# BUILDING TODAY SHAPING TOMORROW

ANNUAL REPORT 2019

Summit Bank

Committed to you

# CHAIRMAN'S REVIEW

On behalf of the sponsor, I would like to reiterate our commitment to the Bank and feel optimistic about successfully achieving the KPIs of the business plan in order to improve the Bank's capital base and business results while ensuring compliance with all the applicable regulatory requirements.

I believe that we have substantial opportunities in the years ahead to drive organic growth in our Bank and the best is yet to come for Summit Bank.

Every possible legal effort is being made to recover the outstanding Non-Performing Loans (NPLs). Considering the importance of recovery of NPLs in further improving overall assets profile and its direct impact on Bank's future profitability, the management shall place emphasis on this front aggressively along with identifying opportunities of rationalization of cost structure and income generation via markup and non-markup avenues.

The Board follows the defined criteria for its performance evaluation as per regulator guidelines. This ensures good corporate governance through ethical and professional business conduct as well as effective risk and audit management. The Board continually reviews the Bank's financial and operational soundness, and significant policies as per regulatory requirements. Further, specific Committees have been constituted, each with a prescribed mandate and terms of reference.

As Chairman of the Board, I thank all shareholders for their continued support, the regulatory authorities for their counsel, and the contribution and hard work of the Bank's management team and the entire Summit family of over 1,700 staff for their dedication, commitment and hard work.

**Waseem Mehdi Syed**
Chairman

Summit Bank
Committed to you

# DIRECTORS' REPORT TO THE SHAREHOLDERS

**Dear shareholders,**

On behalf of the Board of Directors, we are pleased to present the Directors' Report of the Bank along with the audited financial statements and Auditors' report for the year ended December 31, 2019.

## THE BANK'S PERFORMANCE

The highlights of the financial results for 2019 are as follows:

| | (Rupees in millions) |
|---|---|
| **Financial Position** | |
| Shareholders' Equity | (5,598) |
| Deposits | 88,567 |
| Total Assets | 105,876 |
| Advances – net | 43,242 |
| Investments – net | 21,959 |
| | |
| **Financial Performance** | |
| Net Interest Income and Non Markup Income (Total Income) | (75) |
| Non Markup Expenses | 5,514 |
| Provisions and write offs (net) | 8,682 |
| Loss before tax | 14,270 |
| Loss after tax | 9,451 |
| Basic and diluted loss per share - Rupees | (3.58) |

The Bank's loss before taxation for the year stood at Rs. 14.270 billion as against Rs. 10.881 billion last year while loss after tax of the Bank was Rs. 9.451 billion as against Rs. 8.751 billion last year. This translates into a loss per share of Rs. 3.58 (2018: loss per share Rs. 3.32).

The Bank's earning capacity has significantly depleted as a result of which the Bank incurred a net mark-up expense of Rs. 1.307 billion as against net mark-up income of Rs. 1.809 billion earned last year. This is mainly attributable to volumetric reduction of earning assets together with the substantial amount of non-performing advances held by the Bank which resulted in major reduction of Bank's interest income. Due to extraordinary situation faced by the Bank since July 2018, the Bank reduced its earning assets portfolio to meet the liquidity requirements. Moreover, the Bank's interest expense registered an increase due to the increase in cost of funds, FX swap cost and finance cost of lease liability while there was reduction in the volume of interest bearing liabilities.

Non-funded income stood at Rs. 1.232 billion, reflecting a decrease of 41.97% over the corresponding year, mainly due to lower foreign exchange income amidst a volatile currency market and a decline in fee and commission income earned as trade volumes during 2019 shrank considerably.

Total non-mark up expenses were reported at Rs. 5.514 billion as against Rs. 5.817 billion last year, declining by 5.22%. This decrease was mainly attributable to decrease in property and compensation expenses during the year under review.

The Bank recorded provisioning expense of Rs. 8.682 billion in 2019 as against a provision expense of Rs. 8.996 billion last year. Provision against loans and advances was booked at Rs. 7.397 billion, an increase of 11% from last year while provision against investments amounted to Rs. 1.284 billion as against Rs. 1.094 billion last year.

The Bank's gross NPL ratio (Gross non-performing loans to Gross Advances) as of December 31, 2019 stood at 56.58% as against 43.57% last year, while the coverage ratio increased to 70.77% as against 59.61% last year. During the year, NPLs (net) increased by Rs. 4.770 billion and stood at Rs. 40.842 billion at the period end (December 31, 2018: Rs. 36.072 billion).

Total deposits as at December 31, 2019 were reported at Rs. 88.567 billion as against Rs. 84.676 billion reported at last year end. This indicates a growth of Rs. 3.891 billion i.e. 4.60%. Despite the ongoing strategic issues, the Bank not only managed to arrest the reduction of deposits, but also managed to register some growth in deposits during the year. Moreover, at the year end, the Bank's gross advances to deposits ratio stands at 81.50% as compared to 97.78% last year.

As at December 31, 2019, the Bank has recognized deferred tax assets (net) of Rs. 11.606 billion. Based on the updated tax positions, deferred tax income for the current year amounted to Rs. 4.926 billion as against an income of Rs. 2.258 billion last year.

As at December 31, 2019, the Bank's paid up capital (net of losses) stood at negative (-) Rs. 9.283 billion as against the statutory requirement of Rs. 10 billion prescribed by SBP while the Capital Adequacy Ratio of the Bank stood at negative (-) 25.30% as against the minimum requirement of 12.50%.

The management and the Board of Directors is hopeful that if the growth factors and other key assumptions stipulated in the business plan materialize, the Bank will be able to achieve the projected improvement in business results and compliance with applicable regulatory requirements.

## HOLDING AND SUBSIDIARY COMPANY

Suroor Investments Limited (SIL), a company incorporated in Mauritius, is the holding company of the Bank. As of December 31, 2019, SIL held 66.77% of the issued, subscribed and paid-up share capital of the Bank.

The Bank has 100% shareholding in Summit Capital (Private) Limited. The Consolidated Financial Statements of the Bank and its subsidiary along with the Auditors' report on these consolidated financial statements make part of the annual report.

## CONSOLIDATED RESULTS

Summit Bank Limited posted consolidated loss after tax of Rs. 9.487 billion for the year ended December 31, 2019 (2018: Rs. 8.791 billion). Loss per share was measured at Rs. 3.60 in comparison to Rs. 3.33 for the corresponding period last year.

**Performance of Subsidiary:**

Summit Capital earned an operating revenue of Rs. 68.963 million as compared to Rs. 79.706 million for the last year. The loss per share for the year stood at Rs. 1.21 as compared to loss per share of Rs. 0.75 last year. The main reasons for low revenue and earnings were persistent low market volumes reflective of the economic slowdown the country has been facing. The hike in interest rates negatively affected major sectors and their profitability which led to a dearth of investors. However, the last quarter of CY 19 saw a sharp reversal in market volumes, a steep climb in the benchmark KSE100 index and, subsequently, a return to breakeven in Q4. This was also helped by the imposition of minimum commission by the SECP. For the upcoming year, the company expects the economic slowdown to bottom out, improvement in macroeconomic indicators, reversal of interest rates and a drop in inflation from 2HF onwards. These should bode well for the stock market, leading to improved volumes and profitability for brokers.

## CREDIT RATING

In the year 2019, VIS Credit Rating Company Limited suspended the Bank's medium to long-term rating of 'BBB -' (Triple B minus) and short term rating of 'A-3' (A-three) due to non-availability of updated information. VIS Credit Rating Company Limited would reassess the ratings once required information along with latest financials are made available. Moreover, the Bank's TFC rating was assigned 'D' (Default) due to non-payment of its latest mark-up payment on account of lock-in-clause invoked by the Bank under the applicable Regulations of the State Bank of Pakistan (SBP). The TFC holders of the Bank in their meeting held on October 22, 2020, further approved another extension of one year in the tenure of the TFC issue along with the extension in the payments of all redemption amounts, with the revised maturity date set at October 27, 2021. The Bank is currently in the process of ensuring compliance with all the applicable laws, rules, regulations and requisite regulatory requirements in this regard.

## ECONOMIC REVIEW

Throughout FY19, the challenges to the macro-economy continued to persist as Pakistan eyed for consolidation for future sustainable growth. Pakistan's GDP growth slowed down during the FY19 (3.3% vs 5.5% in FY18). However, Balance of Payments improved during the year, and continues to improve in FY20. During 2019, the exchange rate was allowed to depreciate, with a cumulative depreciation of 11.5%, the development budget was cut, energy prices were increased, and the policy rate was raised by 325 bps. As a result, private consumption growth decelerated from 6.8% in FY18 to 4.1% in FY19 while investment contracted by 8.9%. On the supply side, the industrial sector growth slowed to 1.4% in FY19 compared to 4.9% in FY18. The services sector grew at 4.7% (1.5% lower than in FY18).

The Current Account Balance entered into surplus on a monthly basis in October 2019 and continued to remain muted at a deficit of US$661 million in December 2019. The decline was primarily driven by lower import growth. The largest decline in imports was for transport and machineries, because of the slowdown in investment and industrial growth, followed by food items and metals. However, petroleum related imports continued to grow (5.0%), albeit at a lower rate than last year (25%). Exports, on the other hand, did not respond to the exchange rate depreciation, as regaining competitiveness after an extended period of an overvalued exchange rate will take time. The growth in remittances by 9.7% year-on-year in FY19, due to higher flows from USA, Malaysia, and GCC countries, also supported the current account.

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

Pakistan's government looks committed to improve performance of state owned enterprises by strengthening monitoring and increasing transparency. It is poised to privatize 2 RLNG power plants, SME Bank and First Women Bank, Jinnah Convention Centre and Services International Hotel. It is making efforts to minimize losses of Pakistan International Airlines by hiring a new management to improve operational efficiency and is planning to engage a new strategic partner for Pakistan Steel Mills.

Aided by bilateral, IMF, and other multilateral flows, international reserves have started to recover. Financial flows had a boost in FY19 due to a significant increase in central bank deposits and bilateral inflows from China, UAE and Saudi Arabia. The approval of the IMF Extended Fund Facility in July 2019 coupled with the resumption of multilateral budget support have contributed to an increase in the international reserves to US$13.2 billion in December 2019 compared to US$7.6 billion in January 2019. The gradual accumulation of reserves is also being supported by reduced pressures on the exchange rate.

Public debt increased during FY19, primarily because of the exchange rate depreciation. The increase in public debt was primarily driven by the depreciation of the Pakistani rupee against the US dollar in FY19.

Pakistan was placed on FATF's (Financial Action Task Force) in June 2018. In October 2019, FATF handed out another extension to Pakistan, maintaining its status on grey list until February 2020. While significant progress has been made, certain loopholes still exist as the nonexistence of a formal framework to combat money laundering and eliminate terror financing.

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

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

## MODIFICATIONS IN THE AUDITORS REPORT

The Bank's paid-up capital (net of losses), Capital Adequacy Ratio (CAR) and Leverage Ratio (LR) do not meet the requirements provided by State Bank of Pakistan (SBP) as at December 31, 2019. Further, the Bank's Liquidity Coverage is below the prescribed limits. These conditions indicate the existence of material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern. However, the Bank is making continued efforts for necessary injection of capital and implementation of the Bank's plan to comply with applicable capital and liquidity requirements.

During the year 2018, Law Enforcement Agencies (LEAs) initiated its investigation on certain bank accounts alleged for money laundering activities in various banks including Summit Bank Limited. The matter is currently under NAB investigations and only partial references have been filed in the NAB Courts. The Bank has been and is committed to extending its full cooperation to the Law Enforcement Agencies in their investigations to the best extent possible. The Bank's management is of the view that such investigations will not affect the ongoing operations and functions of the Bank.

The Bank is currently partially non-compliant with the provisions of Banking Companies Ordinance, 1962 with respect to an investment in immovable property. The management has planned steps to achieve compliance with the same with selling off the part of the property that is in non-compliance with the applicable laws.

The audit report is modified in respect of these matters but the opinion is not qualified.

## CORPORATE GOVERNANCE

The Bank is in compliance with the significant requirements of the Listed Companies (Code of Corporate Governance) Regulations, 2019. A prescribed statement by the management together with the Auditors' Review Report thereon is annexed as part of the annual report.

The Directors are pleased to give the following statements required under Chapter XII - Reporting and Disclosure of the Listed Companies (Code of Corporate Governance) Regulations, 2019:

1. The total number of Directors are six (06) as per the following:

- Male 05
- Female 01

The seventh (7th) male director was duly appointed by the Board of Directors by filing up the casual vacancy on December 28, 2019 but his requisite FPT clearance was not granted by the State Bank of Pakistan until December 31, 2019.

2. The composition of Board is as follows *:

| Category | Names |
|---|---|
| Independent Directors (including Female Director) | Mr. Rana Ahmed Humayun<br>Ms. Fauzia Hasnain |
| Executive Directors | Mr. Ahsan Raza Durrani, President & CEO (Acting)<br>Mr. Aziz Morris |
| Non-Executive Directors | Mr. Shafiqur Rahman Adhami<br>Mr. Kamran Butt |

* The election of directors were held on April 06, 2019 in which seven (7) directors were elected by the shareholders of the Bank in their extra ordinary general meeting. The State Bank of Pakistan did not approve the Fit and Proper Test (FPT) of newly elected directors and other replacement directors duly appointed for filling up the casual vacancies arisen from April 06, 2019. As a result, the above mentioned directors were appointed in Board of Directors' meeting held on October 31, 2019 to fill the casual vacancies arising from April 06, 2019. On December 05, 2019, the above mentioned Board of Director became functional after the State Bank of Pakistan granted their requisite FPT approval.

3. The board has formed committees comprising of members given below:

| S. No | Board Audit Committee | Position |
|---|---|---|
| 1 | Ms. Fauzia Hasnain | Chairperson |
| 2 | Mr. Rana Ahmed Humayun | Member |
| 3 | Mr. Kamran Butt | Member |

| S. No | Board Human Resource and Remuneration Committee | Position |
|---|---|---|
| 1 | Mr. Kamran Butt | Chairman |
| 2 | Ms. Fauzia Hasnain | Member |
| 3 | Mr. Shafiqur Rahman Adhami | Member |
| 4 | Mr. Ahsan Raza Durrani | Member |

| S. No | Board Risk Management Committee | Position |
|---|---|---|
| 1 | Mr. Aziz Morris | Chairman |
| 2 | Mr. Rana Ahmed Humayun | Member |
| 3 | Ms. Fauzia Hasnain | Member |

| S. No | Board Information Technology Committee | Position |
|---|---|---|
| 1 | Mr. Shafiqur Rahman Adhami | Chairman |
| 2 | Mr. Kamran Butt | Member |

The number of Board and Board Committee meetings held during the year 2019 and the attendance by each director was as follows:

| Name of Directors | Board Meetings | Board Audit Committee | Risk Management Committee | Board Human Resources & Compensation Committee | Board Compliance Committee *** | Information Technology Committee |
|---|---|---|---|---|---|---|
| No. of Meetings held during the year | 4 | 2 | 0 | 1 | 0 | 0 |
| Mr. Ahsan Raza Durrani (Acting President and CEO)* | 4 | N/A | N/A | N/A | N/A | N/A |
| Mr. Asadullah Khawaja | 2 | 2 | N/A | 1 | N/A | N/A |
| Mr. Shehryar Faruque | 2 | 2 | N/A | 1 | N/A | N/A |
| Mr. Mohammad Faisal Shaikha | 2 | N/A | N/A | N/A | N/A | N/A |
| Mr. Nasser Abdulla Hussain Lootah-Ex-Chairman | 0 | N/A | N/A | N/A | N/A | N/A |
| Mr. Husain Lawai-Ex-Vice-Chairman | 0 | N/A | N/A | 1 | N/A | N/A |
| Mr. Md. Ataur Rahman Prodhan | 1 | N/A | N/A | N/A | N/A | N/A |
| Mr. Aziz Morris* | 2 | N/A | N/A | N/A | N/A | N/A |
| Mr. Shafiqur Rahman Adhami** | 1 | N/A | N/A | N/A | N/A | N/A |
| Mr. Rana Ahmed Humayun** | 1 | N/A | N/A | N/A | N/A | N/A |
| Ms. Fauzia Hasnain** | 1 | N/A | N/A | N/A | N/A | N/A |
| Mr. Kamran Butt** | 1 | N/A | N/A | N/A | N/A | N/A |

* Elected in EOGM held on April 06, 2019.

** Appointed in 94th BOD Meeting held on October 31, 2019.

*** The Board Compliance Committee, constituted in FY-2018, did not had any of its meeting in FY 2019 and later in December 2019, the Board of Directors of the Bank formally abolished the Board Compliance Committee.

The details of fees paid to Directors in 2019 are disclosed in Note 37.1 to the unconsolidated financial statements.

## REMUNERATION PRACTICES OF THE BANK

SMBL follows a Remuneration Policy that is part of its Human Resource Policies, in line with all the applicable Regulations / Circulars / Guidelines issued by the State Bank of Pakistan ("SBP").

The review of the policy is under the ambit of Board Human Resources & Compensation Committee and is conducted every three year or earlier if required.

The Bank's basic compensation philosophy is to reward its staff for their valuable contributions with competitive salaries, incentives and variable compensation. In line with SMBL's corporate cultural values and Human Resource core values, the Bank's reward principles are as follows:

- To attract and retain highly qualified and competent staff members and to engage them to achieve the highest standards of performance.
- Compensation is to be directly linked with the individual, business unit / division and corporate (Bank's) performance; and are reviewed and adjusted annually to reflect performance.
- Compensation is to be market driven with the salary determinants being based on market data and on accepted relativities with the market.
- Compensation is to be administered in a manner that is both equitable and fair to all staff.

**Compensation Structure**

The compensation structures for employees is designed to promote performance, effective risk management and achieve compensation objectives. The forms of compensation to be awarded to employees vary depending on the employee's position and role and may include cash and other forms of compensation.

The compensation mix is composed of fixed and variable remuneration. The proportion of fixed components to be paid for different business lines is determined by taking into account the nature and level of responsibilities of an employee, business area in which he / she is working and the overall philosophy of compensation policy of the Bank. The proportion of variable compensation takes into account the overall performance of the Bank, respective business units and the individual performance.

The fixed and variable components of total remuneration are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration component. The variable component does not exceed 100% of the fixed component of the total remuneration for each employee. Any approval of a higher ratio can only be allowed after the approval of the shareholders upon a detailed recommendation by the Bank giving the reasons for, and the scope of, an approval sought, including the number of staff affected, their functions and the expected impact on the requirement to maintain a sound capital base.

The focus of the policy is to introduce remuneration structure as a mix of the following, based on the identification of MRTs and MRCs and performance of the employees during their performance appraisal cycle;

**Fixed Pay:** To compensate for skills, experience and competencies and consists of Basic Salary & Allowances.

**Variable Pay:** Performance related and consists primarily of Annual Performance Bonuses.

**Remuneration of the Board**

SMBL during a calendar year pays a reasonable and appropriate remuneration for attending the Board or its committee(s) meeting(s), to its non-executive directors and chairman. The scale of remuneration to be paid to the non-executive directors and chairman for attending the Board and / or committee meetings is approved by the shareholders on a pre or post facto basis in the Annual General Meeting (AGM).

In the case of non-executive directors, their level of remuneration reflects the experience and level of responsibilities undertaken by these Directors in the Bank. Remuneration of non-executive directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits. The non-executive directors do not draw any remuneration from the company except the meeting fee.

**Remuneration of the Shari'ah Board**

SMBL provides fixed annual fees to the Shari'ah Board members and does not provide any performance linked incentives.

**Definition and Determination of Material Personnel**

Thresholds for pay gap (difference between highest and lowest paid employees) across various levels within the bank has been defined under this policy.

The bonus is based on the Board approval considering the Bank's overall profitability against the pre-defined targets set out by the Board and shall be deferred as defined in the policy. Target and achieved values against the defined KPIs are assessed which helps to determine the business unit & individual ratings.

The following criteria is being followed for identification of Material Personnel (MP).

- President / CEO / Chief Operating Officer (COO) or any other equivalent person
- President / CEO / COO of fully owned local and foreign subsidiaries
- Member of the Board in its management function (Executive Directors, Non-Executive Directors, Independent Directors)
- The staff member of the senior management i.e. direct reporting to the President / CEO / COO or any other equivalent position.
- Total annual remuneration above Rs. 6 Million
- Employee is within the 0.3% of the number of staff, rounded up to the next integer, who have been awarded the highest total remuneration in the preceding financial year.

**Material Risk Takers (MRT)**

An employee (or any individuals within his / her control) is considered a Material Risk Taker (MRTs) if he / she is the head of a significant business line who have a material impact on the Bank's risk profile. MRTs are identified as functions and designations rather than as individuals. MRTs have appropriate level of authority and control.

The compensation mix for MRTs is appropriately balanced and the amount of fixed remuneration is sufficiently high in order to ensure that the reduction of the variable remuneration down to zero would be possible and employees are not dependent on the award of variable remuneration as this might otherwise create incentives for short-term-oriented excessive risk taking.

Further, the variable remuneration of MRTs is compensated on achieving the predetermined qualitative and quantitative objectives considering the risk-adjusted performance and long-term health of the Bank. The qualitative factors may override the achievements of quantitative factors in order to discourage undue / excessive risk taking.

**Material Risk Controllers (MRC)**

Functions that are established or need to be established for risk identification and risk mitigation functions are considered as Material Risk Controllers (MRCs). An independent control function comprises organizational units, independent of the business and corporate functions that are responsible for controlling and monitoring the operations and risks arising from those operations, ensuring compliance with all applicable laws, rules and regulations and advising the management functions on the matters within their area of expertise. Further, MRC's have suitable autonomy and authority to perform their tasks independently, without influence from the functions they are assigned to review.

The remuneration level of staff in the control and support functions / MRCs allows the bank to employ qualified and experienced personnel in these functions. SMBL ensures that the mix of fixed and variable remuneration for control and support function personnel is weighted in favor of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives and is not determined by the financial performance of the business areas they monitor. This compensation structure is designed to ensure that objectivity and independence of these functions is not compromised.

The Bank's Malus and Clawback provisions in the remuneration policy allow the Bank to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited / adjusted or the delivered variable remuneration recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behavior has had a materially detrimental impact on the Bank during the concerned performance year.

The Bank at present does not have any Employee Stock Option (ESOS) for its employees.

The Balance scorecards for the MRCs and MRTs positions are developed and are in place. These are based on their individual Key Performance Indicators in-line with the overall performance of the department contributing towards the Bank goals.

The Key Performance Indicators (KPI) of individual positions bank-wide are yet to be developed. These KPIs will help to develop the yearly objectives of the position and the performance will be evaluated of the achievements against these KPIs.

## RISK MANAGEMENT

Risk management is an integral part of the Bank's strategic decision-making process, which ensures that the Bank's corporate objectives are consistent with the appropriate risk-return trade-off. The Bank's risk management philosophy is that all risks taken must be identified, measured, monitored and managed within a robust risk management framework.

The Board of Directors has oversight on all the risks assumed by the Bank. It sets the risk appetite of the Bank and approves the risk management strategy and policies and determines the type and level of business risks that the Bank undertakes in achieving its corporate objectives. The Board has delegated to various Committees the authority to facilitate focused oversight of various risks, formulate, and review policies on monitoring and managing risk exposures. The major policy decisions and proposals on risk exposures approved by these Committees are subject to review by the Board Risk Management Committee (BRMC). The Board has appointed the BRMC to oversee senior management's activities in managing credit, market, liquidity, operational, IT, legal, fraud & forgery, compliance and other risks to ensure existence of a strong risk management framework in the Bank. In order to further strengthen the risk management process, the Bank continuously updates its risk management policies and risk limits.

Various divisions like Compliance, Legal, Credit, Risk Management, Internal Audit, Treasury Middle Office, IT Security, and Centralized Operations Units have been functioning independent of the business units to ensure proper management of risks relating to these areas. The Bank has also constituted various Committees comprising of senior executives of the Bank who meet regularly to deliberate on matters relating to risk exposures in the areas under their respective supervision.

Segregation of duties and various other controls have been instituted by the Bank to mitigate the operational risk. Moreover, the Bank has further strengthened its Credit, Operational and Information Security Risk Management functions by employing various risk management tools and techniques. Regular Business Continuity and Disaster Recovery tests are conducted to ensure business continuity in contingency situations.

## FORWARD LOOKING STATEMENT

The Bank is fully prepared to capitalize on the business opportunities available in the market and will continue to focus on its strategy for long-term sustainable growth. The Bank is making best efforts to comply with applicable capital requirements through increase in capital / capital injection at the earliest. For this, the management has prepared a business plan, which has been approved by the Board. Salient features of the plan are listed in note 1.3 of the unconsolidated financial statements.

## UNCERTAINTIES THAT COULD AFFECT THE BANK'S RESOURCE, REVENUES AND OPERATIONS

All forward looking statements are, by nature, subject to risks and uncertainties, some beyond control. Factors that may potentially affect the Bank's resource, revenues and operations are:

- Capital injection;
- Decisions on Discount Rate / Monetary policy;
- Revisions to rate of returns on deposits;
- Geo-Political risks and uncertainties across the geography that we operate in;
- Law and Order situation;
- Local Government rules and regulations;
- Inflation, fuel and general commodity prices;
- Corporate taxation measures; and
- The potential impacts of changes in accounting and regulatory framework.

## STATEMENT ON INTERNAL CONTROLS

The Bank's internal controls system is designed to achieve operational efficiency, legal and statutory compliances and reliable and accurate financial reporting.

It is the responsibility of the Bank's management to establish and maintain an adequate and effective Internal Control System. In order to have an effective system of internal controls, the Bank has implemented the following strategy:

- An independent Internal Audit Division reporting directly to the Audit Committee of the Board of Directors is effectively functioning.
- Compliance Division is working to ensure adherence to Laws, Regulations, and Code of ethics with a strong emphasis on Know Your Customer and Anti-Money Laundering.
- An Internal Control Department is established to oversee financial, compliance and operational controls, accounting system and reporting structures to ensure their adequacy and effectiveness.
- The Statement of Ethics and Business Practices has been signed and adopted by the Directors and the employees of the Bank.
- A portfolio of policies approved by the Board, are continuously updated based on the needs and requirements.
- Management responds promptly to the observations and recommendations made by the Bank's Auditors for improvements in the internal control system.
- A number of Board and Management Committees are functioning to ensure adequate communication and control.

