



KPMG Taseer Hadi & Co.

First Women Bank Limited

Financial Statements

For the year ended 31 December 2020

First Women Bank Limited
Statement of Financial Position
As at 31 December 2020

	Note	2020 ----- (Rupees in '000) -----	2019
ASSETS			
Cash and balances with treasury banks	5	2,337,454	1,907,195
Balances with other banks	6	196,224	36,729
Lendings to financial institutions	7	1,960,972	3,179,804
Investments	8	21,094,415	6,707,702
Advances	9	11,087,975	10,266,433
Fixed assets	10	639,710	709,043
Intangible assets	11	51,135	48,367
Deferred tax assets	12	-	17,250
Other assets	13	645,900	1,271,058
		38,013,785	24,143,581
LIABILITIES			
Bills payable	15	517,258	379,624
Borrowings	16	6,979,684	412,663
Deposits and other accounts	17	25,189,064	17,711,614
Liabilities against assets subject to finance lease		-	-
Sub-ordinated debts		-	-
Deferred tax liabilities	12	60,148	-
Other liabilities	18	1,410,724	2,007,338
		34,156,878	20,511,239
NET ASSETS		3,856,907	3,632,342
REPRESENTED BY			
Share capital	19	3,994,113	3,994,113
Reserves - statutory reserve		419,036	372,469
Surplus on revaluation of assets - net of tax	20	165,460	182,332
Accumulated loss		(721,702)	(916,572)
		3,856,907	3,632,342
CONTINGENCIES AND COMMITMENTS	21		

The annexed notes 1 to 45 form an integral part of these financial statements.

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Chief Financial
Officer


President /
Chief Executive


Director


Director


Director

First Women Bank Limited
Statement of Profit or Loss
For the year ended 31 December 2020

	Note	2020 ----- (Rupees in '000) -----	2019
Mark-up / return / interest earned	23	3,018,500	2,297,064
Mark-up / return / interest expensed	24	<u>1,839,574</u>	<u>1,292,910</u>
Net mark-up / interest income		1,178,926	1,004,154
NON MARK-UP / INTEREST INCOME			
Fee and commission income	25	99,982	89,481
Dividend income		4,959	8,502
Foreign exchange income		16,652	39,744
Income / (loss) from derivatives		-	-
Gain / (loss) on securities	26	160,303	58,928
Other income	27	1,036	9,806
Total non mark-up / interest income		282,932	206,461
Total Income		1,461,858	1,210,615
NON MARK-UP / INTEREST EXPENSES			
Operating expenses	28	959,173	906,622
Other charges	29	623	475
Total non-mark-up / interest expenses		(959,796)	(907,097)
Profit before provisions		502,062	303,518
(Provisions) / reversal and write offs - net Extra ordinary / unusual items	30	(110,206)	(45,003)
PROFIT BEFORE TAXATION		391,856	258,515
Taxation	31	(159,023)	65,246
PROFIT AFTER TAXATION		232,833	323,761
----- (Rupees) -----			
Basic and diluted earnings per share	32	0.58	0.81

The annexed notes 1 to 45 form an integral part of these financial statements.



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First Women Bank Limited
 Statement of Comprehensive Income
 For the year ended 31 December 2020

	Note	2020 ----- (Rupees in '000) -----	2019
Profit after taxation for the year		232,833	323,761
Other comprehensive income			
Items that may be reclassified to profit and loss in subsequent periods:			
Surplus on revaluation of investments - net of tax	8.2 & 20	(12,129)	18,242
Items that will not be reclassified to profit and loss in subsequent periods:			
Remeasurement loss on defined benefit obligations - net of tax	35.7	3,861	(25,736)
Movement in surplus on revaluation of fixed assets - net of tax	20.1	-	-
		3,861	(25,736)
Total comprehensive income for the year		224,565	316,267

The annexed notes 1 to 45 form an integral part of these financial statements.

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First Women Bank Limited
Statement of Changes in Equity
For the year ended 31 December 2020

	Share capital	Reserve (Statutory reserve)	Surplus / (deficit) on revaluation			Accumulated loss	Total
			Investments	Fixed Assets	Total Surplus on assets		
(Rupees in '000)							
Opening balance as at 1 January 2019	3,994,113	307,717	(740)	177,197	176,457	(1,162,212)	3,316,075
Profit after taxation	-	-	-	-	-	323,761	323,761
Other comprehensive income - net of tax							
- change in surplus on the revaluation of fixed asset - net of tax	-	-	-	-	-	-	-
- surplus on revaluation of investments - net of tax	-	-	18,242	-	18,242	-	18,242
- remeasurement loss on defined benefit obligations	-	-	-	-	-	(25,736)	(25,736)
Total comprehensive income	-	-	18,242	-	18,242	298,025	316,267
Transfer to statutory reserve		64,752				(64,752)	
Transfer from surplus on revaluation of assets to accumulated losses - net of tax							
- incremental depreciation (note 20.1)	-	-	-	(4,712)	(4,712)	4,712	-
- effect of change in rate (note 20.1)	-	-	-	(7,655)	(7,655)	7,655	-
Balance as at 31 December 2019	3,994,113	372,489	17,502	164,830	182,332	(916,572)	3,632,342
Profit after taxation	-	-	-	-	-	232,833	232,833
Other comprehensive income - net of tax							
- surplus on revaluation of investments - net of tax	-	-	(12,129)	-	(12,129)	-	(12,129)
- remeasurement loss on defined benefit obligations	-	-	-	-	-	3,861	3,861
Total comprehensive income	-	-	(12,129)	-	(12,129)	238,694	224,565
Transfer to statutory reserve	-	46,587	-	-	-	(46,587)	-
Transfer from surplus on revaluation of assets to accumulated losses - net of tax							
- incremental depreciation (note 20.1)	-	-	-	(4,743)	(4,743)	4,743	-
Balance as at 31 December 2020	<u>3,994,113</u>	<u>419,036</u>	<u>5,373</u>	<u>160,087</u>	<u>165,460</u>	<u>(721,702)</u>	<u>3,856,907</u>

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First Women Bank Limited
Cash Flow Statement
For the year ended 31 December 2020

	Note	2020 (Rupees in '000)	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		391,856	258,515
Less: Dividend income		(4,959)	(8,502)
		<u>386,897</u>	<u>250,013</u>
Adjustments			
Depreciation on operating fixed assets and right of use assets	10.1	142,304	138,853
Amortization	11.2	26,176	16,181
Provisions and write offs excluding recovery of written off bad debts	30	110,206	45,003
Net gain on sale of fixed assets	27	(131)	(118)
Charge for defined benefit plans	28.1	20,647	(1,789)
(Gain) on securities	26	(160,303)	(58,928)
Markup/ return / Interest expense on lease liability against right of use assets	24	46,586	51,914
		<u>185,486</u>	<u>191,116</u>
		<u>572,383</u>	<u>441,129</u>
(Increase) / decrease in operating assets			
Lendings to financial institutions		1,218,832	(1,731,019)
Advances		(897,042)	(892,043)
Other assets (excluding current taxation)		625,124	(286,706)
		<u>946,914</u>	<u>(2,909,768)</u>
Increase / (decrease) in operating liabilities			
Bills payable		137,634	130,370
Borrowings from financial institutions		6,567,021	303,697
Deposits and other accounts		7,477,450	(683,003)
Other liabilities (excluding current taxation)		(637,343)	847,293
		<u>13,544,762</u>	<u>618,357</u>
		<u>15,064,059</u>	<u>(1,850,283)</u>
Payment made to defined benefit plans		-	(24,235)
Income tax paid		-	-
Net cash flows from operating activities		<u>15,064,059</u>	<u>(1,874,518)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in available-for-sale securities - net		(14,246,294)	2,554,824
Dividend received		4,959	8,502
Purchase of equipments		(35,130)	(139,143)
Additions to intangibles assets		(28,944)	(28,153)
Proceeds from sale of fixed assets		131	137
Net cash flows from investing activities		<u>(14,305,278)</u>	<u>2,396,168</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of lease liability against right of use assets		(169,027)	(447,991)
Net cash flow from financing activities		<u>(169,027)</u>	<u>(447,991)</u>
Increase in cash and cash equivalents		<u>589,754</u>	<u>73,660</u>
Cash and cash equivalents at beginning of the year		1,943,924	1,870,264
Cash and cash equivalents at end of the year	33	<u>2,533,678</u>	<u>1,943,924</u>


The annexed notes 1 to 45 form an integral part of these financial statements.

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First Women Bank Limited
Notes to the Financial Statements
For the year ended 31 December 2020

1. STATUS AND NATURE OF BUSINESS

1.1 First Women Bank Limited (the Bank) was incorporated under the Companies Act, 2017 on 21 November 1989 in Pakistan as an unquoted public limited company and commenced operations on 02 December 1989. The Bank is engaged in commercial banking and related services. The registered office of the Bank is situated at ground floor, S.T.S.M. Foundation Building, Civil Lines, Karachi. The Bank operates a network of forty two branches as at 31 December 2020 (2019: forty two branches). The short term and long term credit ratings of the Bank rated by PACRA in June 2019 are 'A2' and 'A-' respectively. The Bank is controlled by Government of Pakistan through Ministry of Finance (which holds 82.64 % of the Bank's share capital).

1.2 'Being a public sector Bank, and in terms of the State Bank of Pakistan prescribed minimum capital requirements vide its letter reference BPRD/BA&CP/627/32/2014 dated 01 January 2014, the Bank is required to have a minimum paid up capital (net of losses) (MCR) of Rs. 3 billion and capital adequacy ratio of 18% at all times, subject to the condition that MCR level shall remain enforced until the Bank remains a public sector entity, the Bank will not be allowed to pay dividend until its paid up capital and reserves reaches Rs. 6 billion and the per party exposure limit of the Bank will be 50% of the prudential regulations limits until the Bank's paid up capital and reserves reach Rs. 6 billion.

As of 31 December 2020, the Bank's MCR (representing paid up capital net of accumulated losses) was Rs. 3.272 billion and at 31 December 2022 and 31 March 2023, the Bank's MCR, as per the unaudited management accounts was less than the above figure. However due to the fact that the bank's accounts remained un-audited since 2020 therefore the actual position of bank's capital will be clear on the conclusion of external audit for the year 2022.

Under BSD Circular No. 19 of 2008 dated 05 September 2008 of the State Bank of Pakistan any bank that fails to meet the minimum paid-up capital requirement within the stipulated period shall render itself liable to the following actions:

- i) Imposition of such restrictions on its business including restrictions on acceptance of deposits and lending as may be deemed fit by the State Bank.
- ii) Descheduling of the bank, thereby converting it into a non-scheduled bank.
- iii) Cancellation of the banking license if the State Bank believes that the bank is not in a position to meet the minimum paid up capital requirement or CAR.

1.3 Going concern basis of accounting

Bank's management is aware of the fact that based on the un-audited management accounts as of 31 December 2021, 31 December 2022 and 31 March 2023, the Bank's paid-up capital (net of losses) was below the MCR of Rs 3 billion prescribed by the SBP as a special case. These events or conditions along with other matters as set forth in Note 1.2 indicate that a material uncertainty exists that may cast doubt on the Bank's ability to continue as a going concern, therefore, the Bank may be unable to realise its assets and discharge its liabilities in the normal course of business. However, these financial statements have been prepared on a going concern basis which assumes that the Bank shall operate its business, realise its assets, discharge its liabilities and obtain refinancing (if necessary), in the normal course of business. Accordingly, these financial statements do not include any adjustments to the carrying amounts and classification of assets, liabilities and reported expenses that may otherwise be required if the going concern basis was not appropriate.

These financial statements have been prepared on a going concern basis based on the following facts:

- Above fact has already been reported by the Bank to the State Bank of Pakistan and also to the Ministry of Finance (MoF), Government of Pakistan as a major shareholder for an arrangement to fill-up the shortage of Bank's MCR.
- Bank's management and the Board is fully confident that the regulator and the major shareholders (MoF) will extend the due support for meeting the capital requirements, which is also evident from the fact that historically the shareholder has numerously injected capital in the bank whenever there was a shortfall.
- The Government of Pakistan via the Ministry of Finance (MoF), bank's major shareholder holding 82.64 % of the Bank's equity, has explained that in case any support would be required by the Bank to enable it to continue as going concern, the same would be extended through policy and other intervention.

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2. BASIS OF PRESENTATION

2.1 These financial statements have been prepared in conformity with the format of financial statements prescribed by the State Bank of Pakistan (SBP) vide BPRD Circular No. 2, dated 25 January 2018.

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan (the SBP) has issued various circulars from time to time. Permissible forms of trade related mode of financing include purchase of goods by the banks from their customers and immediate resale to them at appropriate profit in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of profit thereon.

2.2 Statement of Compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards comprise of:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act, 2017;
- Provisions of and directives issued under the Banking Companies Ordinance, 1962 and the Companies Act, 2017; and
- Directives issued by the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan.
- Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan, as are notified under the Companies Act, 2017;

Whenever the requirements of the Banking Companies Ordinance, 1962, the Companies Act, 2017 or the directives issued by the SBP and the SECP differ with the requirements of the IFRS or IFAS, requirements of the Banking Companies Ordinance, 1962, the Companies Act, 2017 and the said directives shall 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 IAS 40 "Investment Property" for banking companies till further instructions. Further, according to a notification of the Securities and Exchange Commission of Pakistan (SECP) through S.R.O. No. 411 (1) / 2008 dated 28 April 2008, IFRS 7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by the SBP.

Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements.

2.3 Standards, Interpretations and Amendments to Published Approved Accounting Standards that are effective in current year

There are certain other new and amended standards, interpretations and amendments that are mandatory for the Bank's accounting periods beginning on or after 1 January 2020. These are not considered to be relevant or have any significant effect on the Bank's operations and therefore have not been detailed in these financial statements.

2.4 Standards, Interpretations and Amendments to Published Approved Accounting Standards that are not yet effective

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 1 January 2020:

Standard, Interpretation or Amendment	Effective date (annual periods beginning on or after)
Onerous Contracts - Costs of Fulfilling a Contract - Amendments to IAS 37	01 January 2022



Standard, Interpretation or Amendment**Effective date (annual periods beginning on or after)**

Annual improvement process IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a first time adopter	01 January 2022
Annual improvement process IAS 41 Agriculture - Taxation in fair value measurements	01 January 2022
Annual improvement process IFRS 9 Financial Instruments - Fees in the 10 percent test for de-recognition of financial liabilities	01 January 2022
Reference to the Conceptual Framework - Amendments to IFRS 3	01 January 2022
Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16	01 January 2022
Definition of Accounting Estimates - Amendments to IAS 8	01 January 2023
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	01 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12	01 January 2023
Classification of Liabilities as Current or Non-Current - Amendments to IAS 1	01 January 2024
Lease Liability in a Sale and Leaseback - Amendments to IFRS 16	01 January 2024
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28	Not yet finalized

The above or not expected to have any material impact on the bank's financial statements except in case of IFRS 9. As directed by SBP via BPRD Circular no 7 of 2023, IFRS 9 Financial Instruments is effective for periods beginning on or after 1 January 2024 for all Banks. Moreover, SBP via BPRD circular 3 of 2022 finalized the instructions on IFRS 9 (Application Instructions) for ensuring smooth and consistent implementation of the standard in the banks. IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. The standard includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The Bank is currently in process of setting up a mechanism for adoption of the standard and to assess the impact of such adoption on the financial statements.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard**IASB Effective date (annual periods beginning on or after)**

IFRS 1 - First time adoption of International Financial Reporting Standards	01 January 2014
IFRS 17 - Insurance Contracts	01 January 2023

2.5 Critical accounting estimates and judgements

The preparation of these financial statements is in conformity with approved accounting standards as applicable in Pakistan requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgement in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant accounting estimates and areas where judgements were made by management in the application of accounting policies are as follows:

a) Classification of investments

- In classifying investments as 'held-for-trading', the Bank determines the securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements.
- The investments which have fixed or determinable payments and fixed maturities and the Bank has the positive intent and ability to hold them till maturity.
- The investments which are not classified as 'held-for-trading' or 'held-to-maturity' are classified as 'available-for-sale'.

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b) Valuation and impairment of available-for-sale equity investments

The Bank determines that 'available-for-sale' equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, the impairment may be appropriate when there is an evidence of deterioration in the financial health of investee, industry and sector performance, changes in technology and operational and financing cash flows.

c) Provision against non-performing loans and advances and debt securities classified as investments

The Bank reviews its loan portfolio and debt securities classified as investments to assess amount of non-performing loans and advances and debt securities and provision required there against on a regular basis. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower, and the requirements of the Prudential Regulations are considered. The Bank also maintains general provision against consumer and small and medium enterprises advances in accordance with the requirements set out in Prudential Regulations of the SBP. These provisions change due to changes in requirements.

d) Income taxes

In making the estimates for income taxes currently payable by the Bank, the management looks at the current income tax laws and the decisions of appellate authorities on certain issues in the past. In making the provision for deferred taxes, estimates of the Bank's future taxable profits are taken into account.

e) Depreciation, amortisation and revaluation of fixed assets / non-banking assets / intangible assets

The Bank estimates the revalued amount of land and buildings on a regular basis. The estimates are based on valuations carried out by independent professional valuers and such valuations are carried out with sufficient regulatory so that the valuation at the year end is close to their fair values. In making estimates of the depreciation / amortisation method and rates, the management uses the method and rates which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The estimates made are reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the estimates are changed to reflect the changed pattern. Such a change is accounted for as change in accounting estimates in accordance with International Accounting Standard - 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'.

f) Staff retirement benefits (including compensated absence)

Liability is determined on the basis of actuarial valuation using the Projected Unit Credit Method. The actuarial assumptions used to determine the liability and related expense are disclosed in note 35 and 37. Actuarial assumptions are entity's best estimates of the variables that will determine the ultimate cost of providing post employment benefits. Changes in these assumptions in future years may effect the liability / asset under these plans in those years.

g) Fair value hierarchy of assets and liabilities

The fair value of the assets and liabilities is the amount at which these could be exchanged in a current transaction between willing parties, other than in a forced of liquidation sale. The Bank categorizes fair value measurements within the following fair value hierarchy;

i) Level 1

These are quoted prices (unadjusted) in active markets for identical assets or liabilities that the bank can access at the measurement date.

ii) Level 2

These are inputs other than quoted prices included within Level 1 inputs that are observable for asset or liability, either directly or indirectly.

iii) Level 3

These are unobservable inputs for the asset or liability.

