

**FINANCIAL STATEMENTS  
OF SILK BANK LIMITED  
FOR THE THIRD QUARTER ENDED  
SEPTEMBER 30<sup>TH</sup>, 2019.**

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**CORPORATE INFORMATION**  
as of September 30, 2019**Board of Directors**

Khalid Aziz Mirza	Acting Chairman
Rashid Akhtar Chughtai	Director
Shahzad Enver Murad	Director
Talha Saeed Ahmed	Director
Tariq Iqbal Khan, FCA	Director
Zubair Nawaz Chattha	Director
Masroor Ahmed Qureshi	Director
Azmat Shahzad Ahmed Tarin	Director- President & CEO

**Company Secretary**

Faiz Ul Hasan Hashmi

**Chief Financial Officer**

Khurram Khan

**Audit Committee**

Tariq Iqbal Khan, FCA	Chairman
Shahzad Enver Murad	Member
Masroor Ahmed Qureshi	Member
Wajih Zaidi	Secretary

**Nomination, Remuneration & Human Resource Committee**

Khalid Aziz Mirza	Chairman
Rashid Akhtar Chughtai	Member
Azmat Tarin	Invitee
Goharulayn Afzal	Secretary

**Risk Management Committee**

Shahzad Enver Murad	Chairman
Tariq Iqbal Khan, FCA	Member
Masroor Ahmed Qureshi	Member
Muhammad Atif Kauser	Secretary

**Information Technology Committee**

Zubair Nawaz Chattha	Chairman
Masroor Ahmed Qureshi	Member
Talha Saeed	Member
Javed Yousuf Edhi	Secretary

**Auditors**

M/s. Grant Thornton Anjum Rahman (GTAR)  
Chartered Accountants

**Legal Advisor**

M/s. Abdul Majeed & Co  
Advocates & Corporate Consultants

**Registered Office**

Silkbank Limited,  
13-L, F-7 Markaz,  
Islamabad.  
Direct Tel: (051) 26080-26-27-28,  
PABX: (051) 26080-77-78-79 Ext: 111  
Fax: (051) 26080-29  
Email: [companysecretary@silkbank.com.pk](mailto:companysecretary@silkbank.com.pk)  
Website: [www.silkbank.com.pk](http://www.silkbank.com.pk)

**Share Registrar**

M/s. CDC Share Registrar Services Limited  
CDC House, 99 – B, Block 'B',  
S.M.C.H.S., Main Shahra-e-Faisal  
Karachi-74400.  
Tel: Customer Support Services (Toll Free) 0800-CDCPL (23275)  
Fax: (92-21) 34326053  
Email: [info@cdcpak.com](mailto:info@cdcpak.com)  
Website: [www.cdcpakistan.com](http://www.cdcpakistan.com)

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**Silkbank Limited**  
**Director's Report as of September 30<sup>th</sup>, 2019.**

**Dear Shareholders,**

We are pleased to present the financial statements of the Bank for the nine months ended September 30<sup>th</sup>, 2019.

**Economic Review**

After achieving a 13-year high growth of 5.8% in FY-18, Pakistan's economy in FY-19 witnessed significantly lower growth of 3.29% against the ambitious target of 6.2% mainly due to large current account deficit, monetary tightening, fragile government finances and limited foreign exchange reserves. The SBP has projected GDP growth of mere 2.4% for FY-20.

While underlying inflationary pressures remained strong and the twin deficits stayed at elevated levels, monetary policy was further tightened in the first quarter of FY-20 with an increase in policy rate by 100 basis points to 13.25 %. A new development was noted in the calculation of CPI with the change in base year from 2007-08 to 2015-16. The Inflation during Sept 19 stood at 11.4% from new base while it was recorded at 12.6% from old base. The fiscal deficit in FY-19 stood at 7.2% of GDP as compared to the target of 4.9%. The target fiscal deficit for FY-20 is still 7.1%.

Government has now officially obtained the \$6 bn IMF bailout program which will be spread over 36 months. Inflows are also expected in the coming years through borrowings from ADB and through fresh issue of Euro bonds. In addition to this, Foreign Portfolio Investment (FPI) rose by a massive 182.8 percent to \$107.3 million against an outflow of \$129.6 million during the same period last year. These developments collectively have had a positive impact on FX reserves; standing at USD 15 bn. The current account deficit though decreased substantially by 55% from \$2.85bn in Jul-Aug FY19 to \$1.29bn in Jul-Aug FY-20. The increase in foreign direct investment and exports are imperative to build sustainable FX reserves.

**Banking Sector**

Banking sector's profitability in recent years has been constrained by a series of one-offs and regulatory changes, including past pension costs, banking transaction taxes, deposit insurance, overseas penalties and provisions, in addition to the dampening effects of narrowing spreads. However, with the policy rate increasing from 5.75% to 13.25% in the span of one and a half year, the banking profitability is now expected to surge in the upcoming years as increase in interest rates has reversed the contraction cycle of net interest margin. However, the rise in interest rates have led to a record high of Non-Performing Loans (NPLs) of Rs 783 billion in June 2019 compared to Rs 694.4 billion in December 2018, depicting an increase of Rs 88.552 billion.

**Financial Performance:**

The Bank has posted after tax loss of Rs. 2,769 million for the period ended September 30<sup>th</sup>, 2019.

During this period, total deposits of the Bank grew by Rs. 9,287 billion to Rs. 141,950 billion and gross advances increased by Rs. 9,817 billion.

Summarized financial performance of Silkbank Limited for the nine months ended September 30<sup>th</sup>, 2019 is as follows:

	Rs in 'million'
Loss before tax	(4,004.76)
Tax - Current	( - )
Prior	(109.29)
Deferred	<u>1,344.96</u>
Loss after tax	(2,769.09)
	<b>Rupee</b>
Loss per share – Basic and Diluted.	(0.30)

The loss declared by the Bank is primarily attributed to delay in payments from Real Estate customers of the Bank. The unexpected ban on construction of high-rise buildings in Karachi by the Supreme Court of Pakistan for a certain period of time adversely affected the Real Estate projects financed by the Bank.

As a result, the Bank had to classify lucrative Real Estate loans on prudent basis, with a concrete recovery plan in place.

Furthermore, the SBP during its last inspection identified a security shortfall in the real estate portfolio of the Bank. However, with the support of SBP, the shortfall so identified has been more than adequately covered through additional collateral valued by SBP nominated valuers. Those accounts stand classified as per SBP instructions.

## **Business Performance:**

### **Branch Banking:**

Branch Banking remains one of the most critical business for the Bank, serving over 189,159 customers contributing more than 61% of the Bank's deposit base. Total deposit as at 30<sup>th</sup> September, 2019 stood at Rs. 86.6 billion, an overall deposit growth of Rs. 8.3 billion achieved till end of 3<sup>rd</sup> quarter of 2019. A new initiative of Tab Based Banking Solution has been launched which will provide customers the convenience of Instant Account Opening at their doorstep, in-Branch Debit Card Activation and Instant Biometric Verification. With more such initiatives in the pipeline, we hope to see Branch Banking produce even better results in the last quarter of 2019.

### **ADC Business:**

Branch Banking expanded its debit card product suite by launching EMV compliant Gold and Platinum variants of Visa Debit Card (VDC) with exciting features for customers. Silkbank VISA Debit Card ("VDC") continued to show strong growth during 3<sup>rd</sup> quarter of 2019. VDC usage over Point of Sales (POS) during 3<sup>rd</sup> quarter of 2019 recorded a spend of Rs. 378.13 million against 106,591 transactions reflecting a growth of 2.39% in volume and 6.79% in number of transactions as compared to 3<sup>rd</sup> quarter of 2019. The highest POS monthly spend of Rs.132.74 million was recorded during August 2019. Alternate Distribution and e-delivery

channels have added value to the product offering of the Bank and have enhanced the reach and accessibility of its banking services.

**Bancassurance:**

Bancassurance business continued its momentum in 3<sup>rd</sup> quarter of 2019 and generated a revenue income of Rs .25.78 million. This enabled the business to achieve a revenue of Rs. 64.78 million as of YTD 2019. The branch productivity has also increased through attractive sales campaigns and a drive of "Participation from All."

**Consumer Banking:**

Silkbank Consumer banking division offers a range of specially designed secured and unsecured products to meet consumer lifestyle needs. Despite the challenging macroeconomic conditions including record hike in KIBOR in 2019, Silkbank unsecured consumer business has excelled, recording an impressive ENR growth as compared to its peer banks. ENR growth till the 3rd quarter is almost double the growth of all our peer competitors combined. We have maintained our leadership position in PIL and RL with 38% market share and ENR of Rs. 14.24 billion. Silkbank is now the 3rd largest credit card issuer in Pakistan and is leading the market in fresh card issuance for the 3rd year running. Total Credit Cards in Force have increased to 164,277 Cards while Credit Cards ENR has increased to Rs. 5.4 billion.

**Unsecured:****Personal Loans:**

During the third quarter of 2019, we launched another variant of Personal Installment Loan named Smart Plan. A unique end-use defined product which facilitates customers by giving them the option to purchase variety of products from alliance partners on discounted prices and transfer the unused approved limit. In order to incentivize customers to pay their monthly installment before the due date, pay early and get rewarded promotion was launched in the month of August. Numerous tactical promotions were also run during this period to increase acquisition numbers. As a result, we have a total of 25,373 active customers and ENR of Rs. 6.80 billion as of September, 2019.

**Ready Line:**

To increase ENR and Acquisition growth, multiple promotions were designed and executed in the third quarter. Promotions such as zero processing fee and no annual fee for new customers were launched. 50% markup waiver on the first 2 bills was extended to attract new to bank customers and increase monthly acquisitions. Various spend and ADC initiatives were taken to further improve customer experience. At the end of the third quarter, the Ready Line portfolio has a customer base of around 48,000 active customers with a total of Rs. 7.50 billion in ENR.

**Credit Cards:**

Credit Card Business undertook a number of key initiatives in Q3-2019 to further enhance the product value proposition and also worked on numerous service initiatives to facilitate customers. Credit Card Sales acquired 11,917 fresh customers during Q3-2019, increasing Cards in Force to 164,277. With targeted spend promotions and installment plan bookings, total spending for the quarter grew to Rs. 5.94 billion. This influx of spending has had a positive impact on ENR, which increased to Rs. 5.4 billion

in Sep-19. Silkbank Credit Card Alliances continue to build momentum with the addition of prominent new alliance partners. We have now the highest number of alliances onboard compared to any other bank. Silkbank is also in the process of launching Master Card in addition to existing Visa Credit Cards which will provide customers with more options to choose from the enhanced product menu.

### **Secured**

#### **M'Power:**

Fresh acquisition is on hold given the current economic environment and the focus is on keeping delinquencies under control. At the end of third quarter, ENR was Rs. 1.94 billion with an active customer base of 301.

### **Emaan Islamic Banking**

Emaan Islamic Banking showed a decent growth during the period. Deposit book increased by 14% with total standing at Rs. 35,161 million. CASA/TD ratio stands at 82:18. Advances registered growth of Rs. 927 million and closed at Rs. 27,829 million. Focus on Service Quality was maintained throughout the period which resulted in significant improvement in service indicators.

#### **Emaan ADC Business:**

Emaan Islamic Banking successfully enrolled 3,129 new Bank's customers during the period with a total customer base of 20,983, translating into 17.5% growth. Visa Debit Card usage over Point of Sale (POS) also increased YoY by Rs. 26 million with increase in POS transaction by 6,386, usage increased by 18.41%. During the period total usage over POS was recorded at Rs. 140.55 million with total of 41,078 POS transaction.

### **Board of Directors (Gender & Category Wise):**

S. No	Name of Male Director	Category
1	Mr. Khalid Aziz Mirza	Acting Chairman/Independent Director
2	Mr. Rashid Akhtar Chughtai	Independent Director
3	Mr. Shahzad Enver Murad	Independent Director
4	Mr. Tariq Iqbal Khan	Non- Executive Director
5	Mr. Zubair Nawaz Chattha	Non- Executive Director
6	Mr. Masroor Ahmed Qureshi	Non- Executive Director
7	Mr. Talha Saeed	Executive Director
8	Mr. Azmat Shahzad Ahmed Tarin	Executive Director and President & CEO
	Name of Female Director	Category
	-	-

### **Board Remuneration Policy:**

The SBP has issued a circular No. 03 dated August 17<sup>th</sup>, 2019, regarding remuneration and performance evaluation of Directors, which was presented to the Board in its 169<sup>th</sup> meeting held on August 27<sup>th</sup>, 2019. The Board mandated M/s. PICG to review the existing policy and make amendments as required. The said policy once formulated, will be presented to the Board for approval & implementation.

**Existing Board Remuneration Policy:**

The existing remuneration of the Chairman and Non-Executive and Independent Directors, for attending Board and Committee's meetings as approved by the shareholders in the 22<sup>nd</sup> Annual General Meeting of the Bank held on March 28<sup>th</sup>, 2016, is as follows:

	Remuneration for attending Board meeting	Remuneration for attending Committee meetings
<b>Chairman</b>	Pak Rs. 635,000/-	Pak Rs. 475,000/-
<b>Board Members</b>	Pak Rs. 475,000/-	Pak Rs. 475,000/-

As required by the Code of Corporate Governance 2019, the newly formulated Board Remuneration Policy covering details of aggregate amount of remuneration separately for Executive and Non-Executive Directors, including salary/fee, perquisites, benefits and performance-linked incentives etc, will be published/ disclosed in the Annual Report of the Bank for the year ended December 31, 2019.