The Bank has adopted internationally accepted COSO (Committee of Sponsoring Organisations of Treadway Commission) Internal Control-Integrated Framework and had initially hired a reputable advisory firm for providing services to the Bank on effective implementation of SBP guidelines on Internal Controls over Financial Reporting (ICFR).

In order to further strengthen the controls, enhance governance and monitoring, and continuous update of internal control documentation as per SBP guidelines, the Bank established a separate Internal Control Department. To ensure consistency in the process of compliance with the SBP guidelines on Internal Controls, the Bank has followed a structured roadmap and guidelines on ICFR as issued by SBP. Accordingly, the Bank has completed a detailed documentation of bank-wide processes and controls, together with a comprehensive gap analysis of the control design and subsequent development of remediation plans for the identified gaps. Furthermore, the Bank has developed a comprehensive management testing and reporting framework for ensuring operating effectiveness of key controls and has significantly addressed the design improvement opportunities identified to complete the project related initiatives.

In accordance with SBP directives, the Bank has completed all the stages of ICFR. Upon satisfactory completion of ICFR roadmap, SBP granted exemption to the Bank in February 2015 from the submission of Long Form Report (LFR) by external auditors. Accordingly, Annual Assessment Report (AAR) on ICFR for 2019 was compiled by the Internal Audit & Inspection Division of the Bank and was presented to the Board Audit Committee (BAC) for their review and approval. However, during the BAC meeting held on 17 September, 2020, it was advised by Committee, that in view of the current scenario; where the Bank is already undergoing through a due-diligence process and that also the investors have showed their commitment and support through their Letter of Intent; an external review on the internal control structure of the Bank; by an external auditor / consultant would significantly add credibility of the AAR and the Bank's overall Internal Control System, going forward.

In this regard, on the instructions of the Board Audit Committee (BAC), our External Auditors Baker Tilly Mehmood Idrees Qamar Chartered Accountants performed ICFR review and presented their Special Review Report of the Bank's Internal Control Programme relating to Internal Controls Over Financial Reporting for the year ended December 31, 2019, to the Board Audit Committee (BAC) in its 82nd (Adjourned) meeting held on February 13, 2021 for their review and approval. After thorough review and deliberations, the Committee approved the report with the advice to submit the same to State Bank of Pakistan.

The management is of the view that internal controls framework of the Bank is adequate to ensure compliance with laws and regulations and timely and accurate financial reporting. The Board of Directors also hereby endorses this assessment.

## CORPORATE SOCIAL RESPONSIBILITY

As one of the customer centric Banks in Pakistan, Summit Bank Limited, has a great legacy of service and Digital innovation spanning over 15 years. Through the promotion of digital initiatives and deployment of projects and services that work in a socially responsible way, the Bank stresses upon the importance of environmental sustainability and the social well-being of its employees and society as a whole.

The Bank undertakes CSR initiatives with a vision to contribute towards harmonious and sustainable development of communities. Following tasks were undertaken as CSR activities by the Bank:

- The Bank contributed to sustainable economic growth by collecting sales tax and FED of amount Rs. 88.499 million and withholding tax collection of amount Rs. 1,471.936 million and zakat collection of amount Rs. 4.807 million.

- Supported Pakistan's strategic projects and contributed in the government's Diamir and Bhasha Dam fund and collected Rs. 6.372 million via branches and electronic channels.

- Supported and promoted digital transformation and financial inclusion by introducing customer centric products including launching of tax and government challan collection facility on electronic channels.

- Promoted digital payments in the education sector by partnering different payment aggregators for the online school fee payment through digital channels.

- Ran customer awareness campaign about the products and digital channels security through social media and website.

- Endeavoured to build and maintain sound relationships with the customers and other stakeholders through fair communication in order to contribute towards sustainable image building.

- In order to maintain a strong hold on processes within the Bank, the Service Quality Division devised several controllable measures at par with prevailing market practices. Against each measure, a tolerance level along with a timeline was set. Similarly, indicators for Consumer Assets, Debit Cards, Call Centre, Mobile Banking, Internet Banking and ATM Uptime were monitored on a monthly basis.

- Centralized Complaint Management System has been provided to all branches which will further enhance our complaint capturing capability. At this stage, all our customer touch points are now connected to this system so as to ensure that all complaints, whether in verbal or written form, are immediately captured in the system.

## EXTERNAL AUDIT

Based on the consent received from the Bank's existing auditors, M/s Baker Tilly Mehmood Idrees Qamar & Co., Chartered Accountants, to continue to act as auditors of the Bank, if so appointed, the Board Audit Committee has recommended the reappointment of the auditors as statutory external auditors of the Bank for the next year with the same remuneration as last year. The appointment shall be subject to approval in the Annual General Meeting of the Bank's shareholders.

The firm of auditors have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan, and that the firm and all their partners are compliant with the International Federation of Accountants' (IFAC) Guidelines on Code of Ethics, as adopted by the Institute of Chartered Accountants of Pakistan, and meet the requirements for appointment under all applicable laws.

## PATTERN OF SHAREHOLDING

The ownership structure along with the pattern of shareholding and categories of shareholders as at December 31, 2019 has been made part of the Annual Report.

## EVENTS AFTER THE BALANCE SHEET DATE

The Bank had received a letter dated May 20, 2021 from H.E. Nasser Abdulla Hussain Lootah (The Investor) in which The Investor had communicated his intention to acquire at least controlling stake in the Bank by subscribing to fresh equity in the Bank. In compliance with the requirements of Securities Act, 2015 and Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2017 applicable to such transactions, this was followed by a public announcement by The Investor of the intention to acquire at least 51% of the issued and paid up capital of the Bank together with the management control.

The Investor has now submitted his offer via a letter dated October 01, 2021, as per the Share Subscription Agreement (SSA) dated October 04, 2021 entered between the Bank and The Investor for the proposed subscription of new ordinary shares in the Bank by way of fresh equity injection Without Rights Offering at a discounted price of Rs. 2.51 per share. The Investor presented the offer as set out in the SSA which is duly approved by the Board of Directors. The Bank intends to issue a total of 5,976.096 million new ordinary shares.

## ACKNOWLEDGEMENT

On behalf of the Board, we would once again like to thank the State Bank of Pakistan, the Securities and Exchange Commission of Pakistan, and other regulatory authorities for their continuous guidance and support. At the same time, we would like to express our gratitude to our shareholders, our customers and the Bank's staff for their continued support.

On behalf of the Board.

**Jawad Majid Khan**
President and Chief Executive Officer

**Fauzia Hasnain**
Director

Summit Bank
October 08, 2021
Karachi

## تعریف وتوثیق

ہم، بورڈ کی جانب سے اسٹیٹ بینک آف پاکستان، سیکیورٹیز اینڈ ایکسچینج کمیشن پاکستان، دیگر ضابطہ کاروں کی مسلسل رہنمائی اور معاونت پر شکر گزار ہیں۔ نیز ہم مسلسل معاونت پر ہمارے اسٹیک ہولڈرز، ہمارے صارفین اور بینک کے عملے کا شکریہ ادا کرنا چاہیں گے۔

بورڈ آف ڈائریکٹرز کی جانب سے

جواد ماجد خان
صدر اور چیف ایگزیکٹو آفیسر

فوزیہ حسنین
ڈائریکٹر

سمٹ بینک
اکتوبر 08، 2021
کراچی

- سوشل میڈیا اور ویب سائٹ کے ذریعے مصنوعات اور ڈجیٹل چینلز کی سیکیورٹی کے بارے میں صارفی آگاہی مہم چلائی۔
- پائیدار ساکھ کے لیے شفاف ابلاغ کے ذریعے صارفین اور دیگر اسٹیک ہولڈرز کے ساتھ اچھے تعلقات بنانے اور برقرار رکھنے کی کوشش کی۔
- بینک کے اندر پراسیسز پر مضبوط گرفت برقرار رکھنے کے لیے، سروس کوالٹی ڈویژن نے مارکیٹ کے مروجہ طریقوں کے ہم پلہ کئی قابل کنٹرول اقدامات وضع کیے۔ ہر اقدام پر، ایک میعاد مقرر کی گئی تھی۔ اسی طرح، صارفین کے اثاثوں، ڈیبٹ کارڈز، کال سینٹر، موبائل بینکاری، انٹرنیٹ بینکاری اور اے ٹی ایم اپ ٹائم کے اشاریوں کی ماہانہ بنیادوں پر نگرانی کی گئی۔
- تمام برانچوں کو شکایات کے حل کا مرکزی نظام فراہم کیا گیا ہے جو کہ شکایات پر گرفت کی ہماری صلاحیت میں مزید اضافہ کرے گا۔ اس مرحلے پر، ہمارے تمام کسٹمر ٹچ پوائنٹس اب اس نظام سے جڑے ہوئے ہیں تاکہ یہ یقینی بنایا جاسکے کہ تمام شکایات، چاہے زبانی ہوں یا تحریری شکل میں، فوری طور پر نظام میں جگہ بنالیں۔

## بیرونی آڈٹ

بینک کے موجودہ آڈیٹرز سے موصول ہونے والی رضامندی کی بنیاد پر، میسرز بیکر ٹلی محمود ادریس قمر اینڈ کمپنی، چارٹرڈ اکاؤنٹنٹس، بینک کے آڈیٹر کے طور پر کام جاری رکھیں گے، اگر ایسا ہوتا ہے تو، بورڈ آڈٹ کمیٹی نے ان کی بینک کے قانونی بیرونی آڈیٹرز کی طرح گذشتہ برس کے معاوضے پر بطور آڈیٹر اگلے سال کے لیے دوبارہ تقرری کی سفارش کی ہے۔ یہ تقرری بینک کے شیئر ہولڈرز کی سالانہ جنرل میٹنگ میں منظوری سے مشروط ہوگی۔

کمپنی کے قانونی آڈیٹرز نے تصدیق کی ہے کہ انھیں انسٹیٹیوٹ آف چارٹرڈ اکاؤنٹنٹس آف پاکستان کے کوالٹی کنٹرول ریویو پروگرام کے تحت اطمینان بخش رٹینگ دی گئی ہے اور یہ کہ وہ اور ان کے تمام پارٹنرز ضابطہ اخلاق کے بارے میں انٹرنیشنل فیڈریشن آف اکاؤنٹنٹس (آئی ایف اے سی) کی ہدایات کی تعمیل کرتے ہیں جیسا کہ ادارہ برائے چارٹرڈ اکاؤنٹنٹس آف پاکستان نے اختیار کی ہیں، اور یہ کہ انھوں نے قابل اطلاق قوانین کے تحت تقرری کے تمام تقاضے پورے کیے ہیں۔

## شیئر ہولڈنگ کا پیٹرن

31 دسمبر 2019ء کے مطابق شیئر ہولڈنگ کے نمونوں اور شیئر ہولڈرز کے زمروں کے ساتھ ملکیت کا ڈھانچہ سالانہ رپورٹ کا حصہ بنایا گیا ہے۔

## بیلنس شیٹ کی تاریخ کے بعد ہونے والے واقعات

20 مئی 2021ء کو ایچ ناصر عبداللہ حسین لوطہ (سرمایہ کار) کی جانب سے بینک کو ایک مراسلہ موصول ہوا جس کی پیروی کرنے پر سرمایہ کار نے بینک میں تازہ سیالیت سبسکرائب کرنے اور اس رقم کی جہاں ضروری ہو سرمایہ کاری کرنے کے ذریعے بینک کے کنٹرولنگ اختیار حاصل کرنے کے ارادے کا اظہار کیا۔ مزید برآں، اس طرح کے لین دین کے لئے سیکیورٹیز ایکٹ، 2015ء اور فہرستی کمپنیز (ووٹنگ شیئرز اور ٹیک اوورز کا کافی حصول) ریگولیشنز کے قابل اطلاق تقاضوں کی تعمیل کرتے ہوئے، سرمایہ کار کی جانب سے انتظامی کنٹرول کے ساتھ بینک کے کم از کم 51 فیصد جاری کردہ اور اداشدہ سرمائے کے بارے میں عوامی اعلان کیا گیا۔

سرمایہ کار نے 01 اکتوبر 2021 کو اپنی پیشکش خط کے ذریعے کی۔ بعدازاں 04 اکتوبر 2021 کو بینک اور سرمایہ کار کے درمیان داخل کردہ شیئر سبسکرپشن معاہدہ (ایس ایس اے) ہوا جس میں بینک میں نئے عام حصص کی مجوزہ سبسکرپشن کے لئے نئی ایکویٹی انجکشن کے بغیر حقوق کے پیشکش رعایتی قیمت پر داخل کیا گیا ہے۔ 2.51 روپے فی حصص ہے۔ سرمایہ کار نے شیئر سبسکرپشن معاہدے میں طے شدہ پیشکش کی جسے بورڈ آف ڈائریکٹرز نے باضابطہ طور پر منظور کیا ہے۔ بینک کُل 5,976.096 ملین نئے عام حصص جاری کرنے کا ارادہ رکھتا ہے۔

اسٹیٹ بینک کی ہدایات کے مطابق، بینک نے آئی سی ایف آر کے تمام مراحل مکمل کر لیے ہیں۔ آئی سی ایف آر روڈ میپ کی تسلی بخش تکمیل پر، اسٹیٹ بینک نے فروری 2015ء میں بینک کو بیرونی آڈیٹروں کی طرف سے لانگ فارم رپورٹ (LFR) جمع کرانے سے استثنا دیا۔ اسی کے مطابق، 2019ء کے لیے آئی سی ایف آر پر سالانہ تشخیصی رپورٹ (اے اے آر) بینک کے اندرونی آڈٹ اور معائنہ ڈویژن نے مرتب کی تھی اور اسے بورڈ آڈٹ کمیٹی (بی اے سی) کو جائزے اور منظوری کے لیے پیش کیا تھا۔ تاہم، 17 ستمبر، 2020ء کو منعقد ہونے والے بی اے سی اجلاس کے دوران، کمیٹی نے یہ مشورہ دیا کہ موجودہ منظر نامے کے پیش نظر جہاں بینک پہلے ہی ایک ضروری مستعدی کے عمل سے گزر رہا ہے اور یہ کہ سرمایہ کاروں نے بھی اپنے لیٹر آف ان ٹینٹ کے ذریعے اپنا عزم اور تعاون ظاہر کیا ہے؛ بیرونی آڈیٹر / کنسلٹنٹ کی طرف سے بینک کے اندرونی کنٹرول ڈھانچے کے بیرونی جائزے سے مستقبل میں اے اے آر اور بینک کے مجموعی داخلی کنٹرول سسٹم کی ساکھ میں نمایاں اضافہ ہو گا۔

اس سلسلے میں، بورڈ آڈٹ کمیٹی (بی اے سی) کی ہدایات پر، ہمارے بیرونی آڈیٹرز بیکر ٹلی محمود ادریس قمر، چارٹرڈ اکاؤنٹنٹس نے آئی سی ایف آر کا جائزہ لیا اور بینک کے اندرونی کنٹرول پروگرام سے متعلق 31 دسمبر 2019ء کو ختم ہونے والے سال کے لیے اپنی خصوصی جائزہ رپورٹ 13 فروری 2021ء کو بورڈ آڈٹ کمیٹی (بی اے سی) کو جائزے اور منظوری کے لیے اس کے 82 ویں (ملتوی) اجلاس میں پیش کی، جو مالی رپورٹنگ کے لیے داخلی کنٹرولز سے متعلق ہے۔ مکمل جائزے اور غور و خوض کے بعد کمیٹی نے اس رپورٹ کو اسٹیٹ بینک آف پاکستان کو پیش کرنے کے مشورے کے ساتھ منظوری دی۔

انتظامیہ سمجھتی ہے کہ بینک کا داخلی کنٹرول کا فریم ورک قوانین اور قواعد و ضوابط اور بروقت اور درست مالی رپورٹنگ کی تعمیل کو یقینی بنانے کے لیے کافی ہے۔ بورڈ آف ڈائریکٹرز بھی اس امر کی توثیق کرتے ہیں۔

## کارپوریٹ سماجی ذمہ داری

پاکستان میں ایک صارفین پر مرکوز بینک ہونے کے طور پر، سمٹ بینک لمیٹڈ، 15 سالوں پر محیط خدمات اور ڈجیٹل انوویشن کی عظیم میراث کا حامل ہے۔ ڈجیٹل اقدامات کے فروغ اور ان منصوبوں اور خدمات کی تنصیب، جو سماجی طور پر ذمہ دارانہ طریقے سے کام کرتے ہیں، کے ذریعے بینک ماحولیاتی پائیداری کی اہمیت اور اپنے ملازمین اور معاشرے کی مجموعی بہبود پر زور دیتا ہے۔

بینک کمیونٹیز کی ہم آہنگی اور پائیدار ترقی کے لیے شراکت کے نصب العین کے ساتھ ساتھ سی ایس آر اقدامات کرتا ہے۔ بینک کی طرف سے سی ایس آر سرگرمیوں کے طور پر مندرجہ ذیل کام کیے گئے:

- بینک نے سیلز ٹیکس اور ایف ای ڈی کے 88.499 ملین روپے، اور ود ہولڈنگ ٹیکس وصولی کے 1،471.936 ملین روپے، نیز زکوٰۃ کے 4.807 ملین روپے جمع کر کے پائیدار معاشی نمو میں حصہ لیا۔
- پاکستان کے اسٹریٹجک منصوبوں کی معاونت کی اور حکومت کے دیامیر اور بھاشا ڈیم فنڈ میں حصہ لیتے ہوئے برانچوں اور الیکٹرانک چینلز کے ذریعے 6.372 ملین روپے جمع کیے۔
- الیکٹرانک چینلز پر ٹیکس اور سرکاری چالان جمع کرنے کی سہولت سمیت صارفین پر مرکوز مصنوعات متعارف کروا کر ڈجیٹل ٹرانسفارمیشن اور مالیاتی شمولیت کی معاونت اور فروغ دیا۔
- تعلیمی شعبے میں مختلف پیمنٹ ایگریگیٹرز کی شراکت سے اسکول فیس کی آن لائن ادائیگی کے لیے ڈجیٹل چینلز کے ذریعے ڈجیٹل ادائیگیوں کو فروغ دیا۔

## داخلی کنٹرولز پر بیان

بینک کا اندرونی کنٹرول سسٹم آپریشنل کارکردگی، قانون اور قانونی تعمیل اور قابل اعتماد اور درست مالی رپورٹنگ کے حصول کے لیے بنایا گیا ہے۔

مناسب اور مؤثر داخلی کنٹرول سسٹم کا قیام اور اسے برقرار رکھنا بینک کی انتظامیہ کی ذمہ داری ہے۔ اندرونی کنٹرول کے ایک مؤثر نظام کے قیام کے لیے بینک نے درج ذیل حکمت عملی پر عمل کیا ہے:

- بورڈ آف ڈائریکٹرز کی آڈٹ کمیٹی کو براہ راست رپورٹ کرنے والا ایک خود مختار داخلی آڈٹ ڈویژن مؤثر طریقے سے کام کر رہا ہے۔
- تعمیلی ڈویژن اپنے صارفین کو جاننے اور منی لانڈرنگ کے خلاف مضبوط احساس کے ساتھ قوانین، قواعد و ضوابط اور اخلاقیات کے ضابطوں کی پاسداری کو یقینی بنانے کے لیے کام کر رہا ہے۔
- ایک داخلی کنٹرول ڈیپارٹمنٹ مالی، تعمیل اور آپریشنل کنٹرولز، اکاؤنٹنگ سسٹم اور رپورٹنگ کے ڈھانچے کی نگرانی کے لیے قائم کیا گیا ہے تاکہ ان کی کفایت اور تاثیر کو یقینی بنایا جا سکے۔
- بینک کے ڈائریکٹرز اور ملازمین نے اخلاق اور کاروباری طریقوں کے بیان پر دستخط کرتے ہوئے انھیں اپنایا ہے۔
- بورڈ کی منظور کردہ پالیسیوں کا ایک جزدان، ضروریات اور تقاضوں کی بنیاد پر مسلسل اپ ڈیٹ کیا جاتا ہے۔
- انتظامیہ داخلی کنٹرول کے نظام میں بہتری کے لیے بینک کے آڈیٹرز کے مشاہدات اور سفارشات پر فوری رد عمل دیتی ہے۔
- مناسب رابطوں اور کنٹرول کو یقینی بنانے کے لیے متعدد بورڈ اور مینجمنٹ کمیٹیاں کام کر رہی ہیں۔

بینک نے داخلی کنٹرول کے مربوط فریم ورک کے بین الاقوامی طور پر قبول شدہ سی او ایس او (کمیٹی آف اسپانسرنگ آرگنائزیشنز آف ٹریڈوے کمیشن) کو اپنایا ہے اور اسٹیٹ بینک کی ہدایات کے موثر نفاذ کے لیے ابتدائی طور پر مالی رپورٹنگ (ICFR) کے داخلی کنٹرول پر بینک کو خدمات فراہم کرنے کے لیے ایک معروف مشاورتی فرم کی خدمات حاصل کی ہیں۔

کنٹرولز کو مزید مضبوط بنانے، نظم و نسق اور نگرانی کو بڑھانے اور اسٹیٹ بینک کے رہنما خطوط کے مطابق داخلی کنٹرول کی دستاویزیت کی مسلسل تازہ کاری کے لیے بینک نے ایک علیحدہ داخلی کنٹرول کا شعبہ قائم کیا۔ داخلی کنٹرول پر اسٹیٹ بینک کے رہنما خطوط کی تعمیل کے عمل میں مستقل مزاجی کو یقینی بنانے کے لیے، بینک نے آئی سی ایف آر پر اسٹیٹ بینک کے جاری کردہ ایک ساختہ روڈ میپ اور ہدایات پر عمل کیا ہے۔ اس کے مطابق، بینک نے بینک کے وسیع عمل اور کنٹرول کی تفصیلی دستاویزات مکمل کر لی ہیں، نیز کنٹرول ڈیزائن میں خلا کا ایک جامع تجزیہ کیا اور ازاں بعد نشاندہی کردہ خلا کو درست کرنے کے منصوبے وضع کیے۔ مزید برآں، بینک نے کلیدی کنٹرولز کی آپریٹنگ تاثیر کو یقینی بنانے کے لیے ایک جامع مینجمنٹ ٹیسٹنگ اور رپورٹنگ فریم ورک تیار کیا ہے اور اس منصوبے سے متعلقہ اقدامات کو مکمل کرنے کے لیے ڈیزائن کی بہتری کے مواقع کی نشاندہی کر کے نمایاں طور پر بہتر بنایا ہے۔

تعمیل، قانونی، کریڈٹ، انتظامِ خطر، انٹرنل آڈٹ، ٹریژری مڈل آفس، آئی ٹی سیکیورٹی، اور سنٹرلائزڈ آپریشن یونٹس جیسے مختلف ڈویژن کاروباری یونٹوں سے آزاد کام کر رہے ہیں تاکہ ان شعبوں سے متعلقہ خطرات کے مناسب انتظام کو یقینی بنایا جاسکے۔ بینک نے بینک کے سینئر ایگزیکٹوز پر مشتمل مختلف کمیٹیاں بھی تشکیل دی ہیں جو اپنی نگرانی میں خطرے کے اکتشاف سے متعلق معاملات پر غور کرنے کے لیے باقاعدگی سے ملاقات کرتی ہیں۔

آپریشنل خطرے کو کم کرنے کے لیے بینک کی جانب سے فرائض کی علیحدگی اور مختلف دیگر کنٹرول قائم کیے گئے ہیں۔ مزید یہ کہ، بینک نے اپنے کریڈٹ، آپریشنل اور انفارمیشن سیکورٹی انتظامِ خطر کے افعال کو انتظامِ خطر کے مزید ٹولز اور تکنیکوں کے ذریعے مزید مضبوط کیا ہے۔ ہنگامی حالات میں کاروباری تسلسل کو یقینی بنانے کے لیے باقاعدہ کاروباری تسلسل اور تباہی سے بحالی کے ٹیسٹ کیے جاتے ہیں۔

## پیش بینی بیانیہ

بینک مارکیٹ میں دستیاب کاروباری مواقع سے فائدہ اٹھانے کے لیے مکمل طور پر تیار ہے اور طویل مدتی پائیدار ترقی کے لیے اپنی حکمت عملی پر توجہ مرکوز رکھے گا۔ بینک قابل اطلاق سرمایہ کی ضروریات کو جلد از جلد پورا کرنے کے لیے سرمائے / سرمائے کے ادخال میں اضافے کے ذریعے بہترین کوششیں کر رہا ہے۔ اس کے لیے انتظامیہ نے ایک کاروباری منصوبہ تیار کیا ہے، جسے بورڈ نے منظور کر لیا ہے۔ منصوبوں کی نمایاں خصوصیات غیر مستحکم مالی بیانات کے نوٹ 1.3 میں درج ہیں۔

## غیر یقینی حالات جو بینک کے وسائل، محاصل اور آپریشنز کو متاثر کرتے ہیں

تمام پیش بینی بیانات، اپنی نوعیت میں، خطرات اور غیر یقینی صورت حال کے تابع ہیں، اور کچھ کنٹرول سے باہر ہیں۔ وہ عوامل جو ممکنہ طور پر بینک کے وسائل، محاصل اور آپریشنز کو متاثر کر سکتے ہیں وہ ہیں:

- سرمائے کا ادخال
- ڈسکاؤنٹ کی شرح / زری پالیسی کے فیصلے؛
- امانتوں پر منافع کی شرح میں ترمیم
- جغرافیائی، سیاسی خطرات اور غیر یقینی صورت حال جس میں ہم کام کرتے ہیں؛
- امن و امان کی صورت حال
- مقامی حکومت کے قواعد و ضوابط
- مہنگائی، فیول اور عام اشیا کی قیمتیں
- کارپوریٹ ٹیکس کے اقدامات اور
- اکاؤنٹنگ اور ضوابطی فریم ورک میں تبدیلیوں کے ممکنہ اثرات۔