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h) Impairment of non-financial assets (excluding deferred tax asset)

Non-financial assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable. If any such indication exists, the Bank estimates the recoverable amount of the asset and the impairment loss, if any. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of future cash flows from the asset discounted at a rate that reflects market interest rates adjusted for risks specific to the asset. If the recoverable amount of an intangible or tangible asset is less than its carrying value, an impairment loss is recognised immediately in the profit and loss account and the carrying value of the asset is reduced by the amount of the loss. A reversal of an impairment loss on these assets is recognised as it arises provided the increased carrying value does not exceed which it would have been had no impairment loss been recognised.

i) Right to use asset and lease liability

A contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Bank mainly leases properties for its operations. The Bank recognizes a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The right-of-use asset is depreciated using the straight line method from the commencement date to the earlier of end of the useful life of right-of-use asset or end of the lease term. The estimated useful lives of assets are determined on the same basis as that for owned assets. In addition, the right-of-use asset is periodically reduced by impairment losses, if any.

j) Define Benefit plan

The Bank operates an approved funded gratuity scheme for all its permanent employees. Retirement benefits are payable to the members of the scheme on the completion of prescribed qualifying period of service under the scheme. Contribution is made in accordance with the actuarial recommendation. The actuarial valuation is carried out annually as at the statement of financial position date using the "projected unit credit actuarial cost method". All actuarial gains and losses are recognised in other comprehensive income as they occur. Past service cost resulting from changes to defined benefit plan is recognised in the profit and loss account.

k) Compensated Absences

The bank uses actuarial valuation for the determination of its compensated absences liability. This method makes certain assumptions, which may change, there by effecting the profit and loss account of future period.

3. BASIS OF MEASUREMENT

3.1 Accounting convention

These financial statements have been prepared under the historical cost convention except that lease hold land and buildings are stated at revalued amounts less accumulated depreciation and impairment losses, if any, available-for-sale and held-for-trading investments and derivative financial instruments are measured at fair values.

3.2 Functional and Presentation Currency

The financial statements are presented in Pakistan Rupees, which is also the Bank's functional currency. Except as indicated, financial information presented in Pakistan Rupees has been rounded to nearest thousand.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These have been consistently applied to all the years presented except for the change mentioned in note 2.6 above.

4.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, balances with treasury banks, balances with other banks in current and deposit accounts, national prize bonds, any overdrawn nostro accounts and call lendings having maturity of three months or less.

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4.2 Investments

The Bank classifies its investment portfolio into following categories:

a) Held-for-trading

These are securities which are either acquired for generating profit from short-term fluctuations in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.

b) Held-to-maturity

These are securities with fixed or determinable payments and fixed maturity in respect of which the Bank has the positive intent and ability to hold till maturity.

c) Available-for-sale

These are securities that do not fall under the 'held-for-trading' and 'held-to-maturity' categories.

4.2.1 Regular way contracts

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognised at trade date, which is the date at which the Bank commits to purchase or sell the investments except for money market contracts which are recognised on the settlement date.

4.2.2 Initial recognition and measurement

Investments other than those classified as 'held for trading' are initially recognised at cost. Transaction costs associated with these investment are included in cost of investments. Investments classified as 'held for trading' are initially recognised at fair value and transaction costs are expensed in the profit and loss account.

4.2.3 Subsequent measurement

In accordance with the requirements of State Bank of Pakistan, quoted securities other than those classified as 'held to maturity', are subsequently remeasured to fair value. Surplus / (deficit) arising on revaluation of securities classified as 'available for sale' is included in the statement of comprehensive income. Surplus / (deficit) arising on revaluation of investments classified as 'held for trading' is taken to the profit and loss account. Investments classified as 'held to maturity' are carried at amortised cost.

Investment classified as held to maturity are subsequently measured at amortised cost using the effective interest rate method, less impairment losses, if any

Unquoted equity securities, are valued at lower of cost and the break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

Listed equity shares are valued at rates quoted on the Pakistan Stock Exchange. Government Securities are valued on the basis of PKRV rates. Terms Finance Certificates are valued at the rates quoted by MUFAP.

4.2.4 Impairment

Impairment loss in respect of equity securities classified as available for sale and other held to maturity investments are recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in fair value of an equity investment below its cost is also considered an objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the Prudential Regulations issued by the State Bank of Pakistan. In case of impairment of available for sale securities, the cumulative loss that has been recognised directly in surplus / (deficit) on revaluation of securities on the statement of financial position is removed there from and recognised in the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in the profit and loss account.

Gains or losses on disposal of investments during the year are taken to the profit and loss account.

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4.3 Lendings to / borrowings from financial institutions

The Bank enters into transactions of borrowing (repurchase) from and lending (reverse repurchase) to financial institutions, at contracted rates for a specified period of time. These are recorded as under:

Sale under repurchase obligation

Securities sold with a simultaneous commitment to repurchase at a specified future date (repo) continue to be recognized in the balance sheet and are measured in accordance with accounting policies for investments and counter party liability is included in borrowing from financial institutions. The difference between sale and repurchase price is accrued on a time proportionate basis over the period of the contract and recorded as an expense.

Purchase under resale obligation

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the balance sheet and instead amounts paid under these arrangements are included in lendings to financial institutions. The difference between purchase and resale price is accrued on a time proportionate basis over the period of the contract and recorded as income.

Other obligations

Other borrowings including borrowings from SBP are recorded at the proceeds received. Mark-up on such borrowing is charged to the profit and loss account on a time proportion basis.

4.4 Advances

Advances are stated net of specific and general provisions. Specific and general provision is determined on the basis of the Prudential Regulations and other directives issued by the SBP. The net provision made/reversed during the year is charged to profit and loss account and accumulated provision is netted off against advances. Advances are written-off when there is no realistic prospect of recovery.

4.5 Property and equipment

4.5.1 Tangible assets

Except for lease hold land and buildings, other items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Lease hold land is stated at revalued amounts whereas the buildings are stated at revalued amounts less subsequent accumulated depreciation and impairment losses, if any.

Depreciation is charged to the profit and loss account applying straight line method. The rates of depreciation are given in note 10.2 to these financial statements. The residual values, useful lives and depreciation methods are reviewed and changes, if any, are treated as change in accounting estimates, at each balance sheet date. Depreciation on additions is charged from the month the assets are available for use, while no depreciation is charged in the month in which the assets are disposed off.

Surplus arising on revaluation of land and buildings is credited to the surplus on revaluation of property and equipment account. Deficit arising on subsequent revaluation of fixed assets is charged to Profit and Loss account, as allowed under the provisions of the Companies Act, 2017. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. The surplus on revaluation of fixed assets to the extent of incremental depreciation charged on the related assets, is transferred directly to accumulated loss. In case of revalued asset, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. The surplus arising on revaluation is disclosed as surplus on revaluation of property and equipment (as part of equity - refer note 20 also).

An item of property and equipment is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gains or losses on sale of property and equipment are included in the profit and loss account in the year the asset is de-recognized, except that the related surplus on revaluation of land and buildings (net of deferred tax) is transferred directly to accumulated loss.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account.

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4.5.2 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. The cost of intangible assets are amortized over their estimated useful lives using the straight line method at the rates stated in note 11.2. Costs associated with maintaining the software are recognized as expense in the profit and loss account as and when incurred. The useful lives of intangible assets are reviewed and adjusted, if appropriate, at each balance sheet date.

4.5.3 Capital work-in-progress

Capital work-in-progress is stated at cost less impairment losses, if any.

4.5.4 Right-of-use assets:

A contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Bank mainly leases properties for its operations. The Bank recognizes a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The right-of-use asset is depreciated using the straight line method from the commencement date to the earlier of end of the useful life of right-of-use asset or end of the lease term. The estimated useful lives of assets are determined on the same basis as that for owned assets. In addition, the right-of-use asset is periodically reduced by impairment losses, if any.

4.6 Non-banking assets

Non-banking assets acquired in satisfaction of claims are initially recorded at cost and subsequently carried at revalued amounts less accumulated depreciation and impairment, if any. These assets are revalued by professionally qualified valuers with sufficient regularity to ensure that their net carrying value does not differ materially from their fair value. A surplus arising on revaluation of property is credited to the 'surplus on revaluation of non-banking assets' account and any deficit arising on revaluation is taken to profit and loss account directly. Legal fees, transfer costs and direct costs of acquiring title to property is charged to the profit and loss account.

Depreciation on assets (other than land) acquired in satisfaction of claims is charged to the profit and loss account on the same basis as depreciation charged on the Bank's owned fixed assets.

If the recognition of such assets results in a reduction in non-performing loans, such reductions and the corresponding reductions in provisions held against non-performing loans are disclosed separately.

These assets are generally intended for sale. Gains and losses realised on the sale of such assets are disclosed from gains and losses realised on the sale of fixed assets. Surplus on revaluation (net of deferred tax) realised on disposal of these assets is transferred directly to unappropriated profit.

If such an asset is subsequently used by the Bank for its own operations, the asset is transferred to fixed assets along any related surplus.

4.7 Grants

Grants are assistances in the form of transfer of resources to the Bank in return for past or future compliance with certain conditions relating to the operating activities of the Bank. They exclude those forms of assistances which cannot reasonably have a value placed upon them.

Grants are recognized in the profit and loss account on a systematic basis over the periods in which the Bank recognizes as expenses the related costs for which the grants are intended to compensate.

4.8 Impairment - non financial assets

At each balance sheet date, the Bank reviews the carrying amount of its assets (other than deferred tax assets) to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of assets is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the greater of net selling price and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the assets is reduced to its recoverable amount. The resulting impairment loss is recognized as an expense immediately, except that the impairment loss on revalued fixed assets is first adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of those assets.

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4.9 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit and loss account except to the extent that it relates to items recognised directly in other comprehensive income / surplus on revaluation of assets in which case it is recognised in statement of comprehensive income / surplus on revaluation of assets.

4.9.1 Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws for taxation on income earned. The charge for current tax is calculated using the prevailing tax rates or tax rates expected to apply to the profits for the year. The charge for current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments finalized during the year for such years.

4.9.2 Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences as at the statement of financial position date between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The Bank records deferred tax assets / liabilities using tax rates, enacted or substantially enacted at the statement of financial position date, that are expected to be applicable at the time of their reversal.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The Bank recognizes a deferred tax asset / liability on deficit / surplus on revaluation of assets in accordance with the requirements of IAS 12 "Income Taxes". The related deferred tax asset / liability is adjusted against the related deficit / surplus.

The Bank recognizes a deferred tax asset including on the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilized in accordance with the requirements of IAS 12 "Income Taxes".

4.9.3 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

Provision against identified non-funded losses is recognized when intimated and reasonable certainty exists for the Bank to settle the obligation. The loss is charged to the profit and loss account net of expected recovery and is classified under other liabilities.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimates.


4.9.4 Lease liability on right - of - use assets

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, a change in assessment of whether extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

4.10 Staff retirement benefits

Approved funded pension scheme (defined benefit plan)

The Bank operates a funded pension scheme for its employees. The fund was granted approval by the Commissioner of Income Tax on 6 March 2000 to take effect from 1 October 1999. Provision is made in these financial statements based on the actuarial valuation (conducted at the balance sheet date - 31 December 2020) using the projected unit credit method. Above benefits are payable to staff at the time of separation / retirement from the Bank's services subject to the completion of qualifying period of service on the basis of basic salaries. Remeasurement component, which is the net of actuarial gains and losses is recognized immediately in other comprehensive income whereas service cost and net interest income / expense are charged to the profit and loss account. Effect of changes in the plan are also recognised currently in the profit and loss account.



Approved funded gratuity scheme (defined benefit plan)

The Bank also operates a funded gratuity scheme for its employees. The fund was granted approval by the Commissioner of Income Tax on 4 December 2018 to take effect from 4th September 2018. Provision is made in these financial statements based on the actuarial valuation (conducted at the balance sheet date - 31 December 2020) using the projected unit credit method. Above benefits are payable to staff at the time of separation / retirement from the Bank's services subject to the completion of qualifying period of service on the basis of basic salaries. Remeasurement component, which is the net of actuarial gains and losses is recognized immediately in other comprehensive income whereas service cost and net interest income / expense are charged to the profit and loss account.

Contributory provident fund

Up to 30 June 2017, the Bank operated a non contributory provident fund in which monthly contributions were made by employees at a rate of 12% of basic salary. However this scheme since then has been discontinued but some dues have to be settled.

Unfunded gratuity scheme

Up to 30 September 2018, the Bank operated an unfunded gratuity scheme for its President (refer note 36). Liability and expense are recorded in accordance with the terms of the scheme. However this scheme since then has been discontinued and the dues have to be settled (after shareholders approval).

4.11 Employees' compensated absences

The Bank recognizes liability in respect of compensated absences of its employees in the period in which these are earned on the basis of actuarial valuation (conducted at the balance sheet date - 31 December 2020) carried out using the Projected Unit Credit Method. Actuarial gains / losses charge for the year are immediately recognised in the profit and loss account.

4.12 Revenue recognition

Revenue is recognized to the extent that the economic benefits will flow to the bank and revenue can be reliably measured. These are recognized as follow:

- Mark-up / return / interest on regular advances and investments is recognized on a time proportion basis using effective interest method. Where debt securities are purchased at premium or discount, the same is amortized through the profit and loss account over the remaining maturity using the effective interest method. Mark-up income due on non-performing advances are suspended as per the requirements of the Prudential Regulations.
- Mark-up / return / interest recoverable on classified advances and investments is recognized on receipt basis. Mark-up / return / interest on classified rescheduled / restructured advances and investments is recognized as permitted by the regulations of the SBP.
- Dividend income is recognized when the Bank's right to receive dividend is established.
- Gain and loss on sale of investments is recognized to the profit and loss account currently.
- Fees, brokerage and commission are recognized when the services are rendered (and over period of services). Account maintenance and service charges are recognized when realized.

4.13 Foreign currencies

4.13.1 Foreign currency transactions

Transactions in foreign currencies are translated into rupees at the foreign exchange rates prevalent on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in Rupee terms at the rates of exchange prevailing at the balance sheet date.

4.13.2 Translation gains and losses

Translation gains and losses are included in the profit and loss account.

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4.13.3 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in these financial statements at contracted rates. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in Rupee terms at the rates of exchange prevailing at the balance sheet date.

4.14 Financial instruments

4.14.1 Financial assets and financial liabilities

Financial assets and financial liabilities are recognized at the time when the Bank becomes a party to the contractual provision of the instrument. Financial assets are de-recognized when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognized when obligation specific in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial assets and liabilities is recognized in the profit and loss account of the current period. The particular recognition and subsequent measurement methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

4.14.2 Derivative financial instruments

Derivative financial instruments are initially recognized at cost on the date on which a derivative contract is entered into and are subsequently remeasured at their fair values. All derivative financial instruments are carried as assets when the fair value is positive and liability when fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account currently.

4.15 Off-setting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legally enforceable right to set off and the Bank intends to either settle on net basis, or to realize the assets and to settle the liabilities, simultaneously.

4.16 Borrowing / Deposits and their cost

Borrowing / deposits are initially recorded at the amount of proceeds received. Mark-up accrued on deposits is recognized separately as part of other liabilities and is charged to the profit and loss account on a time proportion basis.

4.17 Dividend distribution and appropriations

Bonus dividend, cash dividend and other appropriations (except for the appropriations required by law), declared / approved subsequent to balance sheet date are considered as non-adjusting event and are not recorded in financial statements of the current year. These are recognized in the period in which these are declared / approved.

4.18 Acceptances


Acceptances comprise of undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be simultaneously settled with the reimbursement from the customers. Acceptances are accounted for as on-balance sheet transactions.

4.19 Earnings per share

The Bank presents basic and diluted earnings per share. Basic earning is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

4.20 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented as per the Bank's functional structure and guidance of the SBP. The Bank comprises of following main segments:



4.13.3 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in these financial statements at contracted rates. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in Rupee terms at the rates of exchange prevailing at the balance sheet date.

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Financial assets and financial liabilities are recognized at the time when the Bank becomes a party to the contractual provision of the instrument. Financial assets are de-recognized when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognized when obligation specific in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial assets and liabilities is recognized in the profit and loss account of the current period. The particular recognition and subsequent measurement methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

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The Bank presents basic and diluted earnings per share. Basic earning is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

4.20 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented as per the Bank's functional structure and guidance of the SBP. The Bank comprises of following main segments:

4.20.1 Business segments

a) Corporate finance and commercial banking

Corporate finance includes syndications and advances to corporate enterprises including deposits therefrom. Commercial banking includes project financing, export financing, other lendings, guarantees and bills of exchange.

b) Treasury

It includes fixed income, equity, foreign exchange contracts, lendings to financial institutions and borrowings.

c) Retail and consumer banking

It includes retail lending and deposits, banking services, private lending and deposits, retail services offered to the retail customers.

d) Small and medium Enterprises

This includes lending and deposits banking services, private lending and deposits offered to the small and medium enterprises.

4.20.2 Geographical segment

The Bank operates in Pakistan only.

5. CASH AND BALANCES WITH TREASURY BANKS

Note

2020

2019

(Rupees in '000)

In hand

Local currency

802,907

572,174

Foreign currencies

149,575

82,414

952,482

654,588

With State Bank of Pakistan in

Local currency current account

5.1

951,672

975,217

Foreign currency current account

5.2

46,193

5,823

Foreign currency deposit accounts

- cash reserve account

5.3

33,725

34,221

- special cash reserve account

5.4

63,302

98,278

1,094,892

1,113,539

With National Bank of Pakistan in

Local currency current account

266,505

132,124

National Prize Bonds

23,575

6,944

2,337,454

1,907,195

5.1 These accounts are maintained with the SBP to comply with the statutory cash reserve requirements.

5.2 This represents US Dollar collection account maintained with SBP.

5.3 This represents account maintained with the SBP to comply with Cash reserve requirements against foreign currency deposits.