**Compliance with Minimum Capital Requirement (MCR) and Capital Adequacy Ratio (CAR).**

As at September 30, 2019, the equity of the Bank is Rs. 11.7 billion excluding deficit on revaluation of assets. This includes share capital (net of losses and discount on shares) of Rs. 13.7 billion against the minimum requirement of Rs. 10 billion as prescribed by SBP. Further, the Capital Adequacy Ratio (CAR) of the Bank is 6.79%.

The Bank is pleased to report that in the declining interest rate scenario, the Bank has been building up its PIB portfolio to ride the yield curve and record capital gains. The said strategy of the Bank has reaped great results and will help the Bank to record major gains on this portfolio.

Additionally, the Board has given certain targets to the management that will ensure improvement in all key ratios of the Bank in 2020.

Key steps are enumerated below:

- Reduction in Corporate / Real Estate portfolio of the Bank.
- Reduction in non-earning assets (OREO, others).
- Improvement in profitability of the Bank in 2020.
- Reduction in advances in the Corporate / Islamic portfolio will be compensated by increase in Consumer and SME loans, the magnitude of which may not be large but will have a positive effect on profitability, due to bigger margins.
- Closure / shifting of loss-making branches.
- Fully integrated digital experience with physical distribution.

The Bank is confident of achieving CAR compliance in 2020.



**Credit Rating**

The long-term entity rating of the Bank is A- (Single A Minus) and the short-term rating is A-2 (A-Two) as determined by "JCR VIS" Credit Rating Company Limited. The outlook on the assigned rating is "Stable".

**Future Outlook:**

The Bank's progress in 2019 was curtailed due to decline in real estate prices on account of the economic situation of the country.

The unexpected ban on construction of high rise buildings in Karachi by the Supreme Court of Pakistan for a certain period of time adversely affected the Real Estate projects financed by the Bank. As a result, the Bank had to classify lucrative Real Estate loans on prudent basis, with a concrete recovery plan in place.

Furthermore, the SBP during its last inspection, identified a security shortfall in the real estate portfolio of the Bank.

However, with the support of SBP, the shortfall so identified has been more than adequately covered through additional collateral valued by SBP nominated valuers.

The Bank expects substantial payment against these loans in 2020, which would make these accounts regular and improve the bottom line of the Bank. Letters of Intent evidencing the future sale of major real estate portfolio of the Bank already stand executed, with established timelines.

As a result of the declining interest rate in 2019 / 2020, the Bank expects to report capital gain in the coming quarters on its PIB portfolio to improve the bottom line of the Bank.

Additionally, the Board has required the management to make efforts to revive, the mortgage assets business for further growth in the consumer banking business. Most importantly, the Bank will increasingly emphasize on its human capital by strengthening "a pay for performance culture" and improved succession planning process.

In order to provide a platform to cater to the unbanked population, the Bank has piloted the launch of digital banking to increase its outreach.

By introducing the "smart branch" concept, the Bank will also increase its distribution footprint. This will enhance the Bank's ability to mobilize deposits and invest increasingly in earning assets.

With the successful implementation of the strategies outlined above, your Directors are hopeful that the profitable growth of the Bank will continue in the years to come.

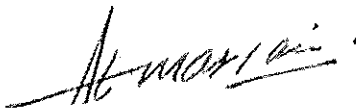
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**Acknowledgement:**

We, once again, take this opportunity to express our deepest gratitude to our customers and business partners for their continued support and trust, and our sincere appreciation to the State Bank of Pakistan for their guidance and cooperation.

We are also equally thankful to our associates, staff and colleagues for their committed services, and look forward to their continued support.

**For and on Behalf of the Board  
of Silkbank Limited**



**Azmat Tarin  
President & CEO**



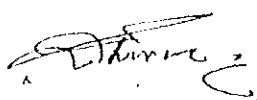
**Khalid Aziz Mirza  
Acting Chairman**

**Karachi, June 29, 2020**

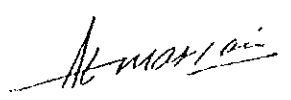
**SILKBANK LIMITED****CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION  
AS AT SEPTEMBER 30, 2019**

		September 30, 2019 Un-audited	December 31, 2018 Audited
	Note	Rupees in '000	
<b>ASSETS</b>			
Cash and balances with treasury banks	8	10,014,713	8,871,567
Balances with other banks	9	230,729	309,994
Lendings to financial institutions	10	19,652,112	12,612,156
Investments	11	37,562,204	28,924,993
Advances	12	107,120,539	98,354,002
Fixed assets	13	8,303,837	3,981,271
Intangible assets	14	233,078	226,840
Deferred tax assets	15	4,350,346	3,058,647
Other assets	16	18,838,494	20,231,529
		206,306,052	176,570,999
<b>LIABILITIES</b>			
Bills payable	17	2,273,727	2,866,568
Borrowings	18	37,676,968	18,051,854
Deposits and other accounts	19	141,950,684	132,664,084
Liabilities against assets subject to finance lease	20	-	2,663
Subordinated debt	21	2,125,418	1,999,600
Deferred tax liabilities		-	-
Other liabilities	22	10,559,081	6,599,483
		194,585,878	162,184,252
<b>NET ASSETS</b>		<b>11,720,174</b>	<b>14,386,747</b>
<b>REPRESENTED BY</b>			
<b>Shareholders' equity</b>			
Share capital - net	23	23,431,374	23,431,374
Reserves		820,890	820,890
Surplus / (deficit) on revaluation of assets - net of tax	24	20,307	(68,207)
Accumulated loss		(12,552,397)	(9,797,310)
		11,720,174	14,386,747
<b>CONTINGENCIES AND COMMITMENTS</b>			
	25		

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



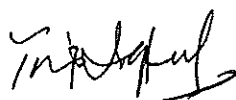
Chief Financial Officer



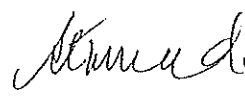
President & Chief Executive Officer



Director



Director

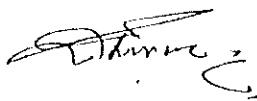


Director

**SILKBANK LIMITED**  
**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT - UNAUDITED**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**

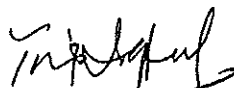
		Quarter ended		Nine months ended	
		September 30,	September 30,	September 30,	September 30,
		2019	2018	2019	2018
	Note	Rupees in '000			
Mark-up / return / profit / Interest earned	27	2,365,693	4,129,982	11,915,429	11,215,835
Mark-up / return / profit / Interest expensed	28	(4,320,362)	(2,479,948)	(10,396,639)	(6,252,694)
Net Mark-up / return / profit / Interest (loss) / Income		(1,954,769)	1,650,034	1,518,790	4,963,141
<b>NON MARK-UP / INTEREST INCOME</b>					
Fee and commission Income	29	647,175	375,558	1,704,591	1,275,488
Dividend income		-	-	3,425	-
Foreign exchange income		934,990	3,556	193,648	148,189
(Loss) / income / from derivatives		(887,623)	113,187	138,960	102,416
Gain / (loss) on securities	30	59,507	(45,553)	19,599	(62,920)
Other (loss) / Income	31	(126,238)	524,140	(78,984)	1,245,038
Total non-markup / Interest Income		627,811	970,888	1,981,239	2,708,211
Total (loss) / Income		(1,326,958)	2,620,922	3,500,029	7,671,352
<b>NON MARK-UP / INTEREST EXPENSES</b>					
Operating expenses	32	(2,013,736)	(1,610,149)	(5,852,637)	(4,904,935)
Workers Welfare Fund		5,186	(15,000)	-	(36,921)
Other charges	33	(59,974)	(5,635)	(185,066)	(10,188)
Total non-markup / Interest expenses		(2,068,524)	(1,630,784)	(6,037,703)	(4,952,044)
Profit before provisions, extra ordinary / unusual item and taxation		(3,395,482)	990,138	(2,537,674)	2,719,308
Provisions and write offs - net	34	(863,410)	(306,109)	(1,467,090)	(962,060)
Extra ordinary / unusual items		-	-	-	-
(LOSS) / PROFIT BEFORE TAXATION		(4,258,892)	684,029	(4,004,764)	1,757,248
Taxation	35	1,372,966	(194,671)	1,235,669	(521,980)
(LOSS) / PROFIT AFTER TAXATION		(2,885,926)	489,358	(2,769,095)	1,235,268
<b>Rupee</b>					
Basic and Diluted (Loss) / Earnings Per Share	36	(0.32)	0.05	(0.30)	0.14

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

  
Chief Financial Officer

  
President & Chief Executive Officer

  
Director

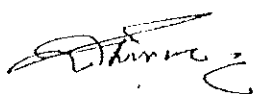
  
Director

  
Director


**SILKBANK LIMITED****CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME - UNAUDITED****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**

	Quarter ended September 30, 2019	September 30, 2018	Nine months ended September 30, 2019	September 30, 2018
	Rupees in '000			
(Loss) / profit after tax for the period	(2,885,926)	489,358	(2,769,095)	1,235,268
Other comprehensive income / (loss)				
Items that may be reclassified to profit and loss account in subsequent periods:				
Movement in deficit on revaluation of investments - net of tax	48,115	(55,627)	90,852	(94,311)
Items that will not be reclassified to profit and loss account in subsequent periods:				
Remeasurement gain / (loss) on defined benefit obligations - net of tax	-	-	10,413	(633)
Movement in surplus on revaluation of fixed assets - net of tax	(582)	(581)	(1,745)	(1,744)
Movement in surplus on revaluation of non-banking assets - net of tax	(593)	(1,094)	(593)	(8,156)
	(1,175)	(1,675)	8,075	(10,533)
<b>Total comprehensive (loss) / income</b>	<b>(2,838,986)</b>	<b>432,056</b>	<b>(2,670,168)</b>	<b>1,130,424</b>

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



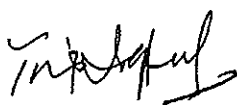
Chief Financial Officer



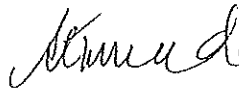
President & Chief Executive Officer



Director



Director



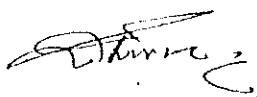
Director

**SILKBANK LIMITED****CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY - UNAUDITED****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**

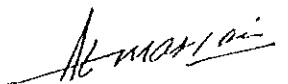
	Share Capital	Surplus / (deficit) on revaluation of		Capital Reserve	Revenue Reserve	Total Equity
		Investments	Fixed / Non Banking Assets	Statutory Reserve*	Accumulated Loss	
Rupees In '000						
Balance as at January 01, 2018 - Audited	23,431,374	(35,685)	88,408	554,903	(10,857,654)	13,181,346
Profit after taxation for the nine months ended September 30, 2018 - Un-audited	-	-	-	-	1,235,268	1,235,268
Other comprehensive loss - net of tax - Un-audited	-	(94,311)	(9,900)	-	(633)	(104,844)
Transfer from surplus on revaluation of fixed assets on account of Incremental depreciation- net of tax	-	-	-	-	2,685	2,685
Transfer from surplus on revaluation of non-banking assets on account of disposal of assets- net of tax	-	-	-	-	11,184	11,184
Transfer from surplus on revaluation of non-banking assets on account of transferred to fixed assets- net of tax	-	-	-	-	363	363
Balance as at September 30, 2018 - Un-audited	23,431,374	(129,996)	78,508	554,903	(9,608,787)	14,326,002
Profit after taxation for the quarter ended December 31, 2018 - Un-audited	-	-	-	-	94,665	94,665
Other comprehensive loss - net of tax - Un-audited	-	(14,914)	(1,805)	-	(19,976)	(36,695)
Transfer to statutory reserves	-	-	-	265,987	(265,987)	-
Transfer from surplus on revaluation of fixed assets on account of Incremental depreciation- net of tax	-	-	-	-	894	894
Transfer from surplus on revaluation of non-banking assets on account of disposal of assets- net of tax	-	-	-	-	1,881	1,881
Balance as at December 31, 2018 - Audited	23,431,374	(144,910)	76,703	820,890	(9,797,310)	14,386,747
Loss after taxation for the nine months ended September 30, 2019 - Un-audited	-	-	-	-	(2,769,095)	(2,769,095)
Other comprehensive income / (loss) - net of tax - Un-audited	-	90,852	(2,338)	-	10,413	98,927
Transfer from surplus on revaluation of fixed assets on account of Incremental depreciation- net of tax	-	-	-	-	2,684	2,684
Transfer from surplus on revaluation of non-banking assets on account of disposal of assets- net of tax	-	-	-	-	911	911
Balance as at September 30, 2019 - Un-audited	23,431,374	(54,058)	74,365	820,890	(12,552,397)	11,720,174

\* Statutory reserves represent amount set aside as per requirements of section 21 of the Banking Companies Ordinance, 1962.