کنٹرول اور سپورٹ فنکشنز / ایم آر سیز میں عملے کے معاوضے کی سطح بینک کو ان افعال میں اہل اور تجربہ کار افراد کو ملازمت دینے کی اجازت دیتی ہے۔ ایس ایم بی ایل اس بات کو یقینی بناتا ہے کہ کنٹرول اور سپورٹ فنکشن کے اہلکاروں کے لیے مقررہ اور متغیر معاوضے کی ترکیب مقررہ معاوضے کے حق میں ساز گار ہے۔ کنٹرول فنکشنز کا متغیر معاوضہ فنکشن کے مخصوص مقاصد پر مبنی ہوتا ہے اور ان کاروباری شعبوں کی مالی کارکردگی سے طے نہیں ہوتا جن کی وہ نگرانی کرتے ہیں۔ معاوضے کا یہ ڈھانچہ اس بات کو یقینی بنانے کے لیے بنایا گیا ہے کہ ان کاموں کی معروضیت اور آزادی پر سمجھوتہ نہ کیا جائے۔

معاوضہ پالیسی میں بینک کی Malus اور Clawback کی دفعات بینک کو اس بات کا تعین کرنے کی اجازت دیتی ہیں کہ اگر مناسب ہو تو مؤخر بونس پلان کے تحت غیر منقسم عناصر کو ضبط / ایڈجسٹ کیا جاسکے یا بعض حالات میں ادا شدہ متغیر معاوضہ وصول کیا جاسکتا ہے۔ اس کی وجہ یہ ہے کہ بینک کو مناسب رد عمل کی اجازت دی جائے اگر کارکردگی کے وہ عوامل جن پر انعامات کے فیصلے کیے گئے تھے وہ طویل مدتی اعتبار سے متعلقہ کارکردگی کی عکاسی نہ کرتے ہوں۔ تمام مؤخر معاوضہ انعامات میں ایسی دفعات شامل ہیں جو بینک کو ان ملازمین کے ایوارڈز کو کم یا منسوخ کرنے کے قابل بناتی ہیں جن کے انفرادی رویے نے متعلقہ کارکردگی کے سال کے دوران بینک کے لیے مادی طور پر نقصان دہ اثر ڈالا ہو۔

فی الحال بینک کے پاس اپنے ملازمین کے لیے کوئی ملازم اسٹاک آپشن (ای ایس او ایس) نہیں ہے۔

ایم آر سیز اور ایم آر ٹیز کے عہدوں کے لیے متوازن اسکور کارڈ تیار کیے جاتے ہیں جو موجود ہیں۔ یہ ان کی انفرادی کلیدی کارکردگی کے اظہاریوں کی بنیاد پر ہیں جو بینک کے اہداف میں شریک شعبوں کی مجموعی کارکردگی کے مطابق ہیں۔

بینک بھر میں انفرادی عہدوں کے کلیدی کارکردگی کے اشارے (کے پی آئیز) ابھی تیار نہیں کیے گئے ہیں۔ یہ کے پی آئیز بینک بھر میں عہدوں کے سالانہ مقاصد کو تیار کرنے میں مدد کریں گے اور ان کے پی آئیز کے مطابق کامیابیوں کی کارکردگی کا جائزہ لیا جائے گا۔

## انتظامِ خطر

انتظامِ خطر بینک کے اسٹریٹجک فیصلہ سازی کے عمل کا ایک لازمی حصہ ہے، جو اس بات کو یقینی بناتا ہے کہ بینک کے کارپوریٹ مقاصد خطرے کے مناسب انتظام کے مطابق ہوں۔ بینک کا انتظامِ خطر کا فلسفہ یہ ہے کہ تمام خطرات کی نشاندہی، پیمائش، نگرانی اور انتظام کیا جانا چاہیے۔

بورڈ کی جانب سے بورڈ آف ڈائریکٹرز تمام خطرات کی نگرانی کرتا ہے۔ یہ بینک کی خطرے کی طلب کو متعین کرتا ہے اور انتظامِ خطر کی حکمت عملی اور پالیسیوں کی منظوری دیتا ہے اور کاروباری خطرات کی قسم اور سطح کا تعین کرتا ہے جو بینک اپنے کارپوریٹ مقاصد کے حصول میں استعمال کرتا ہے۔ بورڈ نے مختلف کمیٹیوں کو اختیار تفویض کیا ہے کہ وہ خطرات کی نگرانی اور انتظام کے حوالے سے پالیسیاں مرتب کریں، مختلف خطرات پر توجہ مرکوز کریں۔ ان کمیٹیوں کی جانب سے

خطرے کے منظور شدہ اکتشاف کے بارے میں اہم پالیسی فیصلے اور تجاویز بورڈ کی انتظامِ خطر کمیٹی (بی آر ایم سی) سے مشروط ہیں۔ بورڈ نے بینک میں مضبوط انتظامِ خطر فریم ورک کے وجود کو یقینی بنانے کے لیے کریڈٹ، مارکیٹ، سیالیت، آپریشنل، آئی ٹی، قانونی، دھوکہ دہی اور جعل سازی، تعمیل اور دیگر خطرات کے انتظام میں سینئر مینجمنٹ کی سرگرمیوں کی نگرانی کے لیے بی آر ایم سی کو مقرر کیا ہے۔ انتظامِ خطر کے عمل کو مزید مضبوط بنانے کے لیے، بینک اپنی انتظامِ خطر کی پالیسیوں اور خطرے کی حدود کو مسلسل اپ ڈیٹ کرتا رہتا ہے۔

مفید ملازم (ایم پی) کی نشان دہی کے لیے درج ذیل معیارات پر عمل کیا جاتا ہے:

- صدر / سی ای او / چیف آپریٹنگ آفیسر (سی او او) یا کوئی دوسرا مساوی شخص
- مکمل ملکیت والے مقامی اور غیر ملکی ذیلی اداروں کے صدر / سی ای او / سی او او
- بورڈ کے رکن اپنے انتظامی کردار میں (ایگزیکٹو ڈائریکٹرز، نان ایگزیکٹو ڈائریکٹرز، خود مختار ڈائریکٹرز)
- سینئر مینجمنٹ کے عملے کا رکن یعنی صدر / سی ای او / سی او او یا کسی اور مساوی پوزیشن کو براہ راست رپورٹ کرنے والے
- کل سالانہ معاوضہ 6 ملین روپے سے زائد
- ملازم عملے کی تعداد کے 0.3 فیصد کے اندر رہے، جو اگلے عدد تک راؤنڈ آف کیا جاتا ہے، جنہیں گذشتہ مالی سال میں سب سے زیادہ معاوضہ دیا گیا ہو

### مادی خطرہ لینے والے (ایم آر ٹی)

ایک ملازم (یا اس کے کنٹرول میں موجود کوئی بھی فرد) مادی خطرہ لینے والے (ایم آر ٹیز) سمجھا جاتا ہے اگر وہ کسی اہم کاروباری لائن کا سربراہ ہے جس کا بینک کے خاکۂ خطر پر مادی اثر پڑتا ہے۔ ایم آر ٹیز کی نشان دہی افراد کی بجائے افعال اور عہدے کے طور پر کی جاتی ہے۔ ایم آر ٹیز مناسب سطح کے اختیار اور کنٹرول کے حامل ہوتے ہیں۔

ایم آر ٹیز کے لیے معاوضہ کی ترکیب مناسب طور پر متوازن ہوتی اور معین معاوضے کی مقدار کافی زیادہ ہے تاکہ یہ یقینی بنایا جاسکے کہ متغیر معاوضے کو صفر تک کم کرنا ممکن ہوسکے اور ملازمین متغیر معاوضے کے انعام پر انحصار نہ کریں کیونکہ یہ قلیل مدتی فائدے کے لیے ضرورت سے زیادہ خطرہ لینے کی ترغیب پیدا کرسکتا ہے۔

مزید یہ کہ ایم آر ٹی زکے متغیر معاوضے کا معاوضہ پہلے سے طے شدہ معیار اور مقداری مقاصد کے حصول پر ہوتا ہے جو کہ بینک کی خطرے کے مطابق کارکردگی اور طویل مدتی صحت پر غور کرتا ہے۔ غیر ضروری / ضرورت سے زیادہ خطرہ مول لینے کی حوصلہ شکنی کے لیے معیار کے عوامل مقداری عوامل کی کامیابیوں کو زیر کر سکتے ہیں۔

### مادی خطرے کے کنٹرولرز (ایم آر سی)

وہ افعال جو خطرے کی نشان دہی اور خطرے کو کم کرنے کے افعال کے لیے قائم کیے گئے ہیں یا جنھیں قائم کیے جانے کی ضرورت ہے انھیں مادی خطرے کے کنٹرولرز (ایم آر سیز) سمجھا جاتا ہے۔ ایک خود مختار کنٹرول فنکشن تنظیمی اکائیوں پر مشتمل ہوتا ہے، جو کاروباری اور کارپوریٹ افعال سے آزاد ہوتا ہے جو ان آپریشنز سے پیدا ہونے والے امور اور خطرات کو کنٹرول کرنے اور ان کی نگرانی کرنے کے ذمہ دار ہوتے ہیں، تمام قابل اطلاق قوانین، قواعد وضوابط کی تعمیل کو

یقینی بناتے ہیں اور اپنی مہارت کے شعبے میں انتظامی افعال کو مشورہ دیتے ہیں۔ مزید یہ کہ ایم آر سیز کے پاس مناسب خود مختاری اور اختیارات ہیں کہ وہ اپنے افعال کو آزادانہ طور پر انجام دے سکیں، ان فنکشنز کے اثر سے آزاد جو انھیں جائزہ لینے کے لیے تفویض کیے گئے ہیں۔

کل معاوضے کے معین اور متغیر اجزا مناسب طور پر متوازن ہیں اور معین جزو مجموعی معاوضے کے کافی زیادہ تناسب کی نمائندگی کرتا ہے تاکہ متغیر معاوضے کے اجزا پر مکمل طور پر لچکدار پالیسی کو چلایا جاسکے، جس میں کوئی متغیر معاوضہ ادا نہ کرنے کا امکان بھی شامل ہے۔ متغیر جزو ہر ملازم کے مجموعی معاوضے کے معین جزو کے 100 فیصد سے زیادہ نہیں ہے۔ زیادہ تناسب کی کسی بھی منظوری کی اجازت معاوضے کی وجہ، دائرہ کار، بشمول متاثرہ عملے کی تعداد، ان کے افعال اور متوقع اثرات کو شامل کرتے ہوئے بینک کی جانب سے تفصیلی سفارش کے بعد صرف شیئر ہولڈرز کی منظوری کے بعد دی جاسکتی ہے تاکہ مضبوط سرمایہ جاتی اساس برقرار رکھی جاسکے۔

پالیسی کا محور ایم آر ٹیز اور ایم آر سیز کی نشان دہی اور ملازمین کی کارکردگی کی جانچ کی بنیاد پر معاوضے کی ترکیب کو متعارف کرانا ہے۔

**معین معاوضہ:** مہارت، تجربہ اور استعداد کے معاوضے اور بنیادی تنخواہ اور الاؤنس پر مشتمل ہے۔
**متغیر معاوضہ:** کارکردگی سے متعلق ہے اور بنیادی طور پر سالانہ کارکردگی کے بونس پر مشتمل ہے۔

### بورڈ کا اعزازیہ

ایک سال کے دوران ایس ایم بی ایل اپنے نان ایگزیکٹو ڈائریکٹرز اور چیئرمین کو بورڈ یا اس کی کمیٹی کے اجلاسوں میں شرکت کے لیے معقول اور مناسب اعزازیہ ادا کرتا ہے۔ بورڈ اور / یا کمیٹی کے اجلاسوں میں شرکت کے لیے نان ایگزیکٹو ڈائریکٹرز اور چیئرمین کو ادا کیے جانے والے اعزازیے کی شیئر ہولڈرز سالانہ جنرل میٹنگ (اے جی ایم) میں پہلے یا بعد کی بنیاد پر منظوری دے چکے ہیں۔

نان ایگزیکٹو ڈائریکٹرز کے ضمن میں، اعزازیے کی سطح بینک میں ان ڈائریکٹرز کے تجربے اور ان کی جانب سے ادا کی گئی ذمہ داریوں کی سطح کو ظاہر کرتی ہے۔ نان ایگزیکٹو ڈائریکٹرز کے معاوضے میں کارکردگی سے متعلقہ عناصر جیسے شیئرز کی گرانٹ، شیئر آپشنز یا مؤخر اسٹاک سے متعلق دیگر ترسیلی اسکیمیں، بونس یا پنشن کے فوائد شامل نہیں ہیں۔ نان ایگزیکٹو ڈائریکٹرز اجلاس کی فیس کے علاوہ کمپنی سے کوئی معاوضہ نہیں لیتے۔

### شرعت بورڈ کا اعزازیہ

ایس ایم بی ایل شریعت بورڈ کے ارکان کو معین سالانہ فیس کی ادائیگی کے علاوہ کارکردگی سے منسلک کوئی مراعات فراہم نہیں کرتا۔

### مفید ملازم کی تعریف اور تعین

اس پالیسی کے تحت بینک کے اندر مختلف سطحوں پر تنخواہ کے فرق (سب سے زیادہ اور سب سے کم تنخواہ والے ملازمین کے درمیان فرق) کی حد مقرر کی گئی ہے۔

بورڈ کی جانب سے پہلے سے طے شدہ اہداف کے مقابلے میں بینک کے مجموعی منافع پر غور کے بعد بورڈ بونس کی منظوری پر مبنی ہے جسے پالیسی کے مطابق مؤخر بھی کیا جاسکتا ہے۔ مقرر کردہ کے پی آئیز کے مطابق ہدف اور حاصل کردہ اقدار کا اندازہ کیا جاتا ہے جو کاروباری یونٹ اور انفرادی درجہ بندیوں کے تعین میں مدد کرتا ہے۔

* 06اپریل2019ء کو منعقد ہونے والی ای او جی ایم میں منتخب کردہ

** 31اکتوبر2019ء کو ہونے والے بورڈ آف ڈائریکٹرز کے اجلاس میں تعینات کیے گئے

*** مالی سال2018 میں تشکیل دی گئی بورڈ کی تعمیلی کمیٹی نے مالی سال2019ء میں اپنا کوئی اجلاس نہیں کیا اور بعد میں دسمبر2019ء میں بینک کے بورڈ آف ڈائریکٹرز نے بورڈ کی تعمیلی کمیٹی کو باضابطہ طور پر ختم کر دیا۔

2019ء میں ڈائریکٹرز کو ادا کی جانے والی فیسوں کی تفصیلات نوٹ 37.1 میں غیر یکجا مالی بیانات میں ظاہر کی گئی ہیں۔

## بینک کا معاوضے کے تعین کا طریقہ کار

سمٹ بینک لمیٹڈ (ایس ایم بی ایل) اسٹیٹ بینک آف پاکستان ("ایس بی پی") کے جاری کردہ تمام قابل اطلاق ضوابط / سرکلرز / رہنما ہدایات سے ہم آہنگ معاوضے کی ایک پالیسی کی پیروی کرتا ہے جو اس کی انسانی وسائل کی پالیسیوں کا حصہ ہے۔
پالیسی کا جائزہ بورڈ کی کمیٹی برائے افرادی وسائل و معاوضے کے دائرہ کار میں آتا ہے اور اگر ضرورت ہو تو ہر تین سال یا اس سے پہلے اس کا انعقاد کیا جاتا ہے۔
بینک کا معاوضے کا بنیادی فلسفہ اپنے عملے کو مسابقتی تنخواہوں، مراعات اور متغیر معاوضے کے ساتھ ان کی قیمتی شراکت پر انعام دینا ہے۔ ایس ایم بی ایل کی کارپوریٹ ثقافتی اقدار اور انسانی وسائل کی بنیادی اقدار کے مطابق، بینک کے انعام کے اصول مندرجہ ذیل ہیں:

- اعلیٰ کوالیفائیڈ اور قابل عملے کے ارکان کو اپنی طرف متوجہ کرنا اور ملازمت پر رکھنا اور کارکردگی کے اعلیٰ معیار کو حاصل کرنے کے لیے ان کو مشغول کرنا۔
- معاوضے کا تعین انفرادی، کاروباری یونٹ / ڈویژن اور کارپوریٹ (بینک کی) کارکردگی سے براہ راست منسلک ہوتا ہے؛ اور کارکردگی کی عکاسی کے لیے اس کی سالانہ پڑتال اور ردوبدل کی جاتی ہے۔
- معاوضہ مارکیٹ کے مطابق اور اور تنخواہ کا تعین کرنے والے عاملین مارکیٹ کے اعداد و شمار اور مارکیٹ کے ساتھ قبول شدہ تناسبات پر مبنی ہوتے ہیں۔
- معاوضہ اس انداز میں دیا جاتا ہے جو تمام عملے کے لیے مساویانہ اور منصفانہ ہو۔

## معاوضے کی ساخت

ملازمین کے لیے معاوضے کی ساخت کارکردگی، مؤثر انتظامِ خطر اور معاوضے کے مقاصد کو حاصل کرنے کے لیے وضع کی گئی ہیں۔ ملازمین کو دیے جانے والے معاوضے کی شکلیں ملازم کے عہدے اور کام کے لحاظ سے مختلف ہوتی ہیں اور اس میں نقد رقم اور معاوضے کی دیگر اقسام شامل ہو سکتی ہیں۔

معاوضے کی ترکیب معین اور متغیر معاوضے پر مشتمل ہے۔ مختلف کاروباری لائنوں کے لیے ادا کیے جانے والے معین اجزا کا تناسب کسی ملازم کی نوعیت اور ذمہ داریوں کی سطح، کاروباری علاقہ، جس میں وہ کام کر رہا ہے اور بینک کی معاوضہ پالیسی کے مجموعی فلسفے کو مد نظر رکھتے ہوئے طے کیا جاتا ہے۔ متغیر معاوضے کا تناسب بینک کی مجموعی کارکردگی، متعلقہ کاروباری اکائیوں اور انفرادی کارکردگی کو مد نظر رکھتے ہوئے طے کیا جاتا ہے۔

| سلسلہ نمبر | بورڈ انتظامِ خطر کی کمیٹی | عہدہ |
|---|---|---|
| 1 | جناب عزیز مورِس | چیئرمین |
| 2 | جناب رانا احمد ہمایوں | رکن |
| 3 | محترمہ فوزیہ حسنین | رکن |

| سلسلہ نمبر | بورڈ انفارمیشن ٹیکنالوجی کی کمیٹی | عہدہ |
|---|---|---|
| 1 | جناب شفیق الرحمن آدھامی | چیئرمین |
| 2 | جناب کامران بٹ | رکن |

2019ء میں بورڈ اور کمیٹی کے اجلاسوں کی تعداد اور ہر ڈائریکٹر کی حاضری مندرجہ ذیل تھی:

| ڈائریکٹرز کا نام | بورڈ کے اجلاس | بورڈ کی آڈٹ کمیٹی | انتظامِ خطر کی کمیٹی | کمیٹی برائے افرادی وسائل و معاوضے | بورڈ کی تعمیلی کمیٹی *** | انفارمیشن ٹیکنالوجی کی کمیٹی |
|---|---|---|---|---|---|---|
| **دورانِ سال ہونے والے اجلاس** | 4 | 2 | 0 | 1 | 0 | 0 |
| جناب احسن رضا درانی، صدر اور سی ای او (قائم مقام)* | 4 | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں |
| جناب اسد اللہ خواجہ | 2 | 2 | قابلِ اطلاق نہیں | 1 | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں |
| جناب شہریار فاروق | 2 | 2 | قابلِ اطلاق نہیں | 1 | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں |
| جناب محمد فیصل شیخا | 2 | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں |
| جناب نصر عبد اللہ حسین لُوطہ – سابق چیئرمین | 0 | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں |
| جناب حسین لوائی – سابق وائس چیئرمین | 0 | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | 1 | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں |
| جناب محمد عطاالرحمن پرودھان | 1 | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں |
| جناب عزیز مورِس* | 2 | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں |
| جناب شفیق الرحمن آدھامی** | 1 | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں |
| جناب رانا احمد ہمایوں** | 1 | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں |
| محترمہ فوزیہ حسنین** | 1 | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں |
| جناب کامران بٹ** | 1 | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں | قابلِ اطلاق نہیں |

2. بورڈ کی ہیئتِ ترکیبی درج ذیل ہے:

| زمرہ | نام |
|---|---|
| خودمختار ڈائریکٹرز<br>(بشمول خاتون ڈائریکٹر) | جناب رانا احمد ہمایوں<br>محترمہ فوزیہ حسنین |
| ایگزیکٹو ڈائریکٹرز | جناب احسن رضا درانی، صدر اور سی ای او (قائم مقام)<br>جناب عزیز مورِس |
| نان ایگزیکٹو ڈائریکٹرز | جناب شفیق الرحمن آدھامی<br>جناب کامران بٹ |

*ڈائریکٹرز کے انتخاب الیکشن کا انعقاد 06 اپریل 2019ء کو کیا گیا جس میں بینک کے شیئر ہولڈرز نے سات ڈائریکٹرز کو اپنی غیر معمولی جنرل میٹنگ میں منتخب کیا۔ اسٹیٹ بینک آف پاکستان نے نو منتخب ڈائریکٹرز اور دیگر متبادل ڈائریکٹرز کی ایف پی ٹی کو منظور نہیں کیا جو 06 اپریل 2019ء سے 31 اکتوبر 2019ء تک پیدا ہونے والی معمول کی آسامیوں کو پُر کرنے کے لیے مقرر کیے گئے تھے۔ 05 دسمبر 2019ء کو مذکورہ بورڈ آف ڈائریکٹرز کو اسٹیٹ بینک آف پاکستان کی جانب سے ان کی مطلوبہ ایف پی ٹی کی منظوری کے بعد فعال کر دیا گیا، جنہیں 31 اکتوبر 2019ء کو معمول کی خالی آسامیوں کو پُر کرنے کے لیے مقرر کیا گیا تھا۔

3. بورڈ نے ذیل میں دیے گئے ارکان پر مشتمل کمیٹیاں تشکیل دی ہیں:

| سلسلہ نمبر | بورڈ آڈٹ کمیٹی | عہدہ |
|---|---|---|
| 1 | محترمہ فوزیہ حسنین | چیئرپرسن |
| 2 | جناب رانا احمد ہمایوں | رکن |
| 3 | جناب کامران بٹ | رکن |

| سلسلہ نمبر | بورڈ کمیٹی برائے افرادی وسائل و معاوضے | عہدہ |
|---|---|---|
| 1 | جناب کامران بٹ | چیئرمین |
| 2 | محترمہ فوزیہ حسنین | رکن |
| 3 | جناب شفیق الرحمن آدھامی | رکن |
| 4 | جناب احسن رضا درانی | رکن |

## آڈیٹرز کی رپورٹ میں تبدیلیاں

31 دسمبر 2019ء تک بینک کا ادا شدہ سرمایہ (خالص خسارے)، شرحِ کفایتِ سرمایہ اور لیوراج کی شرح (LR) اسٹیٹ بینک آف پاکستان (SBP) کے تقاضوں پر پورے نہیں اترتے۔ مزید یہ کہ بینک کی سیالیت کی کوریج مقررہ حد سے کم ہے۔ یہ حالات مادی عدم یقینی کی موجودگی کی نشاندہی کرتے ہیں جو کہ بینک کے جاری کاروبار کے طور پر جاری رہنے کی صلاحیت کے بارے میں اہم شک پیدا کر سکتی ہے۔ تاہم، بینک سرمائے کے ضروری ادخال اور قابل اطلاق سرمائے اور سیالیت کے تقاضوں سے ہم آہنگ بینک کے منصوبے پر عمل درآمد کے لیے مسلسل کوششیں کر رہا ہے۔

سال کے دوران، قانون نافذ کرنے والی ایجنسیوں (ایل ای اے) نے سمٹ بینک لمیٹڈ سمیت مختلف بینکوں میں منی لانڈرنگ کی سرگرمیوں کے لیے مبینہ طور پر بعض بینک اکاؤنٹس کی تحقیقات شروع کی۔ یہ معاملہ فی الحال نیب کے زیرِ تفتیش ہے اور صرف جزوی ریفرنسز نیب عدالتوں میں دائر کیے گئے ہیں۔ بینک قانون نافذ کرنے والی ایجنسیوں کو ان کی تحقیقات میں ہر ممکن حد تک مکمل تعاون فراہم کرنے کے لیے پر عزم ہے اور رہے گا۔ بینک کی انتظامیہ کا خیال ہے کہ اس طرح کی تحقیقات بینک کے جاری کاموں اور افعال کو متاثر نہیں کریں گی۔

بینک اس وقت غیر منقولہ جائیداد میں سرمایہ کاری کے حوالے سے بینکنگ کمپنیز آرڈیننس، 1962ء کی شقوں سے جزوی طور پر ہم آہنگ نہیں ہے۔ انتظامیہ نے اس ضمن میں تعمیل کے حصول کے لیے اس پراپرٹی کا وہ حصہ بیچنے کے لیے منصوبہ بندی کی ہے جو قابل اطلاق قوانین سے ہم آہنگ نہیں ہے۔

ان معاملات کے حوالے سے آڈٹ رپورٹ میں ترمیم کی جاتی ہے، تاہم یہ رپورٹ معتبر ہے۔

## کارپوریٹ نظم ونسق

بینک فہرستی کمپنیوں (کوڈ آف کارپوریٹ گورننس) کے ضوابط، 2019ء کے اہم تقاضوں کی تعمیل کر رہا ہے۔ انتظامیہ کی جانب سے آڈیٹرز کی جائزہ رپورٹ کے ساتھ ایک مجوزہ بیانیہ اس سالانہ رپورٹ کے ایک حصے کے طور پر منسلک ہے۔

ڈائریکٹرز باب 12- فہرستی کمپنیوں کی رپورٹنگ اور انکشاف (کوڈ آف کارپوریٹ گورننس) ریگولیشنز، 2019ء کے تحت درکار مندرجہ ذیل گوشوارے پیش کرتے ہوئے مسرور ہیں:

1. ڈائریکٹرز کی مجموعی تعداد چھ (06) ہے جو حسبِ ذیل ہے:

- مرد: 05
- خواتین: 01

ساتویں مرد ڈائریکٹر کو بورڈ آف ڈائریکٹرز نے 28 دسمبر 2019ء کو اتفاقیہ طور پر خالی ہونے والی آسامی پر بھرتی کر کے مقرر کیا تھا لیکن اسٹیٹ بینک آف پاکستان نے 31 دسمبر 2019ء تک اس کی مطلوبہ ایف پی ٹی کلیئرنس نہیں دی۔

سودی اخراجات میں 40 فیصد اضافہ تھا۔ مالی سال 19ء میں سالانہ ترقیاتی اخراجات میں 25 فیصد کمی کی گئی، کیونکہ وفاقی اور صوبائی حکومتوں نے اپنے مالی توازن کو ایڈجسٹ کرنے کی کوشش کی۔

حکومتِ پاکستان نگرانی کو مضبوط بنانے اور شفافیت میں اضافہ کرکے سرکاری اداروں کی کارکردگی کو بہتر بنانے کے لیے پرعزم دکھائی دیتی ہے۔ یہ 2 آر ایل این جی پاور پلانٹس، ایس ایم ای بینک اور فرسٹ ویمن بینک، جناح کنونشن سینٹر اور سروسز انٹرنیشنل ہوٹل کی نجکاری کے لیے تیار ہے۔ یہ آپریشنل کارکردگی کو بہتر بنانے کے لیے ایک نئی انتظامیہ کی خدمات حاصل کرکے پاکستان انٹرنیشنل ایئر لائنز کے نقصانات کو کم کرنے کی کوششیں اور پاکستان اسٹیل ملز کے لیے ایک نئے اسٹریٹجک پارٹنر کو شامل کرنے کی منصوبہ بندی کررہی ہے۔

دوطرفہ، آئی ایم ایف اور دیگر کثیر الجہتی رقوم کی آمد سے بین الاقوامی ذخائر بحال ہونا شروع ہوگئے ہیں۔ مالی سال 19ء میں رقوم کی آمد میں اضافہ ہوا جس کی وجہ مرکزی بینک کے ڈپازٹس میں نمایاں اضافہ اور چین، متحدہ عرب امارات اور سعودی عرب سے رقوم کی دوطرفہ آمد ہے۔ جولائی 2019ء میں آئی ایم ایف کے توسیعی فنڈ سہولت کی منظوری اور کثیر الجہتی اعانت میزانیہ کی بحالی کے ساتھ دسمبر 2019ء میں بین الاقوامی ذخائر میں 13.2 ارب ڈالر کا اضافہ ہوا ہے جبکہ جنوری 2019ء میں 7.6 ارب ڈالر تھے۔ ذخائر کے بتدریج اکٹھا ہونے سے شرحِ مبادلہ کے دباؤ میں کمی میں مدد ملی ہے۔

مالی سال 19ء کے دوران بنیادی طور پر شرحِ مبادلہ میں کمی کی وجہ سے سرکاری قرضوں میں اضافہ ہوا۔ مالی سال 19 میں سرکاری قرضوں میں اضافہ بنیادی طور پر ڈالر کے مقابلے میں پاکستانی روپے کی قدر میں کمی کی وجہ سے ہوا۔

پاکستان کو جون 2018ء میں ایف اے ٹی ایف (فنانشل ایکشن ٹاسک فورس) نے گرے لسٹ میں رکھا تھا۔ اکتوبر 2019ء میں، ایف اے ٹی ایف نے پاکستان کو ایک اور مہلت دی اور فروری 2020ء تک گرے لسٹ میں اس کی حیثیت برقرار رکھی۔ اگرچہ کافی بہتری آئی ہے تاہم منی لانڈرنگ سے نمٹنے اور دہشت گردی کی مالی معاونت کے خاتمے کے لیے باضابطہ فریم ورک کی عدم موجودگی جیسے بعض نقائص اب بھی موجود ہیں۔

دسمبر 2019ء میں، ریٹنگ ایجنسی موڈیز نے پاکستان کے منظرنامے کو منفی سے ہٹا مستحکم قرار دیا، جو ملک کی اس دگرگوں معیشت میں استحکام کی ایک اہم علامت ہے۔ ایجنسی نے ملک کی B3 ریٹنگ کو بھی برقرار رکھا۔ ملک کے مبادلہ ذخائر میں کمی کی وجہ سے پاکستان کا منظرنامہ جون 2018ء میں منفی قرار دیا گیا تھا۔

مالی سال 20ء میں حقیقی جی ڈی پی کی شرحِ نمو 2.4 فیصد رہنے کا امکان ہے کیونکہ حکومت نے مالیاتی اور زری پالیسیوں کو سخت کردیا ہے۔ پاکستان کے تسویے میں ملکی سے بیرونی طلب میں توازن شامل ہے۔ اگرچہ ملکی طلب تیزی سے سست ہوجائے گی، تاہم خالص برآمدات میں بتدریج اضافہ متوقع ہے۔ جیسے ہی بیرونی طلب میں اضافہ ہوتا ہے، معاشی حالات بہتر ہوتے ہیں، اور مالیاتی انتظام اور مسابقت میں ساختی اصلاحات کا پیکج عمل میں آتا ہے، توقع ہے کہ مالی سال 21ء میں شرحِ نمو بتدریج 3.0 فیصد تک پہنچ جائے گی۔ یہ بحالی تیل کی نسبتاً مستحکم قیمتوں اور کم خطرات سے مشروط ہے۔ مالی سال 20ء میں مہنگائی میں قدرے اضافے کی توقع ہے، جو کہ شرحِ مبادلہ میں اضافے کے دوسرے دور کے ملکی قیمتوں پر اثرات سے ہوگی۔ چنانچہ اس کے بعد مہنگائی میں بتدریج کمی کا امکان ہے۔

## کریڈٹ ریٹنگ

2019ء کے دوران، وی آئی ایس کریڈٹ ریٹنگ کمپنی لمیٹڈ نے بینک کی درمیانی تا طویل مدتی ریٹنگ 'بی بی بی-'(ٹرپل بی مائنس) اور قلیل مدتی ریٹنگ 'اے-3' (اے-تھری) تازہ ترین معلومات کی عدم دستیابی کی وجہ سے معطل کر دی۔ وی آئی ایس کریڈٹ ریٹنگ کمپنی لمیٹڈ تازہ ترین ضروری مالی معلومات کے دستیاب ہونے پر ایک بار پھر ریٹنگ کا دوبارہ جائزہ لے گی۔ مزید یہ کہ، بینک کی ٹی ایف سی ریٹنگ کو ڈی (ڈیفالٹ) تفویض کیا گیا تھا کیونکہ کمپنی نے اسٹیٹ بینک آف پاکستان (SBP) کے قابلِ اطلاق ضوابط کے تحت بینک کی لاک ان دفعہ کے حوالے سے اپنی تازہ ترین سودی ادائیگی نہیں کی تھی۔ بینک کے ٹی ایف سی ہولڈرز نے 22 اکتوبر 2020ء کو ہونے والی اپنی میٹنگ میں ٹی ایف سی ایشو کی مدت میں ایک سال کی مزید توسیع کی منظوری دی اور ساتھ ہی تمام انفکا کی رقوم کی ادائیگیوں میں توسیع کے ساتھ عرصیت کی نظر ثانی شدہ تاریخ 27 اکتوبر 2021ء مقرر کی۔ بینک اس وقت تمام قابل اطلاق قوانین، قواعد وضوابط اور اس سلسلے میں مطلوبہ ضوابطی تقاضوں کی تعمیل کو یقینی بنانے کے لیے مصروفِ عمل ہے۔

## اقتصادی جائزہ

مالی سال 19ء کے دوران، کلی معاشی چیلنجز برقرار رہے کیونکہ پاکستان مستقبل کی پائیدار ترقی کے حوالے سے استحکام کے لیے کوشاں ہے۔ مالی سال 19ء کے دوران پاکستان کی جی ڈی پی کی نمو سست رہی (مالی سال 18ء میں 5.5 فیصد کے مقابلے میں 3.3 فیصد)۔ تاہم، سال کے دوران ادائیگیوں کا توازن بہتر ہوا، اور مالی سال 20ء میں بہتری جاری رہی۔ 2019ء کے دوران، شرح مبادلہ میں کمی آئی، مجموعی طور پر 11.5 فیصد کمی کے ساتھ، ترقیاتی بجٹ میں کمی کی گئی، توانائی کی قیمتوں میں اضافہ کیا گیا، اور پالیسی کی شرح 325 بی پی ایس بڑھادی گئی۔ اس کے نتیجے میں، نجی کھپت کی نمو مالی سال 18ء کے 6.8 فیصد سے کم ہو کر مالی سال 19ء میں 4.1 فیصد رہ گئی جبکہ سرمایہ کاری 8.9 فیصد گھٹ گئی۔ رسد کے ضمن میں، مالی سال 19ء کے دوران صنعتی شعبے کی نمو 1.4 فیصد رہی جو مالی سال 18ء میں 4.9 فیصد تھی۔ خدمات کے شعبے میں 4.7 فیصد نمو ہوئی (مالی سال 18ء کے مقابلے میں 1.5 فیصد کم)۔

اکتوبر 2019ء میں جاری کھاتے کا توازن ماہانہ بنیادوں پر زرِ فاضل (سرپلس) میں داخل ہوا اور دسمبر 2019ء میں 661 ملین ڈالر کے خسارے پر رہا۔ اس تنزلی کی بنیادی وجہ پست درآمدی نمو تھی۔ درآمدات میں سب سے بڑی کمی ٹرانسپورٹ اور مشینری کی طرف سے آئی، جس کی وجہ سرمایہ کاری اور صنعتی ترقی میں اور اس کے بعد غذائی اشیا اور دھاتوں میں سست روی تھی۔ تاہم، پٹرولیم سے متعلق درآمدات میں اضافہ جاری رہا (5.0 فیصد)، اگرچہ گذشتہ برس کے مقابلے میں کم شرح پر (25 فیصد)۔ دوسری طرف، شرح مبادلہ میں کمی کا برآمدات پر اثر نہیں پڑا، کیونکہ حد سے زیادہ شرح مبادلہ کے بعد دوبارہ مسابقت حاصل کرنے میں وقت لگے گا۔ مالی سال 19ء میں ترسیلات زر میں 9.7 فیصد کا سال بسال اضافہ درج کیا گیا جس کی وجہ امریکہ، ملائیشیا اور جی سی سی ممالک سے رقوم کی آمد تھی جس سے جاری کھاتے کو بھی مدد ملی۔

مالی سال 19ء کے دوران مالی خسارہ جی ڈی پی کے 8.8 فیصد تک پہنچ گیا جو مالی سال 18ء میں 6.4 فیصد تھا۔ بلند خسارے کی بنیادی وجہ محاصل کی پست کارکردگی اور بلند سودی ادائیگیاں تھیں۔ وفاقی اور صوبائی دونوں سطحوں پر ٹیکس کی آمدنی گذشتہ برس کی ہی سطح پر جمود کا شکار ہے۔ تاہم، مالی سال 20ء کی پہلی ششماہی کے دوران، ٹیکس محصولات کی وصولی میں گذشتہ برس کی اسی مدت کے مقابلے میں 16 فیصد کا صحت مند اضافہ ہوا۔ نان ٹیکس محصولات میں 44 فیصد کمی آئی کیونکہ شرحِ مبادلہ میں کمی نے اسٹیٹ بینک آف پاکستان (ایس بی پی) کے منافع کو کم کر دیا، نتیجتاً حکومت کو کم منتقلیاں ہوئیں۔ اس کے نتیجے میں، مجموعی محاصل میں 6.3 فیصد تخفیف ہوئی۔ مالی سال 19ء کے دوران کل اخراجات میں سالانہ 11.5 فیصد کا اضافہ ہوا، کیونکہ اخراجاتِ جاریہ 21 فیصد سال بسال بڑھ گئے جس کی وجہ

روپے کی قانونی ضرورت کے مقابلے میں اسٹیٹ بینک کی جانب سے مقرر کیے گئے 10 ارب کے مقابلے میں 31 دسمبر 2019 تک، بینک کا ادا شدہ سرمایہ (خسارے کا خالص) منفی (-) 9.283 ارب روپے تھا، جبکہ بینک کی شرحِ کفایتِ سرمایہ کے کم از کم 12.50 فیصد کے تقاضے کے مقابلے میں منفی (-) 25.30 فیصد ہے۔

مینجمنٹ اور بورڈ آف ڈائریکٹرز پر امید ہیں کہ اگر کاروباری منصوبے میں بیان کردہ نمو کے عوامل اور دیگر کلیدی مفروضے پورے ہوتے ہیں تو بینک کاروباری نتائج میں متوقع بہتری اور قابل اطلاق ضوابطی تقاضوں کی تعمیل میں کامیاب ہو جائے گا۔

## ہولڈنگ اور اجارہ کمپنی

سُرور انویسٹمنٹ لمیٹڈ (SIL)، ماریشس میں قائم کردہ ایک کمپنی، بینک کی ہولڈنگ کمپنی ہے۔ 31 دسمبر، 2019ء تک، ایس آئی ایل کے پاس بینک کے جاری کردہ، سبسکرائب شدہ اور ادا شدہ شیئر سرمائے کا 66.77 فیصد حصہ ہے۔

سمٹ کیپیٹل (پرائیویٹ) لمیٹڈ میں بینک کی شیئر ہولڈنگ 100 فیصد ہے۔ بینک اور اس کے ذیلی ادارے کے یکجا مالی گوشواروں کے ساتھ ساتھ ان یکجا مالی گوشواروں پر آڈیٹرز کی رپورٹ اس سالانہ رپورٹ کا حصہ ہے۔

## یکجا نتائج

سمٹ بینک لمیٹڈ نے 31 دسمبر 2019ء کو ختم ہونے والے سال کے لیے 9.487 ارب روپے کا مجموعی بعد از ٹیکس خسارہ درج کیا۔ (2018ء: 8.791 ارب روپے)۔ فی شیئر خسارہ 3.60 روپے کا تخمینہ لگایا گیا جبکہ گذشتہ برس کی اسی مدت کے دوران یہ 3.33 روپے فی شیئر تھا۔

### ذیلی ادارے کی کارکردگی

سمٹ کیپیٹل نے 68.963 ملین روپے کے آپریٹنگ ریونیو حاصل کیے جبکہ گذشتہ برس یہ 79.706 ملین روپے تھے۔ سال کے لیے فی شیئر خسارہ 1.21 روپے رہا جبکہ گذشتہ برس یہ 0.75 روپے خسارہ فی شیئر تھا۔ پست محاصل اور آمدنی کی بنیادی وجوہات مستقل طور پر مارکیٹ کا پست حجم ہے جو ملک کو درپیش معاشی سست روی کا عکاس ہے۔ شرح سود میں اضافے نے اہم شعبوں اور ان کے منافع پر منفی اثر ڈالا جس کی وجہ سے سرمایہ کاروں میں کمی واقع ہوئی۔ تاہم، 2019ء کی آخری سہ ماہی میں مارکیٹ کے حجم میں تیزی سے پلٹاؤ آیا، کے ایس ای 100 انڈیکس کا نشانیہ تیزی سے اوپر چلا گیا اور اس کے بعد چوتھی سہ ماہی میں دوبارہ تعدیلیت (breakeven) دیکھنے میں آئی۔ ایس ای سی پی کی جانب سے کم از کم کمیشن کے نفاذ سے بھی اسے تقویت ملی۔ آئندہ سال کے لیے، کمپنی کو معاشی سست روی میں کمی، بڑے کلی معاشی اظہاریوں میں بہتری، شرح سود میں ردوبدل اور مہنگائی میں آدھوں آدھ کمی کی توقع ہے۔ یہ اسٹاک مارکیٹ کے لیے سازگار ہو گا، جس سے بروکرز کے لیے حجم اور منافع میں بہتری آئے گی۔

بینک کی آمدنی کی گنجائش نمایاں طور پر کم ہوگئی جس کے نتیجے میں بینک نے 1.307 ارب روپے نیٹ مارک اپ اخراجات کیے جبکہ گذشتہ برس یہ 1.809 ارب روپے نیٹ مارک اپ انکم تھی۔ اس کی بنیادی وجہ بینک کے پاس موجود غیر فعال قرضوں کی کافی مقدار کے ساتھ آمدنی کے اثاثوں کے حجم میں کمی ہے جس کے نتیجے میں بینک کی سودی آمدنی میں بڑی کمی واقع ہوئی۔ جولائی 2018ء سے بینک کو درپیش غیر معمولی صورت حال کی وجہ سے، بینک نے سیالیت کی ضروریات کو پورا کرنے کے لیے اپنے آمدنی کے اثاثوں کا جزدان کم کر دیا۔ مزید یہ کہ فنڈز کی لاگت میں اضافے، زرِمبادلہ کے تبدل کی لاگت اور اجارہ واجبات کی مالکاری لاگت کی وجہ سے بینک کے سودی اخراجات میں اضافہ درج کیا گیا جبکہ سودی واجبات کے حجم میں کمی آئی۔

نان فنڈڈ آمدنی 1.232 ارب روپے رہی، جو کہ گذشتہ سال کے مقابلے میں 41.97 فیصد کمی کی عکاسی کرتا ہے، اس کی بنیادی وجہ غیر مستحکم کرنسی مارکیٹ دوران زرمبادلہ کی پست آمدنی اور 2019ء کے دوران تجارتی حجم کے طور پر حاصل ہونے والی فیس اور کمیشن کی آمدنی میں کمی کی وجہ سے کافی سکڑ گئی۔

مجموعی غیر سودی اخراجات 5.22 فیصد کمی کے ساتھ 5.514 ارب روپے درج کیے گئے جبکہ گذشتہ برس یہ 5.817 ارب روپے تھے۔ یہ کمی بنیادی طور پر زیر جائزہ سال کے دوران جائیداد اور معاوضے کے اخراجات میں کمی کی وجہ سے تھی۔

بینک نے 2019ء کے دوران تموین کے 8.682 ارب روپے درج کیے جبکہ گذشتہ برس یہ 8.996 ارب روپے تھے۔ قرضوں اور ایڈوانسز پر بک کی گئی تموین 7.397 ارب روپے تھی جو گذشتہ برس کے مقابلے میں 11 فیصد زائد رہی، جبکہ سرمایہ کاری پر تموین 1.284 ارب روپے رہی جبکہ گذشتہ برس یہ 1.094 ارب تھی۔

31 دسمبر 2019ء تک بینک کا مجموعی غیر فعال قرضوں کا تناسب (مجموعی غیر فعال قرضے اور مجموعی ایڈوانسز) 56.58 فیصد رہا جو گذشتہ برس 43.57 فیصد تھا، جبکہ کوریج کا تناسب بڑھ کر 70.77 فیصد ہو گیا جو گذشتہ برس 59.61 فیصد تھا۔ سال کے دوران، مجموعی غیر فعال قرضے (خالص) 4.770 ارب روپے کے اضافے سے مدت کے اختتام پر 40.842 ارب روپے ہو گئے۔ (31 دسمبر 2018ء: 36.072 ارب روپے)۔

31 دسمبر 2019ء تک کل امانتیں روپے 88.567 ارب روپے درج کی گئیں جبکہ گذشتہ برس کے اختتام پر 84.676 ارب روپے درج کیے گئے تھے۔ اس سے 3.891 ارب روپے کی نمو کا اظہار ہوتا ہے یعنی 4.60 فیصد۔ جاری اسٹریٹجک مسائل کے باوجود، بینک نہ صرف امانتوں میں کمی کو روکنے میں کامیاب رہا بلکہ دوران سال امانتوں میں کچھ اضافہ درج کرنے میں بھی کامیاب رہا۔ مزید برآں، سال کے اختتام پر، بینک کا مجموعی ایڈوانس اور امانتوں کا تناسب 81.50 فیصد ہے جو گذشتہ برس 97.78 فیصد تھا۔

31 دسمبر 2019ء تک، بینک نے 11.606 ارب روپے کے مؤخر ٹیکس اثاثوں کو تسلیم کیا ہے۔ ٹیکس کی تازہ ترین صورتِ حال کی بنیاد پر، موجودہ سال کے لیے مؤخر ٹیکس آمدنی 4.926 ارب روپے ہے جبکہ گذشتہ برس یہ 2.258 ارب روپے تھی۔

# ڈائریکٹرز رپورٹ برائے شیئر ہولڈرز

عزیز شیئر ہولڈرز،

بورڈ آف ڈائریکٹرز کی جانب سے، ہم 31 دسمبر 2019ء کو اختتام پذیر ہونے والے سال کے لیے آڈٹ شدہ مالی گوشوارے اور آڈیٹرز کی رپورٹ پیش کرتے ہوئے مسرور ہیں۔

## بینک کی کارکردگی

2019ء کے مالی نتائج کی جھلکیاں حسب ذیل ہیں:

| مالی صورتِ حال | روپے ملین میں |
|---|---|
| شیئر ہولڈرز کی ایکویٹی | (5,598) |
| امانتیں | 88,567 |
| مجموعی اثاثے | 105,876 |
| ایڈوانس-خالص | 43,242 |
| سرمایہ کاریاں-خالص | 21,959 |

| مالی کارکردگی | |
|---|---|
| خالص سودی آمدنی اور غیر سودی آمدنی (مجموعی آمدنی) | (75) |
| غیر سودی اخراجات | 5,514 |
| پرووِیژنز اور رائٹ آفس (نیٹ) | 8,682 |
| خسارہ قبل از ٹیکس | 14,270 |
| خسارہ بعد از ٹیکس | 9,451 |
| خسارہ فی شیئر بنیادی اور سیال (diluted)-روپے | (3.58) |

سال بھر کے لیے بینک کا قبل از ٹیکس خسارہ 14.270 ارب روپے تھا جبکہ گذشتہ برس یہ 10.881 ارب تھا، نیز خسارہ بعد از ٹیکس 9.451 ارب روپے تھا جبکہ گذشتہ برس یہ 8.751 ارب روپے تھا۔ لہٰذا خسارہ فی شیئر 3.58 روپے رہا (2018ء: خسارہ فی شیئر 3.32 روپے)۔

Summit Bank
Committed to you

# REPORT OF THE SHARI'AH BOARD

*For the year ended December 31, 2019*

بسم الله الرحمن الرحيم

الحمد لله رب العالمين ، والصلاة والسلام على رسوله الكريم،وعلى آله وصحبه اجمعين، وبعد

Alhamdulillah, by the grace of Allah SWT, this was the 6th year of Islamic banking operations of Summit Bank Limited (Islamic Banking Division of Summit Bank Limited shall be referred as 'the Bank'). During the year, four SB's meetings were held in which SB discussed different matters regarding Islamic Banking products, Shari'ah Audit & Compliance Reports and issued rulings on miscellaneous relevant concepts on banking, transactional Process Flows and matters for conversion of portfolios. To maintain Shari'ah Compliance at all level in letter and spirit, SB also issued different guidelines and instructions in these meetings where deemed appropriate.

To monitor overall Shar'iah Compliance environment of the bank, there are different controls enforced by the bank as per SBP and SB directives. The bank, besides the Shari'ah Compliance Department which monitors bank's operations as per Shari'ah, undergoes Internal Shari'ah Audit, External Shari'ah Audit and SBP Audit that are carried out for the functions and departments working in different domains within the bank which ultimately provide the Shari'ah Board a comfort regarding conformity of Bank's operations with Shari'ah rules and overall environment therein as desired.

The scope of this report is to cover the affairs of the bank from Shari'ah perspective as described under Shari'ah Governance Framework of SBP.

1. To form our opinion as expressed in this report, we are of the view that:

    1.1 The Bank has a comprehensive mechanism in place to ensure Shari'ah compliance in its overall operations.

    1.2 The Bank has satisfactorily complied with Shari'ah rules and principles and also with the specific fatawa, rulings, guidelines issued by SB and SBP from time to time. The Bank took necessary actions on instructions / guidelines given by Shari'ah Board to ensure smooth running of the Bank's operations in Shari'ah compliant manner.

    1.3 The Bank has a system in place which is sound enough to ensure that any earnings if realized from sources or by means prohibited by Shari'ah have been credited to charity account and are being properly utilized. During the year under review, an amount Rs. 0.504 million credited to charity account.

    1.4 It is important to notice that there is no such Shari'ah related issue pending in the Bank which shows the commitment of the staff and higher management towards Shari'ah Compliance.

    1.5 All the cases, queries, observations referred to Shari'ah Board by SCD and reservations & queries raised in Shari'ah Audit are discussed in detail in Shari'ah Board meetings. After the comprehensive deliberations, we came across information which attracted reversal of some income. Bank also imposed charity on customers due to late submission of dues.

    1.6 Although the Personal Finance Product "Mu'awin" had been approved by the SB and SBP to convert the existing conventional Loan of Islamic staff into Islamic, however management had not proceeded for its execution any further due to operational constraints.

1.7 In our opinion, the working made by the management this year in the profit and loss distribution and pool management was satisfactory, and further improvement of the system will certainly improve the quality of overall Shari'ah compliance function of Islamic banking business of the bank. Since the Bank is going to acquire new core banking system which is now at advance stage, SB asks the management to bridge the gaps found in the existing system so that pool management system could go smooth as per Shari'ah and SBP guidelines.

1.8 SB also observed continuously that special approval was granted to handle the pools up to with 90% of liquid Assets in some pools which means that the pools were at the edge of noncompliance and require more illiquid assets to avoid any breach of not only Shari'ah but also SBP guidelines regarding the profit and loss distribution. Bank should make arrangements in this area as soon as possible either by increasing fixed assets through financing or through Sukuk purchase from the market.

1.9 The level of awareness and sensitization of the staff and executive management for Shari'ah compliance remained satisfactory.

