the State Bank of Pakistan, the economy has finally started to show signs of relative stability.

The Bank continues to strengthen its presence in the market place, and is currently operating with 34 branches with existence in strategic locations to cater to the banking needs of the people. Different deposit schemes are being offered with attractive terms and efforts are being made to maximize core deposits so as to enhance the deposit base allowing us to offer more and better asset based products to our customers. The Bank is vigorously pursuing a strategy to reduce reliance on government and costly deposits and enhance its low cost deposit base.

We are taking all necessary measures to minimize the impact of the current downturn in Pakistan's economy on the Bank's balance sheet and profitability, and are pursuing a policy of prudently managed growth.

As disclosed in the financial statements, the Bank's minimum paid-up capital (net of losses) as at June 30, 2009 stands at Rs.4.777 billion. Further, in compliance with MCR requirements of the SBP, the Bank has to enhance the minimum capital (net of losses) to Rs.6 billion by the year end 2009.

Credit Rating

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

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

Acknowledgement

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

For and on behalf of the Board of Directors



Bilal Mustafa
Managing Director

CONDENSED INTERIM BALANCE SHEET AS AT JUNE 30, 2009

NOTE	(Un-audited)	(Audited)
	June 30, 2009	December 31, 2008
Rupees in '000'		
ASSETS		
Cash and balances with treasury banks	1,895,132	1,557,715
Balances with other banks	2,691,861	3,362,946
Lendings to financial institutions	1,715,250	2,282,494
Investments	13,087,509	9,056,089
Advances	11,175,774	12,643,814
Operating fixed assets	967,246	187,589
Deferred tax asset	415,574	396,673
Other assets	1,830,095	1,851,669
	33,778,441	31,338,989
LIABILITIES		
Bills payable	145,831	122,516
Borrowings from financial institutions	3,711,297	910,691
Deposits and other accounts	23,289,364	24,732,195
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	-	-
Other liabilities	1,033,100	892,371
	28,179,592	26,657,773
NET ASSETS		
	5,598,849	4,681,216
REPRESENTED BY		
Share capital	5,004,001	4,002,984
Reserves	435,342	1,436,359
Accumulated loss / unappropriated profit	(227,243)	238,473
	5,212,100	5,677,816
Surplus / (deficit) on revaluation of assets-net of tax *	386,749	(996,600)
	5,598,849	4,681,216
CONTINGENCIES AND COMMITMENTS		
	13	

* The above surplus on revaluation of assets include an impairment loss (net of tax) of Rs. 293.480 million (December 31, 2008: Rs. 706.065 million) in respect of listed equity securities / mutual funds held under 'Available for sale' category of investments as allowed under BSD circular No. 04 dated February 13, 2009 of the SBP. The said impairment loss has been determined on the basis of valuation of such listed equity securities / mutual funds using the market prices quoted on the stock exchange / net assets value as of June 30, 2009. Had the impairment loss been charged to profit and loss account, the surplus on revaluation of assets-net of tax would have been lower by Rs. 293.480 million and accumulated loss would have been higher by the same amount.

The annexed notes 1 to 20 form an integral part of these condensed interim financial statements.


Managing Director


Director


Director



Director

**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2009**

	Three months period ended June 30, 2009	Six months period ended June 30, 2009	Three months period ended June 30, 2008	Six months period ended June 30, 2008
	-----Rupees in '000'-----			
Mark-up / return / interest earned	842,765	1,700,529	695,586	1,327,848
Mark-up / return / interest expensed	595,067	1,190,471	438,077	843,462
Net mark-up / interest income	247,698	510,058	257,509	484,386
Provision against non-performing loans and advances-net	(362,503)	(493,828)	(111,367)	(94,740)
Provision for diminution in the value of investments	(165,292)	(341,660)	-	-
Bad debts written off directly	-	-	-	-
	(527,795)	(835,488)	(111,367)	(94,740)
Net mark-up / interest income after provisions	(280,097)	(325,430)	146,142	389,646
NON MARK-UP / INTEREST INCOME				
Fee, commission and brokerage income	27,331	51,439	27,441	46,429
Dividend income	13,973	16,332	31,218	32,631
Income from dealing in foreign currencies	796	1,083	10,329	15,596
Gain on sale of securities	16,955	25,896	49,287	62,844
Unrealised loss on revaluation of investments classified as held for trading	(7,125)	(7,125)	(72,083)	(72,083)
Other income	9,116	25,703	16,460	25,650
Total non mark-up / interest income	61,046	113,328	62,652	111,067
	(219,051)	(212,102)	208,794	500,713
NON MARK-UP / INTEREST EXPENSES				
Administrative expenses	176,681	334,836	169,014	291,380
Other provisions / write offs	50,000	50,000	-	-
Other charges	107	292	(9,948)	32,371
Total non mark-up / interest expenses	226,788	385,128	159,066	323,751
	(445,839)	(597,230)	49,728	176,962
Extra ordinary / unusual item	-	-	-	-
(LOSS) / PROFIT BEFORE TAXATION	(445,839)	(597,230)	49,728	176,962
Taxation				
Current	(43,643)	(43,879)	40,928	(3,264)
Prior years	-	-	-	-
Deferred	175,393	175,393	(66,751)	(66,751)
	131,750	131,514	(25,823)	(70,015)
(LOSS) / PROFIT AFTER TAXATION	(314,089)	(465,716)	23,905	106,947
Unappropriated profit brought forward	86,846	238,473	303,006	219,964
Accumulated loss / unappropriated profit carried forward	(227,243)	(227,243)	326,911	326,911
Earnings per share- Basic and Diluted (in Rupees)	(0.63)	(0.93)	0.05	0.21