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



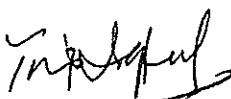
Chief Financial Officer



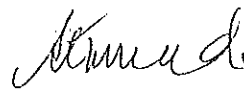
President &amp; Chief Executive Officer



Director



Director



Director

**SILKBANK LIMITED**  
**CONDENSED INTERIM CASH FLOW STATEMENT - UNAUDITED**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**

		September 30, 2019	September 30, 2018
	Note	Rupees in '000	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation		(4,004,764)	1,757,248
Less: Dividend Income		(3,425)	-
		(4,008,189)	1,757,248
<b>Adjustments:</b>			
Depreciation on fixed assets	32	323,441	296,845
Depreciation on right-of-use assets	32	605,034	-
Depreciation on non-banking assets	32	50,980	59,771
Amortization of Intangible assets	32	47,897	46,451
Amortization of premium on Investments - net		(12,284)	153,550
Mark-up / return / profit / Interest expensed on lease liability against right-of-use assets	28	361,537	-
Provisions against loans & advances	34	1,698,374	1,103,225
Gain on sale of fixed assets	31	(698)	(9,339)
Unrealized loss on revaluation of Investments - held-for-trading	30	1,678	2,853
Share of profit from associate	31	(406)	(5,340)
Loss / (gain) on sale of non-banking assets	31	189,947	(858,416)
Write offs against fixed assets	34	2,080	1,705
		3,087,662	791,305
		(940,527)	2,548,553
<b>Decrease in operating assets</b>			
Lendings to financial institutions		(7,039,966)	6,598,642
Net Investments in held-for-trading securities		(811,285)	(9,311,010)
Advances		(10,364,911)	(14,688,312)
Other assets (excluding advance taxation)		1,248,446	405,940
		(16,967,706)	(16,985,640)
<b>Increase / (decrease) / in operating liabilities</b>			
Bills payable		(582,841)	(1,147,223)
Borrowings		10,625,114	(18,087,587)
Deposits		9,286,600	12,052,621
Other liabilities (excluding current taxation)		(489,970)	486,801
		27,818,903	(6,685,188)
		9,910,670	(21,132,284)
		(479,115)	(187,041)
		9,431,555	(21,319,325)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net investment in available-for-sale securities		(7,417,487)	21,062,464
Net investment in held-to-maturity securities		(257,658)	-
Dividend received		3,425	1,025
Net investment in fixed assets and intangible assets		(393,437)	(450,100)
Proceeds on disposal of non-banking assets		273,500	1,482,187
Proceeds on disposal of fixed assets		47,204	93,011
Net cash flow generated (used in) / from Investing activities		(7,744,453)	22,182,587
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from / (repayment of) subordinated debts		125,818	(400)
Payment of finance lease obligation		(2,663)	(3,122)
Payment of lease liability against right-of-use assets		(746,376)	-
Net cash flow used in financing activities		(623,221)	(3,522)
Increase in cash and cash equivalents		1,063,881	869,740
Cash and cash equivalents at the beginning of the period		9,181,561	8,631,596
Cash and cash equivalents at the end of the period	37	10,245,442	9,501,336

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

Chief Financial Officer

President & Chief Executive Officer

Director

Director

Director

## **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS - UNAUDITED**

### **FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**

#### **1 STATUS AND NATURE OF BUSINESS**

Sikbank Limited ("the Bank") was incorporated in Pakistan on April 04, 1994 as a public limited company under the Companies Act, 2017. The Bank commenced commercial operations on May 7, 1995. The Bank's shares are quoted on Pakistan Stock Exchange Limited. The Bank is engaged in banking services as described in the Banking Companies Ordinance, 1962. The Bank operates through 123 branches (December 31, 2018: 123 branches) including 30 (December 31, 2018: 30) Islamic banking branches in Pakistan. The Bank's registered office is located at Sikbank Building, 13-L, F-7 Markaz, Islamabad. The short-term and long-term credit ratings of the Bank rated by JCR-VIS Credit Rating Company Limited in June 2019 are 'A-2' and 'A-' respectively.

Major shareholders of the Bank as on September 30, 2019 are Sinthos Capital (comprising of Mr. Shaukat Tarin, Mr. Sadeq Sayeed and Mr. Azmat Tarin), Anil Habib Corporation Limited, International Finance Corporation (IFC), Nomura European Investment Limited, Bank Muscat S.A.O.G and Mr. Zulqamain Nawaz Chatta / Mr. Zubair Nawaz Chatta of Gourmet Group.

As at September 30, 2019, the equity of the Bank is Rs. 11.7 billion excluding deficit on revaluation of assets. This includes share capital (net of losses and discount on shares) of Rs. 13.7 billion against the minimum requirement of Rs. 10 billion as prescribed by SBP. Further, the Capital Adequacy Ratio (CAR) of the Bank is, 6.79% against the minimum CAR requirement of State Bank of Pakistan (SBP) of 11.90%. The CAR requirement of 11.90% is made up of minimum CAR of 10% plus 1.90% of Capital Conservation Buffer (CCB).

At the time of approval of these financial statements by the Board of Directors, the Bank subsequent to the dates of these financial statement, has already realized capital gains amounting to approximately Rs. 5.5 billion from the sale of government securities and additional Rs. 1.4 billion approximately (based on the PKRV issued on June 26, 2020, applicable for June 29, 2020) is also available as revaluation surplus. With these gains and reduction of NPLs as mentioned in Note 12.3.1, bank is confident that they will be able to meet CAR in near future.

The Bank has prepared five years financial projections which have been approved by the Board of Directors for the purpose of setting future course of action. The projections reflects the reduction in corporate exposure, improvement in profits and curing of NPLs, disposal of non-banking assets acquired in satisfaction of claims (NBA). Further the growth in low cost deposits and increase in high yielding consumer advances will also support to increase the profitability of the Bank.

Further SBP has allowed staggering of provision against non-performing loans (refer note 12.3.2) amounting to Rs 2.442 billion and allowed to treat the general provision held against consumer financing as part of Common Equity Tier I instead of Tier II for the purpose of CAR calculation. Had this benefit not been taken by the Bank, profit before tax and CAR would have been lower by Rs. 2.442 billion and 2.72% respectively.

#### **2 BASIS OF PRESENTATION**

- 2.1 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the SBP has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by the banks from their customers and immediate resale to them at appropriate mark-up 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 mark-up thereon.
- 2.2 The Islamic banking branches of the Bank have complied with the requirements set out under the Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP) and notified under the provisions of the Companies Act, 2017 except for the adoption of IFAS-3 'Profit & Loss Sharing on Deposits' as disclosed in note 3.3.
- 2.3 The financial results of the Islamic banking branches have been included in these condensed interim financial statements for reporting purposes, after eliminating material inter-branch transactions / balances. Key financial figures of the Islamic banking branches are disclosed in note 42 to these condensed interim financial statements.

#### **3 STATEMENT OF COMPLIANCE**

- 3.1 These condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards as applicable in Pakistan comprise of:
  - The accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
  - Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP), as are notified under the Companies Act, 2017;
  - Provisions of and directives issued under the Banking Companies Ordinance, 1962 and the Companies Act, 2017;
  - Directives issued by the SBP and the Securities and Exchange Commission of Pakistan ("SECP") from time to time.

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 IFRS or IFAS, the requirements of the Banking Companies Ordinance, 1962, the Companies Act, 2017 and the said directives shall prevail.

- 3.2 The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. Further, the SECP has deferred the applicability of IFRS 7 'Financial Instruments: Disclosures' on banks through S.R.O. 411(I) / 2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these condensed interim financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.
- 3.3 The State Bank of Pakistan through BPRD Circular No. 04 of 2015 dated February 25, 2015 has deferred applicability of IFAS-3 for Profit & Loss Sharing on Deposits (IFAS-3) issued by the ICAP and notified by the SECP, vide their SRO No. 571 of 2013 dated June 12, 2013 for institutions offering Islamic Financial Services (IFS). The standard will result in certain new disclosures in the condensed interim financial statements of the Bank.



- 3.4 The disclosures made in these condensed interim financial statements are limited based on the format prescribed by the SBP vide BPRD circular letter No. 5 dated March 22, 2019 and International Accounting Standard (IAS) 34, 'Interim Financial Reporting' and do not include all the information required in the annual financial statements. Accordingly, these condensed interim financial statements should be read in conjunction with the annual financial statements of the Bank for the year ended December 31, 2018. The amended format introduced certain new disclosures and has resulted in the following significant change:

Acceptances amounting to Rs. 1,469.26 million (December 31, 2018: Rs. 2,894.21 million) which were previously shown as a part of contingencies and commitments are not recognised on balance sheet both as assets and liabilities. They are included in other assets (note 16) and other liabilities (note 22).

#### 4 BASIS OF MEASUREMENT

These condensed interim financial statements have been prepared under the historical cost convention, except that certain fixed assets and non-banking assets are stated at revalued amounts less accumulated depreciation and accumulated impairment losses (where applicable) and certain investments and derivative financial instruments have been measured at fair value and net obligations in respect of defined benefit scheme are carried at their present value.

These condensed interim financial statements have been prepared in Pakistani Rupee which is the functional and presentation currency of the Bank. The amounts are rounded off to the nearest thousand rupee, unless otherwise stated.

#### 5 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of computation adopted for the preparation of these condensed interim financial statements are same as those followed in the preparation of the annual financial statements of the Bank for the year ended December 31, 2018.

##### 5.1 Standards, interpretations of and amendments to accounting and reporting standards that are not yet effective

The following new standards and interpretations of and amendments to existing accounting and reporting standards will be effective from the dates mentioned below against the respective standard, interpretation or amendment:

Standard, Interpretation or Amendment	Effective date (annual periods beginning on or after)
IFRS 3 - Definition of a Business (Amendments)	January 01, 2020
IAS 1 - Presentation of Financial Statements (Amendments)	January 01, 2020
IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (Amendments)	January 01, 2020
IFRS 9 - Financial Instruments: Classification and Measurement	January 01, 2021

The SECP, through SRO 229 (I) / 2019 dated February 14, 2019, has notified that IFRS 9, Financial Instruments, is applicable for accounting periods ending on or after June 30, 2019. However, the SBP through BPRD circular no. 04 of 2019, has decided that the effective date of IFRS 9 Implementation will be January 01, 2021.

IFRS 9: 'Financial Instruments' addresses recognition, classification, measurement and derecognition of financial assets and financial liabilities. The standard has also introduced a new impairment model for financial assets which requires recognition of impairment charge based on an 'Expected Credit Losses' (ECL) approach rather than the 'incurred credit losses' approach as currently followed. The ECL has impact on all assets of the Bank which are exposed to credit risk. The Bank is in the process of assessing the full impact of this standard.

There are certain new and amended standards and interpretations as referred to in note 4.3 to the Bank's financial statements for the year ended December 31, 2018, that are mandatory for the Bank's accounting periods beginning on or after January 1, 2020 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these condensed interim financial statements.

## 5.2 Standards, interpretations of and amendments to accounting and reporting standards that are effective in the year 2019

During the period, IFRS 16 - Leases became, effective from annual reporting period beginning on or after January 1, 2019. The impact of the adoption of IFRS 16 on the Bank's condensed interim financial statements is disclosed in note 6.1.

As referred to in note 4.3 to the Bank's financial statements for the year ended December 31, 2018, there are certain standards, amendments and interpretations that are effective for the annual period beginning on or after January 1, 2019 other than those disclosed in note 5.1. These are considered either not to be relevant or not to have any significant impact on the Bank's condensed interim financial statements

## 6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The basis and methods used for critical accounting estimates and judgments adopted in these condensed interim financial information are same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2018, except for the following:

### 6.1 Impact of IFRS 16 - Leases

IFRS 16 replaces existing guidance on accounting for leases, including IAS 17, Leases, IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases - Incentive, and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces an on-balance sheet lease accounting model for leases entered by the lessee. A lessee recognizes a right-of-use asset representing its right of using the underlying asset and a corresponding lease liability representing its obligations to make lease payments. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as either finance or operating leases.

The bank has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standards.

On adoption of IFRS 16, the Bank has recognised liabilities in respect of leases which had previously been classified as operating leases under IAS 17. The lease liability is subsequently measured at amortised cost using the effective interest rate method.

	September 30, 2019	January 01, 2019
	Rupees in '000	
Total lease liability recognised	<u>4,475,588</u>	<u>4,539,401</u>

On adoption of IFRS 16, the associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of prepaid lease payments recognised in the condensed statement of financial position immediately before the date of initial application. These liabilities were initially measured as the present value of the remaining lease payments, discounted using the Bank's incremental weighted average borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest rate method.

The right-of-use assets recognised subsequent to the adoption are measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use assets are depreciated on a straight line basis over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits. The right-of-use assets are reduced by impairment losses, if any, and adjusted for certain remeasurements of lease liability.