5.4 This represents account maintained with SBP to comply with the special cash reserve requirement against foreign currency deposits. The return on this account is declared by the SBP on a monthly basis and at 31 December 2020, it carried mark-up at nil (2019: 0.7%) per annum..



6. BALANCES WITH OTHER BANKS	Note	2020 (Rupees in '000)	2019
In Pakistan			
In current accounts		<u>279</u>	279
		<u>279</u>	279
Outside Pakistan			
In current accounts	6.1	<u>195,945</u>	36,450
		<u>196,224</u>	<u>36,729</u>

6.1 Subsequent to the year end accounts outside were closed.

7. LENDINGS TO FINANCIAL INSTITUTIONS	Note	2020 (Rupees in '000)	2019
Call / clean money lendings	7.2	139,089	139,089
Repurchase agreement lendings (Reverse Repo)	7.3 & 7.3.1	<u>1,960,972</u>	3,179,804
		<u>2,100,061</u>	3,318,893
Less: Provision held against Lending to Financial Institutions	7.2	<u>(139,089)</u>	(139,089)
Lendings to Financial Institutions - net of provision		<u>1,960,972</u>	<u>3,179,804</u>

7.1 Particulars of lendings

In local currency	<u>1,960,972</u>	<u>3,179,804</u>
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7.2 This represents financing to two financial institutions that matured on 31 December 2012. Due to default in repayments, full provision has been made against these amounts. Lendings were in local currency.

7.3 Securities held as collateral against lending to financial institutions (Reverse repo)

Note	2020			2019		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
	(Rupees in '000)					
Market treasury bills	7.3.2	<u>2,000,000</u>	-	<u>2,000,000</u>	3,500,000	-
		<u>2,000,000</u>	-	<u>3,500,000</u>	-	<u>3,500,000</u>

7.3.1 These carry mark-up rates range between 6.50% to 7.25% (2019: 13.05% to 13.70%) per annum, with maturity upto 4 January 2021 (2019: Upto 3 January 2020).

7.3.2 Market value of securities held as collateral against lendings to financial institutions is Rs. 1,979 million (2019: Rs. 3,177 million).

7.4 Category of classification

	2020		2019	
	Classified Lending	Provision held	Classified Lending	Provision held
	(Rupees in '000)			
Domestic				
Loss	<u>139,089</u>	<u>(139,089)</u>	139,089	(139,089)
	<u>139,089</u>	<u>(139,089)</u>	<u>139,089</u>	<u>(139,089)</u>

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8. INVESTMENTS

8.1 Investments by types

Note	2020				2019				
	Cost / Amortised Cost	Provision for Diminution	Surplus / (Deficit)	Carrying Value	Cost / Amortised Cost	Provision for Diminution	Surplus / (Deficit)	Carrying Value	
	(Rupees in '000)								
Available-for-sale securities									
Market treasury bills	8.3 & 8.4	12,666,748	-	17,955	12,684,701	5,671,618	-	11,441	5,683,059
Pakistan investment bonds	8.2.1 & 8.5	8,417,907	-	(9,147)	8,408,760	1,008,084	-	17,251	1,023,335
Term finance certificates (TFCs)	8.8	7,781	(7,781)	-	-	8,135	(7,781)	-	354
Preference shares of a listed company	8.9	10,000	(10,000)	-	-	10,000	(10,000)	-	-
Ordinary shares of an unlisted company	8.10	954	-	-	954	954	-	-	954
Total Investments		21,103,388	(17,781)	8,808	21,094,415	6,696,791	(17,781)	28,692	6,707,702

8.2 Investments by segments

		2020				2019			
		Cost / Amortised Cost	Provision for Diminution	Surplus / (Deficit)	Carrying Value	Cost / Amortised Cost	Provision for Diminution	Surplus / (Deficit)	Carrying Value
		(Rupees in '000)							
Federal government securities									
Market treasury bills	8.3 & 8.4	12,666,748	-	17,955	12,684,701	5,671,618	-	11,441	5,683,059
Pakistan investment bonds	8.2.1 & 8.5	8,417,907	-	(9,147)	8,408,760	1,008,084	-	17,251	1,023,335
		21,084,653	-	8,808	21,093,461	6,677,702	-	28,692	6,706,394
Fully paid-up preference shares									
Listed company	8.9	10,000	(10,000)	-	-	10,000	(10,000)	-	-
Fully paid-up ordinary shares									
Unlisted company	8.10	954	-	-	954	954	-	-	954
Non government debt securities									
Listed term finance certificates	8.8	7,781	(7,781)	-	-	7,781	(7,781)	-	-
Unlisted term finance certificates	8.8	-	-	-	-	354	-	-	354
		7,781	(7,781)	-	-	8,135	(7,781)	-	354
Total investments		21,103,388	(17,781)	8,808	21,094,415	6,696,791	(17,781)	28,692	6,707,702

8.2.1 Investments given as collateral

	2020	2019
	(Rupees in '000)	
Federal government securities		
Pakistan Investment Bonds	6,244,136	292,604

These have been given as collateral against Repo borrowing from Pakistan Mortgage Refinance Company Limited (refer note 16.6) and collateral given to a banking company for use of Nostro Bank accounts for foreign currency transactions.

8.3 Market Treasury Bills are for the periods of three months, six months and twelve months. The effective rate of profit on Market Treasury Bills range between 7.00% to 13.13% per annum (2019: 13.29% to 13.85% per annum) with maturities up to June 2021 (2019: Upto September 2020).

8.4 Investments in government securities include securities which are held by the Bank are eligible for the statutory liquidity requirements determined under section 29 of the Banking Companies Ordinance, 1962.

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8.5 Pakistan Investment Bonds (PIBs) are for the period of three years, five years and ten years. The rates of profit are 7.39% and 13.21% per annum (2019: 11.12% and 14.49% per annum) with maturities upto August 2029 (2019: Upto August 2029).

8.6 Provision for diminution in value of investments	Note	2020		2019	
		(Rupees in '000)			
Opening balance	8.6.2 & 8.6.3	17,781		17,781	
Charge for the year		-		-	
Reversal for the year		-		-	
Net charge for the year		-		-	
Investment written off		-		-	
Closing balance		<u>17,781</u>		<u>17,781</u>	

8.6.1 Particulars of provision against debt securities

Category of classification	2020		2019	
	Non performing investments	Provision	Non performing investments	Provision
Domestic	(Rupees in '000)			
Loss	<u>17,781</u>	<u>17,781</u>	17,781	17,781
	<u>17,781</u>	<u>17,781</u>	<u>17,781</u>	<u>17,781</u>

8.7 Quality of available for sale securities

Details regarding quality of available for sale (AFS) securities are as follows:

8.7.1 Domestic Securities	Note	Amortized Cost	
		2020	2019
8.7.1.1 Federal government securities		(Rupees in '000)	
Market Treasury Bills	8.3	12,666,746	5,671,618
Pakistan Investment Bonds	8.5	8,417,907	1,006,084
		<u>21,084,653</u>	<u>6,677,702</u>

8.7.1.2 Shares

Unlisted Companies	Note	2020		2019	
		Cost	Break value	Cost	Break value
National Institutional Facilitation Technologies (Private) Limited (NIFT)	8.10	<u>954</u>	<u>32,510</u>	<u>954</u>	<u>32,284</u>

Per share breakup value of NIFT is Rs. 22.94 (2019: 22.78).

8.7.1.3 Non government debt securities

Listed TFC	Note	Rating		Cost	
		2020	2019	2020	2019
Telecard Limited - I	8.8	Unrated	Unrated	<u>7,781</u>	<u>7,781</u>
Unlisted TFC					
Pakistan International Airlines Corporation Limited	8.8	Unrated	Unrated	-	<u>354</u>

8.7.1.4 Preference shares

Listed Company	Note	Rating	2020	2019
Chenab Limited	8.9	Unrated	<u>10,000</u>	<u>10,000</u>



8.8 Term Finance Certificates (TFCs) - available-for-sale

Investee	Number of certificates held	Paid up value per certificate (Rupees)	Total paid up value (before redemption) (Rupees in '000)	Profit rate	Principal redemption terms	Carrying Value as at 31 December 2020 (Rupees in '000)	Name of the Chief Executive Officer
Listed TFC							
Telecard Limited	5,000	5,000	25,000	3 months KIBOR p.a.	This represents the listed Term Finance Certificates (TFCs) issued by the Company, effective from 31 December 2015 these TFCs have been restructured for the period of five years carrying mark-up payable on quarterly basis and principal amount redeemable in 12 unequal quarterly instalments starting from 31 March 2018. These TFCs carry mark-up at the rate of three months kibar (2019: three months kibar). The balance has been fully provided.	7,781	Syed Aamir Hussain
Provision for diminution (against Telecard Limited)						(7,781)	
Total (net of provision) - carrying value as at 31 December 2020						<u><u>-</u></u>	

8.9 Preference shares of a listed company

This represents 1 million cumulative redeemable preference shares of a listed company (Chenab Limited) having face value of Rs. 10 each, carrying dividend entitlement at 9.25% per annum on the face value.

Market value of these shares at 31 December 2020 were not available as these shares are not being currently traded. Given the fact that the Company is a defaulter, the Bank has made full provision against these preference shares.

8.10 Ordinary shares of an unlisted company - a related party

This represents investment in 1,416,985 ordinary shares (2019: 1,416,985 ordinary shares) of Rs. 10 each of National Institutional Facilitation Technologies (Private) Limited (NIFT). One employee of the Bank is a Director of NIFT. The Bank has 5.67% (2019: 5.67%) stake in the above company.

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9. ADVANCES

Note	Performing		Non Performing		Total	
	2020	2019	2020	2019	2020	2019
	(Rupees in '000)					
Loans, cash credits, running finances, etc. in Pakistan	10,607,766	8,983,349	1,920,861	1,948,199	12,528,627	10,931,548
Bills discounted and purchased	-	700,037	-	-	-	700,037
Advances - gross	10,607,766	9,683,386	1,920,861	1,948,199	12,528,627	11,631,585
Provision against non-performing advances						
- specific	-	-	(1,420,423)	(1,347,060)	(1,420,423)	(1,347,060)
- general	(20,229)	(18,092)	-	-	(20,229)	(18,092)
	(20,229)	(18,092)	(1,420,423)	(1,347,060)	(1,440,652)	(1,365,152)
Advances - net of provisions	10,587,537	9,665,294	500,438	601,138	11,087,975	10,266,433

9.1 Particulars of advances - gross

	2020	2019
	(Rupees in '000)	
In local currency	12,528,627	11,631,585
In foreign currencies	-	-
	12,528,627	11,631,585

9.2 Advances include Rs. 1,920.861 million (2019: Rs. 1,948.199 million) which have been placed under the non-performing status as detailed below:

Category of classification	2020		2019	
	Non performing loans	Provision	Non performing loans	Provision
Domestic				
Other Assets Especially Mentioned	3,177	318	6,568	-
Substandard	25,551	885	10,444	103
Doubtful	61,477	20,421	308,015	2,672
Loss	1,830,656	1,398,799	1,623,172	1,344,285
	1,920,861	1,420,423	1,948,199	1,347,060

9.3 Particulars of provision against advances

Note	2020			2019		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	1,347,060	18,092	1,365,152	1,306,277	13,936	1,320,213
Charge for the year	158,600	2,137	160,737	88,820	4,156	90,776
Reversals	(85,237)	-	(85,237)	(45,837)	-	(45,837)
Net charge for the year	73,363	2,137	75,500	40,783	4,156	44,939
Amount written off	-	-	-	-	-	-
Closing balance	1,420,423	20,229	1,440,652	1,347,060	18,092	1,365,152

9.3.1 Particulars of provision against advances

	2020			2019		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	1,420,423	20,229	1,440,652	1,347,060	18,092	1,365,152
In foreign currencies	-	-	-	-	-	-
	1,420,423	20,229	1,440,652	1,347,060	18,092	1,365,152



9.3.2.2 In accordance with BSD Circular No. 1 of 21 October 2011 issued by the SBP, the bank has availed the benefit of Forced Sale Value (FSV) of certain collaterals against non-performing loans. Had this benefit of FSV not been taken by the bank, specific provision against non-performing advances would have been higher by Rs. 447.678 million (2019: Rs. 406.609 million) and profit before tax would have been lower by Rs. 447.678 million (2019: Rs. 406.609). This amount of Rs. 447.678 million thousand (2019: Rs. 406.609) is not available for distribution of cash and stock dividend to the shareholders and bonus to employees.

9.3.2.3 Subsequent to the year-end in 2021, the management decided to not to avail the FSV benefits and as such these have not been considered in the management accounts as of 31 December 2021.

9.3.2.4 General provision represents provision against consumer and small entities loans. General provision on Consumer loans are maintained at an amount equal to 1% of the fully secured performing portfolio and 4% of the unsecured performing portfolio as required by the Prudential Regulations issued by the SBP. Moreover, general provision on SE loans are maintained at an amount equal to 1% of unsecured SE loans as per IH&SMEFD Circular No. 09 dated 22 December 2017.

9.4 Particulars of write offs	<i>Note</i>	2020	2019
(Rupees in '000)			
9.4.1 Against provisions Directly charged to profit and loss account	9.3	-	-
		-	-
		-	-
9.4.2 Write offs of Rs. 500,000/- and above Write offs of below Rs. 500,000/-		-	-
		-	-
		-	-

9.5 Details of loan write off of Rs. 500,000/- and above

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of Rupees five hundred thousand or above allowed to a person(s) during the year ended 31 December 2020 has not been given as there were no write-offs during the year.

10. FIXED ASSETS	<i>Note</i>	2020	2019
(Rupees in '000)			
Property and equipment	10.1	639,710	709,043
		639,710	709,043

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10.1 Property and equipment

	2020							
	Leasehold land	Building /office premises on Leasehold land	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Lease hold improvement	Right-of use assets *	Total
	(Rupees in '000)							
At January 1, 2020								
Cost	78,527	212,709	67,133	298,784	15,972	49,125	496,341	1,218,592
Accumulated depreciation	-	(29,095)	(62,011)	(262,904)	(13,872)	(45,100)	(96,566)	(509,549)
Net book value	<u>78,527</u>	<u>183,614</u>	<u>5,122</u>	<u>35,880</u>	<u>2,100</u>	<u>4,025</u>	<u>399,775</u>	<u>709,043</u>
Year ended December 2020								
Opening net book value	78,527	183,614	5,122	35,880	2,100	4,025	399,775	709,043
Additions	-	-	3,789	26,994	-	4,347	37,841	72,971
Depreciation charge	-	(9,664)	(3,001)	(22,292)	(773)	(3,028)	(103,546)	(142,304)
Closing net book value	<u>78,527</u>	<u>173,950</u>	<u>5,910</u>	<u>40,582</u>	<u>1,327</u>	<u>5,344</u>	<u>334,070</u>	<u>639,710</u>
At December 31, 2020								
Cost	78,527	212,709	70,511	324,146	15,972	53,472	531,649	1,286,987
Accumulated depreciation	-	(38,759)	(64,601)	(283,564)	(14,845)	(48,128)	(197,580)	(647,277)
Net book value	<u>78,527</u>	<u>173,950</u>	<u>5,910</u>	<u>40,582</u>	<u>1,327</u>	<u>5,344</u>	<u>334,070</u>	<u>639,710</u>
Rate of depreciation (percentage)	-	5%	20%	33.33%	20%	20%	10%-100%	

* Branches and record rooms

	2019							
	Leasehold land	Building /office premises on Leasehold land	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Lease hold improvement	Right-of use assets *	Total
	(Rupees in '000)							
At January 1, 2019								
Cost	78,527	212,709	70,251	272,032	15,972	48,903	-	698,394
Accumulated depreciation	-	(19,431)	(62,194)	(242,632)	(12,538)	(41,441)	-	(378,236)
Net book value	<u>78,527</u>	<u>193,278</u>	<u>8,057</u>	<u>29,400</u>	<u>3,434</u>	<u>7,462</u>	<u>-</u>	<u>320,158</u>
Year ended December 2019								
Opening net book value	78,527	193,278	8,057	29,400	3,434	7,462	-	320,158
Recognized as on January 1 (note 2.6)	-	-	-	-	-	-	480,647	480,647
Additions	-	-	868	28,292	-	255	17,694	47,109
Disposals- Written down value	-	-	(6)	(12)	-	-	-	(19)
Depreciation charge	-	(9,664)	(3,798)	(21,799)	(1,334)	(3,692)	(98,566)	(138,853)
Closing net book value	<u>78,527</u>	<u>183,614</u>	<u>5,122</u>	<u>35,880</u>	<u>2,100</u>	<u>4,025</u>	<u>399,775</u>	<u>709,043</u>
At December 31, 2019								
Cost	78,527	212,709	67,133	298,784	15,972	49,125	496,341	1,218,592
Accumulated depreciation	-	(29,095)	(62,011)	(262,904)	(13,872)	(45,100)	(96,566)	(509,549)
Net book value	<u>78,527</u>	<u>183,614</u>	<u>5,122</u>	<u>35,880</u>	<u>2,100</u>	<u>4,025</u>	<u>399,775</u>	<u>709,043</u>
Rate of depreciation (percentage)	-	5%	20%	33.33%	20%	20%	10%-100%	

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10.1.1 The leasehold land and buildings of the Bank were last revalued by an independent professional valuer, M/s Anjum Adl Associates as at 31 December 2018. The valuation performed by the valuer on the basis of assessment of the present market values. Total surplus arising against the revaluation of fixed assets as at December 2020 amounts to Rs. 214,332 million (Rs. 75.24 million for land and Rs. 139.09 million for building).

