Directors' Report

On behalf of the board of directors, I am presenting herewith the financial results of the Bank for the year ended December 31, 2020.

Economic Review

The year 2020 commenced during the most severe global health crisis in recent history. Pakistan, like the rest of the world, faced significant challenges in dealing with the economic repercussions caused by the COVID-19 pandemic. However, the government took prompt actions to support the economy, preserve lives, and protect livelihoods. In addition to implementing virus containment measures, Pakistan introduced a comprehensive range of initiatives. These included the largest-ever economic stimulus package worth Rs 1,240 billion, a construction program, an expansion of the social safety net to safeguard vulnerable sections of society, and a supportive monetary policy. Alongside targeted financial interventions, these measures played a crucial role in mitigating the adverse effects of the pandemic. In contrast to many other global economies, Pakistan witnessed a recovery, thanks to the aforementioned measures, as well as its implementation of a smart lockdown policy.

The growth of the GDP is attributed to a 2.77 percent growth in the agriculture sector, a 3.57 percent growth in the industrial sector, and a 4.43 percent growth in the services sector. To enhance the agriculture sector, National Agriculture Emergency Program, which has a budget of Rs 277 billion, is currently in progress. This program includes the execution of 13 large-scale projects.

Due to the occurrence of demand and supply shocks, the economy experienced a contraction in economic activity during the outgoing year of 2020. The provisional GDP growth rate for FY2020 is estimated to be (-0.38 percent), primarily driven by negative growth in the agricultural sector (-2.67 percent), industrial sector (-2.64 percent), and services sector (-0.59 percent). Despite the growth in the agriculture sector, the negative performance of both the industry and services sectors overshadowed its impact. The implementation of social distancing measures, aimed at curbing the spread of COVID-19, led to widespread lockdowns that significantly affected businesses reliant on close personal contact. As a result, the services sector experienced a notable negative growth of (-0.59 percent), reflecting the pronounced adverse impact of the COVID-19 pandemic.

In order to stimulate economic growth, the government introduced a relief package worth Rs 1.24 trillion. Additionally, the State Bank of Pakistan (SBP) implemented several measures to support the economy, such as reducing the interest rate to 8 percent, introducing refinancing schemes for medical centers, and providing incentives for export-oriented industries, among others.

Despite the provisional estimation of a negative 0.38 percent GDP growth rate for FY2020, the government's implementation of macroeconomic stabilization measures yielded positive outcomes. These measures notably reduced the Saving-Investment Gap, primarily through the reduction of the trade deficit and an increase in workers' remittances. Furthermore, it is worth noting that the fiscal deficit remained under control during the first three quarters of FY2020.

During 2020, there has been a significant reduction in the fiscal deficit, which stands at 4.0 percent of GDP compared to 5.1 percent of GDP during the same period last year. Additionally, there has been a remarkable turnaround in the primary balance, with a surplus of Rs 194 billion recorded, in contrast to a deficit of Rs 463 billion previously. The overall improvement in the fiscal account can be mainly attributed to the increased provincial surplus and a substantial rise in non-tax revenues.

During 2020, the tax collection by the Federal Board of Revenue (FBR) witnessed a growth of 10.8 percent, amounting to Rs 3,300.6 billion compared to Rs 2,980.0 billion in the corresponding period of the previous year. This increase in tax collection can be attributed to several policy measures implemented during FY2020. These measures included expanding the scope of sales tax to cover more items at retail price under the 3rd Schedule, reintroducing taxes on telecom services, revising tax rates upward for various salary brackets, increasing federal excise duty (FED) rates, and discontinuing preferential treatment for specific sectors. These measures provided a boost to tax collection efforts during FY2020.

Traditionally, private consumption has played a crucial role in driving Pakistan's economic growth. This trend was expected to continue; however, the COVID-19 pandemic had a severe impact on private consumption. In FY2020, private consumption as a percentage of GDP dropped to 78.5 percent. Similarly, private investment also experienced a decline, with its share in GDP decreasing to 9.98 percent. On the other hand, public investment, including General Government investment, showed signs of improvement, remaining at 3.8 percent of GDP. Notably, there was a 13.2 percent growth in public investment (including General Government investment) during FY2020.