The recognised right-of-use assets relate to the following type of asset:

	September 30, 2019	January 01, 2019
	Rupees in '000	
Land and building	<u>4,355,393</u>	<u>4,860,427</u>

#### Impact on Condensed Interim Statement of Financial Position

Increase in fixed assets - right-of-use assets	4,355,393	4,860,427
(Decrease) in other assets - advances, deposits, advance rent and other prepayments	(186,661)	(321,026)
Increase in other assets - advance taxation	107,400	-
Increase in total assets	4,276,132	4,539,401
Increase in other liabilities - lease liability against right-of-use assets	(4,475,588)	(4,539,401)
(Decrease) / increase in net assets	<u>(199,456)</u>	<u>-</u>

	September 30, 2019 Rupees in '000
<b>Impact on Condensed Interim Profit and Loss account</b>	
Increase in mark-up expense - lease liability against right-of-use assets	(361,637)
(Increase) / decrease in administrative expenses:	
- Depreciation on right-of-use assets	(605,034)
- Rent expense	659,715
Decrease in profit before tax	(306,866)
Decrease in tax	107,400
Decrease in profit after tax	(199,456)

While implementing IFRS 16, the Bank has used a single discount rate methodology. The Bank has opted not to recognise right-of-use assets for leases of low value.

## 7 FINANCIAL RISK MANAGEMENT

The Bank's financial risk management objectives and policies are consistent with those disclosed in the annual financial statements for the year ended December 31, 2018.

		September 30, 2019 Un-audited	December 31, 2018 Audited
	Note	Rupees in '000	
<b>8 CASH AND BALANCES WITH TREASURY BANKS</b>			
<b>In hand</b>			
Local currency		1,761,162	1,829,723
Foreign currencies		692,231	581,068
		2,443,383	2,410,791
<b>With State Bank of Pakistan in</b>			
Local currency current account	8.1	5,224,865	4,496,567
Foreign currency current account		801,940	630,335
Foreign currency deposit account	8.2	1,386,651	1,210,071
		7,413,446	6,336,973
<b>With National Bank of Pakistan in</b>			
Local currency current account		119,476	121,213
<b>National Prize Bonds</b>		38,408	2,590
		10,014,713	8,871,567

8.1 Deposits with the SBP are maintained to comply with the statutory requirements of the SBP issued from time to time (section 22 of the Banking Companies Ordinance, 1962).

8.2 This represents account maintained with the SBP to comply with Special Cash Reserve requirement (FE-25 scheme, as prescribed by SBP). It carries interest rates ranging from 1.02% to 1.09% (December 31, 2018: 0.56% to 1.35%).

		September 30, 2019 Un-audited	December 31, 2018 Audited
		Rupees in '000	
<b>9 BALANCES WITH OTHER BANKS</b>			
<b>In Pakistan</b>			
In current account		96,338	88,815
In deposit account		68	64
		96,406	88,879
<b>Outside Pakistan</b>			
In current account		134,323	221,115
		230,729	309,994

## 10 LENDINGS TO FINANCIAL INSTITUTIONS

Repurchase agreement lendings (Reverse repo)	16,283,334	11,665,534
Foreign placement	918,803	946,622
Bai Muajjal receivable from State Bank of Pakistan	3,449,975	-
	19,652,112	12,612,156

# 11 INVESTMENTS

11.1 Investments by type:	September 30, 2019 - (Un-audited)				December 31, 2018 - Audited			
	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
	Rupees in '000							
<b>Held-for-trading securities</b>								
Market Treasury Bills	10,511,597	-	(2,410)	10,509,187	10,053,860	-	(2,423)	10,051,437
Pakistan Investment Bonds	51,415	-	20	51,435	-	-	-	-
Shares - Listed	299,710	-	712	300,422	-	-	-	-
	10,862,722	-	(1,678)	10,861,044	10,053,860	-	(2,423)	10,051,437
<b>Available-for-sale securities</b>								
Market Treasury Bills	-	-	-	-	4,354,202	-	(2,697)	4,351,505
Pakistan Investment Bonds	24,138,786	-	(54,761)	24,084,025	10,253,483	-	(207,218)	10,046,265
GOP Ijarah Sukuks	1,730,165	-	17,275	1,747,440	3,862,276	-	(10,629)	3,851,647
Shares - Listed	224,322	-	(42,750)	181,572	137,851	-	(2,482)	135,369
Shares - Unlisted	5,680	(5,680)	-	-	5,680	(5,680)	-	-
Sukuks - Listed	256,336	-	(2,931)	253,405	299,527	-	714	300,241
Term Finance Certificates - Listed	50,000	-	-	50,000	62,500	-	(625)	61,875
Term Finance Certificates - Unlisted	8,780	(8,780)	-	-	8,780	(8,780)	-	-
	26,414,069	(14,460)	(83,167)	26,316,442	18,984,299	(14,460)	(222,937)	18,746,902
<b>Held-to-maturity securities</b>								
Shares repurchase (fully provided)	74,910	(74,910)	-	-	74,910	(74,910)	-	-
Other Federal Government Securities	257,658	-	-	257,658	-	-	-	-
	332,568	(74,910)	-	257,658	74,910	(74,910)	-	-
<b>Associates</b>								
SPI Insurance Company Limited	127,060	-	-	127,060	126,654	-	-	126,654
<b>Total investments</b>	<b>37,736,419</b>	<b>(89,370)</b>	<b>(84,845)</b>	<b>37,562,204</b>	<b>29,239,723</b>	<b>(89,370)</b>	<b>(225,360)</b>	<b>28,924,993</b>
11.2 Investments by segments:	September 30, 2019 - (Un-audited)				December 31, 2018 - Audited			
	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
	Rupees in '000							
<b>Federal Government Securities</b>								
Market Treasury Bills	10,511,597	-	(2,410)	10,509,187	14,408,062	-	(5,120)	14,402,942
Pakistan Investment Bonds	24,190,201	-	(54,741)	24,135,460	10,253,483	-	(207,218)	10,046,265
GOP Ijarah Sukuks	1,730,165	-	17,275	1,747,440	3,862,276	-	(10,629)	3,851,647
Bai Muajjal	257,658	-	-	257,658	-	-	-	-
	36,689,621	-	(39,876)	36,649,745	28,523,821	-	(222,967)	28,300,854
<b>Shares</b>								
Listed companies	524,032	-	(42,038)	481,994	137,851	-	(2,482)	135,369
Unlisted companies	5,680	(5,680)	-	-	5,680	(5,680)	-	-
	529,712	(5,680)	(42,038)	481,994	143,531	(5,680)	(2,482)	135,369
<b>Non Government Debt Securities</b>								
Sukuks - Listed	256,336	-	(2,931)	253,405	299,527	-	714	300,241
Term Finance Certificates - Listed	50,000	-	-	50,000	62,500	-	(625)	61,875
Term Finance Certificates - Unlisted	8,780	(8,780)	-	-	8,780	(8,780)	-	-
	315,116	(8,780)	(2,931)	303,405	370,807	(8,780)	89	362,116
Shares repurchase (fully provided)	74,910	(74,910)	-	-	74,910	(74,910)	-	-
<b>Associates</b>								
SPI Insurance Company Limited	127,060	-	-	127,060	126,654	-	-	126,654
<b>Total investments</b>	<b>37,736,419</b>	<b>(89,370)</b>	<b>(84,845)</b>	<b>37,562,204</b>	<b>29,239,723</b>	<b>(89,370)</b>	<b>(225,360)</b>	<b>28,924,993</b>

	September 30, 2019 Un-audited	December 31, 2018 Audited
	Rupees in '000	
<b>11.2.1 Investments given as collateral</b>		
Market Treasury Bills	3,823,160	-
Pakistan Investment Bonds	23,146,653	6,468,112
	<u>26,968,813</u>	<u>6,468,112</u>

### 11.3 Provision for diminution in value of investments

<b>11.3.1 Opening balance</b>	89,370	89,370
<b>Charge / (reversals)</b>		
Charge for the period / year	-	-
Reversals for the period / year	-	-
Amounts written off	-	-
<b>Closing balance</b>	<u>89,370</u>	<u>89,370</u>

### 11.3.2 Particulars of provision against debt securities

Category of classification	September 30, 2019 - (Un-audited)		December 31, 2018 - Audited	
	Non Performing Investments	Provision	Non Performing Investments	Provision
	Rupees in '000			
Domestic	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	83,690	83,690	83,690	83,690
<b>Total</b>	<u>83,690</u>	<u>83,690</u>	<u>83,690</u>	<u>83,690</u>

11.4 The market value of securities classified as held-to-maturity is Rs. 258 million (December 31, 2018: Rs. Nil).

## 12 ADVANCES

	Performing		Non Performing		Total	
	September 30, 2019 Un-audited	December 31, 2018 Audited	September 30, 2019 Un-audited	December 31, 2018 Audited	September 30, 2019 Un-audited	December 31, 2018 Audited
	Rupees in '000					
<b>Note</b>						
Loans, cash credits, running finances, etc.	73,248,197	69,879,752	11,353,103	6,366,874	84,601,300	76,246,626
Islamic financing and related assets	5,132,661	26,600,182	22,708,787	301,516	27,839,448	26,901,698
Bills discounted and purchased	939,257	411,194	3,113	6,650	942,370	417,844
<b>Advances - gross</b>	<u>79,320,115</u>	<u>96,891,128</u>	<u>34,063,003</u>	<u>6,675,040</u>	<u>113,383,118</u>	<u>103,566,168</u>
<b>Provision against advances</b>						
- Specific	-	-	5,500,931	4,524,443	5,500,931	4,524,443
- General	761,648	687,723	-	-	761,648	687,723
	<u>761,648</u>	<u>687,723</u>	<u>5,500,931</u>	<u>4,524,443</u>	<u>6,262,579</u>	<u>5,212,166</u>
<b>Advances - net of provision</b>	<u>78,558,467</u>	<u>96,203,405</u>	<u>28,562,072</u>	<u>2,150,597</u>	<u>107,120,539</u>	<u>98,354,002</u>

	September 30, 2019 Un-audited	December 31, 2018 Audited
	Rupees in '000	
<b>12.1 Particulars of advances (Gross)</b>		
In local currency	113,383,118	103,562,141
In foreign currencies	-	4,027
	<u>113,383,118</u>	<u>103,566,168</u>

12.2 Advances include Rs. 34,063 million (December 31, 2018: Rs. 6,675 million) which have been placed under non-performing status as detailed below:

Category of classification	September 30, 2019 - (Un-audited)		December 31, 2018 - Audited	
	Non Performing Loans	Provision	Non Performing Loans	Provision
	Rupees in '000			
Domestic	5,265,044	388,062	983,161	127,978
Substandard	642,288	47,396	521,267	49,873
Doubtful	28,155,671	5,086,473	5,170,612	4,346,592
Loss	34,063,003	5,500,931	6,675,040	4,524,443
<b>Total</b>	<u>34,063,003</u>	<u>5,500,931</u>	<u>6,675,040</u>	<u>4,524,443</u>

### 12.3 Particulars of provision against non performing advances:

	September 30, 2019 - (Un-audited)			December 31, 2018 - Audited		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
<b>Note</b>						
Opening balance	4,524,443	687,723	5,212,166	3,730,789	558,280	4,289,069
Charge for the period / year	1,699,388	73,925	1,773,313	1,417,628	131,443	1,549,071
Reversals for the period / year	(174,939)	-	(174,939)	(93,862)	-	(93,862)
	<u>1,524,449</u>	<u>73,925</u>	<u>1,598,374</u>	<u>1,323,766</u>	<u>131,443</u>	<u>1,455,209</u>
Amounts written off	(547,961)	-	(547,961)	(530,112)	-	(530,112)
<b>Closing balance</b>	<u>6,500,931</u>	<u>761,648</u>	<u>6,262,579</u>	<u>4,524,443</u>	<u>687,723</u>	<u>5,212,166</u>

- 12.3.1 During the period the bank recorded additional NPL's, by and large, arising out of the accounts of the borrowers engaged in the businesses of real estate/construction sector. This is mainly due to slow down in the businesses activities of these sectors, tax issues relating to these businesses and the ban on construction of high rise buildings in Karachi. However, a Letter of Interest (LOI) has been signed between the borrower and Federal Government Employee Housing Scheme Authority (FGHEHA) for the sale of these underlying properties where substantial payment is expected shortly. Additionally, the government had announced a stimulus package to uplift and provide the necessary support to the real estate/construction sector. Based on these positive developments, bank is confident that the NPL's would be cured shortly.
- 12.3.2 As at September 30, 2019, the Bank has availed benefit of relaxation provided by SBP vide its letter dated June 24, 2020 from the requirements of Regulation R-8 of Prudential Regulation for Corporate / Commercial Banking amounting to Rs. 2.442 billion till June 30, 2020.
- 12.3.3 SBP vide various circulars has amended Prudential Regulations in respect of provisioning against non-performing advances under which the benefit of Forced Sale Value (FSV) has been allowed for plant and machinery under charge, pledged stock and mortgaged residential, commercial and industrial properties (land and building only) held as collateral against non-performing advances upto five years from the date of classification.
- 12.3.4 As of September 30, 2019, the Bank has availed FSV benefits against all non performing advances. Had the benefit not been taken by the Bank, loss after tax would have been higher by Rs. 3,909 million, whereas profit in December 31, 2018 would have been lower by Rs. 731 million, which shall not be available for payment of cash or stock dividend / bonus to employees.
- 12.3.5 As per Prudential Regulation for consumer financing issued by the SBP, percentage of reserve is linked to non-performing loans to gross loans ratio. Consequently, the general provisioning on consumer financing is maintained at 4% (December 31, 2018: 4%) of unsecured portfolio of the Bank.