1.10 The Shari'ah Board had been provided adequate resources enabling it to discharge its duties.

May Allah bless us Taufeeq to accomplish his cherished tasks, make us successful in this world and in the Hereafter, and forgive our mistakes. Aameen

**Mufti Irshad Ahmad Aijaz**
Chairman Shari'ah Board
Summit Bank- Islamic Banking

**Dr. Noor Ahmad Shahtaz**
Shari'ah Board Member
Summit Bank- Islamic Banking

**Mufti Bilal Ahmad Qazi**
Shari'ah Board Member
Summit Bank- Islamic Banking

**Mufti Muhammad Najeeb Khan**
Shari'ah Board Member
Summit Bank- Islamic Banking

**Syed Zubair Hussain**
Resident Shari'ah Board Member
Summit Bank- Islamic Banking

1.7. بینک کی طرف سے نفع و نقصان کی تقسیم اور پول مینجمنٹ سسٹم کو بہتر بنانے کے لیے قابل قدر پیش رفت ہوئی اور ہمارے خیال میں اس میں مزید بہتری اسلامی بینکاری کے شریعہ کمپلائنس کے معیار کو یقینی طور پر بڑھائے گی۔ اب جبکہ بینک ایک نیا بنیادی سسٹم حاصل کرنے جارہا ہے جو کہ اس وقت بہتر مرحلے میں ہے۔ شریعہ بورڈ نے انتظامیہ سے موجودہ سسٹم میں پائے جانے والے سقم پوچھنے کے بعد انہیں ختم کرنے کا کہا ہے جس کے بعد پول مینجمنٹ سسٹم ممکنہ طور پر شریعہ اور اسٹیٹ بینک کی ہدایات کے مطابق ہموار ہو جائے گا۔

1.8. شریعہ بورڈ نے اس بات کا مسلسل مشاہدہ کیا کہ بعض پول کو چلانے کے لیے سیال اثاثوں کی حد 90٪ تک کی خصوصی اجازت دی گئی جس کا مطلب یہ ہے کہ بینک اسٹیٹ بینک کی طرف سے پول مینجمنٹ سسٹم کے لیے جاری کی گئی ہدایات کی خلاف ورزی کے بہت قریب ہے اور اسے اس خلاف ورزی سے بچنے کے لیے مزید غیر سیال اثاثوں کی فوری ضرورت ہے۔ اب بینک کو جتنا جلد ممکن ہو غیر سیال اثاثوں کا بندوبست کرنا چاہیے وہ یا تو فائنانسنگ کے ذریعے اپنے جامد اثاثے بڑھائے یا پھر مارکیٹ سے نئے صکوک خریدے۔

1.9. شریعہ کی تعمیل کے لیے عملے، منتظمین اور بورڈ کے ڈائریکٹرز میں شعور، صلاحیت اور حساسیت کی سطح تسلی بخش رہی۔

1.10. شریعہ بورڈ کو اپنے فرائض سرانجام دینے کے لیے خاطر خواہ وسائل فراہم کیے گئے ہیں۔

اللہ تعالیٰ ہمیں اپنے پسندیدہ اعمال کی توفیق عطا فرمائے، ہمیں اس دنیا اور آخرت میں کامیاب فرمائے اور ہماری غلطیوں کو معاف فرمائے۔۔۔ آمین!

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مفتی ارشاد احمد اعجاز
چیئرمین شریعہ بورڈ
سمٹ بینک۔ اسلامی بینکاری

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ڈاکٹر نور احمد شاہتاز
رکن شریعہ بورڈ
سمٹ بینک۔ اسلامی بینکاری

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مفتی بلال احمد قاضی
چیئرمین شریعہ بورڈ
سمٹ بینک۔ اسلامی بینکاری

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مفتی محمد نجیب خان
رکن شریعہ بورڈ
سمٹ بینک۔ اسلامی بینکاری

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سید زبیر حسین
ریزیڈنٹ رکن شریعہ بورڈ
سمٹ بینک۔ اسلامی بینکاری

# شریعہ بورڈ کی سالانہ رپورٹ ۳۱ دسمبر ۲۰۱۹ ۔ش (گزارِشات مجلسِ شرعی)

بسم اللہ الرحمن الرحیم

الحمد للہ رب العالمین ، والصلاۃ والسلام علی رسولہ الکریم،وعلی آلہ وصحبہ اجمعین، وبعد

بفضلہ تعالی، زیر جائزہ سال سمٹ بینک لمیٹڈ کی (اسلامی بینکنگ ڈویژن جس کا حوالہ بطور بینک دیا جائے گا ) اسلامی بینکاری کے آپریشنز کا چھٹا سال تھا۔ دورانِ سال شریعہ بورڈ کی 4 میٹنگز (مجالس) منعقد ہوئیں جن میں شریعہ بورڈ نے مختلف معاملات کو ڈسکس کیا جو کہ اسلامی بینکاری مصنوعات، شریعہ آڈٹ رپورٹس، شریعہ کمپلائنس رپورٹس، مختلف معاملات کے بارے میں شرعی ہدایات، تجارتی لین دین سے متعلق وضع کردہ طریقہ کار اور روایتی فنانسنگ کے حجم کو اسلامی فنانسنگ کے حجم میں تبدیل کرنا سے متعلق تھے۔ بینک کے مکمل شریعہ کمپلائنس ماحول کی نگرانی کے لیے اسٹیٹ بینک آف پاکستان اور بینک کے شریعہ بورڈ کے احکامات کے مطابق مختلف کنٹرولز بنائے گئے ہیں اور اس اہم مقصد کو حاصل کرنے کے لیے شریعہ کمپلائنس ڈپارٹمنٹ کے علاوہ بینک میں انجام دیے جانے والی مختلف سرگرمیوں کے لئے اندرونی، بیرونی اور اسٹیٹ بینک کے شریعہ آڈٹس بروئے کار لائے گئے جس نے شریعہ بورڈ کو مزید اطمینان بخشا کہ بینک میں انجام دیے گئے معاملات شریعت کے مطابق انجام پزیر رہے۔ یہ بات بھی قابل ذکر ہے کہ بینک میں کوئی قابل ذکر مسئلہ زیر التواء نہیں ہے جو کہ بینک کے اسٹاف، انتظامیہ اور بورڈ آف ڈائریکٹرز کے شریعہ کمپلائنس کے لئے انکی سنجیدگی کو ظاہر کرتا ہے۔

اس رپورٹ کی وسعت و دائرہ کار بینک دولت پاکستان کے شریعہ گورننس فریم ورک کے تحت مجوز شرعی نقطہ نظر سے بینک کے امور کا احاطہ کرنا ہے۔

1. شریعہ بورڈ اپنی رائے سازی کے لیے جو اس رپورٹ میں دی گئی اپنی بہترین معلومات کی بنیاد پر مندرجہ ذیل رائے کا اظہار کرتا ہے:

1.1. بینک کے پاس ایک جامع طریقہ کار موجود ہے جو اس کی تمام سرگرمیوں میں شریعہ کی تعمیل کے اصولوں کو حتی الامکان یقینی بناتا ہے۔

1.2. بینک نے شریعت کے قوانین اور اصولوں کے ساتھ ان مخصوص فتاویٰ، احکام اور رہنما اصولوں کی بھی جو وقتاً فوقتاً اسٹیٹ بینک آف پاکستان اور شریعہ بورڈ کی جانب سے جاری کئے گئے، تسلی بخش تعمیل کی ہے۔ بینک نے اپنی سرگرمیوں کو ہموار اور شریعہ کے مطابق چلانے کو یقینی بنانے کے لیے شریعہ بورڈ کی جانب سے دی گئی ہدایات اور رہنمائی پر ضروری اقدامات کئے ہیں.

1.3. بینک کے پاس ایک معقول وضع کردہ نظام موجود ہے جو اس بات کو یقینی بنانے کے لیے کارآمد ہے کہ اگر کوئی آمدنی شریعہ کی روح سے منافی ذرائع سے حاصل کی گئی تو وہ صدقہ اکاؤنٹ میں جمع کرادی جائے اور مناسب طریقہ سے صدقہ کر دی جائے۔ زیرِ جائزہ سال میں صدقہ اکاؤنٹ میں 0.504 ملین روپے کی رقم جمع ہوئی۔

1.4. یہ بات بہت اہم ہے کہ بینک میں کوئی ایسا مسئلہ نہیں ہے جس کا تعلق شریعت سے ہو اور وہ حل نہ ہوا ہو جو کہ عملہ اور انتظامیہ کے شریعہ کمپلائنس کے ساتھ کیے گئے معاہدات کی تکمیل کو ظاہر کرتا ہے۔

1.5. شعبہ شریعہ کمپلائنس کی جانب سے شریعہ بورڈ کو بھیجے گئے مقدمات اور شریعہ آڈٹ رپورٹس میں اٹھائے گئے تحفظات اور استفسارات، شریعہ بورڈ کے اجلاس میں تفصیل سے بحث کئے گئے اور جامع غور و فکر کے بعد ہم پر بعض ایسی معلومات ظاہر ہوئیں جس کے سبب بعض آمدنی لوٹائی جائے۔ بینک نے مختلف گاہکوں پر دیر سے واجبات ادا کرنے کے سبب چیرٹی بھی عائد کی۔

1.6. باوجود یکہ شریعہ بورڈ اور اسٹیٹ بینک آف پاکستان شخصی تمویلی مصنوع (Personal Finance Product) "معاونِ" جو کہ موجودہ بینک کے ملازمین کو اسلامی مصنوعات میں تبدیل کرنے کے لیے ہے، کی منظوری دے چکے ہیں، لیکن اس مصنوع کو انتظامیہ نے ابھی تک استعمال نہیں کیا۔

Summit Bank
Committed to you

# STATEMENT OF COMPLIANCE WITH LISTED COMPANIES (THE CODE OF CORPORATE GOVERNANCE) REGULATIONS, 2019

Name of company: Summit Bank Limited ('the Bank')
Year ended: December 31, 2019

The Bank has complied with the requirements of the Regulations in the following manner:

1. The total number of Directors are six (06) as per the following:

   - Male 05
   - Female 01

   * The seventh (7th) male director was duly appointed by the Board of Directors by filing up the casual vacancy on December 28, 2019 but his requisite FPT clearance was not granted by the State Bank of Pakistan until December 31, 2019.

2. The composition of Board is as follows **:

| Category | Names |
|---|---|
| Independent Directors (including Female Director) | Mr. Rana Ahmed Humayun<br>Ms. Fauzia Hasnain |
| Executive Directors | Mr. Ahsan Raza Durrani, President & CEO (Acting)<br>Mr. Aziz Morris |
| Non-Executive Directors | Mr. Shafiqur Rahman Adhami<br>Mr. Kamran Butt |

   ** The election of directors were held on April 06, 2019 in which seven (7) directors were elected by the shareholders of the Bank in their extra ordinary general meeting. The State Bank of Pakistan did not approve the Fit and Proper Test (FPT) of newly elected directors and other replacement directors duly appointed for filling up the casual vacancies arisen from April 06, 2019. As a result, the above mentioned directors were appointed in Board of Directors' meeting held on October 31, 2019 to fill the casual vacancies arising from April 06, 2019. On December 05, 2019, the above mentioned Board of Director became functional after the State Bank of Pakistan granted their requisite FPT approval.

3. The directors, have confirmed that none of them is serving as a director on more than seven (07) listed companies, including the Bank.

4. The Bank has prepared a Code of Conduct and has ensured that appropriate steps have been taken to disseminate it throughout the Bank along with its supporting policies and procedures.

5. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Bank. The Board has ensured that complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

6. All the powers of the Board have been duly exercised and decisions on relevant matters have been taken by Board as empowered by the relevant provisions of the Act and these Regulations.

7. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose. The Board has complied with the requirements of Act and the Regulations with respect to recording and circulating the minutes of meeting of Board whereby in respect of frequency of meetings, there were no Board meetings in the second and third quarter owing to the non-approval of the FPT of the Board members.

8. The Board of directors have a formal policy and transparent procedures for remuneration of directors in accordance with SBP BPRD Circular No. 03 dated August 17, 2019, Companies Act, 2017 and these Regulations.

9. The Bank is compliant with the requirements of the Directors' Training Program under the Code of Corporate Governance Regulations as on December 31, 2019.

10. Except for the appointment of Chief Financial Officer (Acting), there have been no new appointments during the year for the positions of Chief Executive Officer, Company Secretary and Head of Internal Audit.

11. The Chief Financial Officer and Chief Executive Officer duly endorsed the financial statements before approval of the Board.

12. The Board has formed committees comprising of members given below:

| S. No | Board Audit Committee | Position |
|---|---|---|
| 1 | Ms. Fauzia Hasnain | Chairperson |
| 2 | Mr. Rana Ahmed Humayun | Member |
| 3 | Mr. Kamran Butt | Member |

| S. No | Board Human Resource and Remuneration Committee | Position |
|---|---|---|
| 1 | Mr. Kamran Butt | Chairman |
| 2 | Ms. Fauzia Hasnain | Member |
| 3 | Mr. Shafiqur Rahman Adhami | Member |
| 4 | Mr. Ahsan Raza Durrani | Member |

| S. No | Board Risk Management Committee | Position |
|---|---|---|
| 1 | Mr. Aziz Morris | Chairman |
| 2 | Mr. Rana Ahmed Humayun | Member |
| 3 | Ms. Fauzia Hasnain | Member |

| S. No | Board Information Technology Committee | Position |
|---|---|---|
| 1 | Mr. Shafiqur Rahman Adhami | Chairman |
| 2 | Mr. Kamran Butt | Member |

13. The terms of reference of the aforesaid committees have been formed, documented and advised to the committees for compliance.

14. The frequency of meetings of the Board committees were as per following:

| | | |
|---|---|---|
| • Board Audit Committee | Two | (In the first quarter) |
| • Board Human Resource and Remuneration Committee | One | |
| • Board Risk Management Committee | Nil | |
| • Board Information Technology Committee | Nil | |

15. The Board has set up an effective internal audit function that is manned by suitably qualified and experienced personnel who are conversant with the policies and procedures of the Bank.

16. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP) and registered with Audit Oversight Board of Pakistan, that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.

17. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Act, these regulations or any other regulatory requirement and the auditors have confirmed that they have observed IFAC guidelines in this regard.

18. We confirm that all other requirements of the regulations 3, 6, 7, 8, 27, 32, 33 and 36 of the Regulations have been complied with; and

19. The non-compliance with respect to frequency of meetings of the Board committees as mentioned in Para 14 was mainly due to non-functional Board, frequent resignations and delay in requisite FPT clearance. The appointment of Chairman of Board Human Resource & Remuneration Committee was further in non-compliance with regulation 28(2) of these Regulations. However, this will be addressed in the next composition of the Board of Directors.

**Jawad Majid Khan**
President and Chief Executive Officer
Summit Bank Limited

Place: Karachi

Date: October 08, 2021

# REVIEW REPORT ON STATEMENT OF COMPLIANCE CONTAINED IN THE LISTED COMPANIES (CODE OF CORPORATE GOVERNANCE) REGULATIONS, 2019

To the Board Members of Summit Bank Limited

We have reviewed the enclosed Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019 (the Regulations) prepared by the Board of Directors of Summit Bank Limited (the Bank) for the year ended December 31, 2019 in accordance with the requirements of regulation 36 of the Regulations.

The responsibility for compliance with the Regulations is that of the Board of Directors of the Bank. Our responsibility is to review, whether the statement of compliance reflects the status of the Bank's compliance with the provisions of the Regulations and report if it does not and to highlight any non-compliance with the requirements of the Regulations. A review is limited primarily to inquiries of the Bank's personnel and review of various documents prepared by the Bank to comply with the Regulations.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Bank's corporate governance procedures and risks.

The Regulations require the Bank to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions and also ensure compliance with the requirements of Section 208 of the Companies Act, 2017. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to assess and determine the Bank's process for identification of related parties and that whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Regulations as applicable to the Bank for the year ended December 31, 2019.

Further, we have highlighted instances of non-compliance in para no. 19 to the annexed Statement of compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019.

**ENGAGEMENT PARTNER: MEHMOOD A. RAZZAK**

Karachi
Date: October 08, 2021

# SERVICE QUALITY AND CUSTOMER COMPLAINTS HANDLING

In Summit Bank the Ethical practices like transparency, integrity, honesty and compliance go hand in hand same like any other financial institute and this area has emerged to be an essential element of overall compliance culture in any Bank.

As per the State Bank of Pakistan (SBP) directives via BC and CPD Circular No. 1, dated February 29, 2016, regarding Consumer Grievance Handling Mechanism (CGHM) and BC and CPD Circular No. 3, dated November 04, 2016 regarding Conduct Assessment Framework (CAF), all banks were advised to conduct video mystery shopping in order to measure their customer satisfaction. Summit Bank again affiliated with one of the leading independent research agencies, to execute the customer satisfaction survey.

These results will help us to work on the irregularities or defects in the system, to identify weaknesses and evaluate possible improvements to instill a second homecoming experience for our customers.

We introduced complains escalation matrix mechanism in 2018 to ensure that customer complaints are being catered, timely and effectively and in 2019 the complaints escalation matrix enhanced to the president level.

Against each complaint, the Bank sends acknowledgement to the customer within 48 workings hours.

CRMU also responds to customer once the query has been resolved. In case, the complaint cannot be resolved with 15 working days (where there is need for detailed scrutiny), an interim reply is sent within 10 working days. In case of unsatisfactory reply by the Bank or in case the complaint remains unattended beyond 30 working days, customer has an option to complain with Banking Mohtasib Pakistan.

Following are the complaint statistics of Summit Bank for the year 2019:

Total Complaints Received: 14,383

Total Complaints Resolved: 14,247

Average Complaints' Resolution TAT: 7 Working Days

Summit Bank
Committed to you

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SUMMIT BANK LIMITED

## REPORT ON THE AUDIT OF THE UNCONSOLIDATED FINANCIAL STATEMENTS

### Opinion

We have audited the annexed unconsolidated financial statements of **Summit Bank Limited** (the Bank), which comprise the unconsolidated statement of financial position as at **December 31, 2019**, and the unconsolidated profit and loss account, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated cash flow statement for the year then ended, along with unaudited certified returns received from the branches except for 16 branches which have been audited by us and notes to the unconsolidated financial statements, including a summary of significant accounting policies and other explanatory information and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the unconsolidated statement of financial position, the unconsolidated profit and loss account, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated cash flow statement together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan, and, give the information required by the Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2019 and of the loss and other comprehensive loss, the changes in equity and its cash flows for the year then ended.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material Uncertainty Related to Going Concern

We draw attention to note 1.3 to the unconsolidated financial statements. As more fully described in that note, the Bank has incurred net loss of Rs. 9,450.619 million during the year ended December 31, 2019, resulting in accumulated losses of Rs. 29,203.728 million and negative net equity of Rs. 5,598.223 million as at December 31, 2019. The Bank's paid-up capital (net of losses), Capital Adequacy Ratio (CAR) and Leverage Ratio (LR) do not meet the requirements provided by the State Bank of Pakistan (SBP) as at December 31, 2019. These conditions indicate the existence of material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern. However, the Bank is making continued efforts for necessary injection of capital and implementation of the Bank's Plan to comply with applicable capital requirements. Our report is not qualified in respect of this matter.

**Emphasis of Matter**

We draw attention to the following matters:

- As described in note 22.4 to the unconsolidated financial statements, the National Accountability Bureau (NAB) is currently conducting an investigation against certain bank accounts alleged of involvement in illegal activities in various banks. The Bank management is of the view that such investigations will not affect the ongoing operations and functions of the Bank.

- As described in note 13.3 to the unconsolidated financial statements, the Bank holds an immovable property which is partially in contravention with the provisions of Banking Companies Ordinance, 1962. The same has been held in "Other Assets" for sale at the earliest possible timeline.

Our opinion is not qualified in respect of the matters stated above.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the unconsolidated financial statements of the current period. These matters were addressed in the context of our audit of the unconsolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Material Uncertainty Related to Going Concern section, we have determined the following to be the key audit matters to be communicated in our report:

| S.No. | Key Audit Matters | How the matter was addressed in our audit |
|---|---|---|
| 1. | **Provision against advances** | |
| | The Bank's credit portfolios include loans and advances, and non-funded credit facilities. The credit portfolio is spread across various domestic branches operations.<br><br>As per the Bank's accounting policy (refer note 4.6 to the unconsolidated financial statements), the Bank periodically assesses the adequacy of its provisions against non-performing credit exposures in accordance with the requirements of Prudential Regulations of State Bank of Pakistan. Such regulations require specific provisioning against loan losses on the basis of an age-based criteria which should be supplemented by a subjective evaluation of Bank's credit portfolio. The determination of loan loss provision against certain vulnerable corporate loans, therefore, involve use of management judgment, on a case to case basis, taking into account factors such as the economic and business conditions, borrowers repayment behaviors and realizability of collateral held by the Bank.<br><br>In view of the significance of this area in terms of its impact on the unconsolidated financial statements and the level of involvement of management's judgment, we identified adequacy and completeness of loan loss provision as a significant area of audit judgment and a key audit matter. | We applied a range of audit procedures on selected samples including the following:<br><br>· We reviewed the Bank's process for identification and classification of non- performing loans including the quality of underlying data and systems. As part of such review we performed an analysis of the changes within different categories of classified non-performing accounts from last year to the current reporting date. This analysis was used to gather audit evidence regarding downgrading of impaired loans and declassification of accounts from non-performing to regular, as the case may be;<br><br>· We performed independent checks for the computations of provisions in line with the requirements of the applicable Prudential Regulations;<br><br>· In addition, we selected a representative sample of borrowers from the credit portfolios across various branches including individually significant corporate loans and performed tests and procedures such as review of credit documentation, repayment history and past due status, financial condition as depicted by the borrowers' financial statements, nature of collateral held by the bank and status of litigation, if any, with the borrower; |

| S.No. | Key Audit Matters | How the matter was addressed in our audit |
|---|---|---|
| | | · Based on the said credit reviews, we identified and discussed with the management the loan accounts where the credit risk appear to have increased. We reviewed the adequacy of provisions against such accounts on the basis of our independent objective evaluation of the risk mitigating factors that exist in such cases; and<br><br>· We also assessed adequacy of disclosures in the unconsolidated financial statements regarding the non-performing loans and provisions made for the same in accordance with the requirements of the applicable financial reporting framework. |
| 2. | **Deferred tax assets** | |
| | The recognition of a deferred tax asset in respect of tax losses is permitted only to the extent that it is probable that future taxable profits will be available to utilize the tax losses carried forward.<br><br>When considering the availability of future taxable profits, judgment is required when assessing projections of future taxable income which are based on approved business plans / forecasts. | We obtained an understanding and evaluated the design and tested the effectiveness of controls in this area relevant to our audit. We performed substantive audit procedures on the recognition of deferred tax balances based on local tax regulations, and on the analysis of the recoverability of the deferred tax assets in the light of relevant accounting standard.<br><br>We have evaluated the bank's assumptions and estimates in relation to the likelihood of generating sufficient future taxable income based on plans, prepared by the management. We have also assessed previous forecast and compared with the actual outcome for evidence of bias.<br><br>Finally, we reviewed the adequacy of the disclosures made by the bank in this area and recognition / non-recognition of deferred tax asset / liability. |
| 3. | **Valuation of investments** | |
| | As at December 31, 2019, the Bank has investments classified as "Available-for-sale" and "Held for trading" amounting to Rs. 21,959.499 million (2018: Rs. 19,256.375 million).<br><br>Investments are carried at cost or fair value in accordance with the Bank's accounting policy relating to their recognition. Provision against investments is based on impairment policy of the Bank which includes both objective and subjective factors.<br><br>We identified the valuation of investments including determination of impairment allowance on investments classified as "Available-for-sale" as a key audit matter because of their significance in relation to the total assets of the Bank and judgment / estimates involved in assessing impairment allowance. | Our procedures in respect of valuation of investments included the following:<br><br>· Assessing the design and testing the operating effectiveness of the relevant controls in place relating to valuation of investments;<br><br>· Examining the reasons of significant decline in the carrying value of investments.<br><br>· Checking, on a sample basis, the valuation of investments to supporting documents, observable market and break-up values; and |

| S.No. | Key Audit Matters | How the matter was addressed in our audit |
|---|---|---|
| | | · Evaluating the management's assessment of available for sale and held to maturity investments for any additional impairment in accordance with the Bank's accounting policies and performed an independent assessment of the assumptions. |
| 4. | **Capitalization and asset lives** | |
| | There are a number of areas where management judgement impacts the carrying value of property and equipment, intangible assets and their respective depreciation / amortization profiles. These include:<br><br>· the decision to capitalize or expense costs;<br><br>· the annual asset life review;<br><br>· the timeliness of the transfer from assets in the course of construction; and<br><br>· making capital expenditures in accordance with applicable banking regulations and IFRS. | We tested controls in place over the fixed asset cycle, evaluated the appropriateness of capitalization policies, performed tests of details on costs capitalized and assessed the timeliness of the transfer of assets in the course of construction.<br><br>Our detailed testing on the application of the asset life review identified no issues. In performing these procedures, we challenged the judgements made by management including:<br><br>· the nature of underlying costs capitalized;<br><br>· the appropriateness of asset lives applied in the calculation of depreciation; and<br><br>· compliance with relevant banking regulations and IFRS. |
| 5. | **Litigations and regulatory requirements** | |
| | There are a number of threatened and actual legal, regulatory and tax cases against the Bank. There is a high level of judgement involved in estimating the level of provisioning required. | Our procedures included the following:<br><br>· testing key controls surrounding litigation, regulatory and tax procedures;<br><br>· where relevant, reviewing external legal opinions obtained by management;<br><br>· discussing open matters with the Bank's general counsel, litigation, regulatory and tax teams;<br><br>· assessing and challenging management's conclusions through understanding precedents set in similar cases; and<br><br>· circularizing confirmations where appropriate, to relevant third-party legal representatives. |

| S.No. | Key Audit Matters | How the matter was addressed in our audit |
|---|---|---|
| 6. | **Adoption of IFRS 16 "Leases"** | |
| | As referred to in note 4.1.1 to the unconsolidated financial statements, IFRS 16 "Leases" (the standard) has become effective for the current financial year as per the SECP notification S.R.O. 434 (i)/2018 dated April 09, 2018 read with SBP's directive BPRD Circular Letter no. 08 of 2019 dated April 30, 2019.<br><br>The standard has introduced a new accounting model for operating lease contracts from the standpoint of a lessee. As per the new requirements, the Bank is required to recognize right-of-use assets for leased assets and liabilities of the lease payments over the lease term.<br><br>The impact of the adoption of the standard on the unconsolidated financial statements of the Bank are disclosed in note 4.1.1 to the unconsolidated financial statements.<br><br>The application of the new standard requires management to make significant estimates and judgements such as in related to determination of lease term and appropriate discount rate for measurement of lease liability.<br><br>We considered the adoption of the standard as a key audit matter due to the significance of the accounting change and the involvement of significant management judgements in respect of the application of the new standard. | We applied a range of audit procedures including the following:<br><br>· We evaluated the appropriateness of the new accounting policies for recognition of lease contracts and their measurement in the unconsolidated financial statements.<br><br>· We obtained an understanding of the process and controls in place for identification of in scope and material lease contracts and capturing of relevant data regarding the terms and condition of the lease contracts in lease database.<br><br>· We corroborated the completeness of lease database by comparing the previously identified operating lease contracts and the lease / rent expenses with the contracts appearing in the lease database.<br><br>· We performed independent checks of lease accounting computations for a sample of lease contracts through reperformance of such computations.<br><br>· We evaluated the appropriateness of the assumptions used by the management in measuring lease liabilities such as discount rate and lease term.<br><br>We evaluated the adequacy of disclosures made regarding the application of the standard and its impact on the unconsolidated financial statements of the Bank for the year. |

**Information Other than the Unconsolidated and Consolidated Financial Statements and Auditors' Reports Thereon**

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the unconsolidated and consolidated financial statements and our auditors' reports thereon.