Had the land and buildings not been revalued, total carrying amounts as at 31 December 2020 would have been as follows (at cost less accumulated depreciation):

	2020	2019
	(Rupees in '000)	
Land	3,287	3,287
Buildings	34,858	36,797
	<u>38,145</u>	<u>40,084</u>

10.1.2 The total of forced sale values based on the revaluations explained in note 10.1.1 above are as follows:

	Forced sale value (Rupees in '000)
Leasehold land	62,592
Buildings on Leasehold land	154,623
	<u>217,215</u>

10.1.3 The cost of fully depreciated assets that are still in use are as follows:

	2020	2019
	(Rupees in '000)	
Building improvements	40,937	33,094
Furniture and fixtures	58,527	55,324
Electrical, office and computer equipment	236,369	221,832
Vehicles	11,471	11,424
	<u>346,304</u>	<u>321,674</u>

10.1.4 Summarized details of the valuation of properties across the country:

Location of properties	Note	Original cost			Revalued amount (net of depreciation) / cost*		
		Land	Buildings	Total	Land	Buildings	Total
		(Rupees in '000)			(Rupees in '000)		
Mehdi Tower, Karachi		-	5,187	5,187	-	30,504	30,604
New Town, Karachi		-	1,348	1,348	-	19,972	19,972
Sukkur		-	1,017	1,017	-	14,948	14,948
Faisalabad		-	4,873	4,873	-	9,547	9,547
F.B. Area, Karachi		-	815	815	-	15,804	15,804
Gulshan-e-Iqbal, Karachi		-	1,322	1,322	-	8,481	8,481
P.E.C.H.S., Karachi	10.1.5	3,000	6,760	9,760	78,240	8,964	87,224
Mirpurkhas (Idle Property)*	10.1.6*	162	-	162	162	-	162
Kohat (Idle Property)	10.1.7*	-	708	708	-	-	-
Nawabshah (Idle Property)*	10.1.8*	125	-	125	125	-	125
Regional Office Lahore		-	60,000	60,000	-	65,610	65,610
		<u>3,287</u>	<u>62,819</u>	<u>66,106</u>	<u>78,527</u>	<u>173,956</u>	<u>252,473</u>

* At cost due to the reasons given below. Amounts are not considered to be material.

10.1.5 This property is under litigation as various complaints were lodged against the Bank on the grounds that the property is being used for commercial purpose contrary to its legal status as a residential property and that floor plans of the first and second floors of this property are not approved by the relevant authorities. The Bank filed a Suit for Permanent Injunction before a Civil Judge against the complainant while informing the court that it has taken necessary action for the regularization and bringing the construction existing on the Bank's property within the parameter stipulated by Sindh Building Control Authority (SBCA). However, since the notification for regularization of the construction has been suspended consequent to the Constitutional Petition no. D-408/2012 pending before High Court of Sindh, Karachi, the Bank became a party to the Constitutional Petition and moved a sine-die application before IV-Senior Civil Judge. Consequently, the proceedings of the case pending before IV-Senior Civil Judge were adjourned sine-die till the decision of Constitutional Petition no. D-408/2012 pending before the High Court of Sindh. The Bank's legal consultant has confirmed that the Bank

10.1.6 The property was awarded to the Bank by the Government of Pakistan for the purpose of carrying out Bank's business. The Bank has not utilized this property and is idle. Therefore, the Bank's management had decided to sell the property after obtaining prior approval from the Government of Pakistan. However, the Bank has not been able to secure the approval of Government of Pakistan because of Supreme Court of Pakistan's restraining order in suo moto case no. 16/2011 which prohibits the sale/transfer/mutation of state lands till further order. Suo moto case was initiated by the Supreme Court of Pakistan as multiple cases were reported in which government properties were being illegally transferred in fake deals. Since the property is idle, the Bank has obtained extension in time specified in Section 10 of the Banking Companies Ordinance, 1962 for holding of idle properties from the State Bank of Pakistan (SBP) and the SBP has allowed the Bank to retain the property at Mirpurkhas till the order in suo moto case no. 16/2011 remains effective.

10.1.7 This represent temporarily idle property for which extension in time specified in Section 10 of the Banking Companies Ordinance, 1962 for holding of such properties has been obtained by the Bank from State Bank of Pakistan (SBP). Kohat property has been written down to book value of Re. 1 owing to difficulties faced by the Bank in disposing off the said property and the SBP has allowed the Bank to retain the property till the situation is favorable for sale of this property.

10.1.8 The land at Nawabshah was granted to the Bank for the construction of bank building on the directives of Chief Minister Sindh. However, a person illegally raised claim on the property and illegally transferred the property to two other parties. This was contended by the Bank in the Court of 1st Senior Civil Judge, Nawabshah and the suit was doored in Bank's favour. Consequently, execution application was filed by the Bank to execute the Judgment Decree requiring revenue authorities to demarcate the land and issue title documents in the name of the Bank. No decision has yet been issued in respect of the execution application to date and the Bank does not have possession of this property. The Bank is still pursuing this matter and the Bank's lawyer responsible for the concerned matter is of the view that the Bank's interest is sufficiently secured with no likelihood of any apparent loss. The property is recorded at Rs. 125,000 being the amount of lease money deposited with Municipal Committee, Nawabshah. Accordingly,

10.1.9 Details of disposals of fixed assets during the year

	Cost	Accumulated depreciation	Carrying value	Sale proceeds	Mode of disposal	Particulars of buyers
(Rupees in '000)						
<i>Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000:</i>						
Miscellaneous items	411	411	-	40	Auction / quotation	Various
Electrical, office and computer equipment						
<i>Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000:</i>						
Miscellaneous items	1,632	1,632	-	90	Auction / quotation Auction /	Various
Total	2020	2,043	-	131		
Total	2019	5,558	5,540	18		

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11. INTANGIBLE ASSETS	Note	2020 (Rupees in '000)	2019
Capital work-in-progress	11.1	3,210	766
Intangible assets	11.2	47,925	47,601
		<u>51,135</u>	<u>48,367</u>
11.1 Capital work-in-progress			
Software up gradation (advance to the consultant)		<u>3,210</u>	<u>766</u>
11.2 At 1 January			
Cost		121,047	88,701
Accumulated amortisation and impairment		(73,446)	(57,265)
Net book value		<u>47,601</u>	<u>31,436</u>
Year ended December			
Opening net book value		47,601	31,436
Additions		26,500	32,346
Amortisation charge		(26,176)	(16,181)
Closing net book value		<u>47,925</u>	<u>47,601</u>
At 31 December			
Cost		147,547	121,047
Accumulated amortisation and impairment		(99,622)	(73,446)
Net book value		<u>47,925</u>	<u>47,601</u>
Rate of amortisation (percentage)		<u>10-33%</u>	
Useful life in years		<u>3-10</u>	

12. DEFERRED TAX ASSETS

	Balance as at 1 January 2019	Recognised in profit and loss account	Recognised in other comprehensive income	Balance as at 31 December 2019	Recognised in profit and loss account	Recognised in other comprehensive income	Balance as at 31 December 2020
	(Rupees in '000)						
Deductible temporary differences on:							
Unabsorbed depreciation / amortization	-	15,373	-	15,373	(15,373)	-	-
Tax losses carried forward (Note 12.1)	-	70,344	-	70,344	(70,344)	-	-
	-	85,717	-	85,717	(85,717)	-	-
Taxable temporary differences on:							
Surplus on revaluation of							
- Buildings	(52,636)	(4,642)	-	(57,278)	3,033	-	(54,245)
- Remeasurement loss on defined benefit obligations	-	-	-	-	-	(2,468)	(2,468)
- Investments	-	-	(11,190)	(11,190)	-	7,755	(3,435)
	(52,636)	(4,642)	(11,190)	(68,468)	3,033	5,287	(60,148)
Net deferred tax liability	<u>(52,636)</u>	<u>81,075</u>	<u>(11,190)</u>	<u>17,249</u>	<u>(82,684)</u>	<u>5,287</u>	<u>(60,148)</u>

12.1 Deferred tax asset on carry forward losses have been fully utilized / adjusted against the taxable profit for the year.

12.2 Deferred tax asset of Rs. 478.8 million on other deductible temporary differences amounting to Rs. 186.73 million have not been recognized as a matter of caution. This comprise of deferred tax on accelerated depreciation, lease liability and provision for non-performing and off balance sheet amounting to Rs. 23.02 million, 10.58 million and Rs. 153.12 million.

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13. OTHER ASSETS	Note	2020 (Rupees in '000)	2019
Income/ mark-up accrued in local currency	13.2	474,308	321,594
Advances, deposits and other prepayments	13.3	142,841	140,144
Branch adjustment account		117	1,517
Mark to market gain on forward foreign exchange contracts		-	8,464
Suspense account (fully provided)		5,085	5,065
ATM Settlement Account		41,836	7,150
Receivable against encashment of Government Securities		1,621	812
Stationary & stamps on hand		3,965	1,938
Acceptances		7,516	795,867
Non-banking assets acquired in satisfaction of claims	13.1	15,852	-
Others		1,164	2,171
		<u>694,305</u>	<u>1,284,722</u>
Provision against other assets	13.4 & 13.5	(48,370)	(13,664)
Other assets (net of provision)		<u>645,935</u>	<u>1,271,058</u>
Deficit on revaluation of non-banking assets acquired in satisfaction of claims		(35)	-
		<u>645,900</u>	<u>1,271,058</u>
13.1. Market value of non-banking assets acquired in satisfaction of claims		<u>15,817</u>	<u>-</u>

Non-banking assets acquired in satisfaction of claims have been revalued by independent professional valuator as at 31 December 2020. The revaluation was carried out by M/s Harvester Services on the basis of an assessment of present market values.

13.1.1 Non-banking assets acquired in satisfaction of claims

2020
(Rupees in '000)

	2020 (Rupees in '000)	2019
Opening balance	-	-
Acquired during the year	15,853	-
Depreciation	(1)	-
Impairment on non-banking assets	(35)	-
	<u>15,817</u>	<u>-</u>

13.2. Includes markup receivable of Rs. 23.459 million (2018: Rs. 14.356 million) due from the State Bank of Pakistan on subsidized loans.

13.3 This includes Rs. 123.7 million bid amount deposited by the Bank with the Banking court for the purchase of a mortgaged property located in Karachi in an auction proceeding. The Bank proceeded to purchase the property during an auction conducted by the Banking Court as part of the recovery suit against the property's owner (judgment debtor) who had defaulted on a loan from the Bank amounting to Rs. 43.205 million. Consequent to the deposit of the bid money by the Bank which was based on a valuation carried out by an external valuer, the judgment debtor filed objection against the confirmation of the sale in favor of the Bank on the ground that the property is valued at Rs. 216.92 million whereas it is being sold at previous valuation which is lower. Accordingly, Banking Court through the order dated 24 December 2018, declined to confirm the sale in favor of Bank and directed to return the bid amount Rs. 123.7 million to the Bank and further directed for fresh valuation of the mortgaged property at the cost of judgment debtor. The Bank has filed an appeal in the Sindh High Court against the order of the Banking Court and contends that the mortgaged property be handed over to the Bank. The management in consultation with the Bank's lawyer is hopeful of a positive outcome. On the final judgment of the Sindh High Court, the Bank's loan amount and the cost of funds is expected to be paid to the Bank.

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13.4	Provision held against other assets	Note	2020 (Rupees in '000)	2019
	ATM Settlement Account		41,836	7,150
	Fraud and forgery (including suspense account)		5,085	5,065
	Other		1,449	1,449
		13.5	<u>48,370</u>	<u>13,664</u>

13.5 Movement in provision held against other assets

Opening balance	13,664	13,600
Charge for the year	34,706	64
Amount Written off	-	-
	34,706	64
Closing balance	<u>48,370</u>	<u>13,664</u>

14. CONTINGENT ASSETS

There were no contingent assets of the Bank as at 31 December 2020 and 31 December 2019. However several recovery suits have been filed by the bank.

15.	BILLS PAYABLE	Note	2020 (Rupees in '000)	2019
	In Pakistan		513,606	376,744
	Outside Pakistan		3,652	2,880
			<u>517,258</u>	<u>379,624</u>

16. BORROWINGS

Secured

Borrowings from State Bank of Pakistan				
	Under Refinance Wages and Salaries Scheme	16.2	647,056	-
	Under Export Refinance Scheme	16.3	500,700	23,700
	Under revised SBP Financing Scheme for Renewable Energy	16.4	49,548	59,161
	Under Refinance & Credit Guarantee Scheme for Women Entrepreneurs in underserved areas	16.5	82,380	29,802
			<u>1,279,684</u>	<u>112,663</u>
	Repurchase agreement borrowing	16.6	5,400,000	-
	Pakistan Mortgage Refinance Company	16.7	300,000	300,000
			<u>6,979,684</u>	<u>412,663</u>

16.1 Particulars of borrowings in respect of currencies

In local currency	6,979,684	412,663
In foreign currencies	-	-
	<u>6,979,684</u>	<u>412,663</u>

16.2 The Bank has entered into arrangement for financing with the State Bank of Pakistan (SBP) for extending Refinance Wages and Salaries Scheme to customers. As per the arrangement, the Bank has granted SBP the right to recover the outstanding amount from the Bank on the date of the maturity of the finance by directly debiting the current account maintained by the Bank with SBP. This carries mark-up rate of 1% per annum (2019: Nil).

16.3 The Bank has entered into arrangement for financing with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the arrangement, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP. This carries mark-up rate of 1% per annum (2019: 1% per annum). These borrowings are repayable up to June 2021.

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- 16.4 The Bank has entered into arrangement for financing with the State Bank of Pakistan (SBP) under Revised SBP Financing Scheme for Renewable Energy. As per the arrangement, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP. This carries mark-up rate of 2% to 3% per annum (2019: 2% per annum). These borrowings are repayable up to November 2025.
- 16.5 These borrowings have been obtained from SBP under the refinance and credit guarantee scheme for women entrepreneurs in underserved areas for setting up of new units and meet credit needs of business. The borrowings are repayable in equal quarterly installments after grace period if any and does not carry any interest. The rate of markup for end users under the facility is up to 5% per annum. The loss, if any, includes risk coverage of 60% of the outstanding principal by the State Bank of Pakistan.
- 16.6 This carries mark-up rate of 7.05% per annum (2019: Nil). The borrowing is repayable up to 4 Jan 2021 (2019: Nil). This borrowing is secured against government securities of carrying value Rs.5,404 million (2019: Nil).
- 16.7 This represents borrowing from Pakistan Mortgage Refinance Company Limited (PMRC) to extend housing finance facilities to the Bank's customers on the agreed term and conditions. This borrowing carries a mark-up rate range between 8.98% to 9.98% (2019: 8.98% to 9.98%) and repayable on November 2021. This borrowing is secured against government securities of carrying a value Rs. 315.768 million (2019: 292.604 million).

17. DEPOSITS AND OTHER ACCOUNTS

	2020			2019		
	In local currency	In foreign currency	Total	In local currency	In foreign currency	Total
	(Rupees in '000)					
Customers						
Current accounts - non-remunerative	4,055,536	47,212	4,102,748	4,235,186	41,667	4,276,853
Savings deposits	13,476,505	425,376	13,901,881	8,890,303	527,449	9,517,752
Term deposits	6,600,843	14,545	6,615,388	3,484,684	14,091	3,498,775
Others	538,295	-	538,295	387,860	-	387,860
	24,671,179	487,133	25,158,312	17,098,033	583,207	17,681,240
Financial institutions						
Current accounts - non-remunerative	8,951	-	8,951	8,277	-	8,277
Savings deposits	10,734	-	10,734	11,097	-	11,097
Term deposits	11,000	-	11,000	11,000	-	11,000
Others	67	-	67	-	-	-
	30,752	-	30,752	30,374	-	30,374
	24,701,931	487,133	25,189,064	17,128,407	583,207	17,711,614

17.1 Composition of deposits

	2020	2019
	(Rupees in '000)	
- Individuals	10,116,719	9,434,195
- Government (Federal and Provincial)	8,802,161	4,549,353
- Public Sector Entities	2,986,867	1,797,258
- Non-Banking Financial Institutions	30,752	30,374
- Private Sector	3,252,565	1,900,434
	25,189,064	17,711,614

- 17.2 This includes eligible deposits of Rs. 10,869,871 million (2019: Rs. 10,445,201 million) which are covered under deposit protection mechanism as required by the Deposit Protection Corporation circular no 4 of 2018. Protection Corporation circular no 4 of 2018.

18. OTHER LIABILITIES

	Note	2020	2019
		(Rupees in '000)	
Mark-up/ return/ interest payable in local currency		669,223	490,863
Mark-up/ return/ interest payable in foreign currency		96	234
Unearned commission and income		7,313	19,428
Accrued expenses	18.1	61,344	48,442
Payable against purchase of fixed assets		7,603	2,728
Acceptances		7,516	795,867
Mark to market loss on forward foreign exchange contracts		-	78,892
Payable under a defined benefit scheme	36	7,140	7,140
Payable to staff retirement defined benefit plans	35	58,681	43,680
Provision for employees' compensated absences	37	60,797	67,640
Taxation Payment less provision		91,375	15,784
Provident fund payable to the members	18.2	5,742	9,675
Staff Welfare Fund		782	782
Benevolent fund balance (being refunded to the employees)		2,048	2,048
Clearing proceeds awaiting clearance		126	3,870
Lease liability against right-of-use assets	18.4	361,216	396,077
Payable against collection and withholding tax		41,279	11,576
Others	18.3	26,444	12,616
		1,410,724	2,007,338

- 18.1 This includes accrual of remuneration of Rs. 20,663 million (2019: 10.8 million) relating to the former acting Presidents of the Bank.
- 18.2 This represents the provident fund balance payable to the members of the Provident Fund. The Fund was discontinued in a previous year and the balance in its records were transferred to the Bank for onwards settlement to the members. As of the current date, the balance has reduced to Rs. 4.9 million.
- 18.3 This includes security deposits collected by the Bank amounting to Rs. 3.8 million and Zakat withheld amounting to 2.7 million. This also includes cash of Rs. 11.98 million received from the State Bank of Pakistan on a replacement for cash held by the Bank for disinfection. Subsequent to the year end the cash so held for disinfection was returned to the State Bank of Pakistan.