* The profit for the period does not include impairment loss (net of tax) of Rs 293.480 million in respect of listed equity securities / mutual funds held under 'Available-for-sale' category of investments in accordance with the treatment allowed under BSD Circular No. 04 dated February 13, 2009 of the SBP. The said impairment loss has been determined on the basis of valuation of such listed equity securities / mutual funds using the market prices quoted on the stock exchange / net asset values as of June 30, 2009 and has been taken to 'surplus / (deficit) on revaluation of assets' account as shown in the balance sheet. Had the impairment loss been charged to profit and loss account, loss after tax for the period would have been higher by Rs. 293.480 million and earning per share would have reduced by Rs. 0.59.

The annexed notes 1 to 20 form an integral part of these condensed interim financial statements.



Managing Director



Director



Director




Director

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2009**

	Share capital	Capital		Reserves			Accumulated loss / unappropriated profit	TOTAL
		Reserves for bonus issue	Share premium	Statutory reserve	Revenue reserve	Total		
Rupees in '000'								
Balance as at 01 January 2008	4,002,984	-	755,517	407,872	154,131	1,317,520	219,964	5,540,468
Changes in equity during the six months period ended June 30, 2008								
Profit after taxation for the period	-	-	-	-	-	-	106,947	106,947
Transfer to statutory reserve	-	-	-	21,389	-	21,389	(21,389)	-
Balance as at 30 June 2008	4,002,984		755,517	429,261	154,131	1,338,909	305,522	5,647,415
Transfer from un-appropriated profit	-	-	-	-	91,369	91,369	(91,369)	-
Transfer to reserve for issue of bonus shares	-	1,001,017	(755,517)	-	(245,500)	-	-	-
Changes in equity during the six months period ended December 31, 2008								
Profit after taxation for the period	-	-	-	-	-	-	30,401	30,401
Transfer to statutory reserve	-	-	-	6,081	-	6,081	(6,081)	-
Balance as at 31 December 2008	4,002,984	1,001,017	-	435,342	-	1,436,359	238,473	5,677,816
Issue of bonus shares	1,001,017	(1,001,017)	-	-	-	(1,001,017)	-	-
Changes in equity during the six months period ended June 30, 2009								
Loss after taxation for the period	-	-	-	-	-	-	(465,716)	(465,716)
Transfer to statutory reserve	-	-	-	-	-	-	-	-
Balance as at 30 June 2009	5,004,001	-	-	435,342	-	435,342	(227,243)	5,212,100

The annexed notes 1 to 20 form an integral part of these condensed interim financial statements.