To counter inflationary pressures and manage an overheated economy driven by domestic demand, the State Bank of Pakistan (SBP) initiated a policy rate increase of 100 basis points, raising it to 13.25 percent at the start of the fiscal year 2020. However, as the outlook for inflation improved, supported by decreasing domestic food prices, a significant decline in global oil prices, and reduced demand due to the COVID-19 pandemic, the SBP altered its monetary policy stance. The policy rate was subsequently reduced in four consecutive decisions, amounting to a cumulative decrease of 525 basis points, bringing it down to 8 percent.

Furthermore, the State Bank of Pakistan (SBP) has implemented various measures and concessional refinance schemes to address the challenges faced by businesses, considering both the demand and supply side conditions. These initiatives include the Temporary Economic Refinance Facility, Refinance Facility for Combating COVID-19, and Refinance Scheme for Payment of Wages and Salaries to the Workers and Employees of Business Concerns. The primary objective of these measures is to provide support to businesses and enable them to sustain operations during the crisis period.

By the end of first quarter of 2020, the total public debt in Pakistan reached Rs 35,207 billion, compared to Rs 32,708 billion at the end of June 2019. This indicates an increase of Rs 2,499 billion. Out of this increase, Rs 2,080 billion was borrowed by the Federal Government to finance its deficit. The remaining difference can be attributed to various factors, including the depreciation of the Pakistani Rupee, an increase in the cash balances held by the Federal Government.

FINANCIAL HIGHLIGHTS

	Dec-20	Dec-19	Change
	------Rupees "000"-----		(%)
Mark up /return/interest earned	3,018,500	2,297,064	31%
Mark up /return/interest expensed	1,839,574	1,292,910	42%
Net mark-up/ interest income	1,178,926	1,004,154	17%
Non mark up Income	282,932	206,461	37%
Total Income	1,461,858	1,210,615	21%
Administrative Expenses	(959,796)	(907,097)	6%
Other Provision and Charges	(110,206)	(45,003)	145%
Profit before Taxation	391,856	258,515	52%
Taxation	(159,023)	65,246	-344%
Profit after Taxation	232,833	323,761	-28%
Earning per share	0.58	0.81	-28%

Statement of Financial Position

	Dec-20	Dec-19	Change
	------Rupees "000"-----		(%)
Advances-Net	11,087,975	10,266,433	8%
Investment-Net	21,094,415	6,707,702	214%
Deposit	25,189,064	17,711,614	42%
Total Assets	38,013,785	24,143,581	57%
Total Liabilities	34,156,878	20,511,239	67%
Borrowings	6,979,684	412,663	1591%
Share Capital	3,994,113	3,994,113	0%
Reserves	419,036	372,469	13%
Accumulated Profit	(721,702)	(916,572)	-21%

Financial Performance:

On the gross mark-up income side, the Bank reported an increase of Rs. 3,018 million (31%) whereas on the interest expense side, the Bank registered an increase of Rs. 1,839 million over the last year. To supplement its net interest margins, the bank remained focus on increasing its low-cost deposit base and venture in higher yielding assets. On the non-mark-up income front, the bank reported a base of Rs. 283 million with the increase of 37% over the last year, mainly due to significant market volatility in the latter half of the year. During 2020, as the spread squeezed, business margins were changed, hence, the Bank booked profit before tax for the year of Rs. 392 million. The bank has registered a slight growth in volumes – yet the revenue remained subdued due to continuously reduced margins lead by low interest rates & increasing cost of compliance. The limited branch network has resulted in high operational costs despite significant control over expenses. The Bank's high cost operational structure –though controlled on YoY basis- and provision expense on non-performing loans continued to drag the performance. Owing to the cost efficient measures of the management, administrative expenses increased by 6% during the year 2020.

For the year ended December 31, 2020:

The management is focusing on reducing its funding cost further, thereby improving its spreads. Meanwhile, given recent capital compliance with reduced MCR, the Bank still needs higher levels of Capital to compete in the market with rising compliance standards & technology innovations.