Our opinion on the unconsolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the unconsolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the unconsolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and the Board of Directors for the Unconsolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the unconsolidated financial statements in accordance with accounting and reporting standards as applicable in Pakistan, the requirements of Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the unconsolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Board of directors is responsible for overseeing the Bank's financial reporting process.

**Auditors' Responsibilities for the Audit of the Unconsolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the unconsolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these unconsolidated financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the unconsolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the unconsolidated financial statements, including the disclosures, and whether the unconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide to the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the unconsolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on Other Legal and Regulatory Requirements**

Based on our audit, we further report that in our opinion:

a) proper books of account have been kept by the Bank as required by the Companies Act, 2017 (XIX of 2017) and the returns referred above from the branches have been found adequate for the purpose of our audit;

b) the unconsolidated statement of financial position, the unconsolidated profit and loss account, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated cash flow statement together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;

c) investments made, expenditure incurred and guarantees extended during the year were in accordance with the objects and powers of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank; and

d) zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

We confirm that for the purpose of our audit we have covered more than sixty per cent of the total loans and advances of the Bank.

The engagement partner on the audit resulting in this independent auditor's report is ***Mehmood A. Razzak.***

**BAKER TILLY MEHMOOD IDREES QAMAR**
CHARTERED ACCOUNTANTS

Karachi
Date: October 08, 2021

# UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AS AT DECEMBER 31, 2019*

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | ------- (Rupees in '000) ------- | |
| **ASSETS** | | | |
| Cash and balances with treasury banks | 5 | **5,613,556** | 5,043,089 |
| Balances with other banks | 6 | **930,810** | 996,982 |
| Lendings to financial institutions | 7 | **991,272** | - |
| Investments | 8 | **21,959,499** | 19,256,375 |
| Advances | 9 | **43,242,325** | 61,245,877 |
| Fixed assets | 10 | **10,180,966** | 8,708,878 |
| Intangible assets | 11 | **148,557** | 204,912 |
| Deferred tax assets | 12 | **11,606,393** | 7,214,989 |
| Other assets | 13 | **11,202,160** | 11,956,890 |
| | | **105,875,538** | 114,627,992 |
| **LIABILITIES** | | | |
| Bills payable | 15 | **1,815,836** | 1,881,107 |
| Borrowings | 16 | **13,504,780** | 19,491,854 |
| Deposits and other accounts | 17 | **88,567,490** | 84,676,090 |
| Liabilities against assets subject to finance lease | | **-** | - |
| Subordinated debt | 18 | **1,495,515** | 1,495,515 |
| Deferred tax liabilities | | **-** | - |
| Other liabilities | 19 | **6,090,140** | 4,330,823 |
| | | **111,473,761** | 111,875,389 |
| **NET ASSETS** | | **(5,598,223)** | 2,752,603 |
| **REPRESENTED BY** | | | |
| Share capital - net | 20 | **20,500,194** | 20,500,194 |
| Reserves | | **(425,043)** | (425,043) |
| Surplus / (deficit) on revaluation of assets | 21 | **3,530,354** | 2,576,824 |
| Accumulated losses | | **(29,203,728)** | (19,899,372) |
| | | **(5,598,223)** | 2,752,603 |
| **CONTINGENCIES AND COMMITMENTS** | 22 | | |

*The annexed notes 1 to 45 and annexures I and II form an integral part of these unconsolidated financial statements.*

| President / Chief Executive | Chief Financial Officer | Director | Director | Director |
|---|---|---|---|---|

Summit Bank
Committed to you

# UNCONSOLIDATED PROFIT AND LOSS ACCOUNT

*FOR THE YEAR ENDED DECEMBER 31, 2019*

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | -------- (Rupees in '000) -------- | |
| Mark-up / return / interest earned | 23 | **5,909,299** | 8,452,448 |
| Mark-up / return / interest expensed | 24 | **7,216,253** | 6,643,025 |
| Net Mark-up / interest (expense) / income | | **(1,306,954)** | 1,809,423 |
| **NON MARK-UP / INTEREST INCOME** | | | |
| Fee and commission income | 25 | **714,104** | 948,860 |
| Dividend income | | **36,601** | 58,112 |
| Foreign exchange income | | **390,082** | 801,340 |
| Income / (loss) from derivatives | | **-** | - |
| Loss on securities | 26 | **(17,198)** | (39,370) |
| Other income | 27 | **108,390** | 354,200 |
| Total non-markup / interest income | | **1,231,979** | 2,123,142 |
| Total income | | **(74,975)** | 3,932,565 |
| **NON MARK-UP / INTEREST EXPENSES** | | | |
| Operating expenses | 28 | **5,438,188** | 5,657,069 |
| Workers' welfare fund | | **-** | - |
| Other charges | 29 | **75,354** | 160,316 |
| Total non-markup / interest expenses | | **5,513,542** | 5,817,385 |
| Loss before provisions | | **(5,588,517)** | (1,884,820) |
| Provisions and write offs - net | 30 | **8,681,781** | 8,996,035 |
| Extra ordinary / unusual items | | **-** | - |
| **LOSS BEFORE TAXATION** | | **(14,270,298)** | (10,880,855) |
| Taxation | 31 | **(4,819,679)** | (2,129,782) |
| **LOSS AFTER TAXATION** | | **(9,450,619)** | (8,751,073) |
| | | ---------- (Rupees) ---------- | |
| **Basic loss per share** | 32 | **(3.58)** | (3.32) |
| **Diluted loss per share** | 32 | **(3.58)** | (3.32) |

*The annexed notes 1 to 45 and annexures I and II form an integral part of these unconsolidated financial statements.*

| President / Chief Executive | Chief Financial Officer | Director | Director | Director |
|---|---|---|---|---|

# UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*FOR THE YEAR ENDED DECEMBER 31, 2019*

| | 2019 | 2018 |
|---|---|---|
| | -------- (Rupees in '000) -------- | |
| Loss after taxation for the year | **(9,450,619)** | (8,751,073) |
| **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 | **1,033,327** | (296,353) |
| **Items that will not be reclassified to profit and loss account in subsequent periods:** | | |
| Remeasurement gain on defined benefit obligations | **414** | 29,470 |
| Movement in surplus on revaluation of operating fixed assets - net of tax | **37,299** | 756,980 |
| Movement in surplus on revaluation of non-banking assets - net of tax | **28,753** | 17,955 |
| Movement in surplus on revaluation of held for sale property - net of tax | **-** | 754,510 |
| | **66,466** | 1,558,915 |
| **Total comprehensive loss** | **(8,350,826)** | (7,488,511) |

*The annexed notes 1 to 45 and annexures I and II form an integral part of these unconsolidated financial statements.*

| President / Chief Executive | Chief Financial Officer | Director | Director | Director |
|---|---|---|---|---|

# UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*FOR THE YEAR ENDED DECEMBER 31, 2019*



| | Share capital | Capital reserves | | | Surplus / (deficit) on revaluation of | | | Revenue reserve | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | Share premium | Statutory reserve | Reserve arising on amalgamation | Investments | Fixed / Non banking assets | Property held for sale | Accumulated losses | |
| | (Rupees in '000) | | | | | | | | |
| **Balance as at January 01, 2018** | 20,500,194 | 1,000,000 | 154,162 | (1,579,205) | (793,175) | 2,288,117 | - | (11,328,979) | 10,241,114 |
| Loss after taxation for the year ended December 31, 2018 | - | - | - | - | - | - | - | (8,751,073) | (8,751,073) |
| Other comprehensive income - net of tax | - | - | - | - | (296,353) | 774,935 | 754,510 | 29,470 | 1,262,562 |
| Transfer to statutory reserve | - | - | - | - | - | - | - | - | - |
| Transfer in respect of incremental depreciation from surplus on revaluation of fixed assets to accumulated losses | - | - | - | - | - | (113,532) | - | 113,532 | - |
| Surplus realized on disposal of non-banking assets | - | - | - | - | - | (37,678) | - | 37,678 | - |
| **Balance as at January 01, 2019** | **20,500,194** | **1,000,000** | **154,162** | **(1,579,205)** | **(1,089,528)** | **2,911,842** | **754,510** | **(19,899,372)** | **2,752,603** |
| Loss after taxation for the year ended December 31, 2019 | - | - | - | - | - | - | - | **(9,450,619)** | **(9,450,619)** |
| Other comprehensive income - net of tax | - | - | - | - | **1,033,327** | **66,052** | - | **414** | **1,099,793** |
| Transfer to statutory reserve | - | - | - | - | - | - | - | - | - |
| Transfer in respect of incremental depreciation from surplus on revaluation of fixed assets to accumulated losses | - | - | - | - | - | **(100,875)** | - | **100,875** | - |
| Surplus realized on disposal of fixed assets | - | - | - | - | - | **(44,072)** | - | **44,072** | - |
| Surplus realized on disposal of non-banking assets | - | - | - | - | - | **(902)** | - | **902** | - |
| **Balance as at December 31, 2019** | **20,500,194** | **1,000,000** | **154,162** | **(1,579,205)** | **(56,201)** | **2,832,045** | **754,510** | **(29,203,728)** | **(5,598,223)** |

*The annexed notes 1 to 45 and annexures I and II form an integral part of these unconsolidated financial statements.*

| President / Chief Executive | Chief Financial Officer | Director | Director | Director |
|---|---|---|---|---|

# UNCONSOLIDATED CASH FLOW STATEMENT

*FOR THE YEAR ENDED DECEMBER 31, 2019*

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| **Loss before taxation** | | **(14,270,298)** | (10,880,855) |
| Less: Dividend income | | **(36,601)** | (58,112) |
| | | **(14,306,899)** | (10,938,967) |
| **Adjustments:** | | | |
| Depreciation on operating fixed assets | *10.2* | **552,070** | 687,197 |
| Depreciation on right-of-use assets | *28* | **531,200** | - |
| Depreciation on non-banking assets | *13.1.1* | **43,749** | 44,559 |
| Finance cost of lease liability | | **280,047** | - |
| Amortization | *11.2* | **62,169** | 61,188 |
| Provision and write-offs excluding recoveries | | **8,683,545** | 8,997,096 |
| Charge for defined benefit plan | *28.1* | **135,087** | 62,828 |
| Charge for employees compensated absences | *28.1* | **25,563** | 16,697 |
| (Gain) / loss on sale of fixed assets | *27* | **(49,072)** | 12,651 |
| Gain on disposal of non-banking assets - net | *27* | **-** | (271,464) |
| Unrealised loss on revaluation of investments classified as held-for-trading securities - net | *8.1* | **308** | - |
| | | **10,264,666** | 9,610,752 |
| | | **(4,042,233)** | (1,328,215) |
| **(Increase) / decrease in operating assets** | | | |
| Lendings to financial institutions | | **(991,272)** | 10,671,003 |
| Held-for-trading securities | | **(5,850)** | 59,486 |
| Advances | | **10,606,371** | 16,700,657 |
| Others assets (excluding advance taxation) | | **769,737** | 433,434 |
| | | **10,378,986** | 27,864,580 |
| **(Decrease) / increase in operating liabilities** | | | |
| Bills Payable | | **(65,271)** | (1,184,272) |
| Borrowings from financial institutions | | **(6,151,779)** | (47,788,951) |
| Deposits | | **3,891,400** | (61,053,617) |
| Other liabilities (excluding current taxation) | | **(470,190)** | (1,342,258) |
| | | **(2,795,840)** | (111,369,098) |
| Payments on account of staff retirement benefits | | **(50,411)** | (70,594) |
| Income tax paid | | **(133,153)** | (151,289) |
| **Net cash generated from / (used in) operating activities** | | **3,357,349** | (85,054,616) |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Net investments in available-for-sale securities | | **(2,391,882)** | 74,074,782 |
| Dividends received | | **36,601** | 63,180 |
| Investments in operating fixed assets | | **(156,419)** | (603,090) |
| Investments in intangible assets | | **(5,814)** | (17,117) |
| Proceeds from sale of fixed assets | | **274,976** | 17,994 |
| Proceeds from sale of non-banking assets | | **10,000** | 1,589,188 |
| **Net cash (used in) / generated from investing activities** | | **(2,232,538)** | 75,124,937 |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Payment of lease liability against right-of-use assets | | **(785,221)** | - |
| Payments of subordinated debt | | **-** | (345) |
| **Net cash used in financing activities** | | **(785,221)** | (345) |
| Effect of exchange rate changes on cash and cash equivalents | | **167,488** | 1,148,842 |
| **Increase / (decrease) in cash and cash equivalents** | | **507,078** | (8,781,182) |
| Cash and cash equivalents at beginning of the year | | **5,866,233** | 14,814,903 |
| **Cash and cash equivalents at end of the year** | *33* | **6,373,311** | 6,033,721 |

*The annexed notes 1 to 45 and annexures I and II form an integral part of these unconsolidated financial statements.*

| President / Chief Executive | Chief Financial Officer | Director | Director | Director |
|---|---|---|---|---|

# NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED DECEMBER 31, 2019*

## 1. STATUS AND NATURE OF BUSINESS

**1.1** Summit Bank Limited (the Bank) is a banking company incorporated in Pakistan on December 09, 2005 as public company limited by shares under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). The Bank's registered office is situated at Plot No. 9-C, F-6 Markaz, Supermarket, Islamabad, Pakistan. The Bank is a subsidiary of Suroor Investments Limited, a company incorporated in Mauritius, holding 66.77% of the issued, subscribed and paid up capital of the Bank as at December 31, 2019.

The Bank is engaged in banking services as described in the Banking Companies Ordinance, 1962 and is operating through its 179 Conventional Banking Branches and 14 Islamic Banking Branches (2018: 179 Conventional Banking Branches and 14 Islamic Banking Branches) in Pakistan as defined in the Banking Companies Ordinance, 1962.

**1.2** In November 2018, VIS Credit Rating Company Limited assigned the Bank medium to long-term rating of 'BBB -' (Triple B minus) and short term rating of 'A-3' (A-three) while the Bank's TFC was assigned a rating of 'BBB - (SO)' (Triple B minus (Structured Obligation)).

These ratings were placed on 'Rating Watch – Negative' status. In the year 2019, VIS Credit Rating Company Limited suspended the Bank's medium to long-term rating of 'BBB -' (Triple B minus) and short term rating of 'A-3' (A-three) due to non-availability of updated information. VIS Credit Rating Company Limited would reassess the ratings once required information along with latest financials are made available. Moreover, the Bank's TFC rating was assigned 'D' (Default) due to non-payment of its latest mark-up payment on account of lock-in-clause invoked by the Bank under the applicable Regulations of the State Bank of Pakistan (SBP). However, the TFC holders have approved extension in the maturity date of the TFC issue along with payment of all the instalments (mark-up and principal) till October 27, 2021, subject to applicable regulatory approvals and compliances.

**1.3** During the year, the Bank has incurred a net loss of Rs. 9,450.619 million resulting in accumulated losses of Rs. 29,203.728 million and negative equity of Rs. 5,598.223 million. As per the applicable laws and regulations, the Bank is required to maintain Minimum Paid-up Capital (net of losses) (MCR) of Rs. 10 billion, Capital Adequacy Ratio (CAR) at 12.50% (inclusive of Capital Conservation Buffer of 2.50%), Leverage Ratio (LR) at 3.00%, Liquidity Coverage Ratio (LCR) at 100% and Net Stable Funding Ratio (NSFR) at 100% as of December 31, 2019. However, the paid up capital of the Bank (net of losses), CAR and LR are negative, while LCR is below prescribed level as at December 31, 2019. Subsequently, from June 30, 2020 onwards, the Bank achieved compliance with the applicable LCR requirements.

In light of the above, the Bank is making best efforts to comply with applicable capital requirements through increase in capital / capital injection at the earliest. For this, the management has prepared a business plan, which has been approved by the Board.

This plan aims to improve the Bank's capital base and risk absorption capacity and provide impetus to its future growth initiatives. The key assumptions considered in the business plan are as follows:

- Injection of capital;

- Reaping benefits from the expected growth of Islamic finance in Pakistan since the Bank will speed-up the implementation process of its earlier decision of conversion to a full-fledged Islamic bank;

- Recoveries from non-performing advances through strenuous and focused recovery efforts;

- Reduction in overall level of non-earning assets held by the Bank;

- Identifying opportunities for rationalization of the cost structure;

- Improvement in the risk management and technological infrastructure of the Bank to support the business plan;

- Investments / exposures in safe avenues for achieving solid growth in the core business income; and

- Income generation through avenues for mark up income and non-mark up income.

In this respect, the Bank had received a revised letter dated May 20, 2021 from H.E. Nasser Abdulla Hussain Lootah (The Investor) pursuant to which The Investor had communicated his intention to acquire at least controlling stake in the Bank by subscribing to fresh equity in the Bank. In compliance with the requirements of Securities Act, 2015 and Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2017 applicable to such transactions, this was followed by a public announcement by The Investor of the intention to acquire at least 51% of the issued and paid up capital of the Bank together with the management control.

The Investor has submitted his offer via a letter dated October 01, 2021, as per the Share Subscription Agreement (SSA) dated October 04, 2021 entered between the Bank and The Investor for the proposed subscription of new ordinary shares in the Bank by way of fresh equity injection Without Rights Offering at a discounted price of Rs. 2.51 per share. The Investor presented the offer as set out in the Share Subscription Agreement which is duly approved by the Board of Directors. The Bank intends to issue total 5,976.096 million new ordinary shares.

The management and the Board of Directors are hopeful that with the capital injection along with the growth factors and other key assumptions stipulated in the business plan materialize, the Bank will be able to achieve compliance with applicable regulatory requirements.

## 2. BASIS OF PRESENTATION

### 2.1 STATEMENT OF COMPLIANCE

These unconsolidated 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:

- 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 as are notified under the Companies Act, 2017;

- Provisions of and directives issued under the Banking Companies Ordinance, 1962 and Companies Act, 2017; and

- Directives issued by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP).

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.

The SBP, vide its BSD Circular Letter no. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for banking companies till further instructions. Moreover, the SBP vide BPRD Circular No. 4 of 2015, dated February 25, 2015 has deferred the applicability of Islamic Financial Accounting Standards (IFAS) 3, Profit and Loss Sharing on Deposits. Further, the SECP has deferred the applicability of International Financial Reporting Standard (IFRS) 7 'Financial Instruments: Disclosures' for banks through its notification 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 unconsolidated financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

These unconsolidated financial statements represent separate financial statements of Summit Bank Limited in which investment in subsidiary are accounted for on the basis of direct equity interest rather on the basis of reported results. Accordingly, the consolidated financial statements have been presented separately.

Key financial figures of the Islamic banking branches are disclosed in Annexure II to these unconsolidated financial statements.

**2.2 Standards, interpretations of and amendments to published approved accounting standards that are effective in the current year**

IFRS 16 - Leases and IFRS 15 - Revenue from Contracts with Customers, became effective for annual reporting periods commencing on or after January 01, 2019. The impact of the adoption of these standards are disclosed in note 4.1.1 and 4.1.2 to these unconsolidated financial statements respectively.

In addition to the above, there are certain new and amended standards, interpretation and amendments that are mandatory for the Bank's accounting periods beginning on or after January 01, 2019 but are considered not to be relevant or do not have any significant effect on the Bank's operations and therefore not detailed in these unconsolidated financial statements.

**2.3 Standards, interpretations of and amendments to published approved accounting standards that are not yet effective**

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

| Standard, Interpretation and Amendment | Effective date (annual periods beginning on or after) |
|---|---|
| IFRS 3 - Definitions of Business (Amendments) | January 01, 2020 |
| IAS 1 / IAS 8 - Definition of Material - Amendment to IAS 1 and IAS 8 | January 01, 2020 |
| IFRS 14 - Regulatory Deferral Accounts | July 01, 2019 |

The SECP, through SRO229(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, as per BPRD Circular No. 04 of 2019 dated October 23, 2019 of the SBP, effective date of IFRS 9 implementation is 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.

The Bank expects that adoption of the remaining interpretations and amendments will not affect its financial statements in the period of initial application.

## 2.4 Critical accounting estimates and judgments

The preparation of these unconsolidated financial statements in conformity with approved accounting standards as applicable in Pakistan requires the management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses as well as in the disclosure of contingent liabilities. It also requires the management to exercise judgement in application of its accounting policies. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an going basis. Revision to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgements were made by the management in the application of accounting policies are as follows:

| | Note |
|---|---|
| - Classification and provisioning against investments | 4.5, 4.17, 8 and 30 |
| - Classification and provisioning against non-performing loans and advances | 4.6, 9 and 30 |
| - Useful lives of fixed and intangible assets, depreciation, amortization and revaluation | 4.7, 4.7.3.1, 4.8, 10 and 11 |
| - Impairment of assets | 4.7.3.1 and 4.17 |
| - Valuation of right-of-use assets and their related lease liability | 4.7.3.1 and 4.7.3.2 |
| - Accounting for staff retirement and other benefits | 4.13, 35 and 36 |
| - Taxation | 4.16 and 31 |
| - Other provisions | 4.18 |
| - Fair value of financial instruments | 38 |
| - Valuation of non-banking assets | 4.9 and 13.1.1 |
| - Remuneration framework and related disclosures | 4.12 and 37 |

### 2.4.1 Changes in Accounting Estimate during the year

During the current year, the management of the Bank has revised its estimate of the useful lives of building on leasehold land. The management has decreased the depreciation rate from 5% per annum to 2.5% to 5% per annum. The revision has been made after taking into account the expected pattern of recovery of economic benefits associated with the use of these assets. The revision has been accounted for as a change in accounting estimate as defined in International Accounting Standard 8, 'Accounting Policies, Changes in Accounting Estimate and Errors'. Had the revision in useful lives in respect of building on leasehold land not been made, depreciation expense for the year would have been higher by Rs. 252.502 million and consequently the profit before tax would have been lower by the same amount.

## 3. BASIS OF MEASUREMENT

### 3.1 Accounting convention

These unconsolidated financial statements have been prepared under the historical cost convention except that certain operating fixed assets and non banking assets in satisfaction of claims are stated at revalued amounts and certain investments and derivative financial instruments have been stated at fair value and defined benefit obligations which are carried at present value.

### 3.2 Functional and Presentation Currency

These unconsolidated financial statements are presented in Pakistani Rupees, which is the Bank's functional and presentation currency.

The amounts are rounded off to the nearest thousand rupees except as stated otherwise.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these unconsolidated financial statements are consistent with those of the previous financial year except as disclosed below in note 4.1.

### 4.1 Changes in accounting policies

### 4.1.1 IFRS 16 - Leases

During the current year, 'IFRS 16 - Leases' becomes applicable for the banks. IFRS 16 replaces existing guidance on accounting for Leases including 'IAS 17 - Leases', 'IFRIC' 'Determining whether an arrangement contains a Lease', 'SIC 15 - Operating Lease Incentives' and 'SIC 27 - Evaluating the substance of transactions involving the legal form of lease'. IFRS 16 introduces single lease accounting model and requires a lessee to recognize assets and liabilities of all leases with a term of more than 12 months unless the underlying assets are of low value. A lessee recognizes right-of-use asset representing its right of using underlying asset and corresponding lease liability representing its obligation to make lease payments. Lessor accounting remains similar to the current standard i.e. lessor continue to classify leases as either finance or operating leases. The Bank has adopted IFRS 16 using the modified retrospective approach with the date of initial application as January 01, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard being recognized at the date of initial application. Accordingly, the Bank has not restated comparatives for the 2018 reporting period.

On adoption of IFRS 16, the Bank has recognized liabilities in respect of leases which had previously been classified as operating leases under IAS 17. These liabilities were initially measured as the present value of the remaining lease payments, discounted using the Bank's incremental weighted average borrowing rate of 14.34% per annum at January 1, 2019. The Bank has used a single discount rate methodology for each portfolio of leases with similar characteristics. The lease liability is subsequently measured at amortized cost using the effective interest rate method.

| | December 31, 2019 | January 01, 2019 |
|---|---|---|
| | --------- (Rupees in '000) --------- | |
| Lease liability against right-of-use assets | **2,119,682** | 2,075,149 |

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 recognized in the statement of financial position immediately before the date of initial application.

The right-of-use assets recognized 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 at | |
|---|---|---|
| | December 31, 2019 | January 01, 2019 |
| | --------- (Rupees in '000) --------- | |
| Right-of-Use Asset | **2,093,656** | 2,207,128 |

| | | |
|---|---|---|
| **Effect of change in Accounting policy** | | |
| **Impact on Statement of Financial Position** | | |
| Increase in fixed assets - ROU Assets | **2,093,656** | 2,207,128 |
| Decrease in other assets - Advances , Deposits and Prepayments | **(185,595)** | (131,979) |
| Increase in other assets - Advance Taxation | **-** | - |
| Increase in other liabilities - Lease Liability in respect of ROU Assets | **(2,119,682)** | (2,075,149) |
| **(Decrease ) / increase in net assets** | **(211,621)** | - |

| | For the year | |
|---|---|---|
| | December 31, 2019 | January 01, 2019 |
| | --------- (Rupees in '000) --------- | |
| **Impact on Profit and Loss Account** | | |
| Increase in mark-up expense | **(280,047)** | - |
| | **(280,047)** | - |
| **(Increase) / decrease in administrative expenses:** | | |
| -Depreciation of ROU Assets | **(531,200)** | - |
| -Rent expense | **599,626** | - |
| | **68,426** | - |
| Increase in loss before tax | **(211,621)** | - |
| Taxation | **-** | - |
| Increase in loss after tax | **(211,621)** | - |

Loss per share for the year ended December 31, 2019 is Re 0.08 per share higher as a result of the adoption of IFRS 16.