	Note	September 30, 2019 Un-audited	December 31, 2018 Audited
		Rupees in '000	
<b>13</b>	<b>FIXED ASSETS</b>		
Capital work-in-progress	13.1	76,695	63,641
Property and equipment		3,871,749	3,917,630
Right-of-use assets	6.1	4,355,393	-
		<u>8,303,837</u>	<u>3,981,271</u>

**13.1 Capital work-in-progress**

Civil works	7,764	22,427
Advances to suppliers and contractors	<u>68,931</u>	<u>41,214</u>
	<u>76,695</u>	<u>63,641</u>

	September 30, 2019 Un-audited	September 30, 2018 Un-audited
	Rupees in '000	

**13.2 Additions to fixed assets**

The following additions have been made to fixed assets during the period:

Capital work-in-progress	70,153	123,770
<b>Property and equipment</b>		
Building on leasehold land	-	49,993
Furniture and fixture	11,576	60,858
Electrical office, and computer equipment	77,653	185,539
Vehicles	199,296	161,036
Leasehold Improvements	37,823	147,360
	<u>326,248</u>	<u>584,786</u>
<b>Total</b>	<u>396,401</u>	<u>708,556</u>

**13.3 Disposal of fixed assets**

The net book value of fixed assets disposed off during the period is as follows:

Freehold land	-	76,682
Furniture and fixture	219	9
Electrical office, and computer equipment	80	53
Vehicles	46,309	41,929
<b>Total</b>	<u>46,608</u>	<u>118,673</u>

- 13.4 On September 10, 2015, the Bank entered into an Agreement to Sell (the Agreement) for the previous Head Office Building of the Bank against sale consideration of Rs. 2,370 million. Pursuant to the terms of the Agreement, the Bank received a down payment of Rs. 118.50 million, which is currently reported in 'other liabilities' (note 22). The remaining balance is required to be paid by the buyer within 5 years from the date of the Agreement. As per the terms of the Agreement, the buyer agreed to pay annual rent based on the outstanding amount of consideration from the date of receipt of approvals from relevant authorities, however, on June 28, 2016, the buyer has provided the consent to pay annual rent with effect from July 1, 2016. During the period, the Bank has recorded rental income amounting to Rs. 118.2 million (September 30, 2018: Rs. 118.2 million) as disclosed in note 31. As per the terms of the Agreement, in case the buyer fails to pay the amount of rent or balance sale consideration, the advance received of 5% shall stand forfeited. Since the conditions to recognise disposal are not met, the previous Head Office Building has not been derecognised.

	September 30, 2019 Un-audited	December 31, 2018 Audited
	Rupees in '000	
<b>14</b>	<b>INTANGIBLE ASSETS</b>	
Capital work-in-progress	83,822	65,167
Software	149,256	161,673
	<u>233,078</u>	<u>226,840</u>

	September 30, 2019 Un-audited	September 30, 2018 Un-audited
	Rupees in '000	
<b>14.1 Additions to Intangible assets</b>		
The following additions have been made to intangible assets during the period:		
Capital work-in-progress	27,429	20,683
Software (directly purchased)	35,480	8,336
<b>Total</b>	<b>62,909</b>	<b>27,019</b>

	September 30, 2019 Un-audited	December 31, 2018 Audited
	Rupees in '000	
<b>15 DEFERRED TAX ASSETS</b>		
<b>Deductible Temporary Differences on</b>		
- Post retirement employee benefits	1,918	7,525
- Deficit on revaluation of investments	29,109	78,027
- Unabsorbed tax losses	1,069,286	-
- Provision for diminution in value of investments	3,073	3,073
- Provision against non-performing advances	2,481,993	2,327,362
- Provision against Workers' Welfare Fund (WWF)	47,094	47,094
- Provision against other assets	223,368	223,368
- Depreciation on non-banking assets	80,446	65,855
- Unabsorbed tax depreciation	622,433	439,636
	<b>4,468,720</b>	<b>3,191,940</b>
<b>Taxable Temporary Differences on</b>		
- Surplus on revaluation of non-banking assets	(2,216)	(2,534)
- Surplus on revaluation of fixed assets	(11,688)	(12,627)
- Accelerated tax depreciation	(94,670)	(118,232)
	<b>(108,374)</b>	<b>(133,293)</b>
	<b>4,360,346</b>	<b>3,058,647</b>

- 15.1** The Bank has an aggregate amount of deferred tax assets of Rs.4,350 million (December 31, 2018: Rs. 3,059 million) which represents management's best estimate of the probable benefits expected to be realised in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in those years against taxable temporary differences relating to prior years. The Bank has prepared five years financial projections for future taxable profits, which have been approved by the Board of Directors of the Bank, to assess the recoverability of deferred tax assets. The projections involve certain key management assumptions underlying the estimation of future taxable profits. The determination of future taxable profits is most sensitive to certain key assumptions such as growth of low cost deposits, growth in high yield consumer advances, investment returns, branch expansion plans, potential provision against assets, interest rates, cost of funds and expected recoveries of classified loans. Any significant change in such assumptions may have an effect on the recoverability of the deferred tax assets. Management believes that it is probable that the Bank will be able to achieve the profits and consequently, the deferred tax asset will be fully realised in future.

	September 30, 2019 Un-audited	December 31, 2018 Audited
	Rupees in '000	
<b>16 OTHER ASSETS</b>		
Income / mark-up accrued in local currency - net of provision	4,642,948	4,738,974
Income / mark-up accrued in foreign currency - net of provision	1,167	412
Rent receivable	315,217	531,254
Advances, deposits, advance rent and other prepayments	413,553	640,333
Advance taxation (payments less provisions)	1,337,124	967,307
Non-banking assets	10,022,701	9,795,307
Branch adjustment account	36,497	110,813
Mark to market gain on forward contracts	374,691	180,579
Acceptances	1,469,260	2,894,213
Receivable from sale of operating fixed assets	-	35,000
Receivable from sale of non-banking assets	297,350	518,250
Receivable from NCCPL	8,681	-
Others	510,900	409,661
	<b>19,429,979</b>	<b>20,822,103</b>
Less: Provision held against other assets	(623,274)	(623,274)
Other assets - net of provisions	18,806,705	20,198,829
Surplus on revaluation of non-banking assets	31,789	32,700
<b>Other assets - total</b>	<b>18,838,494</b>	<b>20,231,529</b>

- 16.1 On June 01, 2016, the Bank entered into an Agreement to Sell (the Agreement) for undeveloped lands having book value of Rs. 3,416 million against sale consideration of Rs. 3,416 million. Pursuant to the terms of the Agreement, the Bank received a down payment of Rs. 170.83 million. The remaining balance is required to be paid by the buyer within 5 years from the date of receipt of certain approvals from relevant authorities, however, the Bank through a Supplementary Agreement to Sell (the Supplementary Agreement) dated June 24, 2016 amended the Agreement and removed the condition of approvals from relevant authorities. The balance sale consideration is payable within 5 years from August 01, 2016. Further, the buyer initially agreed to pay annual rent based on the outstanding amount of consideration from the date of receipt of approvals from relevant authorities, however, on July 29, 2016, the buyer has provided the consent to pay annual rent with effect from August 01, 2016. Due to the slow down in the real sector / construction sector and considering the aging of the receivable balance outstanding against rent, the bank has prudently reversed the rent receivable and as per term of the Agreement, Bank adjusted the down payment of Rs.170.83 million.

	September 30, 2019 Un-audited	December 31, 2018 Audited
	Rupees in '000	
<b>16.2 Non-banking assets</b>		
- acquired in satisfaction of claims	6,209,920	5,585,886
- under agreement to sale third parties	3,762,604	4,018,263
- with buy back option with customers	50,177	191,158
	<u>10,022,701</u>	<u>9,795,307</u>
<b>16.3 Provision held against other assets</b>		
Non-banking assets	594,274	594,274
Advances, deposits, advance rent and other prepayments	21,000	21,000
Others	8,000	8,000
	<u>623,274</u>	<u>623,274</u>
<b>16.3.1 Movement in provision held against other assets</b>		
Opening balance	623,274	630,361
Charge for the period / year	-	-
Reversals for the period / year	-	-
Net charge for the period / year	-	-
Reversal on disposal / write off	-	(7,087)
Closing balance	<u>623,274</u>	<u>623,274</u>

- 16.3.2 This includes Rs. 594,274 million (December 31, 2018 : Rs. 594,274 million) pertains to non-banking assets resulting net book value of Rs. 9,460 million (December 31, 2018 : Rs. 9,234 million)

	September 30, 2019 Un-audited	December 31, 2018 Audited
	Rupees in '000	
<b>17 BILLS PAYABLE</b>		
In Pakistan	2,273,727	2,866,568
Outside Pakistan	-	-
	<u>2,273,727</u>	<u>2,866,568</u>
<b>18 BORROWINGS</b>		
<b>Secured</b>		
Borrowings from State Bank of Pakistan under export refinance scheme	1,612,331	1,647,067
Repurchase agreement borrowings	26,941,608	6,500,646
<b>Total secured</b>	<u>28,553,939</u>	<u>8,147,713</u>
<b>Unsecured</b>		
Call borrowings	3,794,417	3,000,000
Trading liability	4,160,370	6,843,117
Overdraw nostro accounts	1,168,242	61,024
<b>Total unsecured</b>	<u>9,123,029</u>	<u>9,904,141</u>
	<u>37,676,968</u>	<u>18,051,854</u>

**19 DEPOSITS AND OTHER ACCOUNTS**

	September 30, 2019 - (Un-audited)			December 31, 2018 - Audited		
	In Local Currency	In Foreign currencies	Total	In Local Currency	In Foreign currencies	Total
	Rupees in '000					
<b>Customers</b>						
Current deposits	22,454,701	5,629,285	27,983,986	21,844,736	3,838,921	25,683,657
Saving deposits	49,719,353	3,342,586	53,061,939	43,582,478	2,844,764	46,427,242
Term deposits	35,367,647	2,878,420	38,246,067	39,069,219	2,979,435	42,048,654
Margin deposits	1,575,369	-	1,575,369	2,477,667	-	2,477,667
Others	1,328,928	-	1,328,928	1,475,238	-	1,475,238
	<u>110,445,898</u>	<u>11,750,291</u>	<u>122,196,189</u>	<u>108,449,338</u>	<u>9,663,120</u>	<u>118,112,458</u>
<b>Financial Institutions</b>						
Current deposits	39,890	2,146	42,036	134,345	5,917	140,262
Saving deposits	14,463,836	20,427	14,474,263	13,019,874	18,120	13,037,994
Term deposits	5,148,130	90,066	5,238,196	1,373,370	-	1,373,370
	<u>19,641,856</u>	<u>112,639</u>	<u>19,764,495</u>	<u>14,527,589</u>	<u>24,037</u>	<u>14,551,626</u>
	<u>130,087,754</u>	<u>11,862,930</u>	<u>141,950,684</u>	<u>122,976,927</u>	<u>9,687,157</u>	<u>132,664,084</u>



20 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	September 30, 2019 - (Un-audited)			December 31, 2018 - Audited		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
	Rupees in '000					
Not later than one year	-	-	-	2,755	92	2,663
Later than one year and upto five years	-	-	-	-	-	-
	-	-	-	2,755	92	2,663

	Note	September 30, 2019 Un-audited Rupees in '000	December 31, 2018 Audited Rupees in '000
<b>21 SUBORDINATED DEBT</b>			
Subordinated Term Finance Certificates	21.1	1,999,200	1,999,600
Subordinated loan from Sponsors	21.2	126,218	-
		<u>2,125,418</u>	<u>1,999,600</u>

21.1 The Bank has issued privately placed, unsecured and subordinated Term Finance Certificates (TFCs) as instruments of redeemable capital under section 68 of the Companies Act, 2017 and the Basel III guidelines issued by the SBP. The key features of the issue are as follows:

Issue amount	Rs. 2,000 million
Issue date	August 10, 2017
Maturity date	Up to 8 years from date of issue
Rating	(BBB+) by JCR-VIS Credit Rating Company Limited (Triple B Plus)
Security	The instrument is unsecured and subordinated as to payment of principal and profit to all other indebtedness of the Bank, including deposits.
Profit payment frequency	Profit will be payable semi-annually in arrears on the outstanding principal amount and will be calculated on a 365 day year basis.
Redemption	0.14% of the issue amount during the first 7 years and remaining 99.86% in last two equal semi-annual instalments of 49.93% each.
Mark-up	6 months KIBOR plus 1.85% per annum
Call option	The Bank may call TFCs in part or in full, after 5 years from date of issue on any profit payment date, subject to SBP approval and with not less than 30 days prior notice to the Trustee and Investors. The call option once announced will be irrevocable.
Lock-in clause	As per the lock-in requirement for Tier II issues, neither profit nor principal will be payable (even at maturity) in respect of the TFC, if such payment will result in a shortfall in the Bank's Minimum Capital Requirement (MCR) or Capital Adequacy Ratio (CAR) or results in an increase in any existing shortfall in MCR or CAR.
Loss absorbency clause	The instrument will be subject to loss absorbency and / or any other requirements under SBP's Basel III Capital Rules. Upon the occurrence of a point of non-viability event as defined by SBP's Basel III Capital Rule, the SBP may at its option, fully and permanently convert the TFCs into common shares of the Bank and / or have them immediately written off (either partially or in full). Number of shares to be issued to TFC holders at the time of conversion will be equal to the 'Outstanding Face Value of the TFCs' divided by fair value per share of the Bank's common equity on the date of trigger of the non-viability event as declared by the SBP, subject to a cap of 1,238,390,093 shares.