18.4 This represents the liability recognised against right of use assets. The liability balance has been discounted at weighted average rate of 13.23% per annum. Other relevant details are as follows:

Particulars	31 December 2020		
	Minimum lease payments	Financial charges for future periods (Rupees in '000)	Principal outstanding
Not later than one year	139,111	39,120	99,746
Later than one year and upto five years	283,188	60,968	222,220
Over five years	44,815	5,565	39,250
	<u>467,114</u>	<u>105,653</u>	<u>361,216</u>

Particulars	31 December 2019		
	Minimum lease payments	Financial charges for future periods (Rupees in '000)	Principal outstanding
Not later than one year	120,145	44,911	75,234
Later than one year and upto five years	348,401	85,613	262,788
Over five years	69,724	11,669	58,055
	<u>538,270</u>	<u>142,193</u>	<u>396,077</u>

19. SHARE CAPITAL

19.1 Authorised capital

2020 (Number of shares)	2019 (Number of shares)		2020 (Rupees in '000)	2019 (Rupees in '000)
<u>600,000,000</u>	<u>600,000,000</u>	Ordinary shares of Rs. 10/- each	<u>6,000,000</u>	<u>6,000,000</u>

19.2 Issued, subscribed and paid-up-capital

2020 (Number of shares)	2019 (Number of shares)	Ordinary shares of Rs 10/- each	2020 (Rupees in '000)	2019 (Rupees in '000)
<u>334,365,000</u>	<u>334,365,000</u>	- Fully paid in cash	<u>3,343,650</u>	<u>3,343,650</u>
<u>65,046,250</u>	<u>65,046,250</u>	- Issued as bonus shares	<u>650,463</u>	<u>650,463</u>
<u>399,411,250</u>	<u>399,411,250</u>		<u>3,994,113</u>	<u>3,994,113</u>

19.3 Shareholders (associated undertakings)

	2020		2019	
	Number of shares held	Percentage of shareholding %	Number of shares held	Percentage of shareholding %
Federal Government of Pakistan through Ministry of Finance	330,088,793	82.64	330,088,793	82.64
MCB Bank Limited	23,095,324	5.78	23,095,324	5.78
Habib Bank Limited	23,095,324	5.78	23,095,324	5.78
Allied Bank Limited	7,734,927	1.94	7,734,927	1.94
National Bank of Pakistan	7,698,441	1.93	7,698,441	1.93
United Bank Limited	7,698,441	1.93	7,698,441	1.93
	<u>399,411,250</u>	<u>100</u>	<u>399,411,250</u>	<u>100</u>

20. SURPLUS ON REVALUATION OF ASSETS - NET

	Note	2020 (Rupees in '000)	2019 (Rupees in '000)
Surplus on revaluation of			
- Available for sale securities	8.2	8,808	28,692
- Property and Equipment	20.1	214,332	222,108
		<u>223,140</u>	<u>250,800</u>
Less: Deferred tax on surplus on revaluation of			
- Available for sale securities	8.2	3,435	11,190
- Remeasurement loss on defined benefit obligations		-	-
- Property and Equipment		54,245	57,278
		<u>57,680</u>	<u>68,468</u>
Surplus arising on revaluation (net of tax)		<u>165,460</u>	<u>182,332</u>

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20.1 Surplus on revaluation of property and equipments	Note	2020 (Rupees in '000)	2019
Surplus on revaluation of property and equipments as at January 1		222,108	229,833
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax		(4,743)	(4,712)
Related deferred tax liability on incremental depreciation charged during the year		(3,033)	(3,013)
Surplus on revaluation of property and equipments as at 31 December		<u>214,332</u>	<u>222,108</u>
Less: related deferred tax liability on:			
- revaluation as at January 1		57,273	52,636
- effect of change in tax rate		-	7,655
- incremental depreciation charged during the year		(3,033)	(3,013)
		<u>54,245</u>	<u>57,278</u>
		<u>160,087</u>	<u>164,830</u>
21. CONTINGENCIES AND COMMITMENTS			
Guarantees	21.1	2,552,264	1,267,216
Commitments	21.2	715,394	2,775,362
Other Contigent Liabilities	21.3	2,284,473	2,284,473
		<u>5,552,131</u>	<u>6,327,051</u>
21.1 Guarantees			
Performance Guarantee		2,552,264	1,267,216
Other guarantees		-	-
		<u>2,552,264</u>	<u>1,267,216</u>
21.2 Commitments			
Documentary credits and short-term trade-related transactions:			
Letters of credit		710,782	502,906
Commitments in respect of:			
Forward exchange contracts	21.2.1	-	1,487,170
Forward government securities transactions	21.2.2	-	-
Acquisition of Intangibles		4,612	766
Forward Swaps	21.2.2	-	784,520
		<u>715,394</u>	<u>2,775,362</u>
21.2.1 Commitments in respect of forward exchange contracts			
Sale - Banks		-	156,190
Purchase - Banks		-	1,330,980
21.2.2 Commitments in respect of forward Swaps			
Sale - Banks		-	784,520
21.3 Other Contigent Liabilities			

These mainly represent counter claims by borrowers for damages and other claims against the Bank. Management is confident that the matters will be decided in the Bank 's favour. Accordingly, no provision has been made in these unconsolidated financial statements.

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21.4 Commitments to extend lendings

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 or expense if the facility is unilaterally withdrawn.

21.5 Tax

Refer notes 31.2 to 31.6 for tax related contingencies.

22. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank, as a policy does not enter into derivatives except for forward foreign exchange contracts and foreign exchange currency swaps, with Banks to manage its net open position, and liquidity.

23. MARK-UP / RETURN / INTEREST EARNED

Note

2020

2019

(Rupees in '000)

Loans and advances	23.1	1,287,790	1,216,405
Investments		1,657,389	929,511
Lending to financial institutions		73,105	149,885
Balance with treasury Bank		216	1,263
		<u>3,018,500</u>	<u>2,297,064</u>

23.1 Includes Rs. 18.292 million (2019: Rs. 17.859 million) from the State Bank of Pakistan on subsidized loans given by the Bank to the borrowers.

24. MARK-UP / RETURN / INTEREST EXPENSED

2020

2019

(Rupees in '000)

Deposits		1,594,019	1,038,479
Borrowings		183,161	167,208
Foreign currency swaps		15,808	35,309
Lease liability against right-of-use assets		46,586	51,914
		<u>1,839,574</u>	<u>1,292,910</u>

25. FEE & COMMISSION INCOME

Note

2020

2019

(Rupees in '000)

Branch banking customer fees		27,547	29,941
Credit related fees		2,731	793
Consumer Finance and credit related fees		8,237	12,004
Card related fees		10,268	10,594
Commission on trade		18,058	17,101
Commission on guarantees		28,931	11,574
Commission on bancassurance		957	2,134
Others	25.1	3,253	5,340
		<u>99,982</u>	<u>89,481</u>

25.1 This includes commission on sales of government securities (National Saving Certificates, Defense Saving Certificates etc.) amounting to Rs. 0.71 million (2019: Rs. 1.6 million), commission on sales of Foreign Demand Drafts, Foreign Telegraphic transfers and Call Deposit receipts amounting to Rs. 0.77 million (2019: Rs. 1.6 million) and commission on university forms Rs. 0.535 million (2019: Rs. 0.023 million).

26. GAIN ON SECURITIES

2020

2019

(Rupees in '000)

Realised

Federal government securities

160,303

58,928

160,303

58,928

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27. OTHER INCOME	Note	2020	2019
(Rupees in '000)			
Gain on sale of fixed assets-net		131	118
Grant income amortised		-	4,904
Tender fee received		82	385
Recovered from employees against unserved notice period		19	182
Others		804	4,217
		<u>1,036</u>	<u>9,806</u>
28. OPERATING EXPENSES			
Total compensation expense	28.1	471,218	430,059
Property expense			
Rent & taxes		2,395	5,106
Insurance (including deposit protection)		28,458	29,807
Utilities cost		38,430	39,977
Security (including guards)		38,693	37,935
Repair & maintenance		29,365	28,038
Depreciation on right-of-use assets	10.2.10	103,546	98,566
Depreciation on owned fixed assets	10.2.10	12,692	13,356
Impairment on Non-banking assets		35	-
Depreciation on Non-banking assets		1	-
		<u>253,615</u>	<u>252,785</u>
Information technology expenses			
Software maintenance		18,788	15,169
Hardware maintenance		20,660	17,095
Depreciation (IT related)	10.2.10	22,292	21,799
Amortisation	11.2	26,176	16,181
		<u>87,916</u>	<u>70,244</u>
Other operating expenses			
Directors' fees and allowances	38.1	-	-
Legal & professional charges	28.3	12,482	12,891
Outsourced services costs	34.1	22,669	22,872
Travelling & conveyance		8,022	9,100
NIFT clearing charges		15,799	14,153
Depreciation	10.2.10	3,776	5,132
Training & development		207	966
Postage & courier charges		8,941	9,587
Communication		36,549	36,135
Stationery & printing		13,762	18,490
Marketing, advertisement & publicity		230	4,233
Entertainment		6,815	6,744
Membership and subscriptions		2,188	1,308
Auditors Remuneration	28.2	9,950	9,104
Others		5,034	4,820
		<u>146,424</u>	<u>153,534</u>
		<u>959,173</u>	<u>908,622</u>
28.1 Total compensation expense			
Managerial remuneration - Fixed		431,722	418,264
Charge / (reversal) for defined benefit plan	28.11	20,647	(1,789)
Conveyance		9,953	9,291
Others		8,896	4,293
		<u>471,218</u>	<u>430,059</u>

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28.1.1 Charge for defined benefit plan - net

This represents charge of provision for pension amounting to Rs 7.646 million, charges for gratuity amounting to Rs 13.674 million and reversal for compensated absences amounting to Rs 0.671 million.

28.2 Auditors' remuneration

	2020	2019
	(Rupees in '000)	
Audit fee	9,000	8,000
Fee for other statutory certifications	250	300
Out-of-pocket expenses	700	804
	<u>9,950</u>	<u>9,104</u>

28.3 Legal Expenses

This includes Rs. 1.138 million legal cost relating to non banking asset acquired by the Bank.

29. OTHER CHARGES

	Note	2020	2019
		(Rupees in '000)	
Penalties imposed by the SBP		<u>623</u>	<u>475</u>

30. PROVISIONS & WRITE OFFS - NET

	Note	2020	2019
Provision against loan & advances - net	9.3	75,500	44,939
Provision against other assets		<u>34,706</u>	<u>64</u>
		<u>110,206</u>	<u>45,003</u>

31. TAXATION

	Note	2020	2019
Current tax	31.2	76,339	45,755
Prior year tax		-	(29,926)
Deferred tax	12	<u>82,684</u>	<u>(81,075)</u>
		<u>159,023</u>	<u>(65,246)</u>

31.1 Reconciliation of tax charge to the accounting income is as follows:

	Note	2020	2019
		(Rupees in '000)	
Accounting Profit / (loss) before tax for the year		<u>391,856</u>	<u>259,079</u>
Taxable liability / (asset) at 35% (2019: 35%)		137,150	90,678
Brought forward tax losses		-	(90,844)
Minimum tax charge for the year		-	37,094
Prior year tax		-	(29,926)
Super tax		16,658	8,661
Deferred tax asset recognized on unabsorbed carried forward tax losses		-	(85,717)
Permanent difference		<u>5,215</u>	<u>4,808</u>
		<u>159,023</u>	<u>(65,246)</u>

31.2 Income tax return for the tax year 2021 (financial year ended 31 December 2020) have been filed which is deemed to have been assessed under Section 120 of the Income Tax Ordinance, 2001 (unless selected for audit). Income tax return for the subsequent tax years 2021 and 2022 have also been filed which are deemed to be assessed unless selected for audit.

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31.3 While finalizing the assessments for tax years from 1997 to 2000 and from 2004 to 2008 (financial years ended from 31 December 1996 to 31 December 1999 and from 31 December 2003 to 31 December 2007 respectively), the tax authorities, from time to time, made certain disallowances of nostro account balances written off, apportionment of expenses, interest suspended etc., against which appeals were filed by the Bank at the Appellate Tribunal Inland Revenue (ATIR). The ATIR vide its order dated 31 May 2012 decided all the matters (except disallowance of written off of nostro balances, interest suspended and apportionment of expenses) for tax years from 2004 to 2008 in favor of the Bank against which CIR had filed an appeal in the Sindh High Court (SHC) which is pending for hearing. Further, the matter of nostro balances written off was remanded back by 'ATIR to the CIR whereas the matter of apportionment of expenses and interest suspension have been disallowed against which the Bank has filed an appeal in SHC, which is pending adjudication. Tax amount involved is Rs. 10.75 million. The management is confident that the decision in appeals (including those filed by CIR as explained above) would be in its favour. However, for abundant caution, provision of aforesaid amount is being maintained by the Bank.

31.4 The Income Tax department have issued orders under sections 161 and 205 of the Income Tax Ordinance, 2001(the Ordinance) raising the total demands of Rs. 7.071 million, Rs 85.094, Rs 32.776 million and Rs. 33.37 (cumulative Rs. 158.311 million) on account of the non-deduction of tax on profit payments on certain deposits for the tax years 2014, 2015, 2016 and 2017 respectively.

- For the tax year 2014, the Bank has filed an appeal before the Commissioner Inland Revenue (Appeals) [CIRA], which is pending for adjudication.
- For the tax year 2015, the Bank has filed an appeal before CIRA against the aforesaid order. CIRA has passed an order wherein partial relief was provided to the Bank. Against the order of CIRA, the Bank has filed an appeal before the Appellate Tribunal Inland Revenue (ATIR). The ATIR has decided the issues in favour of Bank and reduced the tax liability to 0.5 million. The tax department has filed an appeal before Sindh High Court against the aforesaid order of ATIR (amount involved is Rs. 84.5 million), which is pending for adjudication.
- For the tax year 2016, the Bank has filed an appeal before CIRA against the aforesaid order. CIRA has passed an order wherein partial relief was provided to the Bank. Against the order of CIRA, the Bank has filed the appeals before the Appellate Tribunal Inland Revenue (ATIR). The appeal for the tax year 2016 is still pending before ATIR for adjudication (amount involved is Rs. 0.98 million).
- For the tax year 2017 the Bank has filed an appeal against the aforesaid order before CIRA. CIRA has remanded back the proceedings involving matters of tax demand of Rs. 10.08 million for reassessment. Remaining initial tax demand of Rs. 23.2 million has been decided in favour of the Bank

The Management based on the advice of its tax advisor is confident that these matters will ultimately be decided in favor of the Bank. Accordingly, the management consider that no provision is required to be made in this regard in these financial statements.

31.5 The Sindh Revenue Board (SRB) has issued show cause notice in respect of tax period from January 2014 to December 2014 for short payment of Sindh sales tax amounting to Rs. 1.9 million. The bank has submitted reconciliation and other information as required by SRB. However, no order has been issued by the department till date.

32. BASIC AND DILUTED EARNINGS PER SHARE

	2020	2019
	(Rupees in '000)	
Profit after taxation	<u>232,833</u>	<u>323,761</u>
	(Number in '000)	
Weighted average number of ordinary shares	<u>399,411</u>	<u>399,411</u>
	(Rupees)	
Basic and diluted earnings per share	<u>0.58</u>	<u>0.81</u>

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33. CASH AND CASH EQUIVALENTS	Note	2020 (Rupees in '000)	2019
Cash and balances with treasury banks	5	2,337,454	1,907,195
Balances with other banks	6	196,224	36,729
		<u>2,533,678</u>	<u>1,943,924</u>

33.1 Reconciliation of movement of liabilities to cash flows arising from financing activities

	2020		
	Liabilities	Equity	
	Other liabilities	Statutory Reserves	Accumulated losses
	(Rupees in '000)		
Balance as at 1 January 2020	2,007,338	372,469	(916,572)
Total changes from financing cash flows	-	-	-
Other changes:			
Liability - related			
Changes in other liabilities	(596,614)	-	-
Transfer of profit to statutory reserve	-	46,567	(46,567)
Total liability related to other changes	(596,614)	46,567	(46,567)
Total equity related other changes	-	-	241,437
Balance as at 31 December 2020	<u>1,410,724</u>	<u>419,036</u>	<u>(721,702)</u>
	2019		
	Liabilities	Equity	
	Other liabilities	Statutory Reserves	Accumulated losses
	(Rupees in '000)		
Balance as at 1 January 2019	1,098,019	307,717	(1,162,212)
Total Changes from financing cash flows			
Other changes			
Liability - related			
Changes in other liabilities	909,319	-	-
Transfer of profit to statutory reserve	-	64,752	(64,752)
Total liability related to other changes	909,319	64,752	(64,752)
Total equity related other changes	-	-	310,392
Balance as at 31 December 2019	<u>2,007,338</u>	<u>372,469</u>	<u>(916,572)</u>

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34. STAFF STRENGTH

	2020	2019
	(Number)	
Permanent	468	469
Temporary / on contractual basis	10	26
Bank's own staff strength at end of the year	478	495

34.1 In addition to above, 63 (2019: 63) employees of an outsourcing services company were assigned to the Bank as at 31 December 2020.

35. DEFINED BENEFIT PLAN

35.1 General description

The Bank operates an approved pension fund and an approved gratuity fund for its employees as explained in note 4.10 to these financial statements.