The asset base of the bank has reached to Rs.38 billion from Rs. 24 billion, reflecting a healthy increase of 57% over December 2019. Analysis of asset mix highlights that net investments increased by 214% net advance have shown an increase of 8% while deposit portfolio registered increase of 42% over December 31, 2019.

The Bank has always encouraged providing financial support to women for promoting this important component of the economy. During the year 2020, the bank has disbursed Rs.821 million to individuals and entities run by entrepreneurs.

Key Business Development

FWBL is constantly striving to keep pace with the changing market dynamics and customer needs. In the year 2020, the main focus of the management remained on improvement and facilitation of the SME and consumer sector. Three SBP SME concessional schemes, namely Prime Minister National Health Program (PMNHP), Refinance and Credit Guarantee Scheme for Women Entrepreneurs (WERS), and Corporate Guarantee Scheme (CGS) have been launched. The number of SME loans and consumer loans have also increased considerably, as compare to 2019.

In an attempt to expand outreach in Balochistan under SBP Balochistan Action Point, to serve the people of the under-served province, the opening of two booths in two girls' college in Quetta as underway. Another milestone achieved last year was enabling SMS alert services across the board for customers, although it's a very small step, but for the management it's a big achievement keeping in view a number of constrains the Bank has been facing since a long time.

In the year 2020, the main focus of the management remained on strategy formulation, improving regulatory compliance, governance, enhancement of core banking platforms to newer versions and improving policies, processes & internal controls. Its business focus remained on low cost, deposit mobilization and recovery of bad loans.

Alternative Delivery Channels (ADCs) are effective mediums for providing banking services directly to customers. The ADCs have proven their ability to meet customers' expectations by ensuring accuracy, convenience and timeliness in service 24/7. FWBL signed agreements with 1Link, Mastercard, and Avanza to offer debit cards and internet banking services to its customers. These initiatives will take FWBL a step forward in providing Fintech services to their existing and future customer base.

Minimum Capital requirement:

Minimum Capital Requirements (MCR) has been reset for the Bank by SBP, upon recommendation from Government of Pakistan (GoP), as disclosed in note 1.2 to the financial statements. Under the revised requirements, the Bank is required to maintain paid-up capital (net of losses) of Rs. 3 billion and Capital Adequacy Ratio (CAR) of 18% at all times.

Credit Rating:

The bank has a long term entity rating of "A-" while the short term entity rating is "A2". The Bank's rating denotes that there is currently a low expectation of credit risk and capacity for timely payment of financial commitments is considered strong.

KEY FINANCIAL INDICATORS OF FWBL 2015-2020:

The significant highlights of the Bank's financial performance during the last 6 years are enclosed as under:

Key Financial Indicators	(Rs. In Millions)					
	2015	2016	2017	2018	2019	2020
Total Assets	21,347	18,534	24,840	23,200	24,143	38,013
Shareholders' Equity	2,833	3,481	3,733	3,316	3,994	3,994
Advances (Gross)	9,253	9,479	10,129	10,740	11,631	12,528
NPLs	1895	1,963	1,670	1,990	1,948	1,920
Deposits	15,163	13,709	16,229	18,375	17,711	25,189
Investments & Lending's to FIs	11,067	8,133	13,588	10,634	9,887	23,055
Profit / (loss) before tax	34	4	-116	-249	258	391
NAV - Rs. / Share	11.15	8.71	9.34	8.3	9.09	9.65
Profit / (Loss) - Rs. / Share	0.21	0.03	-0.61	-1.14	0.81	0.58
Capital Adequacy Ratio - %	41.20%	46.56%	53.86%	40.27%		

RISK MANAGEMENT FRAMEWORK:

The president and with Risk Management Department ensures that decision making is aligned with the Bank strategies and risk appetite. Management risk division is responsible for day to day risk management and report on the key risks of the bank through a comprehensive portfolio analysis/reviewed presented on a quarterly basis, which summarizes the Bank's risk profile against its defined risk appetite.

The Bank has taken numerous strategic steps to further strengthen the overall risk management framework, salient features of which are summarized below:

- SBP had extended special relaxation to FWBL for Minimum capital requirement in December 2013, wherein the Bank is required to maintain a minimum paid up capital (net of losses) of Rs. 3 billion instead of 10 billion as applicable to other banks. As on date, the bank complies with the special MCR criteria.