21.2 Due to the lock-in clause as mentioned in note 21.1 and as per SBP instructions, the Bank has received an unsecured and interest free subordinated loan from the sponsor in order to make the payment of the instalment including profit thereon in respect of the above mentioned TFCs. Upon compliance with minimum capital requirement (CAR), this subordinated loan will be repaid to the Sponsor.

	Note	September 30, 2019 Un-audited Rupees in '000	December 31, 2018 Audited Rupees in '000
<b>22 OTHER LIABILITIES</b>			
Mark-up / return / interest payable in local currency		1,211,981	790,382
Mark-up / return / interest payable in foreign currencies		30,045	22,884
Unearned commission and income on bills discounted		57,341	46,079
Accrued expenses		356,845	123,679
Acceptances		1,469,260	2,894,213
Mark to market loss on forward contracts		371,491	30,094
Payable to defined benefit plan - permanent staff		5,479	21,499
Payable to defined benefit plan - contractual staff		44,895	27,992
Provision against off-balance sheet obligations	22.1	116,012	116,012
Workers' Welfare Fund (WWF)		134,504	134,504
Advance received against future sale of non-banking assets	22.2	117,098	412,644
Advance received against future sale of fixed assets	13.4	118,500	118,500
Deferred income against non-banking assets		153,657	111,283
Islamic pool management reserve		4,920	4,676
Lease liability against right-of-use assets	6.1	4,475,588	-
Non checking account		500,005	399,364
PRI remitting account		89,266	654,498
Fund received against application of Housing Scheme		553,501	-
Others		748,693	691,180
		<u>10,559,081</u>	<u>6,599,483</u>
<b>22.1 Provision against off-balance sheet obligations</b>			
Opening balance		116,012	116,012
Charge for the period / year		-	-
Reversals for the period / year		-	-
		-	-
Amount written off		-	-
Closing balance		<u>116,012</u>	<u>116,012</u>

22.2 Advance received Rs. 170.83 million against future disposal of non-banking assets (land) measuring 122,311 square yards, as disclosed in note 16.1 adjusted as per term of the Agreement.

## 23 SHARE CAPITAL- NET

### 23.1 Authorised capital

September 30, 2019	December 31, 2018		September 30, 2019	December 31, 2018
Un-audited	Audited		Un-audited	Audited
Number of shares in '000			Rupees in '000	
10,600,000	10,500,000	Ordinary shares of Rs.10 each	105,000,000	105,000,000

### 23.2 Issued, subscribed and paid up capital

September 30, 2019	December 31, 2018		September 30, 2019	December 31, 2018
Un-audited	Audited		Un-audited	Audited
Number of shares in '000			Rupees in '000	
9,081,861	9,081,861	Ordinary shares of Rs. 10 each	90,818,612	90,818,612
-	-	Fully paid in cash	(67,387,238)	(67,387,238)
9,081,861	9,081,861	Less: Discount on issue of shares	23,431,374	23,431,374

## 24 SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - NET OF TAX

(Deficit) / surplus on revaluation of				
- Available for sale securities	11.1	(83,167)	(222,937)	
- Fixed assets		56,380	59,084	
- Non-banking assets	16	31,789	32,700	
		6,002	(131,173)	
Deferred tax on deficit / (surplus) on revaluation of				
- Available for sale securities	15	29,109	78,027	
- Fixed assets	15	(11,588)	(12,527)	
- Non-banking assets	15	(2,216)	(2,534)	
		15,305	62,966	
		20,307	(68,207)	

## 25 CONTINGENCIES AND COMMITMENTS

Guarantees	25.1	14,008,719	13,284,395
Commitments	25.2	51,664,268	30,031,232
Contingent liabilities	25.3	1,256,962	1,143,864
		66,829,939	44,459,491

### 25.1 Guarantees:

Financial guarantees	59,940	547,993
Performance guarantees	9,629,615	9,081,896
Other guarantees	4,319,164	3,654,506
	14,008,719	13,284,395

### 25.2 Commitments:

Documentary credits and short-term trade-related transactions			
- letters of credit		2,835,381	3,152,159
Commitments in respect of:			
- forward foreign exchange contracts	25.2.1	35,312,307	15,409,082
- forward government securities transactions	25.2.2	13,366,198	11,416,204
Commitments for acquisition of:			
- fixed assets		841	14,668
- intangible assets		49,541	39,119
		51,664,268	30,031,232

### 25.2.1 Commitments in respect of forward foreign exchange contracts

Purchase	22,329,240	10,847,908
Sale	12,983,067	4,561,174
	35,312,307	15,409,082

	September 30, 2019 Un-audited	December 31, 2018 Audited
Rupees in '000		
<b>25.2.2 Commitments in respect of forward government securities transactions</b>		
Purchase	498,350	-
Sale	12,867,848	11,416,204
	<u>13,366,198</u>	<u>11,416,204</u>

25.2.3 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.

	September 30, 2019 Un-audited	December 31, 2018 Audited
Rupees in '000		
<b>25.3 Contingent liabilities:</b>		
Claims against the Bank not acknowledged as debt	1,221,312	1,108,224
Claims against the Bank by Competition Commission of Pakistan & others	35,640	35,640
	<u>1,256,952</u>	<u>1,143,864</u>

26.3.1 Suits for damages of Rs. 24.44 billion (December 31, 2018: Rs. 24.45 billion) have been filed against the Bank by various borrowers / employees in respect of certain disputes relating to loans and advances. The management of the Bank and its legal counsel consider that the suits are a counterblast in response to the recovery suits filed by the Bank. The Bank and its legal counsel are confident that the cases will be dismissed as actual damages have to be proven in such suits.

26.4 For contingencies relating to taxation refer note 35.1-35.3.

## 26 DERIVATIVE INSTRUMENTS

### Product Analysis

September 30, 2019 - (Un-audited)	
Forward Contracts	
Notional Principal	Mark to Market gain / (loss)
Rupees in '000	

### Counterparties

#### Hedging

- Banks
- Other entities

#### Total

47,713,394	(6,261)
966,111	9,361
<u>48,678,505</u>	<u>3,100</u>

December 31, 2018 - Audited	
Forward Contracts	
Notional Principal	Mark to Market gain / (loss)
Rupees in '000	

### Counterparties

#### Hedging

- Banks
- Other entities

#### Total

26,125,605	125,602
561,370	24,883
<u>26,686,975</u>	<u>150,485</u>

		September 30, 2019 Un-audited	September 30, 2018 Un-audited
	Note	Rupees in '000	
<b>27 MARK-UP / RETURN / PROFIT / INTEREST EARNED</b>			
On:			
a) Loans and advances		8,933,304	8,737,884
b) Investments		1,461,547	2,061,358
c) Lendings to financial institutions		1,515,218	414,868
d) Balances with banks		5,360	1,725
		<u>11,915,429</u>	<u>11,215,835</u>
<b>28 MARK-UP / RETURN / PROFIT / INTEREST EXPENSED</b>			
a) Deposits		8,494,225	4,204,753
b) Borrowings		1,096,258	1,793,775
c) Subordinated debt		192,926	127,306
d) Cost of foreign currency swaps against foreign currency deposits / borrowings		243,006	122,434
e) Lease liability against right-of-use assets	6.1	361,637	-
f) Others		8,687	4,426
		<u>10,396,639</u>	<u>6,252,694</u>
<b>29 FEE &amp; COMMISSION INCOME</b>			
Branch banking customer fees		141,405	132,624
Card related fees (debit and credit cards)		1,022,852	670,802
Credit related fees		259,154	179,931
Investment banking fees		-	396
Commission on trade		131,286	116,089
Commission on guarantees		54,290	85,527
Commission on remittances including home remittances		14,557	12,178
Commission on bancassurance		66,583	55,227
Others		14,464	22,714
		<u>1,704,591</u>	<u>1,275,488</u>
<b>30 GAIN / (LOSS) ON SECURITIES</b>			
Realised	30.1	21,277	(60,067)
Unrealised - held for trading		(1,678)	(2,853)
		<u>19,599</u>	<u>(62,920)</u>
<b>30.1 Realised (loss) / gain on:</b>			
Federal Government Securities		44,876	(60,051)
Shares		(23,599)	(16)
		<u>21,277</u>	<u>(60,067)</u>
<b>31 OTHER (LOSS) / INCOME</b>			
Rent on property and non-banking assets		13,113	279,977
Gain on sale of fixed assets - net		596	9,339
(Loss) / gain on sale of non-banking assets - net		(189,947)	858,416
Rent on lockers		14,699	12,032
Postage, telex and other service charges recovered		23,609	35,420
Share of profit from associate		406	5,340
Early loan termination charges		58,540	44,514
		<u>(78,984)</u>	<u>1,245,038</u>

		September 30, 2019 Un-audited	September 30, 2018 Un-audited
	Note	Rupees in '000	
<b>32 OPERATING EXPENSES</b>			
Total compensation expense		2,809,779	2,644,226
<b>Property expense</b>			
Rent & taxes		27,189	498,173
Insurance on non-banking assets		752	912
Utilities cost		165,364	143,276
Security (including guards)		129,825	81,976
Repair & maintenance (including janitorial charges)		58,874	46,706
Depreciation on buildings		101,420	107,220
Depreciation on right-of-use assets	6.1	505,034	-
Depreciation on non-banking assets		50,960	59,771
Professional charges		424	11,882
		1,039,842	949,896
<b>Information technology expenses</b>			
Software maintenance		146,197	73,125
Hardware maintenance		79,202	33,963
Depreciation		40,469	31,259
Amortisation		47,897	46,451
Website development charges		248	179
		314,013	184,977
<b>Other operating expenses</b>			
Directors' fees and allowances		17,100	24,865
Fees and allowances to Shariah Board		11,419	9,261
Legal & professional charges		280,696	177,861
Outsourced services costs		43,059	29,728
Travelling & conveyance		96,363	62,959
NIFT clearing charges		12,084	9,042
Depreciation		181,552	158,366
Training & development		19,765	27,245
Postage & courier charges		31,138	17,709
Communication		252,968	125,675
Stationery & printing		53,156	46,728
Marketing, advertisement & publicity		267,691	160,334
Auditors' remuneration		16,728	13,644
Insurance (including deposit protection)		107,816	30,560
Repairs & maintenance		66,649	58,220
Financial charges on leased assets		159	419
Brokerage and commission		7,138	7,953
Subscriptions and news papers		17,387	10,427
Entertainment		40,505	32,073
Vehicle running & maintenance		21,948	19,061
Card related expenses (debit and credit cards)		108,530	84,618
Security		26,732	16,590
Others		8,420	2,498
		1,689,003	1,125,836
		5,852,637	4,904,935
<b>33 OTHER CHARGES</b>			
Penalties imposed by State Bank of Pakistan		162,005	103
Operational loss		23,061	10,085
		185,066	10,188

		September 30, 2019	September 30, 2018
		Un-audited	Un-audited
Note		Rupees in '000	
<b>34</b>	<b>PROVISIONS &amp; WRITE OFFS - NET</b>		
	Provisions against loans & advances	12.3 1,598,374	1,103,225
	Write offs against fixed assets	2,080	1,705
	Recovery of written off / charged off bad debts	(133,364)	(142,870)
		<u>1,467,090</u>	<u>962,060</u>

<b>35</b>	<b>TAXATION</b>		
	Current	-	66,996
	Prior years	109,298	-
	Deferred	(1,344,967)	454,984
		<u>(1,235,669)</u>	<u>521,980</u>

**35.1** The income tax returns of the Bank have been submitted up to Tax Year 2018. The Bank has filed appeals before Appellate Tribunal Inland Revenue (ATIR) against certain disallowances amounting to Rs.1,996 million (December 31, 2018: Rs.1,996 million) made by Tax officer for Assessment / Tax Year(s) 2000-2001, 2001-2002, 2002-2003 and 2004. The disallowances amounting to Rs. 798 million (December 31, 2018: Rs.682 million) in respect of Tax Years 2003, 2006 and 2015 to 2018 are pending at Commissioner Inland Revenue (Appeals) (CIR (A)). Management is confident that the outcome of these appeals would be in favor of the Bank.

**35.2** Income tax returns for Tax Years 2011 and 2014 were selected for audit. The proceedings of the audit are in process, no order has been passed by the relevant tax authorities.

The proceedings u/s 161 / 205 of the Income Tax Ordinance, 2001 regarding monitoring of withholding taxes pertaining to the Tax Years 2011 to 2018 were completed. Orders were issued by the Assessing Officer creating total tax demand of Rs. 139 million (already paid by the bank) including default surcharge of Rs. 25 million. The Bank has filed appeals against orders u/s 161 / 205 before CIR (A). The Bank's appeals for Tax Years 2013 and 2014 before the CIR (A) were rejected after which appeals before the ATIR, Karachi have been filed, which are pending hearing. Management is confident that the outcome of these appeals would be in favor of the Bank.