Managing Director


Director


Director



Director

**CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2009**

	Sixmonths period ended June 30, 2009	Six months period ended June 30, 2008 (Restated)
	Rupees in '000	
CASH FLOW FROM OPERATING ACTIVITIES		
(Loss) / profit before taxation	(597,230)	176,962
Less: Dividend income	16,332	32,631
	(613,562)	144,331
Adjustments for non-cash charges:		
Depreciation	10,163	7,528
Amortization	-	257
Provision against non-performing advances	493,828	94,740
Provision against diminution in the value of investments	341,660	-
Provision against other assets	50,000	-
Unrealized loss on revaluation of investments classified as held for trading	7,125	72,083
Gain on sale of fixed assets	(1,623)	(1,523)
	901,153	173,085
	287,591	317,416
(Increase) / decrease in operating assets:		
Lendings to financial institutions	567,244	(3,120,025)
Net investments in held for trading securities	(84,881)	(392,215)
Advances	974,212	(1,148,202)
Others assets (excluding advance taxation)	(29,545)	462,857
	1,427,030	(4,197,585)
Increase / (decrease) in operating liabilities:		
Bills payable	23,315	(133,007)
Borrowings	2,800,606	2,037,065
Deposits and other accounts	(1,442,831)	2,986,788
Other liabilities (excluding current taxation)	141,038	13,000
	1,522,128	4,903,846
Cash generated from operations	3,236,749	1,023,677
Income tax paid	(43,073)	(5,429)
Net cash generated from operating activities	3,193,676	1,018,248
CASH FLOW FROM INVESTING ACTIVITIES		
Net investments in available-for-sale securities	(3,535,278)	95,437
Net investments in held-to-maturity securities	14,059	(562,792)
Dividend received	16,332	29,613
Investments in operating fixed assets	(25,481)	(15,476)
Sale proceeds of property and equipment disposed-off	3,024	2,735
Net cash used in investing activities	(3,527,344)	(450,483)
CASH FLOW FROM FINANCING ACTIVITIES	-	-
(Decrease) / increase in cash and cash equivalents	(333,668)	567,765
Cash and cash equivalents at beginning of the period - Restated	4,920,661	5,092,869
Cash and cash equivalents at end of the period	4,586,993	5,660,634

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The annexed notes 1 to 20 form an integral part of these condensed interim financial statements.


Managing Director


Director


Director


Director

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2009

1. STATUS AND NATURE OF BUSINESS

The Bank was established under The Bank of Khyber Act, 1991 (N.W.F.P. Act No. XIV of 1991) and is principally engaged in the business of commercial, investment and development banking. The Bank acquired the status of a scheduled bank in 1994. The Bank is listed on the Karachi Stock Exchange (KSE). The registered office and principal office of the Bank are situated at 24 The Mall, Peshawar Cantt, Peshawar. The Bank was operating 34 branches as at June 30, 2009 (December 31, 2008: 34 branches) that includes 16 (December, 31, 2008: 16) Islamic Banking branches.

As at June 30, 2009, the paid-up capital (net of losses) of the Bank amounts to Rs. 4,776,758 thousand which is below the minimum regulatory capital requirements of Rs. 5,000,000 thousand as prescribed by SBP vide BSD Circular No. 19 dated September 05, 2008. The management is working on a plan to raise additional funds from Government / shareholders and is also approaching the SBP for appropriate relaxation.

2. BASIS OF PRESENTATION

The disclosures made in these condensed interim financial statements have been limited based on the format prescribed by the State Bank of Pakistan (SBP) vide BSD Circular Letter No. 2, dated May 12, 2004 and International Accounting Standard 34, "Interim Financial Reporting". They do not include all the information required for annual financial statements and these condensed interim financial statements should be read in conjunction with the annual financial statements of the Bank for the year ended December 31, 2008.

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, SBP has issued various circulars from time to time. Permissible forms of trade related modes of financing include purchase of goods by banks from their customers and resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under the respective arrangements (except for murabaha financings accounted for under Islamic Financial Accounting Standard - 1 "Murabaha") are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of markup thereon. Following the setting up of the Islamic Banking Division, the Bank also provides financing through Shariah compliant modes of financing.

The financial results of the Islamic Banking Division have been consolidated in these financial statements for reporting purpose, after eliminating the effects of intra-bank transactions and balances. Key financial figures of the Islamic Banking Division are disclosed in Note 15 to these financial statements.

These condensed interim financial statements are being submitted to the shareholders in accordance with Section 245 of the Companies Ordinance, 1984. These are un-audited but subject to limited scope review by the auditors.

3. STATEMENT OF COMPLIANCE

These condensed interim financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP) as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or directives issued by the SECP and the SBP differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said directives prevail.

The SBP vide BSD Circular No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and International Accounting Standards (IAS) 40, "Investment Property" for banking companies till further instructions. 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 of various circulars issued by the SBP.