- The bank also successfully meets the Capital adequacy ratio (CAR) & ·Leverage Ratio requirements as per Base-III standards. The Bank has been able to maintain its CAR much above the approved threshold of 18% as set by SBP, which is over and above the required benchmark for other banks.

- The Market risk and Treasury Middle Office, under the umbrella of Risk Management Division are responsible to monitor the Bank's market risk exposures, remain within the approved policy parameters (i.e. risk appetite and tolerance levels). During the year, continuous efforts were made to further enhance/strengthen risk management techniques and tools for effective monitoring of the Bank's Market Risk exposure.

- During the year, FWBL consistently remained above the regulatory requirement for liquidity Coverage ratio (LCR) and Net Stable Funding Ratio (NSFR). This is an evidence of the Bank's comfortable liquidity position.

- Adequate mechanism is in place for regular monitoring of liquidity indicators and escalation of early warning signals (if any) well in time to senior management along with defined Management Action Plans (MAP).

- Operational Risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human factors or from external events. The Bank's businesses are dependent on the ability to process a large number of transactions efficiently and accurately. Operational risks and losses originate from business/operational process failure, IT security failure, natural disasters, dependence on key suppliers, fraud service quality compromises, regulatory non-compliance, loss of key staff and social and environmental impacts. The operational Risk Management function is primarily responsible for the over sight of operational risk management across the Bank. The operational risk management framework of the Bank is governed by the Operational Risk Management Policy and Procedures. The frame work is in line with international best practices, flexible enough to implement in stages and permits the overall approach to evolve in response to organizational learning and future requirements.

- The Bank has implement as effective Operational Risk Management (ORM) framework for managing operational risk. Operational loss data is collected through a well-defined program implemented across the bank. Periodic workshops are conducted for risk & Control Self-Assessment (RCSA) and key exposures are identified and assessed against existing controls to evaluate improvement opportunities. Key risk indicators(KRIs) are also defined for monitoring of risk exposures. New products, systems, activities and processes are comprehensively assessed by operational risk before implementation. Regular updates on the operational risk status is presented to the Management Risk Committee (MRC).

STAFF RETIREMENT BENEFIT FUNDS:

The carrying value of investments of the approved Pension and Gratuity fund on the last audited financial statement of the funds were:

Value of the Investment	December-20	December-19
	------Rupees "000"-----	
Pension Fund	114,844	130,044
Gratuity Fund	22,704	26,498

The Bank also operates an un-funded scheme in the form of Compensated Absences.

CORPORATE SOCIAL RESPONSIBILITY

We aim to conduct our business that creates value for our customers, clients, partners, shareholders and most importantly, our society. We understand that being a good corporate citizen starts with serving responsibly. We have engrained this philosophy in our business operations, in our culture and in our business decisions.

For the year ended 31 December, 2020:

Meeting of Director

Name of Directors	Meeting held during tenure	Attendance
	NIL	

Meeting of the Board Committees

Name of Directors	Meeting held during tenure	Attendance
	NIL	

In the month of January, 2019 three nominee directors of Ministry of Finance have been retired and the quorum of the board was infective during the year 2019 and 2020. Subsequently, the Ministry of Finance appointed a board in June, 2021.

APPRECIATION ACKNOWLEDGEMENT

On behalf of the Board, I wish to place on record their sincere gratitude to the Government of Pakistan, Ministry of Finance, State Bank of Pakistan and Securities & Exchange Commission of Pakistan for their support and continued guidance. We would also like to thank our outgoing Directors for the support and insights they had shared to allow us to move ahead and improve the overall governance structure of the Bank.

The Directors also thank and appreciate the support and confidence of our valued customers and business partners for their continued trust and patronage. We also have high expectations from the Bank's management and staff to turn this Bank around as quickly as possible.

For and on behalf of the Board of Directors.

Mr. Farrukh Iqbal Khan
President & CEO

Mr. Muhammad Najeeb Agrawalla
Chairman Board