**35.3** The Bank's return in respect of AJK operations have been submitted up to and including Tax Year 2018. Certain appeals were filed before the various Appellate and other forums which are either pending for adjudication or the proceedings initiated against the Bank have been dropped / withdrawn. Management is confident that the outcome of pending appeals would be in favor of the Bank.

	September 30, 2019	September 30, 2018
	Un-audited	Un-audited
	Rupees in '000	
<b>36</b>	<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	
	(Loss) / profit after tax for the period	<u>(2,769,095)</u> 1,235,268
	Weighted average number of ordinary shares	<u>9,081,861</u> 9,081,861
	Basic and Diluted (Loss) / Earnings Per Share (Rupee)	<u>(0.30)</u> 0.14

<b>37</b>	<b>CASH AND CASH EQUIVALENTS</b>		
	Cash and balance with treasury banks	10,014,713	9,195,407
	Balance with other banks	230,729	305,929
		<u>10,245,442</u>	<u>9,501,336</u>

### 38 FAIR VALUE MEASUREMENTS

The fair value of traded investments is based on quoted market prices. Fair value of unquoted equity investments other than investments in associates is determined on the basis of break up value of these investments as per the latest available audited financial statements.

Fair value of fixed term loans, other assets, other liabilities, fixed term deposits and borrowings cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments.

The Bank's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred. There were no transfers between levels 1 and 2 during the period.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently re-priced.

#### 38.1 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).

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:

September 30, 2019 - (Un-audited)					
Carrying Value	Level 1	Level 2	Level 3	Total	
Rupees in '000					
On balance sheet financial Instruments					
Financial assets - measured at fair value					
Investments:					
Federal Government Securities	-				
Market Treasury Bills	10,609,187	-	10,609,187	-	10,609,187
Pakistan Investment Bonds	24,135,460	-	24,135,460	-	24,135,460
GOP Ijarah Sukuks	1,747,440	-	1,747,440	-	1,747,440
Bai Muajjal	257,658	-	257,658	-	257,658
Shares					
Listed companies	481,994	481,994	-	-	481,994
Non-Government Debt Securities					
Sukuks - Listed	263,405	-	263,405	-	263,405
Term Finance Certificates - Listed	60,000	-	60,000	-	60,000
	37,435,144	481,994	36,953,150	-	37,435,144
Financial assets - disclosed but not measured at fair value					
Cash and balances with treasury banks	10,014,713	-	-	-	-
Balances with other banks	230,729	-	-	-	-
Lendings to financial institutions	19,662,112	-	-	-	-
Advances	107,120,539	-	-	-	-
Other assets	5,639,944	-	-	-	-
	142,658,037	-	-	-	-
	180,093,181	481,994	36,953,150	-	37,435,144
Off-balance sheet financial Instruments - measured at fair value					
Forward purchase of foreign exchange	22,329,240	-	22,329,240	-	22,329,240
Forward sale of foreign exchange	12,983,067	-	12,983,067	-	12,983,067
Forward purchase of government securities transactions	498,350	-	498,350	-	498,350
Forward sale of government securities transactions	12,867,848	-	12,867,848	-	12,867,848

December 31, 2018 - Audited					
Carrying Value	Level 1	Level 2	Level 3	Total	
Rupees in '000					
On balance sheet financial instruments					
Financial assets - measured at fair value					
Investments:					
Federal Government Securities					
Market Treasury Bills	14,402,942	-	14,402,942	-	14,402,942
Pakistan Investment Bonds	10,046,265	-	10,046,265	-	10,046,265
GOP Ijarah Sukuks	3,851,647	-	3,851,647	-	3,851,647
Bai Muajjal	-	-	-	-	-
Shares					
Listed companies	135,369	135,369	-	-	135,369
Non-Government Debt Securities					
Sukuks - Listed	300,241	-	300,241	-	300,241
Term Finance Certificates - Listed	61,875	-	61,875	-	61,875
	28,798,339	135,369	28,662,970	-	28,798,339
Financial assets - disclosed but not measured at fair value					
Cash and balances with treasury banks	8,871,567	-	-	-	-
Balances with other banks	309,994	-	-	-	-
Lendings to financial institutions	12,612,156	-	-	-	-
Advances	98,354,002	-	-	-	-
Other assets	6,004,469	-	-	-	-
	126,152,188	-	-	-	-
	154,950,527	135,369	28,662,970	-	28,798,339
Off-balance sheet financial instruments - measured at fair value					
Forward purchase of foreign exchange	10,847,908	-	10,847,908	-	10,847,908
Forward sale of foreign exchange	4,561,174	-	4,561,174	-	4,561,174
Forward purchase of government securities transactions	-	-	-	-	-
Forward sale of government securities transactions	11,416,204	-	11,416,204	-	11,416,204

Valuation techniques used in determination of fair valuation of financial instruments within level 2 and level 3 are:

Item	Valuation approach and input used
Market Treasury Bills and Pakistan Investment Bonds	Fair values are derived using the PKRV rates.
GOP Ijarah Sukuks	Fair values of GOP Ijarah Sukuks are derived using the PKISRV rates announced by the Financial Market Association (FMA) through Reuters. These rates denote an average of quotes received from eight different pre-defined / approved dealers / brokers.
Sukuks - Listed and Term Finance Certificates - Listed	Investments in debt securities i.e. term finance certificates and sukuk certificates issued by a company or a body corporate for the purpose of raising funds in the form of redeemable capital are valued on the basis of the rates announced by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the methodology prescribed by the Securities and Exchange Commission of Pakistan.
Foreign exchange contracts	The valuation has been determined by interpolating the mid rates announced by the State Bank of Pakistan.

### 38.2 Fair value of non-financial assets

Information about the fair value hierarchy of Bank's non-financial assets as at the end of the reporting period are as follows:

September 30, 2019 - (Un-audited)					
	Carrying Value	Level 1	Level 2	Level 3	Total
	Rupees in '000				
Fixed assets - land and buildings	2,426,578	-	-	2,426,578	2,426,578
Non-banking assets	9,460,216	-	-	9,460,216	9,460,216
	11,886,794	-	-	11,886,794	11,886,794
December 31, 2018 - Audited					
	Carrying Value	Level 1	Level 2	Level 3	Total
	Rupees in '000				
Fixed assets - land and buildings	2,458,687	-	-	2,458,687	2,458,687
Non-banking assets	9,233,733	-	-	9,233,733	9,233,733
	11,692,420	-	-	11,692,420	11,692,420

38.2.1 Certain categories of fixed assets (land and buildings) and non-banking assets are carried at revalued amounts (level 3 measurement) determined by professional valuers based on their assessment of the market values as disclosed in annual financial statements for the year ended December 31, 2018.



### 39 SEGMENT INFORMATION

#### Segment Details with respect to Business Activities

September 30, 2019 - (Un-audited)				
	Consumer / SME	Whole Sale Banking	Treasury	Total
Rupees in '000				
<b>Profit and Loss Account</b>				
Net mark-up / return / profit / (loss)	5,444,264	(3,951,254)	25,780	1,518,790
Inter segment revenue - net	-	-	-	-
Non Mark-up / Interest Income	1,639,770	93,774	247,695	1,981,239
<b>Total Income / (loss)</b>	<b>7,084,034</b>	<b>(3,857,480)</b>	<b>273,475</b>	<b>3,500,029</b>
Segment direct expenses	(2,783,018)	(3,196,267)	(58,428)	(6,037,703)
Inter segment expense allocation	(1,017,337)	1,091,291	(73,954)	-
<b>Total expenses</b>	<b>(3,800,355)</b>	<b>(2,104,966)</b>	<b>(132,382)</b>	<b>(6,037,703)</b>
Provisions	(658,315)	(808,775)	-	(1,467,090)
<b>(Loss) / Profit before tax</b>	<b>2,625,364</b>	<b>(6,771,221)</b>	<b>141,093</b>	<b>(4,004,764)</b>
<b>Statement of Financial Position</b>				
Cash & Bank balances	-	2,619,648	7,725,894	10,245,442
Investments	-	351,282	37,210,922	37,562,204
Net inter segment lending	85,685,881	14,681,384	77,210,734	177,377,999
Lendings to financial institutions	780,983	137,820	18,733,309	19,652,112
Advances - performing	31,642,767	46,915,710	-	78,558,467
Advances - non-performing - net of provision	1,404,708	27,157,364	-	28,562,072
Others	912,203	30,808,123	5,429	31,725,755
<b>Total Assets</b>	<b>120,326,532</b>	<b>122,471,231</b>	<b>140,886,288</b>	<b>383,684,051</b>
Borrowings	475,631	1,694,954	35,506,383	37,676,968
Subordinated debt	-	2,125,418	-	2,125,418
Deposits & other accounts	92,799,610	49,161,074	-	141,960,684
Net inter segment borrowing	26,013,349	47,066,656	105,308,094	177,377,999
Others	2,037,942	10,675,421	119,445	12,832,808
<b>Total liabilities</b>	<b>120,326,532</b>	<b>110,703,423</b>	<b>140,933,922</b>	<b>371,963,877</b>
Equity & Surplus	-	11,767,808	(47,634)	11,720,174
<b>Total Equity &amp; liabilities</b>	<b>120,326,532</b>	<b>122,471,231</b>	<b>140,886,288</b>	<b>383,684,051</b>
Contingencies & Commitments	1,221,312	16,930,122	48,678,505	66,829,939

September 30, 2018 - (Un-audited)				
	Consumer / SME	Whole Sale Banking	Treasury	Total
Rupees in '000				
<b>Profit and Loss Account</b>				
Net mark-up / return / profit / (loss)	4,216,273	759,952	(13,084)	4,963,141
Inter segment revenue - net	-	-	-	-
Non Mark-up / Interest Income	1,181,042	1,381,090	146,079	2,708,211
<b>Total Income</b>	<b>5,397,315</b>	<b>2,141,042</b>	<b>132,995</b>	<b>7,671,352</b>
Segment direct expenses	(2,319,504)	(2,580,648)	(51,892)	(4,952,044)
Inter segment expense allocation	(892,127)	961,319	(69,192)	-
<b>Total expenses</b>	<b>(3,211,631)</b>	<b>(1,619,329)</b>	<b>(121,084)</b>	<b>(4,952,044)</b>
Provisions	(412,012)	(550,048)	-	(962,060)
<b>Profit / (Loss) before tax</b>	<b>1,773,672</b>	<b>(28,335)</b>	<b>11,911</b>	<b>1,757,248</b>

December 31, 2018 - Audited				
	Consumer / SME	Whole Sale Banking	Treasury	Total
Rupees in '000				
<b>Statement of Financial Position</b>				
Cash & Bank balances	-	2,449,889	6,731,672	9,181,561
Investments	-	83,690	28,841,303	28,924,993
Net inter segment lending	76,786,304	17,291,166	93,706,490	187,783,960
Lendings to financial institutions	922,956	23,666	11,665,534	12,612,156
Advances - performing	30,306,109	65,894,738	2,558	96,203,405
Advances - non-performing - net of provision	1,351,128	799,469	-	2,150,597
Others	929,765	26,563,700	4,822	27,498,287
<b>Total Assets</b>	<b>110,296,262</b>	<b>113,106,318</b>	<b>140,952,379</b>	<b>364,354,959</b>
Borrowings	510,367	1,136,700	16,404,787	18,051,854
Subordinated debt	-	1,999,600	-	1,999,600
Deposits & other accounts	84,478,185	48,185,899	-	132,664,084
Net inter segment borrowing	22,764,494	40,308,259	124,711,207	187,783,960
Others	2,543,219	6,876,900	48,595	9,468,714
<b>Total liabilities</b>	<b>110,296,265</b>	<b>98,507,358</b>	<b>141,164,589</b>	<b>349,968,212</b>
Equity & surplus	-	14,598,957	(212,210)	14,386,747
<b>Total Equity &amp; liabilities</b>	<b>110,296,265</b>	<b>113,106,315</b>	<b>140,952,379</b>	<b>364,354,959</b>
Contingencies & Commitments	1,108,224	16,525,981	26,825,286	44,459,491

Segment determination are made on the basis of management accountability, monitoring and decision making of these reporting segments at regular intervals. Transactions between reportable segments are based on an appropriate transfer pricing mechanism using agreed rates. Furthermore, segment assets and liabilities include intersegment balances. Costs which are not allocated to segments are included in the Head office. Income taxes are managed at bank level and are not allocated to operating segments.

#### 40 RELATED PARTY TRANSACTIONS

The Bank has related party transactions with its associates, employee benefit plans and its directors and key management personnel.

The Bank enters into transactions with related parties in the ordinary course of business and on substantially the same terms as for comparable transactions with person of similar standing. Contributions to and accruals in respect of staff retirement benefits and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan. Remuneration to the executives / officers is determined in accordance with the terms of their appointment.

Majority of the transactions with related parties comprise loans and advances, deposits, issuance of letters of credit and guarantees. Advances for the house building, conveyance and for personal use have also been provided to the staff and executives at reduced rates in accordance with the employment and pay policy and such advances have not been disclosed in the following schedule. Facility of group life insurance and hospitalisation insurance is also provided to staff and executives. In addition to this, executives of the Bank have been provided with Bank maintained cars.