During the period, International Accounting Standard 1 (IAS 1 - Revised), "Presentation of Financial Statements" became effective from January 1, 2009. The application of this standard requires certain increased disclosures only. Since the Bank has followed format of half yearly financial statements prescribed by the SBP through BSD Circular letter No. 2 of 2004, the changes introduced in IAS 1 (revised) have not been taken into consideration in the preparation of these condensed interim financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND RISK MANAGEMENT POLICIES

The accounting policies, underlying estimates and methods 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, except for the change in accounting policies for operating fixed assets and cash and cash equivalent, as disclosed in note 8 and note 14.

The financial risk management objectives and policies adopted by the Bank are consistent with that disclosed in the financial statements of the Bank for the year ended December 31, 2008.

(Un-audited) June 30, 2009	(Audited) December 31, 2008
Rupees in '000'	

5. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings	300,000	325,000
Repurchase agreement lendings (Reverse Repo)	-	489,244
Placements with financial institutions	1,609,324	1,662,324
	1,909,324	2,476,568
Less: Provision for doubtful placements with financial institutions	194,074	194,074
	1,715,250	2,282,494

6. INVESTMENTS

	Note	Held by bank	Given as Collateral Rupees in '000'	Total
As at June 30, 2009	6.1	10,013,848	3,073,661	13,087,509
As at December 31, 2008	6.1	8,827,994	228,095	9,056,089

Note	June 30, 2009 (Un-audited)			December 31, 2008 (Audited)		
	Held by bank	Given as collaterals	Total	Held by bank	Given as collaterals	Total
-----Rupees in '000'-----						
6.1 Investments by types						
Held for trading securities						
Ordinary shares in listed companies	84,881	-	84,881	-	-	-
Available-for-sale securities						
Market Treasury Bills (MTBs)	2,137,439	2,320,491	4,457,930	2,226,242	-	2,226,242
Pakistan Investment Bonds	1,554,510	861,333	2,415,843	2,126,338	300,000	2,426,338
National Investment Trust Units	403,617	-	403,617	403,617	-	403,617
Ordinary shares in listed companies	708,180	-	708,180	701,174	-	701,174
Ordinary shares in unlisted companies	80,487	-	80,487	80,487	-	80,487
Listed Term Finance Certificates	1,024,455	-	1,024,455	768,778	-	768,778
Unlisted Term Finance Certificates	541,607	-	541,607	412,000	-	412,000
Units in open ended mutual funds	1,504,818	-	1,504,818	854,818	-	854,818
Units in close ended mutual funds	124,056	-	124,056	124,056	-	124,056
Sukuk certificates	410,536	-	410,536	138,741	-	138,741
	8,489,705	3,181,824	11,671,529	7,836,251	300,000	8,136,251
Held-to-maturity securities						
Pakistan Investment Bonds	967,234	-	967,234	981,293	-	981,293
Sukuk certificates	1,253,932	-	1,253,932	1,253,932	-	1,253,932
	2,221,166	-	2,221,166	2,235,225	-	2,235,225
Associate						
Ordinary shares in unlisted companies	45,000	-	45,000	45,000	-	45,000
Investment at cost	10,840,752	3,181,824	14,022,576	10,116,476	300,000	10,416,476
Less: Provision for diminution in value of investments	6.2 429,788	-	429,788	88,128	-	88,128
Investments (net of provisions)	10,410,964	3,181,824	13,592,788	10,028,348	300,000	10,328,348
Unrealized loss on revaluation of held for trading securities	(7,125)	-	(7,125)	-	-	-
Surplus / (deficit) on revaluation of available-for-sale securities	(389,991)	(108,163)	(498,154)	(1,200,354)	(71,905)	(1,272,259)
Total investments at market value	10,013,848	3,073,661	13,087,509	8,827,994	228,095	9,056,089

(Un-audited)	(Audited)
June 30,	December 31,
2009	2008
-----Rupees in '000'-----	

6.2 Particulars of provision for diminution in value of investments

Opening balance	88,128	42,454
Charge for the period/ year	341,660	45,674
Closing balance	429,788	88,128

		(Un-audited) June 30, 2009	(Audited) December 31, 2008
	Note	Rupees in '000'	
7. ADVANCES			
Loans, cash credits, running finances, etc.:			
In Pakistan	7.1	13,028,540	13,769,978
Outside Pakistan		-	-
		13,028,540	13,769,978
Net investment in ijarah:			
In Pakistan	7.3	624,087	589,089
Outside Pakistan		-	-
		624,087	589,089
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		188,113	439,900
Payable outside Pakistan		110,167	126,152
		298,280	566,052
Advances - gross		13,950,907	14,925,119
Less: Provision for non-performing advances	7.2	2,775,133	2,281,305
Advances - net of provision		11,175,774	12,643,814

