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, 2019.

Economic Review

The year 2019, turned out to be a challenging year in terms of economic stability and impacted the banking industry in particular throughout the year. The challenges to the macro-economy continued to persist as Pakistan eyed consolidation for future sustainable growth. Pakistan's GDP growth slowed down to 3.3 percent as compared to 5.5 percent in FY18. However, Balance of Payments improved during the year, and continues to improve in FY20. Over the past year, the exchange rate was allowed to depreciate, with a cumulative depreciation of 25.5 percent, the development budget was cut, energy prices increased, and the policy rate was raised by 575 bps in FY19. As a result, private consumption growth decelerated to 4.1 percent in FY19 from 6.8 percent in FY18 while investment contracted by 8.9 percent. On the supply side, the industrial sector growth slowed to 1.4 percent compared to 4.9 percent in FY18. The services sector grew at 4.7 percent being 1.5 percent lower than that FY18.

The Current Account Balance entered into surplus on a monthly basis in October, 2019 and continued to remain muted at a deficit of US$661 million in December, 2019. The decline was primarily driven by lower growth of imports. The largest decline in imports was in transport and machinery, because of the slowdown in investment and industrial growth, followed by food items and metals. However, petroleum related imports continued to grow (5 percent), albeit at a lower rate than last year (25 percent). Exports, on the other hand, did not respond to the exchange rate depreciation, as regaining competitiveness after an extended period of an overvalued exchange rate will take time. The growth in remittances by 9.7 percent year-on-year in FY19, due to higher flows from USA, Malaysia, and GCC countries, also supported the current account.

The fiscal deficit increased to 8.8 percent of GDP in FY19 from 6.4 percent in FY18. The higher deficit was primarily due to revenue underperformance and higher interest payments. Both the federal and the provincial tax revenues stagnated at last year's level. However, during the first half of FY20, tax revenue collections showed a healthy increase of 16 percent over the same period of last year. Non-tax revenues declined by 44 percent as the exchange rate depreciation reduced the profits of the State Bank of Pakistan (SBP), resulting in lower transfers to the government. As a result, overall revenues contracted by 6.3 percent. Total expenditures increased by 11.5 percent year-on-year in FY19, as current expenditures increased by 21 percent driven by the almost 40 percent increase in interest expenditures, year-on-year. Development spending was curtailed by 25 percent year-on-year in FY19, as the federal and provincial governments attempted to adjust their fiscal balances.

The Government of Pakistan appears committed to improve performance of state owned enterprises [SOEs] by strengthening, monitoring and increasing transparency. Certain privatization initiatives are in the pipeline, and efforts are underway to minimize losses by way of improving operational efficiencies.

Aided by bilateral, IMF, and other multilateral flows, international reserves have started to recover. Financial flows had a boost in FY19 due to a significant increase in central bank deposits and bilateral inflows from China, UAE and Saudi Arabia. The approval of the IMF Extended Fund Facility in July 2019, coupled with the resumption of multilateral budget support have contributed to an increase in the international reserves. The gradual accumulation of reserves is also being supported by reduced pressures on the exchange rate. Despite a repayment of US$1.0 billion international Sukuk in early December 2019, the developments have significantly improved the SBP's net international reserves (NIR) position.

A bearish trend continued to dominate the equity market over the course of CY19, barring the last couple of months. During the year, the KSE-100 index crashed to a 5-Yr low of 28,765pts on 16 Aug 2019, which was a 22 percent contraction since December 2018 and a 31 percent decline on a YoY basis. Since its low, the market indicated a remarkable rebound of 39 percent, and in effect turned the CY return positive, which is indicative of the economy entering into stabilization mode. With volatility in the exchange rate parity minimized, alongside continuous improvements on the external account, consolidation on the macroeconomic front can be viewed as a key catalyst for foreign interest in the market going forward.

Pakistan was placed on FATF's (Financial Action Task Force) grey list in June 2018. In October 2019, FATF handed out another extension to Pakistan. While significant progress has been made, certain loopholes still exist on account of the nonexistence of a formal framework to combat money laundering and eliminate terror financing.

In December 2019, Rating agency Moody's upgraded Pakistan's outlook from negative to stable, a significant sign of stabilization in the country's otherwise ailing economy. The rating agency also maintained the country's B3 rating. Pakistan's outlook had been downgraded to negative in June 2018 owing to the country's depreciating foreign reserves.