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

	September 30, 2019 - (Un-audited)				December 31, 2018 - Audited			
	Directors	Key management personnel	Associates	Other related parties	Directors	Key management personnel	Associates	Other related parties
Rupees in '000								
<b>Balances</b>								
<b>Investments</b>								
Opening balance	-	-	126,654	112,246	-	-	118,012	-
Investment made / share profit during the period / year	-	-	406	301,141	-	-	8,642	230,535
Investment redeemed / disposed off during the period / year	-	-	-	-	-	-	-	(118,289)
Closing balance	-	-	127,060	413,387	-	-	126,654	112,246
<b>Advances</b>								
Opening balance	9,085	7,456	-	1,122,873	1,889	3,172	-	1,376,989
Addition during the period / year	61,951	280,604	-	3,455,214	69,606	48,446	-	4,034,041
Repaid during the period / year	(51,090)	(275,855)	-	(2,903,074)	(62,410)	(44,162)	-	(4,288,157)
Closing balance	19,946	12,205	-	1,675,013	9,085	7,456	-	1,122,873
Provision held against advances	-	-	-	130,608	-	-	-	130,608
<b>Other Assets</b>								
Interest / mark-up accrued	248	163	-	38,041	167	-	-	36,750
Insurance claim receivable	-	-	11,388	-	-	-	16,334	-
Prepaid insurance	-	-	2,314	-	-	-	12,449	-
Other receivables	-	-	-	10,000	-	-	-	-
<b>Subordinated debt</b>								
Opening balance	-	-	-	-	-	-	-	-
Issued / purchased during the period / year	-	-	-	126,218	-	-	-	-
Redemption during the period / year	-	-	-	-	-	-	-	-
Closing balance	-	-	-	126,218	-	-	-	-
<b>Deposits and other accounts</b>								
Opening balance	5,620	64,292	18,256	2,023,685	8,301	118,117	18,308	2,314,888
Received during the period / year	209,518	873,966	191,864	9,228,058	578,977	915,019	125,002	10,712,767
Withdrawn during the period / year	(209,333)	(785,473)	(169,705)	(9,860,735)	(581,658)	(968,844)	(125,054)	(11,003,970)
Closing balance	5,805	152,785	40,415	1,391,008	5,620	64,292	18,256	2,023,685
<b>Other Liabilities</b>								
Interest / mark-up payable	1	203	440	11,082	-	-	16	23,825
<b>Contingencies and Commitments</b>								
Other contingencies	-	-	-	-	-	-	-	-

	September 30, 2019 - (Un-audited)				September 30, 2018 - (Un-audited)			
	Directors	Key management personnel	Associates	Other related parties	Directors	Key management personnel	Associates	Other related parties
Rupees in '000								
<b>Transactions</b>								
<b>Income</b>								
Mark-up / return / interest earned	1,578	1,265	-	164,796	133	1,030	-	61,311
Net gain on sale of securities	-	-	-	-	-	-	-	311
Share of profit from associate	-	-	406	-	-	-	5,340	-
<b>Expense</b>								
Mark-up / return / interest paid	298	9,483	1,655	93,662	259	1,197	698	57,549
Services rendered	-	-	-	113,146	-	-	-	111,374
Short term employment benefits	92,327	258,990	-	-	102,850	283,111	-	-
Contribution to Defined Benefit Plan	4,095	8,758	-	-	3,825	9,135	-	-
Meeting fee	17,100	-	-	-	24,865	-	-	-
Insurance premium paid	-	-	12,313	-	-	-	23,635	-
Insurance claims settled	-	-	4,797	-	-	-	-	-

September 30, December 31,  
2019 2018  
Un-audited Audited  
Rupees in '000

41 CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

**Minimum Capital Requirement (MCR)**

Paid-up capital (net of losses)	10,878,977	13,634,064
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**Capital Adequacy Ratio**

Eligible Common Equity Tier 1 Capital	8,105,620	11,626,548
Eligible Additional Tier 1 Capital	-	-
Total Eligible Tier 1 Capital	8,105,620	11,626,548
Eligible Tier 2 Capital	2,867,871	3,401,387
<b>Total Eligible Capital (Tier 1 + Tier 2)</b>	<b>10,973,491</b>	<b>15,027,935</b>

**Risk Weighted Assets (RWA)**

Credit Risk	143,842,586	121,482,278
Market Risk	2,150,884	540,950
Operational Risk	15,554,280	15,554,275
<b>Total</b>	<b>161,547,750</b>	<b>137,577,503</b>

Common Equity Tier 1 Capital Adequacy ratio	5.02%	8.45%
Tier 1 Capital Adequacy Ratio	5.02%	8.45%
Total Capital Adequacy Ratio	6.79%	10.92%

**Leverage Ratio (LR)**

Eligible Tier-1 Capital	7,267,807	11,626,548
Total Exposures	223,470,218	193,845,360
Leverage Ratio	3.25%	6.00%

**Liquidity Coverage Ratio (LCR)**

Total High Quality Liquid Assets	36,665,276	28,934,249
Total Net Cash Outflow	40,928,506	33,405,053
Liquidity Coverage Ratio	89.58%	86.41%

**Net Stable Funding Ratio (NSFR)**

Total Available Stable Funding	116,974,856	116,179,685
Total Required Stable Funding	128,829,601	111,666,311
Net Stable Funding Ratio	90.80%	104.04%

## 42 ISLAMIC BANKING BUSINESS

The Bank is operating with 30 Islamic Banking branches at the end of September 30, 2019 (December 31, 2018: 30).

The statement of financial position of these branches as at September 30, 2019 are as follows:

		September 30, 2019	December 31, 2018
		Un-audited	Audited
Note		Rupees in '000	
<b>ASSETS</b>			
		2,118,390	1,894,122
		37,757	36,507
	42.1	6,531,778	-
	42.2	524,627	3,851,647
	42.3	27,557,692	26,901,698
		1,447,379	294,044
		2,031	1,125
		-	-
		821,469	2,233,329
		39,041,113	35,212,472
<b>LIABILITIES</b>			
		132,794	480,421
		500,000	-
	42.4	35,161,007	30,960,225
		703,002	76,690
		1,678,392	282,486
		38,175,195	31,799,822
<b>NET ASSETS</b>			
		865,918	3,412,650
<b>REPRESENTED BY</b>			
		3,325,000	2,325,000
		-	-
		2,586	(10,629)
	42.5	(2,461,668)	1,098,279
		865,918	3,412,650
<b>CONTINGENCIES AND COMMITMENTS</b>			
	42.6		

The profit and loss account of the Bank's Islamic banking branches for the nine months ended September 30, 2019 is as follows:

		September 30, 2019	September 30, 2018
		Un-audited	Un-audited
Note		Rupees in '000	
42.7		(81,644)	1,756,117
42.8		(2,624,635)	(648,353)
		(2,706,279)	1,107,764
<b>Other Income</b>			
		11,550	23,810
		(38,898)	21,519
		59,879	(19,452)
		(900)	12
		10,031	8,510
		41,662	34,399
		(2,664,617)	1,142,163
<b>Other expenses</b>			
		(612,866)	(476,365)
		-	(13,298)
		(708)	(86)
		(613,574)	(489,749)
		(3,278,191)	652,414
		(281,756)	(821)
		(3,559,947)	651,593

	September 30, 2019 - (Un-audited)			December 31, 2018 - Audited		
	In Local Currency	In Foreign currencies	Total	In Local Currency	In Foreign currencies	Total
Rupees in '000						
42.1 Due from Financial Institutions						
Bai Muajjal receivable from State Bank of Pakistan	3,449,975	-	3,449,975	-	-	-
Bai Muajjal receivable from other financial institution	3,081,803	-	3,081,803	-	-	-
	6,531,778	-	6,531,778	-	-	-

	September 30, 2019 - (Un-audited)				December 31, 2018 - Audited			
	Cost/ Amortised cost	Provision for diminution	Surplus / (Deficit)	Carrying Value	Cost / Amortised cost	Provision for diminution	Surplus / (Deficit)	Carrying Value
Rupees in '000								
42.2 Investments by segments:								
Federal Government Securities:								
Ijarah Sukuks	264,383	-	2,586	266,969	3,862,276	-	(10,629)	3,851,647
Bai Muajjal	257,658	-	-	257,658	-	-	-	-
Total Investments	522,041	-	2,586	524,627	3,862,276	-	(10,629)	3,851,647

		September 30, December 31,	
		2019	2018
		Un-audited	Audited
		Rupees in '000	
	Note		
42.3	Islamic financing and related assets - net		
Murabaha	-	2,871,403	2,165,705
Musawammah		127,343	127,343
Diminishing Musharaka		24,840,702	24,608,650
Gross Islamic financing and related assets	12	27,839,448	26,901,698
Less: provision against Islamic financings			
- Specific		(281,756)	-
- General		-	-
Islamic financing and related assets - net of provision		(281,756)	-
		27,557,692	26,901,698

42.3.1 Advances include Rs. 22,707 million (December 31, 2018: Rs. 301.52 million) which have been placed under non-performing status as detailed below:

Category of classification	September 30, 2019 - (Un-audited)		December 31, 2018 - Audited	
	Non Performing Loans	Provision	Non Performing Loans	Provision
Rupees in '000				
Domestic				
Substandard	462,500	-	114,687	-
Doubtful	-	-	188,829	-
Loss	22,244,287	281,756	-	-
Total	22,706,787	281,756	301,516	-

42.3.2 SBP vide various circulars has amended Prudential Regulations in respect of provisioning against non-performing advances under which the benefit of Forced Sale Value (FSV) has been allowed for plant and machinery under charge, pledged stock and mortgaged residential, commercial and industrial properties (land and building only) held as collateral against non-performing advances upto five years from the date of classification.

42.3.3 As of September 30, 2019, the Bank has availed FSV benefits against all non performing advances. Had the benefit not been taken by the Bank, loss after tax would have been higher by Rs. 2,557 million, whereas profit after tax would have been lower in December 31, 2018: Rs.79 million, which shall not be available for payment of cash or stock dividend / bonus to employees.

	September 30, 2019 - (Un-audited)			December 31, 2018 - Audited		
	In Local Currency	In Foreign currencies	Total	In Local Currency	In Foreign currencies	Total
Rupees in '000						
42.4 Deposits						
Customers						
Current deposits	1,951,803	988,703	2,920,506	2,348,847	320,404	2,669,251
Saving deposits	16,728,913	611,946	17,340,859	14,189,530	321,442	14,510,972
Term deposits	4,854,942	1,211,988	6,066,930	3,975,426	1,191,260	5,166,686
Margin deposits	28,497	-	28,497	29,433	-	29,433
Others	77,823	-	77,823	52,384	-	52,384
	23,641,978	2,792,637	26,434,615	20,595,620	1,833,106	22,428,726
Financial Institutions						
Current deposits	4,129	161	4,290	4,046	447	4,493
Saving deposits	8,518,502	-	8,518,502	8,370,906	-	8,370,906
Term deposits	203,600	-	203,600	156,100	-	156,100
	8,726,231	161	8,726,392	8,531,052	447	8,531,499
	32,368,209	2,792,798	35,161,007	29,126,672	1,833,553	30,960,225

September 30, 2019	December 31, 2018
Un-audited	Audited
Rupees in '000	

**42.5 Islamic Banking Business Accumulated (loss) / Unappropriated Profit**

Opening Balance	1,098,279	275,944
Add: Islamic Banking Accumulated (loss) / Un-appropriated profit for the period / year	(3,559,947)	822,335
Closing Balance	(2,461,668)	1,098,279

**42.6 Contingencies and Commitments**

Guarantees	1,123,734	937,732
Commitments	2,457,264	1,613,063
	3,580,998	2,550,795

September 30, 2019	September 30, 2018
Un-audited	Un-audited
Rupees in 000	

**42.7 Profit / return earned of financing, Investments and placement**

**Profit earned on:**

Financing	(471,997)	1,690,273
Investments	73,575	65,844
Due from Financial Institutions	316,778	-
	(81,644)	1,756,117

**42.8 Profit on Deposits and other Dues Expensed**

Deposits and other accounts	2,420,964	606,623
Due to Financial Institutions	22,547	41,730
Cost of foreign currency swaps against foreign currency deposits / borrowings	83,884	-
Lease liability against right-of-use assets	97,240	-
	2,624,635	648,353

**43 GENERAL**

43.1 Corresponding figures have been rearranged / reclassified to reflect more appropriate presentation.

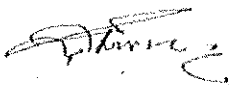
43.2 The figures have been rounded off to the nearest thousand rupees, unless stated otherwise.

**44 NON-ADJUSTING EVENTS AFTER THE REPORTING DATE**

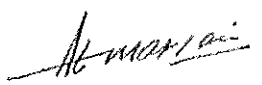
There are no adjusting events that are required to be adjusted or disclosed in the financial statements.

**45 DATE OF AUTHORISATION FOR ISSUE**

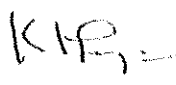
These condensed interim financial statements were authorised for issue on June 30, 2020 by the Board of Directors of the Bank.



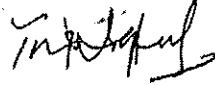
Chief Financial Officer



President & Chief Executive Officer



Director



Director



Director