7.1 Advances include amounts aggregating to Rs. 3,306,591 (December 31, 2008: Rs. 3,331,487) thousands which have been placed under non-performing status as detailed below:-

Category of classification	June 30, 2009 (Un-audited)				
	Rupees in '000'				
	Classified Advances			Provision Required	Provision Held
	Domestic	Overseas	Total		
Other assets especially mentioned*	2,164	-	2,164	-	-
Substandard	120,233	-	120,233	20,315	20,315
Doubtful	258,310	-	258,310	65,870	65,870
Loss	2,925,884	-	2,925,884	2,673,437	2,673,437
	3,306,591	-	3,306,591	2,759,622	2,759,622

Category of classification	December 31, 2008 (Audited)				
	Rupees in '000'				
	Classified Advances			Provision Required	Provision Held
	Domestic	Overseas	Total		
Other assets especially mentioned*	3,580	-	3,580	-	-
Substandard	900,615	-	900,615	191,893	191,893
Doubtful	375,779	-	375,779	194,561	194,561
Loss	2,051,513	-	2,051,513	1,874,710	1,874,710
	3,331,487	-	3,331,487	2,261,164	2,261,164

* Other assets especially mentioned category pertains to agricultural finance only.

7.1.1 The SBP vide BSD Circular No. 2 dated January 27, 2009 allowed the banks to avail the benefit of 30 percent of forced sales value (FSV) of pledged stock and mortgaged commercial and residential properties held as collateral by the banks against their non-performing (excluding consumer housing finance portfolio) loans for three years from the date of classification for the purpose of determining the provisioning requirement with effect from December 31, 2008.

The Bank accordingly, decided to avail the aforesaid benefit for the year ended December 31, 2008 and for the six months period ended June 30, 2009. Had the benefit of FSV not been availed by the Bank the specific provision against non-performing advances would have been higher and consequently unappropriated profit would have been lower by Rs. 354 million (December 31, 2008: 209 million). The impact of FSV benefit on unappropriated profit is not available for the distribution of cash and stock dividend to shareholders.

7.2 Particulars of provision against non-performing advances

	June 30, 2009 (Un-audited)			December 31, 2008 (Audited)		
	Specific	General	Total	Specific	General	Total
	---Rupees in '000'---					
Opening balance	2,261,164	20,141	2,281,305	2,066,853	21,533	2,088,386
Charge for the period / year	677,857	-	677,857	422,430	-	422,430
Reversals	(179,399)	(4,630)	(184,029)	(228,119)	(1,392)	(229,511)
Closing balance	2,759,622	15,511	2,775,133	2,261,164	20,141	2,281,305

7.3 Net investment in Ijarah

	June 30, 2009 (Un-audited)			
	Not later than one year	Later than one and less than five years	Over five years	Total
	---Rupees in '000'---			
Ijarah rentals receivable	193,930	369,975	100,336	664,241
Residual value	150	109,182	3,009	112,341
Minimum Ijarah rentals	194,080	479,157	103,345	776,582
Profit for future periods	32,078	84,769	35,648	152,495
Net investment in Ijarah	162,002	394,388	67,697	624,087
	---Rupees in '000'---			
	December 31, 2008 (Audited)			
	Not later than one year	Later than one and less than five years	Over five years	Total
Ijarah rentals receivable	214,196	326,377	72,270	612,843
Residual value	75	107,983	1,624	109,682
Minimum Ijarah rentals	214,271	434,360	73,894	722,525
Profit for future periods	29,426	87,093	16,917	133,436
Net investment in Ijarah	184,845	347,267	56,977	589,089

8. OPERATING FIXED ASSETS

During the period, additions and disposals in operating fixed assets amounted to Rs. 25,481 thousand (June 30, 2008: 15,476 thousand) and Rs. 1,401 thousand (June 30, 2008: 1,212 thousand), respectively.

During the period, the Company changed its accounting policy in respect of freehold land from cost to revalued amount. The free hold land was revalued by the independent professional valuer M/S Amir Evaluators and Consultants on June 20, 2009. Surplus arised on revaluation of free hold land is of Rs. 765,740 thousand. Had there been no change in the above mentioned policy the carrying value of operating fixed assets would have been lower by Rs. 765,740 thousand and 'surplus on revaluation of assets - net of tax' would have been converted into deficit of Rs. 378,991 thousand.