35.2 Number of employees under the scheme

	2020	2019
	(Number)	
Pension fund	46	50
Gratuity fund	432	445

35.3 Principal actuarial assumptions

The actuarial valuations were carried out as at 31st December 2020 using the following significant assumptions:

	2020	2019
Discount rate	9.75%	11.25%
Expected rate of return on plan assets	11.25%	11.25%
Expected rate of salary increase	5.00%	5.00%
Expected rate of increase in pension	1.75%	3.25%
Mortality rate	(SLIC (2001-05)-1 Light	(SLIC (2001-05)-1 Light
Rate of employee turnover		

35.4 Reconciliation of payable to defined benefit plan

Note

	2020		2019		2020	2019
	Pension fund	Gratuity fund	Pension fund	Gratuity fund	Total	
	(Rupees in '000)					
Present value of defined benefit obligations	163,689	43,837	166,988	38,590	207,526	205,578
Fair value of plan assets	(123,213)	(25,642)	(132,307)	(29,591)	(148,855)	(161,898)
Net payable	40,476	18,195	34,681	8,999	58,671	43,680

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35.5 Movement in payable to defined benefit plan

Note	2020		2019		2020	2019
	Pension fund	Gratuity fund	Pension fund	Gratuity fund		
(Rupees in '000)						
	166,988	38,590	474,682	72,989	205,578	547,671
Obligations at the beginning of the year	3,711	14,207	32,884	9,354	17,918	42,238
Current service cost	18,331	3,499	23,737	2,798	21,830	26,535
Interest cost	(24,425)	(7,119)	(32,787)	(1,857)	(31,544)	(34,644)
Benefits paid during the year by the Fund	-	-	-	(43,534)	-	(43,534)
Payment from the Gratuity Fund	-	-	(329,352)	-	-	(329,352)
Settlement payment from the fund to the members (lump sum payment)	35.8.2	(916)	(2,176)	(1,160)	(6,256)	(3,336)
Re-measurement gain	163,839	43,837	166,988	38,590	207,526	205,578
Obligations at the end of the year						

35.6 Movement in fair value of plan assets

Fair value at the beginning of the year	132,307	29,591	454,761	56,322	161,898	511,083
Interest income on plan assets	14,396	4,032	62,830	7,910	18,428	70,740
Benefits paid during the year by the Fund	(24,425)	(7,119)	(32,787)	(1,857)	(31,544)	(34,644)
Actual contribution by Employer	-	-	-	16,677	-	16,677
Payment from the Gratuity Fund	-	-	-	(43,534)	-	(43,534)
Settlement payment from the fund to the members (lump sum payment)	-	-	(329,352)	-	-	(329,352)
Re-measurements: Net return on plan assets over interest income loss	35.8.2	935	(862)	(23,145)	(5,927)	73
Fair value at the end of the year	35.9	123,213	25,642	132,307	29,591	148,855
						161,898

35.7 Movement in payable / (receivable) under defined benefit schemes

Opening balance	(10,051)	11,797	19,921	16,667	1,746	38,588
Charge for the year	35.8.1	7,646	13,674	(6,209)	4,242	21,320
Net Contribution to Fund	-	-	-	(16,677)	-	(16,677)
Re-measurement loss / (gain) recognised in OCI during the year	35.8.2	(1,851)	(4,478)	20,969	4,767	(6,329)
Closing balance		(4,256)	20,993	34,681	8,999	16,737
						43,660

35.8 Charge for defined benefit plans
35.8.1 Cost recognised in profit and loss

Service cost	3,711	14,207	32,884	9,354	17,918	42,238
Interest income on plan asset	(14,396)	(4,032)	(62,830)	(7,910)	(18,428)	(70,740)
Interest on defined benefit obligation	18,331	3,499	23,737	2,798	21,830	26,535
	3,935	(533)	(39,093)	(5,112)	3,402	(44,205)
	7,646	13,674	(6,209)	4,242	21,320	(1,967)

35.8.2 Re-measurements recognised in OCI during the year

Net gain on obligation						
Financial assumptions	(3,420)	(1,192)	(6,028)	(1,429)	(4,612)	(7,457)
Experience adjustment	2,504	(4,148)	3,852	269	(1,644)	4,121
	(916)	(5,340)	(2,176)	(1,160)	(6,256)	(3,336)
Actuarial loss on plan assets	(935)	862	23,145	5,927	(73)	29,072
Total re-measurements recognised in OCI	(1,851)	(4,478)	20,969	4,767	(6,329)	25,736

35.9 Components of plan assets

	Note	2020		2019	
		Pension fund	Gratuity fund	Pension fund	Gratuity fund
		(Rupees in '000)			
Bank balances	35.9.1	8,368	2,937	2,263	2,908
Debt Instruments (T-bills / PIBs)	35.9.2	114,845	22,705	130,044	26,683
		<u>123,213</u>	<u>25,642</u>	<u>132,307</u>	<u>29,591</u>

35.9.1 These are held with First Women Bank in profit and loss sharing account and carrying interest rate of 11.25% per annum.

35.9.2 These are invested in Treasury Bills and Pakistan Investment Bonds with face value of Rs. 25 million and Rs. 87.5 million in case of pension fund, Rs.10 million and 12.5 million in case of gratuity fund respectively. These are due to mature on 25 March 2021 and 19 June 2023 in case of pension fund and 11 March 2021 and 19 June 2023 in case of gratuity fund. These carry profit rate of 7.1% and 15.4% in case of pension fund and 7.1% and 15.4% in case of gratuity fund. These are held in the Bank's own IPS.

35.10 Sensitivity analysis

Sensitivity analysis should be disclosed by varying one assumption keeping all other assumptions constant and calculating the impact on the present value of the defined benefit obligations under the various employee benefit schemes. The increase / (decrease) in the present value of defined benefit obligations as a result of change in each assumption should be summarised as illustrated below:

	2020		2019		
	Pension fund	Gratuity fund	Pension fund	Gratuity fund	
		(Rupees in '000)		(Rupees in '000)	
1% increase in discount rate	148,656	42,091	151,550	37,161	
1% decrease in discount rate	181,436	45,758	185,224	40,174	
1% increase in expected rate of salary increase	169,294	45,706	173,222	40,137	
1% decrease in expected rate of salary increase	158,646	42,123	161,371	37,183	
1% increase in expected rate of pension increase	179,209	-	179,273	-	
1% decrease in expected rate of pension increase	152,807	-	156,309	-	
35.11 Expected charge for the next financial year	<u>7,243</u>	<u>14,528</u>	<u>7,646</u>	<u>13,674</u>	

35.12 Maturity profile

	2020		2019	
	Pension fund	Gratuity fund	Pension fund	Gratuity fund
The weighted average duration of the obligation (in years)	9.18	11.21	9.25	12.22
Distribution of timing of benefit payments (time in years)				
1	9,728	754	12,025	831
2	9,894	2,292	9,523	1,004
3	10,420	2,894	9,829	2,897
4	12,804	3,768	10,541	3,834
5	16,128	6,872	13,163	5,607
6-10	88,847	88,433	113,961	102,177
11-15	129,156	-	154,711	-

35.13 Funding Policy

The Bank has the policy to make annual contributions to the fund based on actuarial report.

35.14 Significant risk associated with the staff retirement benefit schemes include:**Asset volatility**

Almost all the Fund is in a liquid position with the Bank giving rise to significant reinvestment risk. There is no equity or corporate bond exposure. Thus, no equity or settlement risk.

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Changes in bond yields

The valuation for all retirement benefit is discounted with reference to the bond yields. So, any increase in Bond yields will lower the Liability and vice versa, but, It will also lower the Asset values if they are invested in the bonds. However, since no investment is currently in place, there is an asset liability mismatch risk.

Inflation risk

The salary inflation (especially the final salary risk) is the major risk that the retirement benefit liability carries. In a general economic sense and in a longer view, there is a case that if bond yields increase, the change in salary inflation generally offsets the gains from the decrease in discounted gratuity liability. But viewed with the fact that, asset values will also decrease; the salary inflation does, as an overall effect, increases the net liability of the Bank.

Further, there is also a risk of pension increases on pension liability, however, this is a controlled risk as annual pension increases are allotted by the Bank and the Trustees.

Mortality rate

The risk that the actual mortality experience is different than the assumed mortality. This effect depends on the beneficiaries' service / age distribution and the benefits.

Withdrawal rate

The risk of higher or lower withdrawal experience than assumed. The final effect could go either way depending on the beneficiaries' service / age distribution and the benefit.

36. UNFUNDED GRATUITY

The bank used to operate an unfunded gratuity arrangement for one of its ex-President. The liability determined in accordance with the terms of the arrangement as at 31 December 2020 was Rs. 7,140 million (2019: Rs 7,140 million).

37. EMPLOYEES COMPENSATED ABSENCES

The liability of the Bank in respect of employees compensated absences is determined based on actuarial valuation carried out using Projected Unit Credit Method. The liability of the Bank as per the latest actuarial valuation carried out as at 31 December 2020 amounted to Rs. 60,797 million (2019: Rs. 67,640 million) which has been fully provided by the Bank. Reversal for the year in respect of these absences is Rs. 0,671 million (2019: Rs. 0,177 million) which is included in note 28 to these financial statements. Discount rate of 9.75% (2019: 11.25%) and salary increase of 5% (2019: 5%) per annum have been used for the above valuation.

37.1. The actuarial valuation was carried out as at 31 December 2020 using the following significant assumptions:

	2020	2019
Discount rate	9.75%	11.25%
Expected Long Term return	Not Applicable	Not Applicable
Salary increase		
First year	5.00%	5.00%
Second year and onwards	7.75%	9.25%
Withdrawal before Normal Retirement Age	Light	Light
Death in services	SLIC (2001-05)-01	SLIC (2001-05)-01

38. COMPENSATION OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

38.1 Total Compensation Expense (of key management personnel)

	2020			Key Management Personnel
	Acting President & CEO / Chairperson	Executive Directors	Non- Executive Directors	
	(Rupees in '000)			
Fees	-	-	-	-
Managerial remuneration - Fixed	5,878	-	-	58,689
Charge for defined benefit plans	259	-	-	1,833
	<u>6,137</u>	<u>-</u>	<u>-</u>	<u>60,522</u>
Number of persons	1	-	-	17
	2019			
	President & CEO / Chairperson	Executive Directors	Non- Executive Directors	Key Management Personnel
	(Rupees in '000)			
Fees	-	-	-	-
Managerial remuneration - Fixed	6,828	-	-	58,135
Charge for defined benefit plans	1,062	-	-	3,222
	<u>7,890</u>	<u>-</u>	<u>-</u>	<u>61,357</u>
Number of persons	1	-	-	19

38.2 The acting Chief Executive was also provided with free use of the Bank's maintained car and household equipments in accordance with the terms of employment.

38.3 Due to the non existence of the Board of Directors since January 2019, no meeting was held during the period. Therefore no remuneration has been paid to the Directors.

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39. FAIR VALUE MEASUREMENTS

39.1 Fair value of financial assets

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using input for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

39.2 The table below analyses financial instruments measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

On balance sheet financial instruments

	Carrying / notional value	2020			Total
		Level 1	Level 2	Level 3	
(Rupees in '000)					
Financial assets measured at fair value					
Investments					
- Federal Government Securities (Tbills + PIBs)	21,093,461	-	21,093,461	-	21,093,461
Financial assets not measured at fair value					
Investments					
- Shares of an unlisted company	954	-	-	-	-
	<u>21,094,415</u>	<u>-</u>	<u>21,093,461</u>	<u>-</u>	<u>21,093,461</u>
Off-balance sheet financial instruments					
Forward sale of foreign exchange contracts					
	-	-	-	-	-
Forward purchase of foreign exchange contracts					
	-	-	-	-	-

On balance sheet financial instruments

	Carrying / notional value	2019			Total
		Level 1	Level 2	Level 3	
(Rupees in '000)					
Financial assets measured at fair value					
Investments					
- Federal Government Securities (Tbills + PIBs)	6,706,394	-	6,706,394	-	6,706,394
Financial assets not measured at fair value					
Investments					
- Term Finance Certificates	354	-	-	-	-
- Shares of an unlisted company	954	-	-	-	-
	<u>6,707,702</u>	<u>-</u>	<u>6,706,394</u>	<u>-</u>	<u>6,706,394</u>
Off-balance sheet financial instruments					
Forward purchase of forward foreign exchange					
	156,190	-	155,898	-	155,898
Forward sale of forward foreign Swaps					
	<u>2,115,500</u>	<u>-</u>	<u>2,028,436</u>	<u>-</u>	<u>2,028,436</u>

39.2.1 Valuation techniques

- Valuation techniques used in determination of fair valuation of financial instruments within Level 2 for Government securities are given in note 4.2.3.
- The Fair value of forward contracts are derived using forward exchange rates applicable to their respective remaining maturities.
- The Fair Value of shares of an unlisted company (NIFT) have not been disclosed as the details thereof are not available.

39.2.2 Land, Buildings and non-banking assets are also carried at Fair Values, details of which are given in note 10.1.1 and belong to Level 3 hierarchy.

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40. SEGMENT INFORMATION

40.1 Segment details with respect to business activities

	For the year ended 31 December 2020				Total
	Corporate Finance	Treasury	Retail and Consumer banking	Commercial Banking	
(Rupees in '000)					
Profit & Loss					
Net mark-up/return/profit	(722,331)	1,537,837	166,945	196,475	1,176,926
Inter segment (expense) / revenue - net	1,548,032	(1,358,785)	(34,064)	(155,183)	-
Non mark-up / return / interest income	104,299	170,150	6,493	-	282,932
Total Income	930,000	349,201	141,364	41,292	1,461,858
Segment direct expenses	641,840	(1,369)	247,137	72,188	959,796
Inter segment expense allocation	212,740	(139,879)	(56,545)	(16,517)	-
Total expenses	854,580	(141,048)	190,592	55,671	959,796
(Provisions) / reversals	(110,206)	-	-	-	(110,206)
Profit / (loss) before tax	(34,786)	490,249	(49,228)	(14,379)	391,856
Balance Sheet					
Cash & Bank balances	1,413,343	1,120,335	-	-	2,533,678
Investments	-	21,094,417	-	-	21,094,417
Net inter segment lending	16,439,953	(18,194,305)	(44,216)	(201,432)	-
Lendings to financial institutions	-	1,960,972	-	-	1,960,972
Advances - performing	8,152,263	-	482,028	1,953,247	10,587,537
- non-performing net of provision	175,091	-	46	325,300	500,437
Others	1,105,324	91,188	82,555	57,678	1,336,745
Total Assets	29,285,974	6,072,608	520,412	2,134,793	38,013,787
Borrowings	1,197,304	5,700,000	-	82,380	6,979,684
Deposits & other accounts	25,189,064	-	-	-	25,189,064
Others	5,448,614	15,725	(2,690,361)	(785,847)	1,988,130
Total Liabilities	31,834,982	5,715,725	(2,690,361)	(703,467)	34,156,878
Equity	(2,549,008)	356,883	3,210,773	2,838,260	3,856,909
Total Equity & liabilities	29,285,974	6,072,608	520,412	2,134,793	38,013,787
Contingencies and Commitments	5,552,131	-	-	-	5,552,131

	For the year ended 31 December 2019				Total
	Corporate Finance	Treasury	Retail and Consumer banking	Commercial Banking	
(Rupees in '000)					
Profit & Loss					
Net mark-up/return/profit	(500,462)	916,126	190,151	398,339	1,004,154
Inter segment (expense) / revenue - net	1,115,725	(884,726)	(29,375)	(201,624)	-
Non mark-up / return / interest income	90,491	103,391	12,579	-	206,461
Total Income	705,754	134,791	173,355	196,715	1,210,615
Segment direct expenses	225,285	(1,849)	320,253	363,408	907,097
Inter segment expense allocation	38,585	(10,302)	(13,249)	(15,034)	-
Total expenses	263,870	(12,150)	307,004	348,374	907,097
Reversals / (Provisions)	(45,003)	-	-	-	(45,003)
Profit / (loss) before tax	396,881	146,942	(133,649)	(151,659)	258,515
Balance Sheet					
Cash & Bank balances	859,811	1,084,113	-	-	1,943,924
Investments	-	6,707,703	-	-	6,707,703
Net inter segment lending	11,388,662	(10,572,679)	(105,036)	(720,947)	-
Lendings to financial institutions	-	3,179,803	-	-	3,179,803
Advances - performing	6,877,598	-	395,473	2,392,218	9,665,289
- non-performing net of provision	249,118	-	-	352,026	601,144
Others	1,285,383	48,250	341,893	370,212	2,045,718
Total Assets	20,670,551	447,191	632,330	2,393,509	24,143,581
Borrowings	82,861	300,000	-	29,802	412,663
Deposits & other accounts	17,711,814	-	-	-	17,711,614
Others	5,835,298	4,688	(1,617,529)	(1,835,495)	2,386,962
Total Liabilities	23,629,773	304,688	(1,617,529)	(1,805,693)	20,511,239
Equity	(2,959,223)	142,503	2,249,859	4,199,202	3,632,342
Total Equity & liabilities	20,670,551	447,191	632,330	2,393,509	24,143,581
Contingencies and Commitments	4,055,361	2,271,690	-	-	6,327,051

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41. TRUST ACTIVITIES

The Bank is not engaged in any significant trust activities. However, the Bank is holding investments of other entities in its IPS account maintained with the State Bank of Pakistan.

Category	As of 31 December 2020 Securities Held (Face Value)				As of 31 December 2019 Securities Held (Face Value)			
	No. of IPS Accounts	Market Treasury Bills	Pakistan Investment Bonds	Total	No. of IPS Accounts	Market Treasury Bills	Pakistan Investment Bonds	Total
	----- (Rupees in '000) -----				----- (Rupees in '000) -----			
Government Entity	3	35,000	110,000	145,000	3	158,100	10,000	168,100

42. RELATED PARTY TRANSACTIONS

The Bank has related party relationships with employee benefits, directors and key management personnel and companies with common directors.