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at January 01, 2019.

| | (Rupees in '000) |
|---|---|
| Operating lease commitments disclosed as at December 31, 2018 | 3,164,673 |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | 2,112,435 |
| Less: short-term leases recognised on a straight-line basis as expense | 37,286 |
| Lease liability recognised as at January 01, 2019 | 2,075,149 |
| Of which are: | |
| - Current lease liabilities | 573,525 |
| - Non Current lease liabilities | 1,501,624 |
| | 2,075,149 |

### 4.1.2 IFRS 15 - Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces IAS 18 'Revenue' IAS 11 'Construction Contracts' and related interpretations.

The Bank initially applied IFRS 15 on January 01, 2019 retrospectively in accordance with IAS 8 without any practical expedients. The application of IFRS 15 has no impact on the financial position and / or financial performance of the Bank. Accordingly, there was no adjustment in retained earnings on application of IFRS 15 as at January 01, 2019.

### 4.2 Additional / amended disclosure effective from the accounting ending December 31, 2019

The SBP through its letter BPRD / R & PD/ 2018 / 17232 had relaxed the implementation and disclosure requirements under the revised framework for Governance and Regulation practices. The implementation of the risk adjusted remuneration framework, as described in the guidelines across the converged business areas and MRTs / MRCs were made effective from January 01, 2019 while the disclosures were made effective from December 31, 2019. Accordingly, the information required under the said framework and as required under the revised format of annual financial statements by SBP through BPRD circular No. 2 of 2018 dated January 25, 2018 have been prescribed and disclosed in Note 4.12, Note 28.1 and Note 37 to the financial statements.

### 4.3 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents include cash in hand, national prize bond, balances with treasury banks and balances with other banks (net of overdrawn nostro balances) in current and deposit accounts.

## 4.4 Lendings to / borrowings from financial institutions

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

### a) Sale of securities under repurchase agreements (Repo)

Securities sold subject to an agreement to repurchase at a specified future date (repos) continue to be recognized in the unconsolidated statement of financial position and are measured in accordance with accounting policies for investment securities. The counterparty liability for amounts received under these agreements is included in borrowings. The difference between sale and repurchase price is treated as mark up expense and is accrued over the period of the repo agreement.

### b) Other borrowings

Other borrowings include borrowings from the SBP and unsecured call borrowings which are recorded at the proceeds received. Mark-up paid on such borrowings is charged to the unconsolidated profit and loss account over the period of borrowings on time proportionate basis.

### c) Purchase of securities under resale agreements (Reverse Repo)

Securities purchased under agreement to resell at a specified future date (reverse repos) are not recognized in the unconsolidated statement of financial position. Amounts paid under these agreements are included in lendings to financial institutions. The difference between purchase and resale price is treated as mark-up earned and is accrued over the period of the reverse repo agreement. Securities purchased are not recognized in the unconsolidated financial statements, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability under borrowings from financial institutions.

### d) Other lendings

Other lendings include term lendings and unsecured lendings to financial institutions. These are stated net of provision. Return on such lendings is accrued to unconsolidated profit and loss account on a time proportionate basis using effective interest rate method except mark-up on impaired / delinquent lendings, which are recognized on receipt basis in accordance with the requirements of the Prudential Regulations of the SBP.

### e) Musharakah

Musharakah is a profit and loss sharing transaction in which the Bank and counterparty place their funds in a pool of specific asset (managed with us in case of acceptance transaction and managed by the counter party in case of placement transaction) yielding a specified return on a predetermined profit sharing ratio. The profit of the pool is shared according to this pre-agreed ratio.

### f) Bai Muajjal

Bai Muajjal is a transaction in which a party in need of funds purchases an easily sellable Shariah compliant security (such as Sukuk) from a counter party (the party with excess funds) on deferred payment basis and sells it on spot payment basis to a third party thereby raises liquidity. Receivable against such sale is recognized at the agreed sale price. The difference between the sale price and the carrying value on the date of disposal is accrued and recorded as income in the unconsolidated profit and loss account over the period of credit sale.

## 4.5 Investments

### 4.5.1 Classification

Investments of the Bank, other than investments in subsidiary, are classified as held-for-trading, held-to-maturity and available-for-sale. The management determines the appropriate classification of its investments at the time of purchase.

**Held-for-trading**

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

**Held-to-maturity**

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

**Available-for-sale**

These are investments that do not fall under the held-for-trading or held-to-maturity categories.

**Subsidiary**

Subsidiary is an entity over which Bank has control. Investment in subsidiary is carried at cost less accumulated impairment losses, if any.

### 4.5.2 Regular way contracts

All purchases and sales of investments that require delivery within time frame established by regulations or market conventions are recognized at the trade date. Trade date is the date on which the Bank commits to purchase or sell the investment.

### 4.5.3 Initial recognition and measurement

Investment other than those categorized as held-for-trading are initially recognized at fair value which includes transaction costs associated with the investment. Investment categorized as held-for-trading are initially recognized at fair value and transaction costs are expensed in the unconsolidated profit and loss account.

### 4.5.4 Subsequent measurement

**Held-for-trading**

These are measured at subsequent reporting dates at fair value. Gains and losses on re-measurement are included in the unconsolidated profit and loss account.

**Held-to-maturity**

These are measured at amortized cost using the effective interest rate method, less any impairment loss recognized to reflect irrecoverable amounts.

**Available-for-sale**

Quoted securities classified as available-for-sale investments are measured at subsequent reporting dates at fair value. Any surplus / deficit arising thereon is kept in a separate account shown in the unconsolidated statement of financial position below equity and is taken to the unconsolidated profit and loss account when actually realized upon disposal or when the investment is considered to be impaired.

Unquoted equity securities are valued at the lower of cost and break-up value. The break-up value of these securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. A decline in the carrying value is charged to the unconsolidated profit and loss account. A subsequent increase in the carrying value, up to the cost of the investment, is credited to the unconsolidated profit and loss account. Investments in other unquoted securities are valued at cost less impairment, if any.

Provision for diminution in the value of securities (except term finance certificates and sukuks) is made for impairment, if any. Provision for diminution in the value of term finance certificates and sukuks is made as per the ageing criteria prescribed by the Prudential Regulations issued by the SBP.

Available-for-sale listed equity investments are impaired when there has been a significant or prolonged decline in their fair value below their cost. The determination of what is significant or prolonged requires judgment. In making this judgement, the Bank evaluates, among other factors, the normal level of volatility in a share price.

**Investment in subsidiary**

Investment in subsidiary is valued at cost less accumulated impairment, if any. A reversal of an impairment loss on subsidiary is recognized as it arises provided the increased carrying value does not exceed cost.

## 4.6 Advances

Advances are stated net of specific and general provisions. The specific and general provisions for advances are made in accordance with the requirements of Prudential Regulations and other directives issued by the State Bank of Pakistan and are charged to the unconsolidated profit and loss account. Non-performing loans and advances in respect of which the Bank does not expect any recoveries in future years are written off.

Leases, where the Bank transfers substantially all the risks and rewards incidental to the ownership of an asset are classified as finance leases. A receivable is recognized at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any. Unearned finance income is recognized over the term of the lease, so as to produce a constant periodic return on the outstanding net investment in lease. Finance lease receivables are included in advances to the customers.

The Bank provides Islamic financing and related assets mainly through Ijarah, Murabaha, Diminishing Musharakah, Salam, Tijarah, Istisna, Musharakah and Export Refinance under SBP Islamic Export Refinance Scheme. The purchases and sales arising under these arrangements are not reflected in these unconsolidated financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of profit thereon. The income on such financing is recognized in accordance with the principles of Islamic Shariah. The Bank determines specific and general provision against Islamic financing and related assets in accordance with the requirements of the Prudential Regulations issued by the SBP. The net provision made / reversed during the year is charged to the unconsolidated profit and loss account and accumulated provision is netted off against Islamic financing and related assets. Islamic financing and related assets are written off when there is no realistic prospects of recovery.

### 4.7 Fixed assets

#### 4.7.1 Owned

Property and equipment, other than leasehold land (which is not depreciated) and capital work-in-progress, are stated at cost or revalued amount less accumulated depreciation and accumulated impairment losses, if any. Land is carried at revalued amount less impairment losses while capital work-in-progress is stated at cost less impairment losses, if any.

Depreciation is calculated by the Bank using the straight line method which writes down the cost of assets to their residual values over the estimated useful lives. The rates at which the assets are depreciated are disclosed in note 10.2 to these unconsolidated financial statements. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each statement of financial position date.

Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off.

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

Land and buildings are revalued by professionally qualified valuers with sufficient regularity to ensure that their net carrying value does not differ materially from their fair value. A surplus arising on revaluation is credited to the surplus on revaluation of fixed assets account. Any deficit arising on subsequent revaluation of fixed assets is adjusted against the surplus of that asset or, if no surplus exists, is charged to unconsolidated profit and loss account as an impairment of the asset. The surplus on revaluation of fixed assets, to the extent of incremental depreciation, is transferred to retained earnings.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the assets is recognized in the unconsolidated profit and loss account in the year when asset is derecognized.

#### 4.7.2 Capital work-in-progress

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

#### 4.7.3 Right-of-use assets and their related lease liability

#### 4.7.3.1 Right-of-use assets

On initial recognition, right-of-use assets are measured at an amount equal to initial lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to be incurred to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. The Bank does not apply the recognition and measurement approach of IFRS 16 for short-term leases.

Right-of-use assets are subsequently stated at cost less any accumulated depreciation / accumulated impairment losses and are adjusted for any remeasurement of lease liability. The remeasurement of lease liability will only occur in cases where the terms of the lease are changed during the lease tenor.

Right-of-use assets are depreciated on straight line basis over shorter of expected useful life or the lease term. Depreciation on additions (new leases) is charged from the month in which the leases are entered into.

#### 4.7.3.2 Lease liability against right-of-use assets

The lease liabilities are initially measured as the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Bank's incremental borrowing rate.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. The lease liability is also remeasured to reflect any reassessment or change in lease terms. These remeasurements of lease liabilities are recognised as adjustments to the carrying amount of related right-of-use assets after the date of initial recognition.

Each lease payment is allocated between a reduction of the liability and a finance cost. The finance cost is charged to the profit and loss account as mark-up expense over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

### 4.8 Intangible assets

#### 4.8.1 Intangible assets in use

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with finite lives are amortized using the straight line method at rates specified in the relevant note. Intangible assets' residual values, if significant and their useful lives are reviewed at each balance sheet date and adjusted prospectively, if appropriate, at each balance sheet date.

Amortization on additions to intangible assets is charged from the month in which an asset is acquired or capitalized while no amortization is charged for the month in which that asset is disposed off.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supported. If not, the change in useful life from indefinite to finite is made on a prospective basis.

#### 4.8.2 Capital work-in-progress

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

#### 4.8.3 Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed as an intangible asset.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is tested for impairment annually or whenever there is an indication of impairment as per the requirement of International Accounting Standard (IAS) 36, 'Impairment of Assets'. Impairment charge in respect of goodwill is recognized in the unconsolidated profit and loss account.

### 4.9 Non-banking assets acquired in satisfaction of claim

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

### 4.10 Deposits

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

Deposits under Islamic Banking operations are accepted on the basis of two modes i.e. Qard and Mudaraba.

Deposits taken on Qard basis are classified as 'Current accounts' and Deposits generated on Mudaraba basis are classified as 'Savings deposits' and 'Islamic Savings Certificate'. No profit or loss is passed on to current account depositors.

While the product features of each product differ, there is usually no restriction on withdrawals or number of transactions in current and saving accounts. In case of Islamic Savings Certificates, pre-mature withdrawals can be made as per approved terms only.

Profits realized in investment pools are distributed in pre-agreed profit sharing ratio. Rab-ul-Maal (usually Customer) share is distributed among depositors according to weightages assigned at the inception of profit calculation period. The Mudarib (Bank) can distribute its share of profit to Rab-ul-Maal as Hiba up to a specified percentage of its share in profit.

Profits are distributed from the pool and the depositors (remunerative) bear the risk of assets in the pool during the profit calculation period. In case of loss in a pool during the profit calculation period, the loss is distributed among the depositors (remunerative) according to their ratio of investments.

Asset pools are created at the Bank's discretion and the Bank can add, amend and transfer an asset to any other pool in the interests of the deposit holders.

### 4.11 Subordinated debt

Subordinated loans are initially recorded at the amount of proceeds received. Mark-up accrued on subordinated loans is recognized separately as part of other liabilities and is charged to the unconsolidated profit and loss account over the period on an accrual basis.

### 4.12 Remuneration framework

In accordance with Guidelines on Remuneration Practices, the Bank has developed a comprehensive remuneration framework. The aim of this framework is to promote an effective risk management culture, and to ensure that the remuneration practice at the Bank is in line with the Bank's objectives taking into consideration all risks that the Bank may face. As a result, a fair, objective, transparent and sound remuneration policy, aligned with risks and responsibilities of Financial Intermediation has been put in place. The framework was reviewed and recommended by the Board's Human Resource & Remuneration Committee (BHRRC) and approved by the Board of Directors (BoD) during the year.

### 4.13 Staff retirement benefits

#### 4.13.1 Defined contribution plan

The Bank operates defined contribution provident fund for all its permanent employees. Equal monthly contributions are made both by the Bank and the employees to the fund at the rate of 10% of basic salary.

#### 4.13.2 Defined benefit plan

The Bank operates a funded gratuity plan for all its permanent employees who have completed the minimum qualifying period of five years. Provision is made to meet the cost of such gratuity benefits on the basis of actuarial recommendations. The actuarial valuations are periodically carried out using the 'Projected Unit Credit Method'.

Annual contributions towards the defined benefit schemes are made on the basis of actuarial valuation carried out using the Projected Unit Credit Method.

The Bank follows International Accounting Standard (IAS) 19, 'Employee Benefits'. Actuarial gains and losses are recognized in unconsolidated other comprehensive income (OCI) in the periods in which they occur. Amounts recorded in the unconsolidated profit and loss account are limited to current and past service costs, gains or losses on settlements, and net interest income / expense. All other changes in the net defined benefit obligation are recognized directly in other comprehensive income with no subsequent recycling through the unconsolidated profit and loss account.

#### 4.13.3 Employees' compensated absences

The Bank provides its liability towards compensated absences accumulated by its employees on the basis of actuarial valuation carried out using the Projected Unit Credit Method as per the requirements given in International Accounting Standard (IAS) 19, 'Employee Benefits'. Actuarial gains and losses are credited or charged to the unconsolidated profit and loss account in the year in which they occur.

### 4.14 Foreign currencies

**Foreign currency transactions**

Transactions in foreign currencies are translated into rupees at the exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupees terms at the rates of exchange ruling on the unconsolidated statement of financial position date. Forward foreign exchange contracts are valued at forward rates determined with reference to their respective maturities.

**Translation gains and losses**

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

### 4.15 Revenue recognition

- Mark-up income / interest on advances and return on investments are recognized on a time proportion basis using the effective yield on the arrangement / instrument except that mark-up / return on non-performing advances and investments are recognized on receipt basis. Interest / return / mark-up on rescheduled / restructured advances and investments is recognized as permitted by the SBP except where in the opinion of the management it would not be prudent to do so.

- Income from lease financing is accounted for using the financing method. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Gains / losses on termination of lease contracts are recognized as income when these are realized.

- Fee, commission and brokerage income is recognized upon performance of obligations. Fees for ongoing account management are charged to the customer's account on monthly basis. Transaction based fees are charged to the customer's account when transaction takes place.

- Dividend income from investments is recognized when the Bank's right to receive the dividend is established.

- Premium or discount on acquisition of investments is amortized using the effective yield method and taken to unconsolidated profit and loss account over the remaining maturity of the security.

- Gains and losses on disposal of investments and certain operating fixed assets are taken to the unconsolidated profit and loss account in the year in which they arise.

- Ijarah income is recognized on an accrual basis as and when the rentals become due.

- Profits on Bai Muajjal lendings are recognized on a straight-line basis.

- Murabaha income is recognized on deferred income basis.

### 4.16 Taxation

**Current**

The charge for current taxation is based on taxable income at the current rate of taxation after taking into account applicable tax credit, rebates and exemptions available, if any, or minimum tax on turnover, whichever is higher.

**Prior years**

The taxation charge for prior years represents adjustments to the tax charge relating to prior years, arising from assessments / changes in laws and changes in estimates made during the current year.

**Deferred**

Deferred tax is recognized on all major temporary differences, tax credits and unused tax losses at the unconsolidated statement of financial position date between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is calculated at the rates that are expected to apply to the periods when the differences will reverse, based on tax rates that have been enacted or substantially enacted at the unconsolidated statement of financial position date.

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

The Bank also recognizes deferred tax asset / liability on deficit / surplus on revaluation of assets which is adjusted against related deficit / surplus in accordance with the requirements of the International Accounting Standard (IAS) 12 'Income Taxes'.

### 4.17 Impairment

The carrying amounts of assets are reviewed at each statement of financial position date for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The resulting impairment loss is taken to the unconsolidated profit and loss account.

### 4.18 Other provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each unconsolidated statement of financial position date and are adjusted to reflect the current best estimate.

### 4.19 Off setting

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

### 4.20 Acceptances

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

### 4.21 Financial instruments

#### Financial Assets and Liabilities

Financial instruments carried on the unconsolidated statement of financial position include cash and bank balances, lendings to financial institutions, investments, advances, certain other receivables, borrowings from financial institutions, deposits and certain other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them. Financial assets are de-recognized when the contractual right to future cash flows from the asset expire or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognized when obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liabilities is recognized in the unconsolidated profit and loss account of the current period.

#### Derivative financial instruments

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

### 4.22 Earnings per share

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

### 4.23 Segment reporting

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

#### 4.23.1 Business segments

**Corporate finance**

This includes underwriting, securitization, investment banking, syndications, IPO related activities (excluding investments) and secondary private placements.

**Trading and sales**

This segment undertakes the Bank's treasury, money market and capital market activities.

**Branch banking**

This includes loans, deposits and other banking services to retail, individual customers, agriculture, SME and commercial customers of the Bank.

**Islamic banking**

This segment pertains to full scale Islamic Banking operations of the Bank.

**Others**

This includes the head office related activities, and all other activities not tagged to the segment above.

#### 4.23.2 Geographical segments

The Bank conducts all its operations in Pakistan.

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | ------- (Rupees in '000) ------- | |
| **5. CASH AND BALANCES WITH TREASURY BANKS** | | | |
| **In hand** | | | |
| Local currency | | **2,918,520** | 2,699,662 |
| Foreign currency | | **375,536** | 190,719 |
| | | **3,294,056** | 2,890,381 |
| **With State Bank of Pakistan in** | | | |
| Local currency current account | ***5.1*** | **961,761** | 1,011,453 |
| Foreign currency current account | ***5.2*** | **370,395** | 302,719 |
| Foreign currency deposit account | ***5.3*** | **146,827** | 125,904 |
| | | **1,478,983** | 1,440,076 |
| With National Bank of Pakistan in Local currency current account | | **789,312** | 703,743 |
| Prize bonds | | **51,205** | 8,889 |
| | | **5,613,556** | 5,043,089 |

**5.1** These represent current accounts maintained under the Cash Reserve Requirement of the SBP.

**5.2** These represent foreign currency current accounts maintained under the Cash Reserve Requirement and Special Cash Reserve Requirement of the SBP.

**5.3** These represent deposit accounts maintained under Special Cash Reserve requirement of the SBP and a US Dollar Settlement account maintained with SBP. These carry mark up at rates ranging from 0.00% to 1.51% (2018: 0.00% to 1.35%) per annum.

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | ------- (Rupees in '000) ------- | |
| **6. BALANCES WITH OTHER BANKS** | | | |
| **In Pakistan** | | | |
| In current account | | **31,308** | 20,475 |
| In deposit account | ***6.1*** | **76,337** | 92,365 |
| | | **107,645** | 112,840 |
| **Outside Pakistan** | | | |
| In current account | | **247,906** | 368,270 |
| In deposit account | ***6.2*** | **575,259** | 515,872 |
| | | **823,165** | 884,142 |
| | | **930,810** | 996,982 |

**6.1** These represent placements with correspondent banks, carrying interest rate determined with respect to underlying currency benchmark rates ranging from 4.14% to 11.40% per annum (2018: 4.20% to 8.10% per annum).

**6.2** These represent placements with correspondent banks, carrying interest rate determined with respect to underlying currency benchmark rates ranging from 0.00 % to 4.00 % per annum (2018: 0.00 % to 3.75 % per annum).

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | ------- (Rupees in '000) ------- | |
| **7. LENDINGS TO FINANCIAL INSTITUTIONS** | | | |
| Call money lending | 7.3 | 200,000 | - |
| Repurchase agreement lendings (Reverse Repo) | 7.4 | 791,272 | - |
| | | 991,272 | - |
| Less: provision held against Lendings to Financial Institutions | | - | - |
| Lendings to Financial Institutions - net of provision | | 991,272 | - |

**7.1 Particulars of lending**

| | 2019 | 2018 |
|---|---|---|
| In local currency | 991,272 | - |
| In foreign currencies | - | - |
| | 991,272 | - |

**7.2 Securities held as collateral against Lendings to Financial Institutions**

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Held by bank | Further given as collateral | Total | Held by bank | Further given as collateral | Total |
| | ---------- (Rupees in '000) ---------- | | | | | |
| Market Treasury Bills | 791,272 | - | 791,272 | - | - | - |

**7.2.1** The market value of securities held as collateral against repurchase agreement lendings amounted to Rs. 791.836 million (2018: Nil).

**7.3** This represents call money lending to a financial institution at mark-up rate of 9.00% (2018: Nil) per annum and is due to mature by January 2020.

**7.4** This represents lending against securities to a financial institution at mark-up rate of 13.00% (2018: Nil) per annum and is due to mature by January 2020.

## 8 INVESTMENTS

### 8.1 Investments by type:

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost / amortised cost | Provision for diminution | Surplus / (Deficit) | Carrying value | Cost / amortised cost | Provision for diminution | Surplus / (Deficit) | Carrying value |
| | (Rupees in '000) | | | | | | | |
| **Held-for-trading securities** | | | | | | | | |
| Shares | **5,850** | **-** | **(308)** | **5,542** | - | - | - | - |
| **Available-for-sale securities** | | | | | | | | |
| **Federal Government Securities** | | | | | | | | |
| - Market Treasury Bills | **3,050,459** | **-** | **13,210** | **3,063,669** | 1,377,071 | - | 29 | 1,377,100 |
| - Pakistan Investment Bonds | **15,551,796** | **-** | **(563,399)** | **14,988,397** | 13,969,584 | - | (1,233,323) | 12,736,261 |
| - GoP Ijarah Sukuks | **1,600,000** | **-** | **(16,000)** | **1,584,000** | 2,250,000 | - | (40,275) | 2,209,725 |
| **Shares** | | | | | | | | |
| - Fully paid up ordinary shares - Listed | **4,147,681** | **(2,801,965)** | **479,726** | **1,825,442** | 4,147,681 | (1,947,196) | (402,628) | 1,797,857 |
| - Fully paid up ordinary shares - Unlisted | **2,830** | **(1,000)** | **-** | **1,830** | 2,830 | (1,000) | - | 1,830 |
| - Preference shares - Unlisted | **46,035** | **-** | **-** | **46,035** | 46,035 | - | - | 46,035 |
| **Non Government Debt Securities** | | | | | | | | |
| - Term Finance Certificates | **1,600,350** | **(1,437,765)** | **-** | **162,585** | 1,611,998 | (1,008,500) | - | 603,498 |
| - Sukuk Bonds | **200,000** | **(200,000)** | **-** | **-** | 402,070 | (200,000) | - | 202,070 |
| | **26,199,151** | **(4,440,730)** | **(86,463)** | **21,671,958** | 23,807,269 | (3,156,696) | (1,676,197) | 18,974,376 |
| **Subsidiary (note no. 8.1.1)** | **396,942** | **(114,943)** | **-** | **281,999** | 396,942 | (114,943) | - | 281,999 |
| **Total Investments** | **26,601,943** | **(4,555,673)** | **(86,771)** | **21,959,499** | 24,204,211 | (3,271,639) | (1,676,197) | 19,256,375 |

### 8.1.1 Particulars of assets and liabilities of subsidiary

| | 2019 | 2018 |
|---|---|---|
| | ----- (Rupees in '000) ----- | |
| Percentage of holding: 100% (2018: 100%) | | |
| Country of incorporation: Pakistan | | |
| Assets | **347,585** | 394,726 |
| Liabilities | **93,019** | 103,611 |
| Revenue | **68,963** | 79,706 |
| Loss after tax | **(36,299)** | (22,372) |
| Total comprehensive loss | **(19,463)** | (4,706) |

### 8.2 Investments by segments:

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost / amortised cost | Provision for diminution | Surplus / (Deficit) | Carrying value | Cost / amortised cost | Provision for diminution | Surplus / (Deficit) | Carrying value |
| | (Rupees in '000) | | | | | | | |
| **Federal Government Securities** | | | | | | | | |
| Market Treasury Bills | **3,050,459** | **-** | **13,210** | **3,063,669** | 1,377,071 | - | 29 | 1,377,100 |
| Pakistan Investment Bonds | **15,551,796** | **-** | **(563,399)** | **14,988,397** | 13,969,584 | - | (1,233,323) | 12,736,261 |
| GoP Ijarah Sukuks | **1,600,000** | **-** | **(16,000)** | **1,584,000** | 2,250,000 | - | (40,275) | 2,209,725 |
| | **20,202,225** | **-** | **(566,189)** | **19,636,066** | 17,596,655 | - | (1,273,569) | 16,323,086 |
| **Shares** | | | | | | | | |
| Listed Companies | **4,153,531** | **(2,801,965)** | **479,418** | **1,830,984** | 4,147,681 | (1,947,196) | (402,628) | 1,797,857 |
| Unlisted Companies | **48,865** | **(1,000)** | **-** | **47,865** | 48,865 | (1,000) | - | 47,865 |
| | **4,202,396** | **(2,802,965)** | **479,418** | **1,878,849** | 4,196,546 | (1,948,196) | (402,628) | 1,845,722 |
| **Non Government Debt Securities** | | | | | | | | |
| Listed | **14,016** | **(14,016)** | **-** | **-** | 17,266 | (17,266) | - | - |
| Unlisted | **1,786,334** | **(1,623,749)** | **-** | **162,585** | 1,996,802 | (1,191,234) | - | 805,568 |
| | **1,800,350** | **(1,637,765)** | **-** | **162,585** | 2,014,068 | (1,208,500) | - | 805,568 |
| **Subsidiary** | | | | | | | | |
| Summit Capital (Private) Limited | **396,942** | **(114,943)** | **-** | **281,999** | 396,942 | (114,943) | - | 281,999 |
| **Total Investments** | **26,601,943** | **(4,555,673)** | **(86,771)** | **21,959,499** | 24,204,211 | (3,271,639) | (1,676,197) | 19,256,375 |

| | | 2019 | 2018 |
|---|---|---|---|
| | | -------- (Rupees in '000) -------- | |
| **8.2.1** | **Investments given as collateral - Market Value** | | |
| | Pakistan Investment Bonds | **5,443,670** | 8,190,815 |
| | GoP Ijarah Sukuks | **-** | 2,209,725 |
| | Ordinary shares - Listed | **-** | 1,718,824 |
| | | **5,443,670** | 12,119,364 |
| **8.3** | **Provision for diminution in value of investments** | | |
| **8.3.1** | Opening balance | **3,271,639** | 2,177,965 |
| | Charge / reversals | | |
| | Charge for the year | **1,287,284** | 1,120,666 |
| | Reversals for the year | **(3,250)** | (26,992) |
| | | **1,284,034** | 1,093,674 |
| | Closing balance | **4,555,673** | 3,271,639 |

**8.3.2 Particulars of provision against debt securities**

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | NPI | Provision | NPI | Provision |
| **Category of classification** | ---------- (Rupees in '000) ---------- | | | |
| **Domestic** | | | | |
| Doubtful | **281,567** | **118,982** | - | - |
| Loss | **1,518,783** | **1,518,783** | 1,522,034 | 1,208,500 |
| | **1,800,350** | **1,637,765** | 1,522,034 | 1,208,500 |

**8.3.3** Pursuant to the applicable Prudential Regulations, the Bank has availed the Forced Sale Value (FSV) benefit of securities / collaterals held against a non-performing investment. Had this FSV benefit not been availed by the Bank, the specific provision against investments would have been higher by Rs. 21.802 million (2018: Rs. 313.534 million). This has a net of tax positive impact of Rs. 14.171 million (2018: Rs. 203.797 million) on the profit and loss account. As per the applicable Prudential Regulations, the positive impact of FSV benefit is not available for distribution either as cash or stock dividend to shareholders and bonus to employees.