9. DEFERRED TAX ASSET

	(Un-audited)	(Audited)
	June 30, 2009	December 31, 2008
	Rupees in '000'	
Taxable temporary differences		
Accelerated tax depreciation	(5,728)	(18,375)
Surplus on revaluation of investments	(9,651)	(6,959)
	(15,379)	(25,334)
Deductable temporary differences		
Provision against		
Balances with other banks	3,510	3,510
Non-performing advances	212,836	-
Investments	49,737	14,859
Other assets	21,867	4,367
Deficit on revaluation of investments	128,814	282,615
Tax losses	-	99,560
Losses on reclassification of held for trading investments	-	7,718
Stabilization reserve	14,189	9,378
	430,953	422,007
	415,574	396,673

The Finance Act, 2009 has made significant amendments in the Seventh Schedule to Income Tax Ordinance, 2001. The deduction for provisions for doubtful and loss categories of advances and off balance sheet items is now allowable up to a maximum of 1% of total advances. The amount of bad debts classified as substandard under Prudential Regulation issued by State Bank of Pakistan would not be allowed as an expense. Provisioning in excess of 1% of total advances can be carried over to succeeding years. However the management, based on the projections prepared by the Bank, is of the view that it would be able to get deduction of provision in excess of 1% of total advances and accordingly has recognised deferred tax amounting to Rs. 212,836 thousand on such provisions.

(Un-audited) June 30, 2009	(Audited) December 31, 2008
Rupees in '000'	

10. DEPOSITS AND OTHER ACCOUNTS

Customers

Fixed deposits	9,750,877	13,087,986
Savings deposits	7,984,320	7,416,467
Current accounts - Non-remunerative	4,407,239	3,535,091
Call deposits	422,479	257,442
Margin and sundry deposits	632,165	427,129
	23,197,080	24,724,115

Financial Institutions

Remunerative deposits	91,877	7,453
Non-remunerative deposits	407	627
	92,284	8,080
	23,289,364	24,732,195

11. SHARE CAPITAL

11.1 Authorized Capital

2009	2008		(Un-audited) June 30, 2009	(Audited) December 31, 2008
Number of shares		Note	Rupees in '000'	
800,000,000	800,000,000	Ordinary shares of Rs.10 each	8,000,000	8,000,000

11.2 Issued, subscribed and paid up

		(Un-audited) June 30, 2009	(Audited) December 31, 2008
Ordinary shares			
Fully paid in cash			
Opening balance	400,298,448	4,002,984	4,002,984
Issued during the period / year	-	-	-
	400,298,448	4,002,984	4,002,984
100,101,700	-	1,001,017	-
	500,400,148	5,004,001	4,002,984
	400,298,448	5,004,001	4,002,984

11.2.1 At June 30, 2009 the Government of N.W.F.P., held 255,259,396 (December 31 2008: 204,207,517) ordinary shares of Rs. 10 each.

11.2.2 The Bank is required to raise its paid up capital (net of losses) at Rs. 6 billion by the close of financial year 2009 in accordance with the requirements of BSD Circular No. 7 dated April 15, 2009.

		(Un-audited) June 30, 2009	(Audited) December 31, 2008
		Rupees in '000'	
12. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS	Note		
Surplus / (deficit) arising on revaluation of:			
- fixed assets	12.1	765,740	-
- available for sale securities	12.2	(378,991)	(996,600)
Surplus on revaluation of assets - net of tax		<u>386,749</u>	<u>(996,600)</u>
12.1 Surplus on revaluation of fixed assets			
Surplus on revaluation of fixed assets as at January 1		-	-
Surplus arisen on revaluation of land		765,740	-
Related deferred tax liability		-	-
		<u>765,740</u>	<u>-</u>
12.2 Deficit on revaluation of available for sale securities			
Deficit on revaluation of:			
Federal government securities		(251,896)	(584,358)
Ordinary shares - quoted		(195,626)	(431,676)
Other investments		(50,632)	(256,222)
		<u>(498,154)</u>	<u>(1,272,256)</u>
Deferred tax asset		119,163	275,656
		<u>(378,991)</u>	<u>(996,600)</u>
13. CONTINGENCIES AND COMMITMENTS			
13.1 Direct credit substitutes			
Includes general guarantee of indebtedness, bank acceptance guarantee and standby letters of credit serving as financial guarantees for loans and securities issued in favor of:			
		(Un-audited) June 30, 2009	(Audited) December 31, 2008
		Rupees in '000'	
Banks		-	269,671
Others		163,812	4,332
		<u>163,812</u>	<u>274,003</u>
13.2 Transaction-related contingent liabilities			
Includes performance bonds, bid bonds, warranties, advance payment guarantees, shipping guarantees and standby letter of credits related to particular transactions issued in favour of:			
		(Un-audited) June 30, 2009	(Audited) December 31, 2008
		Rupees in '000'	
Guarantees favouring:	Note		
Government		1,843,482	2,167,658
Others		2,117,560	1,796,046
	13.2.1	<u>3,961,042</u>	<u>3,963,704</u>