Transactions with key management personnel are as per the terms of their employment. Contributions to and accruals in respect of staff retirement benefit plans are in accordance with the actuarial valuations. Remuneration of the key management personnel are disclosed in notes 38 to these financial statements. Other transactions are at agreed rates. Details of transactions and balances with related parties, except as disclosed elsewhere in the financial statements, are as follows:

Details of balances and transactions with related parties during the year, other than those which have been disclosed elsewhere in these financial statements are as follows:

A - BALANCES	Note	2020				2019			
		Director (Acting President)	Other Key management personnel	Other related parties	Total	Director (President)	Other Key management personnel	Other related parties	Total
----- (Rupees in '000) -----									
Lendings to financial institutions									
Opening balance		-	-	-	-	-	-	1,448,785	1,448,785
Additions during the year		-	-	-	-	-	-	-	-
Repaid during the year		-	-	-	-	-	-	(1,448,785)	(1,448,785)
Closing balance		-	-	-	-	-	-	-	-
Un-listed shares	8.10	-	-	954	954	-	-	954	954
Advances									
Opening balance		3,688	10,751	-	14,439	4,416	21,899	-	26,315
Addition during the year		-	12,919	-	12,919	-	5,643	-	5,643
Repaid during the year		(1,373)	(5,262)	-	(6,635)	(729)	(8,278)	-	(9,007)
Transfer in / (out)		(1,580)	6,533	-	4,953	-	(8,512)	-	(8,512)
Closing balance		735	24,941	-	25,676	3,687	10,762	-	14,439

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	2020				2019			
	Director (Acting President)	Other Key management personnel	Other related parties	Total	Director (President)	Other Key management personnel	Other related parties	Total
----- (Rupees in '000) -----								
Other Assets								
Interest / mark-up accrued	-	172	-	172	27	32	-	58
	-	172	-	172	27	32	-	58
Deposits and other accounts								
Opening balance	1,753	6,049	3,061	10,863	568	15,894	774,897	791,359
Received during the year	40,150	58,420	476,952	575,522	42,522	162,230	1,516,241	1,720,993
Withdrawn during the year	(42,139)	(57,884)	(470,954)	(570,977)	(41,337)	(161,752)	(2,288,077)	(2,491,166)
Transfer in / (out) - net	401	6,402	-	6,803	-	(10,323)	-	(10,323)
Closing balance	165	12,987	9,059	22,211	1,753	6,049	3,061	10,863
Other Liabilities								
Interest / mark-up payable	13	201	136	350	103	60	185	348
Payable to staff retirement fund	-	-	58,682	58,682	-	-	43,680	43,680
Retirement benefit payable	7,395	3,773	-	11,168	7,419	282	-	7,701

B - TRANSACTIONS	2019				2018			
	Director (Acting President)	Other Key management personnel	Other related parties	Total	Director (President)	Other Key management personnel	Other related parties	Total
----- (Rupees in '000) -----								
Income								
Mark-up / return / interest earned	116	871	-	987	142	820	-	962
Dividend income	-	-	4,959	4,959	-	-	8,502	8,502
Expense								
Mark-up / return / interest paid	68	603	975	1,646	246	321	14,200	14,767
Operating expenses - Charges paid to National Institutional Facilitation Technologies (Private) Limit	-	-	4,687	4,687	-	-	4,504	4,504
Remuneration	5,878	58,689	-	64,567	6,928	58,135	-	65,062

The term 'related party' have the same meaning as specified under IAS 24 - Related party disclosures.

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43. CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

Note 2020 2019

(Rupees in '000)

Minimum Capital Requirement (MCR):

Paid-up capital (net of losses)

43.2 3,829,211 3,632,242

Capital Adequacy Ratio (CAR):

Eligible Common Equity Tier 1 (CET 1) Capital

3,643,522 3,385,164

Eligible Additional Tier 1 (ADT 1) Capital

- -

Total Eligible Tier 1 Capital

3,643,522 3,385,164

Eligible Tier 2 Capital

185,689 209,763

Total Eligible Capital (Tier 1 + Tier 2)

3,829,211 3,594,927

Risk Weighted Assets (RWAs):

Credit Risk

6,783,659 7,189,920

Market Risk

1,719,860 1,201,007

Operational Risk

2,073,931 1,780,163

Total

10,577,450 10,171,090

Common Equity Tier 1 capital adequacy ratio

34.45% 33.28%

Tier 1 capital adequacy ratio

34.45% 33.28%

Total capital adequacy ratio

36.20% 36.34%

Minimum capital requirements prescribed by SBP

Common Equity Tier 1 Capital Adequacy ratio

6.00% 6.00%

Tier 1 Capital Adequacy Ratio

7.50% 7.50%

Total Capital Adequacy Ratio

18.00% 18.00%

2020 2019

(Rupees in '000)

Leverage Ratio (LR):

Eligible Tier-1 Capital

3,643,522 3,385,164

Total Exposures

41,230,307 25,888,819

Leverage Ratio

8.84% 13.08%

Liquidity Coverage Ratio (LCR):

Total High Quality Liquid Assets

19,359,060 12,113,589

Total Net Cash Outflow

8,755,741 7,161,545

Liquidity Coverage Ratio

236% 183%

Net Stable Funding Ratio (NSFR):

Total Available Stable Funding

35,756,666 22,643,901

Total Required Stable Funding

15,632,203 8,936,226

Net Stable Funding Ratio

229% 253%

43.1 Banks uses simple, maturity method and basic indicator approach for credit risk, market risk and operational risk exposures respectively in the capital adequacy calculation.

43.2 Being a public sector Bank, and in terms of the State Bank of Pakistan prescribed minimum capital requirements vide its letter reference BPRD/BA&CP/627/32/2014 dated 01 January 2014, the Bank is required to have a minimum paid up capital (net of losses) (MCR) of Rs. 3 billion and capital adequacy ratio of 18% at all times, subject to the condition that MCR level shall remain enforced until the Bank remains a public sector entity, the Bank will not be allowed to pay dividend until its paid up capital and reserves reach Rs. 6 billion and the per party exposure limit of the Bank will be 50% of the prudential regulations limits until the Bank's paid up capital and reserves reach Rs. 6 billion. At 31 December 2020, Bank's MCR (representing paid up capital net of accumulated losses) was Rs. 3.272 billion.

The full disclosures on the capital adequacy, leverage ratio & liquidity requirements as per the SBP instructions issued from time to time are placed on the bank's website. The link to the full disclosures is available at <http://www.fwbl.com.pk/public-documents/basel-statements>.

44. RISK MANAGEMENT

Risk management aspects are embedded in the Bank's strategy, organization structure and processes. The Bank has adopted a cohesive risk management structure for credit, operations, liquidity, market risk with an integrated approach to strengthen the process and system as controls are more effective and valuable when built into the process. Effective risk management is considered essential in the preservation of the assets and long-term profitability of the Bank. Clear guidelines and limits, which are under regular review, are backed by a system of internal controls and independent audit inspections. Internal reporting / MIS are additional tools for measuring and controlling risks. Separation of duties is also embedded in the Bank's system and organization.

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44.1 Credit risk

Credit risk is the risk that a customer or counterparty may not settle an obligation for full value, either when due or at any time thereafter. This risk arises from the potential that a customer's or counterparty's willingness or ability to meet such an obligation is impaired, resulting in an economic loss to the Bank.

The credit risk management process is driven by the Bank's Risk Management Policy, Credit Policy for Corporate, Commercial, SME & Agri, Collateral Management Policy, Credit Policy International, Credit Policy and Credit Manual, which provides policies and procedures in relation to credit initiation, approval, documentation and disbursement, credit maintenance and remedial management.

Individual credit authorities are delegated to credit officers by the Group Executive - Risk & Credit Policy (authorized by BoD), according to their seasoning / maturity. Approvals for Consumer loans are centralized, while approval authorities for International, Corporate, Commercial, SME and Agri exposures are delegated at a Country / Regional level. Furthermore, credit authorities are also delegated to business teams in various regions for Commercial, SME & Agri lending. All credit policy functions domestic & international are centrally organized.

Concentrations of credit risk exist if clients are engaged in similar activities, or are located in the same geographical region, or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. The Bank manages, limits and controls concentrations of credit risk to individual counterparties and groups, and to industries, where appropriate. Limits are also applied to portfolios or sectors where the Bank considers it appropriate to restrict credit risk concentrations, or to areas of higher risk, or to control the rate of portfolio growth.

The Bank uses reputable and SBP approved rating agencies for deriving risk weight to specific credit exposures. These are applied consistently across the Bank credit portfolio for both on-balance sheet and off-balance sheet exposures. The methodology applied for using External Credit Assessment Institutions (ECAI's) inclusive of the alignment of alpha numeric scale of each agency used with risk bucket is as per SBP guidelines as is given below:

Types of Exposures and ECAI's used

Exposures	2020				
	JCR - VIS	PACRA	S & P	Fitch	Moody's
Corporate	✓	✓	-	-	-
Banks	✓	✓	-	-	-
Sovereigns	-	-	-	-	-
SME's	✓	✓	-	-	-

Credit exposures subject to Standardized Approach

Exposures	2020			
	Rating	Amount (Rupees in '000)	Deduction	Net
Corporate	1	202,474	-	609,287
	2	596,794	-	835,632
	3,4	-	-	-
Claims on banks with original maturity of 3 months or less		1,969,657	(1,568,778)	400,879
Retail		1,030,696	(422,622)	608,074
Public sector entities	1	-	-	-
	2,3	-	-	-
Others		2,955,984	-	8,955,984
Unrated		4,078,052	(1,049,897)	3,432,401

Exposures	2019			
	Rating	Amount (Rupees in '000)	Deduction	Net
Corporate	1	-	-	-
	2	950,265	-	1,383,396
	3,4	803,487	(70,000)	733,487
Claims on banks with original maturity of 3 months or less		3,179,804	(2,543,843)	635,961
Retail		875,792	(35,505)	840,287
Public sector entities	1	-	-	-
	2,3	-	-	-
Others		6,210,805	-	6,210,805
Unrated		5,321,915	(1,077,195)	4,244,720

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The forms of collateral that are deemed eligible under the 'Simple Approach' to credit risk mitigation as per SBP guidelines are used by the Bank and primarily includes cash, government, equity investment in blue chip companies and rated debt securities.

The Bank applies SBP specified haircut to collateral for credit risk mitigation. Collateral management is embedded in the Bank's risk taking and risk management policy and procedures. A standard credit granting procedure exists which has been well-disseminated down the line, ensuring proper pre-sanction evaluation, adequacy of security, pre-examination of charge / control documents and monitoring of each exposure on an ongoing basis.

Collateral information is recorded diligently in the Bank's main processing systems by type of collateral, amount of collateral against relevant credit exposures. A cohesive accounting / risk management system facilitates effective collateral management for Basel II reporting.

44.1.1 Lendings to financial institutions

Credit risk by public / private sector

	Gross lendings		Non-performing lendings		Provision held	
	2020	2019	2020	2019	2020	2019
	(Rupees in '000)					
Public / Government	75,602	75,602	75,602	75,602	75,602	75,602
Private	2,024,459	3,243,291	63,487	63,487	63,487	63,487
	2,100,061	3,318,893	139,089	139,089	139,089	139,089

44.1.2 Investment in debt securities

Credit risk by industry sector

	Gross investments		Non-performing investments		Provision held	
	2020	2019	2020	2019	2020	2019
	(Rupees in '000)					
Public / Government (T-bills and PIBs)	21,093,461	6,706,394	-	-	-	-
Airlines	-	354	-	-	-	-
Telecommunication	7,781	7,781	7,781	7,781	7,781	7,781
Textile	10,000	10,000	10,000	10,000	10,000	10,000
	21,111,242	6,724,529	17,781	17,781	17,781	17,781

Credit risk by public / private sector

	Gross investments		Non-performing investments		Provision held	
	2020	2019	2020	2019	2020	2019
	(Rupees in '000)					
Public / Government	21,093,461	6,706,394	-	-	-	-
Private	17,781	18,135	17,781	17,781	17,781	17,781
	21,111,242	6,724,529	17,781	17,781	17,781	17,781

44.1.3 Advances

Credit risk by industry sector

	Gross advances		Non-performing advances		Provision held	
	2020	2019	2020	2019	2020	2019
	(Rupees in '000)					
Agriculture, Forestry, Hunting and Fishing	109,887	69,347	1,236	3,257	267	369
Textile	1,929,555	1,266,512	670,346	672,346	659,768	636,338
Chemical & Pharmaceuticals	69,765	89,234	-	-	-	-
Cement	-	-	-	-	-	-
Food and Beverages	5,526,570	4,176,325	-	-	-	-
Footwear and Leather garments	64,945	78,698	23,550	39,403	23,550	39,403
Automobile and transportation equipment	-	-	-	-	-	-
Electronics and electrical Appliances	93,385	95,257	-	-	-	-
Construction	557,934	877,697	-	-	-	-
Power (electricity), Gas, Water, Sanitary	331,325	1,223,311	122,452	123,500	60,430	39,992
Wholesale and Retail Trade	1,029,561	1,912,701	-	-	-	-
Exports / Imports	-	-	-	-	-	-
Transport, Storage and Communication	-	-	-	-	-	-
Services	108,608	97,223	-	-	-	-
Individuals	654,056	585,496	968	1,263	923	1,263
Others	2,053,036	1,179,784	1,102,309	1,108,430	675,485	629,705
	12,528,627	11,631,585	1,920,861	1,948,199	1,420,423	1,347,060

Sum

Credit risk by public / private sector

	Gross advances		Non-performing advances		Provision held	
	2020	2019	2020	2019	2020	2019
	(Rupees in '000)					
Public/ Government	4,548,195	3,233,568	1,920,861	1,948,199	1,373,195	1,347,080
Private	7,980,344	8,398,017	-	-	-	-
	12,528,627	11,631,585	1,920,861	1,948,199	1,420,423	1,347,080

44.1.4 Contingencies and Commitments**Credit risk by industry sector**

	2020	2019
	(Rupees in '000)	
Chemical and Pharmaceuticals	64,603	78,388
Sugar	55,427	-
Electronics and electrical appliances	55,518	129,047
Construction	834,473	967,741
Power (electricity), Gas, Water, Sanitary	876,426	137,297
Exports/Imports	278,811	-
Transport, Storage and Communication	471,832	421,203
Services	555,908	10
Individuals	52,242	18,621
Others	17,804	17,815
	3,263,044	1,770,121
Credit risk by public / private sector		
Public/ Government	-	-
Private	3,263,044	1,770,121
	3,263,044	1,770,121

44.1.5 Concentration of Advances

The bank top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs 8,982 million (2019: Rs 8,018 million) are as following:

	2020	2019
	(Rupees in '000)	
Funded	6,270,831	6,085,635
Non Funded	2,711,790	1,932,760
Total Exposure	8,982,621	8,018,395

The sanctioned limits against these top 10 exposures aggregated to Rs 12,416 million (prior year: Rs 8,924 million).

44.1.6 Advances - Province/Region-wise Disbursement & Utilization

Province / Region	2020					
	Disbursements	Utilization				
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad
	(Rupees in '000)					
Punjab	9,864,721	9,864,721	-	-	-	-
Sindh	7,776,993	-	7,776,993	-	-	-
KPK including FATA	39,719	-	39,719	-	-	-
Balochistan	21,410	-	-	21,410	-	-
Islamabad	406,132	-	-	-	406,132	-
AJK including Gilgit-Baltistan	-	-	-	-	-	18,250
Total	18,127,225	9,864,721	7,776,993	39,719	406,132	18,250

Province / Region	2019					
	Disbursements	Utilization				
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad
	(Rupees in '000)					
Punjab	1,018,613	1,018,613	-	-	-	-
Sindh	5,063,159	-	5,063,159	-	-	-
KPK including FATA	20,090	-	20,090	-	-	-
Balochistan	22,190	-	-	22,190	-	-
Islamabad	368,535	-	-	-	368,535	-
AJK including Gilgit-Baltistan	-	-	-	-	-	9,300
Total	6,601,887	1,018,613	5,063,159	20,090	368,535	9,300

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44.2 Market Risk

Market risk is the risk that the fair value of a financial instrument will fluctuate due to movements in market prices. It results from changes in interest rates, exchange rates and equity prices as well as from changes in the correlations between them. Each of these components of market risk consists of a general market risk and a specific market risk that is driven by the nature and composition of the portfolio.

Measuring and controlling market risk is usually carried out at a portfolio level. However, certain controls are applied, where necessary, to individual risk types, to particular books and to specific exposures. Controls are also applied to prevent any undue risk concentrations in trading books, taking into account variations in price, volatility, market depth and liquidity. These controls include limits on exposure to individual market risk variables as well as limits on concentrations of tenors and issuers.

Trading activities are centered in the Treasury and Capital Markets Group which facilitates clients and also runs proprietary positions. The Bank is active in the cash and derivative markets for equity, interest rate and foreign exchange.

The Market and Treasury Risk division performs market risk management activities. Within this division, the Market Risk Management unit is responsible for the development and review of market risk policies and processes, and is involved in research, financial modeling and testing / implementation of risk management systems, while Treasury Middle Office is responsible for implementation and monitoring of market risk and other policies, escalation of deviations to senior management, and MIS reporting.

The functions of the Market Risk Management unit are as follows:

- To keep the market risk exposure within the Bank's risk appetite as assigned by the BoD and the BRCC.
- To develop, review and upgrade procedures for the effective implementation of market risk management policies approved by the BoD and BRCC.
- To review new product proposals and propose / recommend / approve procedures for the management of their market risk. Various limits are assigned to different businesses on a product / portfolio basis. The products are approved through product programs, where risks are identified and limits and parameters are set. Any transactions / products falling outside these product programs are approved through separate transaction / product memos.
- To maintain a comprehensive database for performing risk analysis, stress testing and scenario analysis. Stress testing activities are performed on a quarterly basis on both the Banking and Trading books.

44.2.1 Balance sheet split by trading and banking books

	2020			2019		
	Banking book	Trading book	Total	Banking book	Trading book	Total
	(Rupees in '000)					
Cash and balances with treasury banks	2,337,454	-	2,337,454	1,907,195	-	1,907,195
Balances with other banks	196,224	-	196,224	36,729	-	36,729
Lendings to financial institutions	1,980,872	-	1,980,872	3,179,904	-	3,179,904
Investments	21,094,415	-	21,094,415	6,707,702	-	6,707,702
Advances	11,087,875	-	11,087,875	10,268,433	-	10,268,433
Fixed assets	639,710	-	639,710	709,043	-	709,043
Intangible assets	51,135	-	51,135	48,367	-	48,367
Deferred tax assets	-	-	-	17,250	-	17,250
Other assets	645,900	-	645,900	1,271,058	-	1,271,058
	<u>38,013,765</u>	<u>-</u>	<u>38,013,765</u>	<u>24,143,581</u>	<u>-</u>	<u>24,143,581</u>

44.2.2 Foreign Exchange Risk

Foreign Exchange Risk is the risk that the fair value of a financial instrument will fluctuate due to changes in foreign exchange rates. Exposures are monitored by currency to ensure that they remain within the established limits for each currency. Exposures are also monitored on an overall basis to ensure compliance with the Bank's SBP approved Foreign Exchange Exposure Limit.

The Bank is an active participant in the cash and derivatives markets for currencies and carries currency risk from these trading activities, conducted primarily by the Treasury and Capital Markets Group (TCM). These trading exposures are monitored through prescribed stress tests and sensitivity analyses.

The Bank's reporting currency is the Pakistan Rupee, but its assets, liabilities, income and expenses are denominated in multiple currencies. From time to time, TCM proactively hedges foreign currency exposures resulting from its market making activities, subject to pre-defined limits.