Real GDP growth is projected to decelerate to 2.4 percent in FY20 as the government tightens fiscal and monetary policies. Pakistan's adjustment entails a rebalancing from domestic to external demand. While domestic demand will slow down quickly, net exports are expected to increase gradually. Growth is expected to recover gradually to 3.0 percent in FY21 as external demand picks up, macroeconomic conditions improve, and the package of structural reforms in fiscal management and competitiveness takes effect. This recovery is conditional on relatively stable oil prices and reduced risks. Inflation is expected to increase slightly in FY20, driven by the second-round impact of exchange-rate pass-through to domestic prices. Thereafter, inflation is projected to decline gradually. The recent IBA-SBP surveys of business confidence indicate improvement in the business community's outlook for economic activity.

FINANCIAL HIGHLIGHTS

	Dec-19	Dec-18	Change
	------Rupees "000"-----		(%)
Mark up /return/interest earned	2,297,064	1,459,209	57%
Mark up /return/interest expensed	1,292,910	708,484	82%
Net mark-up/ interest income	1,004,154	750,725	34%
Non mark up Income	206,461	113,669	82%
Total Income	1,210,615	864,394	40%
Administrative Expenses	(907,097)	(1,037,547)	-13%
Other Provision and Charges	(45,003)	(75,479)	-40%
Profit before Taxation	258,515	(248,632)	-204%
Taxation	65,246	(207,976)	-131%
Profit after Taxation	323,761	(456,608)	-171%
Earning per share	0.81	(1.14)	-171%

Statement of Financial Position

	Dec-19	Dec-18	Change
	------Rupees "000"-----		(%)
Advances-Net	10,266,433	9,419,393	9%
Investment-Net	6,707,702	9,185,411	-27%
Deposit	17,711,614	18,374,617	-4%
Total Assets	24,143,581	23,199,567	4%
Total Liabilities	20,511,239	19,883,492	3%
Borrowings	412,663	108,966	279%
Share Capital	3,994,113	3,994,113	0%
Reserves	372,469	307,717	21%
Accumulated Profit	(916,572)	(1,162,212)	-21%

Financial Performance:

On the gross mark-up income side, the Bank reported an increase of Rs. 2,297 million (57%) whereas on the interest expense side, the Bank registered an increase of Rs. 1,292 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. 206 million with the increase of 82% over the last year, mainly due to significant market volatility in the later half of the year. During 2019 as the spread squeezed, business margins were changed, hence, the Bank booked profit before tax for the year of Rs. 258.5 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 decreased by 13% during the year 2019.

For the year ended December 31, 2019:

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.24 billion from Rs. 23 billion, reflecting a healthy increase of 4% over December 2018. Analysis of asset mix highlights that net investments decreased by 27% net advance have shown an increase of 9% while deposit portfolio registered decrease of 4% over December 31,2018.

The Bank has always encouraged providing financial support to women for promoting this important component of the economy. During the year 2019, the bank has disbursed Rs.847 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 2019, 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 2018.

In an attempt to expand outreach in Baluchistan under SBP Baluchistan 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 2019, 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 2014-2019:

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

Key Financial Indicators	(Rs. In Millions)					
	2014	2015	2016	2017	2018	2019
Total Assets	18,787	21,347	18,534	24,840	23,200	24,143
Shareholders' Equity	2,212	2,833	3,481	3,733	3,316	3,994
Advances (Gross)	9,401	9,253	9,479	10,129	10,740	11,631
NPLs	1411	1,895	1,963	1,670	1,990	1,948
Deposits	13,449	15,163	13,709	16,229	18,375	17,711
Investments & Lending's to FIs	7,301	11,067	8,133	13,588	10,634	9,887
Profit / (loss) before tax	-666	34	4	-116	-249	258
NAV - Rs. / Share	12	11.15	8.71	9.34	8.3	9.09
Profit / (Loss) - Rs. / Share	-2.75	0.21	0.03	-0.61	-1.14	0.81
Capital Adequacy Ratio - %	29.10%	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-19	December-18
	------Rupees "000"-----	
Pension Fund	130,044	776,463
Gratuity Fund	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, 2019:

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 whole period.

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