- 13.2.1 The above amounts include expired letters of guarantee aggregating to Rs. 594.594 million as at June 30, 2009 (December 31, 2008: Rs. 645.951 million) for which the formalities relating to return of the original documents are in process.

(Un-audited) June 30, 2009	(Audited) December 31, 2008
Rupees in '000'	

13.3 Trade-related contingent liabilities

Letters of credit

Sight
Usance

543,181	564,916
<u>256,602</u>	<u>63,892</u>

Acceptances

799,783	628,808
<u>117,337</u>	<u>100,738</u>
<u>917,120</u>	<u>729,546</u>

13.4 Commitments in respect of forward exchange contracts

Purchase
Sale

<u>153,405</u>	54,318
<u>39,275</u>	<u>79,476</u>

- 13.4.1 All forward exchange contracts are backed by trade related transactions to meet the needs of the Bank's clients to generate trading revenues and, as part of its asset and liability management activity, to hedge its own exposure to currency risk. At the period end, all foreign exchange contracts have a remaining maturity of less than one year.

(Un-audited) June 30, 2009	(Audited) December 31, 2008
Rupees in '000'	

13.5 Other commitments

Bills for collection
Inland bills
Foreign bills

<u>56,781</u>	60,751
<u>79,593</u>	46,686
<u>136,374</u>	<u>107,437</u>

13.6 Commitments to extend credit

The Bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty if the facility is unilaterally withdrawn.

- 13.7 There has been no change in the status of other contingencies as disclosed in notes 21.8, 21.11 and 21.12 to annual financial statements of the Bank for the year ended December 31, 2008.

(Un-audited) June 30, 2009	(Un-Audited) June 30, 2008 (Restated)
Rupees in '000'	

14 CASH AND CASH EQUIVALENTS

Cash and balances with treasury banks
Balances with other banks

<u>1,895,132</u>	3,024,072
<u>2,691,861</u>	<u>2,636,562</u>
<u>4,586,993</u>	<u>5,660,634</u>

During the period, the Bank has changed its policy of cash and cash equivalents for the purpose of cash flow statement. Previously call lendings and placements with financial institutions having maturities of three months or less were included in cash and cash equivalents which has now been excluded. There is no impact of such change in policy on profit and loss account and on equity.

(Un-audited) June 30, 2009	(Audited) December 31, 2008
Rupees in '000'	

15. **KEY FINANCIAL FIGURES OF ISLAMIC BANKING DIVISION**

ASSETS

Cash and balances with treasury banks
Balances with and due from Financial Institutions
Lending to financial institutions
Investments
Financing and receivables

Murahaba
Modaraba
Ijarah
Musharaka
Diminishing musharaka
Others

Less: Provision against non-performing facilities

Operating fixed assets
Other assets

591,373	419,988
1,987,843	1,951,989
300,000	-
1,471,315	1,350,908
582,446	671,615
3,000	-
624,087	589,090
25,598	22,998
721,435	606,079
1,971	5,710
1,958,537	1,895,492
28,942	78,301
1,929,595	1,817,191
61,145	53,856
657,743	476,434
6,999,014	6,070,366

LIABILITIES

Bills payable
Due to Financial Institutions
Deposits and other accounts
Current Accounts
Saving Accounts
Term Deposits
Others

Deposits from Financial Institutions Remunerative
Deposits from Financial Institutions - Non-Remunerative
Other liabilities

53,281	34,843
-	-
2,057,746	1,712,079
3,059,838	3,005,010
392,935	383,267
214,811	82,180
5,725,330	5,182,536
90,373	-
71	107
292,295	298,947
6,161,350	5,516,433
837,664	553,933

NET ASSETS

REPRESENTED BY

Islamic Banking Fund
Reserves
Unappropriated profit

Deficit on revaluation of assets

460,000	350,000
-	-
379,754	206,948
839,754	556,948
(2,090)	(3,015)
837,664	553,933