	2020				2019			
	Foreign Currency Assets	Foreign Currency Liabilities	Off-balance sheet items	Net foreign currency exposure	Foreign Currency Assets	Foreign Currency Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)							
United States Dollar	485,683	(470,579)	-	(4,896)	232,172	568,874	390,270	53,568
Great Britain Pound Sterling	8,075	(8,245)	-	(170)	10,803	10,797	-	9
Euro	17,688	(15,759)	-	1,907	10,289	9,416	-	872
Japanese Yen	374	-	-	374	1,600	-	-	1,600
Other currencies	506	-	-	506	2,563	-	-	2,563
	<u>492,303</u>	<u>(494,583)</u>	<u>-</u>	<u>(2,280)</u>	<u>257,427</u>	<u>589,087</u>	<u>390,270</u>	<u>58,609</u>

Impact of 1% change in foreign exchange rates on

	2020		2019	
	Banking book	Trading book	Banking book	Trading book
	(Rupees in '000)			
- Profit and loss account				
+1% change		5		26
-1% change		(5)		(26)
- Other comprehensive income				
+1% change				
-1% change				

Sum

44.2.3 Yield / Interest Rate Risk

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. Interest rate risk is also controlled through flexible credit pricing mechanism and variable deposit rates. Duration analysis and stress testing are being carried out regularly to estimate the impact of adverse changes in the interest rates on bank's fixed income portfolio. Optimization of yield is achieved through the Bank's strategy which aims on attaining a balance between yield and liquidity under the strategic guidance of ALCO. The advances and deposits of the Bank are repriced on a periodic basis based on interest rates scenario. Details of the interest rate profile of the Bank based on the earlier of contractual repricing or maturity date is as follows:

	2020		2019	
	Banking book	Trading book	Banking book	Trading book
Impact of 1% change in interest rates on				
- Profit and loss account	39	-	(19)	-
- Other comprehensive income	-	-	-	-

(Rupees in '000)

44.2.4 Mismatch of Interest Rate Sensitive Assets and Liabilities

Interest rate sensitivity gaps for assets and liabilities has been reported based on earlier of the repricing and maturity date.

	Effective Yield/ Interest rate	Total	2020 Exposed to Yield/ Interest risk								Non-Interest bearing financial instruments	
			Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years		Above 10 Years
(Rupees in '000)												
On-balance sheet financial instruments												
<i>Assets</i>												
Cash and balances with treasury banks	0.70%	2,337,454	63,302	-	-	-	-	-	-	-	-	2,274,152
Balances with other banks		196,224	-	-	-	-	-	-	-	-	-	196,224
Lendings to financial institutions	8.5% - 7.25%	1,960,972	1,960,972	-	-	-	-	-	-	-	-	-
Investments	7.0% - 13.13%	21,094,413	2,839,836	5,661,967	4,082,930	600,224	407,007	5,902,195	-	1,499,300	-	954
Advances	0% - 22.93%	11,087,975	1,351,246	5,119,899	999,473	965,236	962,184	252,036	1,206,759	218,775	-	12,367
Other assets		645,900	-	-	-	-	-	-	-	-	-	645,900
		37,322,938	6,315,356	10,781,866	5,082,403	1,565,460	1,369,191	6,154,231	1,206,759	1,718,075	-	3,129,597
<i>Liabilities</i>												
Bills payable		517,258	-	-	-	-	-	-	-	-	-	517,258
Borrowings	0% - 7%	6,979,684	6,109,594	300,700	200,000	300,058	915	1,084	67,333	-	-	-
Deposits and other accounts	0% - 13.50%	25,189,064	14,478,932	1,186,269	2,342,213	1,974,435	35,825	195,636	14,940	-	-	4,960,814
Other liabilities		1,410,724	-	-	-	-	-	-	-	-	-	1,410,724
		34,096,730	20,588,526	1,486,969	2,542,213	2,274,493	36,740	196,720	82,273	-	-	6,888,796
On-balance sheet gap		3,226,208	(14,273,170)	9,294,897	2,540,190	(709,033)	1,332,451	5,957,511	1,124,486	1,718,075	-	(3,759,199)
Non Financial Net Assets		638,699	-	-	-	-	-	-	-	-	-	-
Total Net Assets		3,864,907	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments												
Forward foreign exchange contracts - Purchase		-	-	-	-	-	-	-	-	-	-	-
Forward foreign exchange contracts -Sale		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap		3,226,208	(14,273,170)	9,294,897	2,540,190	(709,033)	1,332,451	5,957,511	1,124,486	1,718,075	-	(3,759,199)
Cumulative Yield/Interest Risk Sensitivity Gap		-	(14,273,170)	(4,978,273)	(2,438,083)	(3,147,116)	(1,814,665)	4,142,846	5,267,332	6,985,407	6,985,407	3,226,208

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Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk									Non-Interest bearing financial instruments	
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years		
(Rupees in '000)												
On-balance sheet financial instruments												
<i>Assets</i>												
Cash and balances with treasury banks	0.70%	1,907,195	98,278	-	-	-	-	-	-	-	-	1,906,917
Balances with other banks		36,729	-	-	-	-	-	-	-	-	-	36,729
Lendings to financial institutions	13.06% - 13.70%	3,179,804	3,179,804	-	-	-	-	-	-	-	-	-
Investments	13.29% - 13.85%	6,707,702	2,484,986	-	3,198,073	54	375,149	137,586	510,900	-	-	954
Advances	0% - 22.93%	10,266,433	3,112,601	5,741,638	662,265	11,207	84,524	80,899	409,232	148,056	-	17,811
Other assets		1,136,058	-	-	-	-	-	-	-	-	-	1,136,058
		23,233,921	7,263,735	4,143,345	1,188,361	4,112,773	581,422	816,236	827,312	1,280,466	-	3,136,269
<i>Liabilities</i>												
Bills payable		379,624	-	-	-	-	-	-	-	-	-	379,624
Borrowings	0% - 8.96%	412,863	26,337	3,614	4,861	4,375	312,455	17,502	13,516	-	-	29,803
Deposits and other accounts	0% - 13.50%	17,711,614	173,967	472,373	538,633	2,707,319	1,263,726	4,042,700	2,876,777	983,129	-	4,672,990
Other liabilities		1,892,130	-	-	-	-	-	-	-	-	-	1,892,130
		20,396,031	200,304	476,187	543,494	2,711,694	1,576,181	4,060,202	2,890,293	983,129	-	6,974,547
On-balance sheet gap		2,837,890	6,675,565	5,265,651	118,771	497,566	(1,491,603)	(3,604,164)	(2,343,475)	(306,173)	-	(3,974,276)
Non Financial Net Assets		794,452	-	-	-	-	-	-	-	-	-	-
Total Net Assets		3,632,342	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments												
Forward foreign exchange contracts - Purchase		156,190	156,190	-	-	-	-	-	-	-	-	156,190
Forward foreign exchange contracts -Sale		1,330,980	1,330,980	-	-	-	-	-	-	-	-	1,330,980
Off-balance sheet gap		(1,174,790)	(1,174,790)	-	-	-	-	-	-	-	-	1,487,170
Total yield / Interest risk sensitivity gap		1,663,100	7,500,775	5,285,851	118,771	497,566	(1,491,603)	(3,604,164)	(2,343,475)	(306,173)	-	(2,487,106)
Cumulative yield / Interest risk sensitivity gap		7,500,775	12,766,426	12,885,197	13,382,763	11,891,180	8,287,026	5,943,551	5,637,378	5,637,378	-	3,150,270

44.2.4.1 The details given above are on the basis of earlier of repricing or maturity / redemption

Reconciliation of Assets and Liabilities exposed to Yield/Interest Rate Risk with Total Assets and Liabilities**Reconciliation to total assets**

	2020	2019
	(Rupees in '000)	
Total financial assets	37,161,674	23,233,921
Add: Non financial assets		
Operating fixed assets	638,710	709,043
Intangible assets	51,135	48,367
Deferred tax asset	-	17,250
Other assets	161,298	135,000
	852,111	909,660
Balance as per statement of financial position	38,013,785	24,143,581

Reconciliation to total liabilities

	2020	2019
	(Rupees in '000)	
Total financial liabilities	33,895,185	20,396,031
Add: Non financial liabilities		
Other liabilities	201,545	115,208
Deferred tax liabilities	80,148	-
	281,693	115,208
Balance as per statement of financial position	34,156,878	20,511,239

44.2.4.2 Yield risk is the risk of decline in earnings due to adverse movement of the yield curve. Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. The Bank manages this risk by matching the re-pricing of assets and liabilities and off-balance sheet instruments.

44.3 Operational Risk

The Bank operates in a controlled manner and operational risk is generally managed effectively. With the evolution of operation risk management into a separate distinct discipline, the Bank's strategy is to further strengthen risk management system along new industry standards.

The Bank's operational risk management strategy takes guidance from Basel – II, Committee of Sponsoring Organization of Treadway Commission (COSO) publications, the SBP guidelines and standard industry practices. The operational risk management manual addresses enterprise wide risk drivers inclusive of technology infrastructure, software hardware and I.T. security.

The Bank's ORM framework includes Risk Control Self-Assessment (RCSA), Key Risk Indicators (KRIs), Operational Risk Events Management, and Operational Risk Reporting. The ORM unit engages with Bank's business / support units and regularly collaborates in determining and reviewing the risks, and assessment of residual risk leading to improved quality of control infrastructure and strengthening of the processes (sub processes) & management information.

The Bank's business continuity plan includes risk management strategies to mitigate inherent risk and prevent interruption of mission critical services caused by disaster event. The Bank's operational risk management infrastructure has been further strengthened through the establishment of a separate operational and risk control unit.

The Bank uses Basic Indicator Approach (BIA) for regulatory capital at risk calculation for operational risk. Under BIA the capital charge for operational risk is a fixed percentage of average positive annual gross income of the Bank over the past three years. Figures of capital charge of operation risk for the year is Rs. 122.67 million (2017: Rs. 119.57 million).

44.4 Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to raise funds to meet its commitments.

Governance of Liquidity risk management

ALCO manages the liquidity position on a continuous basis.

Liquidity and related risks are managed through standardized processes established in the Bank. The management of liquidity risk within the Bank is undertaken within limits and other parameters set by BoD. The Bank's treasury function has the primary responsibility for assessing, monitoring and managing the Bank's liquidity and funding strategy while overall compliance is monitored and coordinated by the ALCO. Board and senior management are apprised of Bank's liquidity profile to ensure proactive liquidity management. Treasury Middle Office being part of the risk management division is responsible for the independent identification, monitoring and analysis of intrinsic risks of treasury business. The Bank has in place duly approved Treasury investment policy and strategy along with liquidity risk tolerance/appetite levels. These are communicated at various levels so as to ensure effective liquidity management for the Bank.

Funding Strategy

The Bank's liquidity model is based on "self-reliance" with an extensive branch network to diversify the Bank deposit base. Further, the Bank can also generate liquidity from Interbank market against government securities to fund its short term requirement, if any. The Bank as a policy invests significantly in highly liquid government securities that can be readily converted into cash to meet unforeseen liquidity requirements, besides yielding attractive returns. Furthermore, long term loans are generally kept at an amount lower than the Bank's capital / reserves.

Liquidity Risk Mitigation techniques

Various tools and techniques are used to measure and monitor the possible liquidity risk. These include monitoring of different liquidity ratios which are monitored regularly against approved triggers and communicated to senior management and ALCO. Further, Bank also prepares the maturity profile of assets and liabilities to monitor the liquidity gaps over different time buckets. The Bank also ensures that statutory cash and liquidity requirements are maintained at all times.

Liquidity Stress Testing

As per SBP BSD Circular No. 1 of 2012, Liquidity stress testing is being conducted under well-defined stress scenarios. Results of same are escalated at the senior level so as to enable the senior management to take proactive actions to avoid liquidity crunch for the Bank.

Contingency Funding Plan

Contingency Funding Plan (CFP) is a part of liquidity management framework of the Bank which defines and identifies the factors that can instigate a liquidity crisis and the actions to be taken to manage the crisis. The Bank has a comprehensive liquidity contingency funding plan in place, which highlights liquidity management strategy to be followed under stress conditions. Contingency Event Management parameters and responsibilities are also incorporated in order to tackle the liquidity crisis. Moreover, CFP highlights possible funding sources focusing on self-reliance, in case of a liquidity crisis.

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44.4.1 Maturities of Assets and Liabilities - based on contractual maturity of the assets and liabilities of the Bank

	2020													
	Total	Upto 1 Day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 Month	Over 1 to 2 Months	Over 2 to 3 Months	Over 3 to 6 Months	Over 6 to 9 Months	Over 9 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 Years	Over 5 Years
(Rupees in '000)														
Assets														
Cash and balances with treasury banks	2,237,454	2,237,454	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	196,224	196,224	-	-	-	-	-	-	-	-	-	-	-	-
Lending to financial institutions	1,960,972	-	1,960,972	-	-	-	-	-	-	-	-	-	-	-
Investments	21,094,415	-	-	1,896,272	1,044,563	3,452,725	2,209,243	4,052,998	800,228	954	407,836	5,802,195	-	1,459,390
Advances	11,087,975	486,934	3,179	59,743	416,381	358,767	4,751,663	993,048	488,643	475,055	957,896	262,451	1,083,956	707,618
Fixed assets	839,710	161	959	1,115	2,708	4,461	4,838	14,437	14,659	55,147	58,150	89,241	89,241	376,024
Intangible assets	51,135	26	154	181	439	723	800	2,349	2,375	8,423	8,423	16,705	16,705	6,162
Deferred tax assets														
Other assets	645,900	32,204	56,537	112,697	273,692	10,958	12,132	35,512	36,004	36,004	-	-	-	-
	36,013,765	3,055,003	2,061,858	2,068,008	1,766,383	3,837,654	6,578,776	6,128,504	1,141,607	529,045	1,432,502	6,232,255	1,189,902	2,586,164
Liabilities														
Bills payable	517,258	517,258	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	6,979,584	708,583	5,400,000	-	-	300,600	700	200,000	-	300,050	916	455	67,563	-
Deposits and other accounts	25,185,064	55,168	43,499	454,007	471,022	625,566	624,825	2,391,345	903,334	1,820,885	1,054,727	1,527,705	6,694,234	8,323,577
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-ordinated debts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	60,148	1,295	522	818	1,050	770	590	1,341	781	683	2,779	2,712	5,424	40,683
Other liabilities	1,419,724	709,892	138,988	162,153	393,800	621	601	1,802	1,843	1,823	-	-	-	-
	34,156,878	1,992,405	5,582,955	617,678	866,472	926,957	925,918	2,594,493	805,958	2,123,449	1,058,431	1,530,872	6,767,621	8,964,260
Net assets	3,856,887	1,062,597	(2,521,107)	1,451,330	901,911	2,910,697	6,152,860	2,533,911	225,549	(1,594,404)	374,071	4,701,387	(5,577,719)	(6,378,100)
Share capital	3,994,113													
Reserves	419,826													
Surplus/(Deficit) on revaluation of assets	165,460													
Unappropriated profit	(721,702)													
	3,856,887													

	2019													
	Total	Upto 1 Day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 Month	Over 1 to 2 Months	Over 2 to 3 Months	Over 3 to 6 Months	Over 6 to 9 Months	Over 9 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 Years	Over 5 Years
(Rupees in '000)														
Assets														
Cash and balances with treasury banks	1,907,195	1,907,195	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	36,729	36,729	-	-	-	-	-	-	-	-	-	-	-	-
Lending to financial institutions	3,179,804	-	3,179,804	-	-	-	-	-	-	-	-	-	-	-
Investments	6,707,733	-	489,817	-	1,985,169	-	-	-	3,198,073	1,308	54	374,795	137,596	510,900
Advances	10,266,433	1,111,448	19,266	23,253	324,485	545,455	3,602,913	1,188,361	272,280	642,650	661,308	441,069	889,726	824,269
Fixed assets	709,042	174	1,042	1,215	2,951	4,861	5,382	15,798	18,972	15,972	63,306	63,370	102,915	416,125
Intangible assets	49,367	26	186	181	415	778	778	2,333	2,333	2,333	9,331	9,331	12,236	6,136
Deferred tax assets	17,250	227	528	1,569	546	7,060	7,037	20,057	16,313	20,414	(2,854)	(3,469)	(6,957)	(43,611)
Other assets	1,271,055	12,064	100,088	140,916	489,765	310,751	111,903	34,340	35,324	35,324	-	-	-	-
	24,143,580	3,067,843	3,800,701	167,154	2,803,331	888,905	3,727,913	1,262,089	3,639,205	718,004	651,255	885,096	936,406	1,716,619
Liabilities														
Bills payable	379,624	379,624	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	412,683	3,678	-	-	-	-	23,700	3,113	3,113	3,113	312,559	14,768	46,150	2,569
Deposits and other accounts	17,711,614	4,224	42,369	36,882	74,860	306,146	326,529	573,342	868,397	1,899,836	1,477,835	1,170,402	5,310,393	5,814,349
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-ordinated debts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	2,007,338	441,561	94,151	133,293	472,288	310,953	111,989	27,665	30,337	52,861	76,066	66,267	131,662	50,055
	20,511,239	828,958	136,510	170,675	547,148	618,299	462,218	604,320	901,847	1,955,610	1,866,499	1,251,467	5,494,205	5,574,973
Net assets	3,632,342	2,238,885	3,664,191	(3,521)	2,256,183	2,92,106	3,265,695	697,769	2,937,418	(1,237,606)	(1,215,204)	(366,391)	(4,557,799)	(3,858,354)
Share capital	3,994,113													
Reserves	371,489													
Surplus/(Deficit) on revaluation of assets	182,332													
Unappropriated profit	(913,572)													
	3,632,342													

Above maturity profile has been prepared in accordance with International Financial Reporting Standard 7, Financial Instruments: Disclosures, based on contractual maturities. Consequently, all demand assets and liabilities such as running finance, current accounts and saving accounts are shown as having a maturity up to one month. However, based on historical behaviour, management is of the opinion that the possibility of these inflows / outflows actually occurring entirely within one month is remote, as these flows normally occur over a longer period of time.

45. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue in the Board of Directors meeting held on 23 JUN 2023

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Chief Financial
Officer




President /
Chief Executive



Director



Director



Director