REMUNERATION TO SHARIAH ADVISOR DURING THE PERIOD/ YEAR

297	571
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The profit and loss account of the Bank's Islamic Banking Branches for the year ended June 30, 2009 is as follows:

	(Un-audited) June 30, 2009	(Un-audited) June 30, 2008
Rupees in '000'		
Mark-up/return /interest earned	377,690	196,173
Mark-up/return /interest expensed	116,638	74,420
Net mark-up/interest income	261,052	121,753
NON MARK-UP/INTEREST INCOME		
Fee, commission and brokerage income	9,740	9,870
Other income	5,048	5,330
	14,788	15,200
	275,840	136,953
NON MARK-UP/INTEREST EXPENSES		
Administrative expenses	84,060	70,345
Other charges	194	379
	84,254	70,724
Profit for the period	191,586	66,229

16. RELATED PARTY TRANSACTIONS

The Bank has related party relationships with Government of N.W.F.P., associated company, directors, key management personnel and employee

Contributions to and accounts in respect of defined benefits plan are made in accordance with actuarial valuation. Transactions with key management personnel are in accordance with the terms of their employment. Other transactions are at agreed terms.

Details of transactions with related parties as at the period/year end are as follows:

	For the Period Ended June 30, 2009 (Un-audited)				For The Year Ended December 31, 2008 (Audited)			
	Directors and key management personnel	Associated company	Other related parties	Total	Directors and key management personnel	Associated company	Other related parties	Total
-----Rupees in '000'-----								
Advances:								
At January 1,	29,590	-	-	29,590	9,733	-	-	9,733
Disbursed during the period/ year	66,966	-	-	66,966	26,723	-	-	26,723
Repaid during the period/ year	(2,490)	-	-	(2,490)	(6,866)	-	-	(6,866)
Balance as at	94,066	-	-	94,066	29,590	-	-	29,590
Deposits:								
At January 1,	2,823	10,864	12,919	26,606	79	8,301	6,976	15,356
Deposited during the period/ year	42,564	55,706	268,861	367,131	44,898	109,177	166,257	320,332
Repaid during the period/ year	(36,530)	(51,124)	(233,901)	(321,555)	(42,154)	(106,614)	(160,314)	(309,082)
Balance as at	8,857	15,446	47,879	72,182	2,823	10,864	12,919	26,606
	For the Period Ended June 30, 2009 (Un-audited)				For the Period Ended June 30, 2008 (Un-audited)			
	Directors and key management personnel	Associated company	Other related parties	Total	Directors and key management personnel	Associated company	Other related parties	Total
-----Rupees in '000'-----								
Mark-up/return /interest earned	404	-	-	404	19	-	-	19
Mark-up/return /interest expensed	147	191	1,269	1,607	7	68	2,295	2,370

17. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The segment analysis with respect to business activity is as follows:-

	For the Period Ended June 30, 2009 (Un-audited)				Total
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	
	Rupees in '000'				
Total Income	406,856	35,458	635,642	745,124	1,823,080
Total Expenses	(246,756)	(34,392)	(672,607)	(1,466,555)	(2,420,310)
Profit / (loss) before tax	160,100	1,066	(36,965)	(721,431)	(597,230)

	For the Period Ended June 30, 2008 (Un-audited)				Total
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	
	Rupees in '000'				
Total Income	121,437	65,937	517,138	736,512	1,441,024
Total Expenses	(146,731)	(45,533)	(225,154)	(846,644)	(1,264,062)
Profit / (loss) before tax	(25,294)	20,404	291,984	(110,132)	176,962

18. CORRESPONDING FIGURES

Corresponding figures have been reclassified to reflect more appropriate presentation of transactions for the purposes of comparison. Reclassifications made are as follows:

From	To	Amount Rupees in '000	Nature
Other assets	Investments	70,648	To reclassify interest accrued on MTBs


19. GENERAL

The figures of the condensed interim profit and loss account for the quarters ended June 30, 2009 and June 30, 2008 have not been reviewed by the auditors as they are required to review only the cumulative figures for the six months period ended June 30, 2009 and 2008.

Figures have been rounded off to nearest thousands of rupees, unless otherwise stated.

20. DATE OF AUTHORIZATION FOR ISSUE

These condensed interim financial statements were authorized for issue on August 29, 2009 by the Board of Directors of the Bank.


Managing Director


Director


Director


Director