## 8.4 Quality of Available for Sale Securities

Details regarding quality of Available for Sale (AFS) securities are as follows:

| | Cost | |
|---|---|---|
| | 2019 | 2018 |
| | ------- (Rupees in '000) ------- | |
| **8.4.1 Federal Government Securities - Government guaranteed** | | |
| Market Treasury Bills | **3,050,459** | 1,377,071 |
| Pakistan Investment Bonds | **15,551,796** | 13,969,584 |
| GoP Ijarah Sukuks | **1,600,000** | 2,250,000 |
| | **20,202,255** | 17,596,655 |
| **8.4.2 Shares** | | |
| **Listed Companies** | | |
| - Cement | **1,444,470** | 1,444,470 |
| - Commercial banks | **440,566** | 440,566 |
| - Cable and electrical goods | **7,170** | 7,170 |
| - Chemical | **1,192,904** | 1,192,904 |
| - Engineering | **260,555** | 260,555 |
| - Glass and ceramics | **487,038** | 487,038 |
| - Investment Banks / Investment Companies / Securities Companies | **90,067** | 90,067 |
| - Power generation and distribution | **124,179** | 124,179 |
| - Technology and communication | **61,304** | 61,304 |
| - Transport | **39,428** | 39,428 |
| | **4,147,681** | 4,147,681 |
| **Preference Shares** | | |
| - Sugar and allied industries | **46,035** | 46,035 |

| **Unlisted Companies** | **Breakup Value as at** | **2019** | | **2018** | |
|---|---|---|---|---|---|
| | | **Cost** | **Breakup value** | **Cost** | **Breakup value** |
| | | ---------- (Rupees in '000) ---------- | | | |
| Arabian Sea Country Club Ltd. | June 30, 2018 | **1,000** | **(1,022)** | 1,000 | (591) |
| Pakistan Mortgage Refinance Company Ltd. | December 31, 2019 | **1,830** | **2,349** | 1,830 | 1,857 |
| | | **2,830** | **1,327** | 2,830 | 1,266 |

### 8.4.3 Non Government Debt Securities

| | Cost | |
|---|---|---|
| | 2019 | 2018 |
| | ------ (Rupees in '000) ------ | |
| **Listed** | | |
| - Unrated | **14,016** | 17,266 |
| **Unlisted** | | |
| - A+, A, A- | **-** | 202,070 |
| - Unrated | **1,786,334** | 1,794,732 |
| | **1,786,334** | 1,996,802 |

## 9. ADVANCES

| | Note | Performing | | Non Performing | | Total | |
|---|---|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | | ---------- (Rupees in '000) ---------- | | | | | |
| Loans, cash credits, running finances, etc. | 9.1 | **27,027,711** | 39,212,961 | **39,955,184** | 35,141,957 | **66,982,895** | 74,354,918 |
| Islamic financing and related assets | 9.2 | **3,767,335** | 5,875,686 | **809,541** | 882,663 | **4,576,876** | 6,758,349 |
| Bills discounted and purchased | | **549,377** | 1,635,173 | **77,089** | 47,089 | **626,466** | 1,682,262 |
| Advances - gross | | **31,344,423** | 46,723,820 | **40,841,814** | 36,071,709 | **72,186,237** | 82,795,529 |
| Provision against advances | | | | | | | |
| - Specific | | **-** | - | **(28,903,404)** | (21,502,664) | **(28,903,404)** | (21,502,664) |
| - General | | **(40,508)** | (46,988) | **-** | - | **(40,508)** | (46,988) |
| | | **(40,508)** | (46,988) | **(28,903,404)** | (21,502,664) | **(28,943,912)** | (21,549,652) |
| Advances - net of provision | | **31,303,915** | 46,676,832 | **11,938,410** | 14,569,045 | **43,242,325** | 61,245,877 |

**9.1** Includes Net Investment in finance lease as disclosed below:

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Not later than one year | Later than one and less than five years | Over five years | Total | Not later than one year | Later than one and less than five years | Over five years | Total |
| | ---------- (Rupees in '000) ---------- | | | | | | | |
| Lease rentals receivable | **247,490** | **441,188** | **-** | **688,678** | 442,465 | 596,316 | - | 1,038,781 |
| Residual value | **163,803** | **150,816** | **-** | **314,619** | 234,280 | 196,809 | - | 431,089 |
| Minimum lease payments | **411,293** | **592,004** | **-** | **1,003,297** | 676,745 | 793,125 | - | 1,469,870 |
| Financial charges for future periods | **(39,022)** | **(86,809)** | **-** | **(125,831)** | (52,704) | (99,624) | - | (152,328) |
| Present value of minimum lease payments | **372,271** | **505,195** | **-** | **877,466** | 624,041 | 693,501 | - | 1,317,542 |

**9.2** This represents Islamic financing and related assets placed under Shariah permissible modes and are presented in Annexure - II to these unconsolidated financial statements.

| **9.3 Particulars of advances (Gross)** | 2019 | 2018 |
|---|---|---|
| | --------- (Rupees in '000) --------- | |
| In local currency | **71,880,922** | 81,171,315 |
| In foreign currencies | **305,315** | 1,624,214 |
| | **72,186,237** | 82,795,529 |

**9.4** Advances include Rs. 40,841.814 million (2018: Rs. 36,071.709 million) which have been placed under non-performing status as detailed below:

| Category of Classification | 2019 | | 2018 | |
|---|---|---|---|---|
| | Non Performing Loans | Provision | Non Performing Loans | Provision |
| | (Rupees in '000) | | | |
| **Domestic** | | | | |
| Other Assets Especially Mentioned | **8,963** | **873** | 505,380 | 721 |
| Substandard | **2,057,443** | **339,271** | 5,479,696 | 460,682 |
| Doubtful | **1,668,552** | **109,872** | 7,709,088 | 1,609,889 |
| Loss | **37,106,856** | **28,453,388** | 22,377,545 | 19,431,372 |
| | **40,841,814** | **28,903,404** | 36,071,709 | 21,502,664 |

**9.5 Particulars of provision against advances**

| | Note | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | | Specific | General | Total | Specific | General | Total |
| | | (Rupees in '000) | | | | | |
| Opening balance | | **21,502,664** | **46,988** | **21,549,652** | 14,909,014 | 30,250 | 14,939,264 |
| Charge for the year | | **8,222,910** | **-** | **8,222,910** | 7,247,738 | 16,738 | 7,264,476 |
| Reversals | | **(819,338)** | **(6,480)** | **(825,818)** | (622,642) | - | (622,642) |
| | | **7,403,572** | **(6,480)** | **7,397,092** | 6,625,096 | 16,738 | 6,641,834 |
| Amounts written off | **9.6** | **(2,832)** | **-** | **(2,832)** | (31,446) | - | (31,446) |
| Closing balance | | **28,903,404** | **40,508** | **28,943,912** | 21,502,664 | 46,988 | 21,549,652 |

**9.5.1 Particulars of provision against advances**

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Specific | General | Total | Specific | General | Total |
| | (Rupees in '000) | | | | | |
| In local currency | **28,889,686** | **40,508** | **28,930,194** | 21,488,946 | 46,988 | 21,535,934 |
| In foreign currencies | **13,718** | **-** | **13,718** | 13,718 | - | 13,718 |
| | **28,903,404** | **40,508** | **28,943,912** | 21,502,664 | 46,988 | 21,549,652 |

**9.5.2** The general provision against consumer financing is required to be maintained at varying percentages based on the non-performing loan ratio present in the portfolio. These percentages ranges from 1% to 2.5% for secured and 4% to 7% for unsecured portfolio. Further, general provision against Small Enterprise Finance represents provision maintained at an amount equal to 1% of unsecured performing portfolio.

The Bank has availed the Forced Sale Value (FSV) benefit of pledged stocks, mortgaged properties, plant and machinery, shares and Cash Margin / TDRs held as collateral against non-performing advances as allowed under the applicable Prudential Regulations issued by the State Bank of Pakistan. Had the benefit not been taken by the Bank, the specific provision against non-performing advances would have been higher by Rs. 9,347.484 million (2018: Rs. 5,944.384 million). The positive impact on the profit and loss account arising from availing this benefit - net of tax amounts to Rs. 6,075.865 million (2018: Rs. 3,863.850 million). As per the applicable Prudential Regulations, the positive impact of FSV benefit is not available for distribution either as cash or stock dividend to shareholders and bonus to employees.

**9.5.3** The SBP has granted relaxation in provisioning requirements in respect of exposure in Dewan Group. Had this relaxation not been available, provision against loans and advances would have been higher by Rs. 205.502 million (2018: Rs. 205.502 million).

| | | Note | 2019 | 2018 |
|---|---|---|---|---|
| **9.6** | **PARTICULARS OF WRITE OFFs:** | | -------- (Rupees in '000) -------- | |
| **9.6.1** | Against Provisions | ***9.5*** | **2,832** | 31,446 |
| | Directly charged to profit and loss account | ***30*** | **89** | 3,688 |
| | | | **2,921** | 35,134 |
| **9.6.2** | Write Offs of Rs. 500,000 and above | | | |
| | - Domestic | ***9.7*** | **1,641** | 30,980 |
| | Write Offs of below Rs. 500,000 | | **1,280** | 4,154 |
| | | | **2,921** | 35,134 |

## 9.7 DETAILS OF LOAN WRITE OFF OF Rs. 500,000/- AND ABOVE

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 the Statement in respect of written-off loans or any other financial relief of rupees five hundred thousand or above allowed to a person(s) during the year ended December 31, 2019 is given in Annexure - I.

| | | Note | 2019 | 2018 |
|---|---|---|---|---|
| **10** | **FIXED ASSETS** | | -------- (Rupees in '000) -------- | |
| | Capital work-in-progress | ***10.1*** | **70,864** | 393,222 |
| | Property and equipment | ***10.2*** | **8,016,446** | 8,315,656 |
| | Right-of-use assets | ***10.3*** | **2,093,656** | - |
| | | | **10,180,966** | 8,708,878 |

## 10.1 Capital work-in-progress

| | | |
|---|---|---|
| Civil works and related payments / progress billings | **66,238** | 388,198 |
| Advances and other payments to suppliers and contractors | **4,626** | 5,024 |
| Advances and other payments against capital work in progress considered doubtful | **1,158,340** | 1,158,340 |
| Less: Provision held there against | **(1,158,340)** | (1,158,340) |
| | **-** | - |
| | **70,864** | 393,222 |

## 10.2 Property and Equipment

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Leasehold land | Building on leasehold land | Building improvements | Furniture and fixture | Electrical, office and computer equipment | Vehicles | Total |
| | (Rupees in '000) | | | | | | |
| **At January 01, 2019** | | | | | | | |
| Cost / Revalued amount | 1,672,965 | 8,343,547 | 1,551,075 | 502,845 | 2,003,547 | 170,005 | 14,243,984 |
| Accumulated depreciation / impairment | (5,670) | (2,889,093) | (1,081,206) | (363,227) | (1,472,208) | (116,924) | (5,928,328) |
| Net book value | 1,667,295 | 5,454,454 | 469,869 | 139,618 | 531,339 | 53,081 | 8,315,656 |
| **Year ended December 31, 2019** | | | | | | | |
| Opening net book value | 1,667,295 | 5,454,454 | 469,869 | 139,618 | 531,339 | 53,081 | 8,315,656 |
| Additions | - | - | 296,864 | 68,811 | 113,102 | - | 478,777 |
| Movement in surplus on assets revalued during the year | - | - | - | - | - | - | - |
| Transferred out to other assets | - | - | - | - | - | - | - |
| **Disposals** | | | | | | | |
| Cost | (203,695) | (20,678) | (14,811) | (76) | (36,367) | (28,231) | (303,858) |
| Accumulated depreciation | - | 9,838 | 12,667 | 53 | 30,491 | 24,905 | 77,954 |
| **Write off** | | | | | | | |
| Cost | - | - | - | - | (721) | - | (721) |
| Accumulated depreciation | - | - | - | - | 708 | - | 708 |
| Depreciation charge | - | (162,389) | (133,943) | (33,930) | (202,927) | (18,881) | (552,070) |
| Closing net book value | 1,463,600 | 5,281,225 | 630,646 | 174,476 | 435,625 | 30,874 | 8,016,446 |
| **At December 31, 2019** | | | | | | | |
| Cost / Revalued amount | 1,469,270 | 8,322,869 | 1,833,128 | 571,580 | 2,079,561 | 141,774 | 14,418,182 |
| Accumulated depreciation / impairment | (5,670) | (3,041,644) | (1,202,482) | (397,104) | (1,643,936) | (110,900) | (6,401,736) |
| Net book value | 1,463,600 | 5,281,225 | 630,646 | 174,476 | 435,625 | 30,874 | 8,016,446 |
| Rate of depreciation (percentage) | - | 2.5 - 5 | 10 | 10 - 15 | 20 - 30 | 20 | |

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Leasehold land | Building on leasehold land | Building improvements | Furniture and fixture | Electrical, office and computer equipment | Vehicles | Total |
| | ---------- (Rupees in '000) ---------- | | | | | | |
| **At January 01, 2018** | | | | | | | |
| Cost / Revalued amount | 3,041,716 | 5,691,705 | 1,659,105 | 496,683 | 1,893,295 | 172,205 | 12,954,709 |
| Accumulated depreciation / impairment | (5,670) | (2,621,464) | (1,020,740) | (336,145) | (1,341,399) | (95,628) | (5,421,046) |
| Net book value | 3,036,046 | 3,070,241 | 638,365 | 160,538 | 551,896 | 76,577 | 7,533,663 |
| **Year ended December 31, 2018** | | | | | | | |
| Opening net book value | 3,036,046 | 3,070,241 | 638,365 | 160,538 | 551,896 | 76,577 | 7,533,663 |
| Additions | 176 | 791,906 | 9,416 | 22,843 | 187,545 | - | 1,011,886 |
| Movement in surplus on assets revalued during the year | 669,069 | 1,859,936 | - | - | - | - | 2,529,005 |
| Transferred out to other assets | (2,037,996) | - | - | - | - | - | (2,037,996) |
| **Disposals** | | | | | | | |
| Cost | - | - | (111,493) | (15,860) | (77,293) | (2,200) | (206,846) |
| Accumulated depreciation | - | - | 89,917 | 12,654 | 71,431 | 2,200 | 176,202 |
| **Write off** | | | | | | | |
| Cost | - | - | (5,953) | (821) | - | - | (6,774) |
| Accumulated depreciation | - | - | 3,243 | 470 | - | - | 3,713 |
| Depreciation charge | - | (267,629) | (153,626) | (40,206) | (202,240) | (23,496) | (687,197) |
| Closing net book value | 1,667,295 | 5,454,454 | 469,869 | 139,618 | 531,339 | 53,081 | 8,315,656 |
| **At December 31, 2018** | | | | | | | |
| Cost / Revalued amount | 1,672,965 | 8,343,547 | 1,551,075 | 502,845 | 2,003,547 | 170,005 | 14,243,984 |
| Accumulated depreciation / impairment | (5,670) | (2,889,093) | (1,081,206) | (363,227) | (1,472,208) | (116,924) | (5,928,328) |
| Net book value | 1,667,295 | 5,454,454 | 469,869 | 139,618 | 531,339 | 53,081 | 8,315,656 |
| Rate of depreciation (percentage) | - | 5 | 10 | 10 - 15 | 20 - 30 | 20 | |

**10.2.1** The cost of fully depreciated fixed assets still in use amounts to Rs. 1,982.818 million (2018: Rs. 1,464.526 million).

**10.2.2** The carrying amount of idle properties amounts to Rs. 306.826 million (2018: Rs. 436.171 million).

**10.2.3** The properties of the Bank were last revalued by independent professional valuer as at December 31, 2018. The revaluation was carried out by M/s. Sadruddin Associates on the basis of professional assessment of the present market values. This revaluation had resulted in an increase in surplus by Rs. 2,529.005 million. The total surplus arising against revaluation of fixed assets as at December 31, 2019 amounts to Rs 3,568.007 million.

Had there been no revaluation, the carrying value of revalued assets would have been as follows:

| | 2019 | 2018 |
|---|---|---|
| | Carrying value at cost model | |
| | ------ (Rupees in '000) ------ | |
| Leasehold land | **827,958** | 993,272 |
| Buildings on leasehold land | **2,351,851** | 2,428,761 |
| Buildings improvements | **627,655** | 456,631 |

**10.2.4** Sale of fixed assets to related parties are disclosed below:

| Particulars of assets | Cost | Net book value | Sale price | Mode of disposal | Particulars of purchaser |
|---|---|---|---|---|---|
| | ---------- (Rupees in '000) ---------- | | | | |
| Laptop | 115 | 38 | 40 | Buy Back - As Per Policy | Mr. Imran Ahmed (ex-employee) |
| Laptop | 66 | 44 | 44 | Buy Back - As Per Policy | Mr. Faisal Shaikha (ex-employee) |
| Laptop | 53 | - | 6 | Buy Back - As Per Policy | Mr. Habib Ur Rehman Khan (ex-employee) |

**10.3** This has arisen due to adoption of IFRS 16 as detailed in note 4.1.1. Depreciation expense on right-of-use assets during the year is Rs. 531.200 million. Movement in right-of-use assets is as follows:

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | ------- (Rupees in '000) ------- | |
| Effect of initial application of IFRS 16 as at January 01, 2019 | | **2,207,128** | - |
| Additions | | **417,728** | - |
| Depreciation charge | ***28*** | **(531,200)** | - |
| Closing net book value | | **2,093,656** | - |

## 11. INTANGIBLE ASSETS

| | | | |
|---|---|---|---|
| Capital work-in-progress | ***11.1*** | **47,187** | 53,488 |
| Intangible assets in use | ***11.2*** | **101,370** | 151,424 |
| | | **148,557** | 204,912 |

### 11.1 Capital work-in-progress

| | | |
|---|---|---|
| Advances to suppliers and contractors | **47,187** | 53,488 |
| Advances against capital work in progress considered doubtful | **141,224** | 141,224 |
| Less: Provision held there against | **(141,224)** | (141,224) |
| | **-** | - |
| | **47,187** | 53,488 |

11.2 Intangible assets in use

| | 2019 | | | |
|---|---|---|---|---|
| | Computer softwares | Core deposits | Brand name | Total |
| | (Rupees in 000) | | | |
| **At January 01, 2019** | | | | |
| Cost | 475,368 | 209,874 | 143,838 | 829,080 |
| Accumulated amortisation and impairment | (401,851) | (164,340) | (111,465) | (677,656) |
| Net book value | 73,517 | 45,534 | 32,373 | 151,424 |
| **Year ended December 31, 2019** | | | | |
| Opening net book value | 73,517 | 45,534 | 32,373 | 151,424 |
| Additions: | | | | |
| - directly purchased | 12,115 | - | - | 12,115 |
| Amortisation charge | (26,798) | (20,987) | (14,384) | (62,169) |
| Closing net book value | 58,834 | 24,547 | 17,989 | 101,370 |
| **At December 31, 2019** | | | | |
| Cost | 487,483 | 209,874 | 143,838 | 841,195 |
| Accumulated amortisation and impairment | (428,649) | (185,327) | (125,849) | (739,825) |
| Net book value | 58,834 | 24,547 | 17,989 | 101,370 |
| Rate of amortisation (percentage) | 20 | 10 | 10 | |
| Useful life (years) | 5 | 10 | 10 | |

| | 2018 | | | |
|---|---|---|---|---|
| | Computer softwares | Core deposits | Brand name | Total |
| | (Rupees in 000) | | | |
| **At January 01, 2018** | | | | |
| Cost | 460,396 | 209,874 | 143,838 | 814,108 |
| Accumulated amortisation and impairment | (376,036) | (143,353) | (97,079) | (616,468) |
| Net book value | 84,360 | 66,521 | 46,759 | 197,640 |
| **Year ended December 31, 2018** | | | | |
| Opening net book value | 84,360 | 66,521 | 46,759 | 197,640 |
| Additions: | | | | |
| - directly purchased | 14,972 | - | - | 14,972 |
| Amortisation charge | (25,815) | (20,987) | (14,386) | (61,188) |
| Closing net book value | 73,517 | 45,534 | 32,373 | 151,424 |
| **At December 31, 2018** | | | | |
| Cost | 475,368 | 209,874 | 143,838 | 829,080 |
| Accumulated amortisation and impairment | (401,851) | (164,340) | (111,465) | (677,656) |
| Net book value | 73,517 | 45,534 | 32,373 | 151,424 |
| Rate of amortisation (percentage) | 20 | 10 | 10 | |
| Useful life (years) | 5 | 10 | 10 | |

11.2.1 The cost of fully amortised intangible assets still in use amounts to Rs. 354.350 million (2018: Rs. 337.933 million).

## 12. DEFERRED TAX ASSETS

| | 2019 | | | |
|---|---|---|---|---|
| | At January 01, 2019 | Recognised in profit and loss account | Recognised in other comprehensive income | At December 31, 2019 |
| | (Rupees in '000) | | | |
| Deductible Temporary Differences on | | | | |
| - Tax losses carried forward | 3,811,924 | 2,077,380 | - | 5,889,304 |
| - Deficit on revaluation of investments | 586,669 | - | (556,407) | 30,262 |
| - Provision against advances, off balance sheet etc. | 3,433,882 | 2,392,514 | - | 5,826,396 |
| - Provision for impairment loss - Investment | 1,145,074 | 449,412 | - | 1,594,486 |
| - Provision against intangible assets | 43,107 | - | - | 43,107 |
| - Staff compensated absences | 35,380 | 2,978 | - | 38,358 |
| - Unrealised loss on HFT Portfolio | - | 108 | - | 108 |
| - Unrealized gain on forward exchange contracts | 3,078 | 1,216 | - | 4,294 |
| - Provision against other assets | 149,656 | - | - | 149,656 |
| | 9,208,770 | 4,923,608 | (556,407) | 13,575,971 |
| Taxable Temporary Differences on | | | | |
| - Surplus on revaluation of fixed assets | (1,063,624) | - | 37,299 | (1,026,325) |
| - Surplus on revaluation of property - held for sale | (406,274) | - | - | (406,274) |
| - Surplus on revaluation of non-banking assets | (141,353) | - | (14,996) | (156,349) |
| - Accelerated tax depreciation | (382,530) | 1,900 | - | (380,630) |
| | (1,993,781) | 1,900 | 22,303 | (1,969,578) |
| | 7,214,989 | 4,925,508 | (534,104) | 11,606,393 |

| | 2018 | | | |
|---|---|---|---|---|
| | At January 01, 2018 | Recognised in profit and loss account | Recognised in other comprehensive income | At December 31, 2018 |
| | (Rupees in '000) | | | |
| Deductible Temporary Differences on | | | | |
| - Tax losses carried forward | 4,103,554 | (291,630) | - | 3,811,924 |
| - Deficit on revaluation of investments | 427,094 | - | 159,575 | 586,669 |
| - Provision against advances, off balance sheet etc. | 1,309,930 | 2,123,952 | - | 3,433,882 |
| - Provision for impairment loss - Investment | 762,288 | 382,786 | - | 1,145,074 |
| - Provision against intangible assets | 43,107 | - | - | 43,107 |
| - Staff compensated absences | 36,558 | (1,178) | - | 35,380 |
| - Unrealised loss on HFT Portfolio | 5,560 | (5,560) | - | - |
| - Provision against other assets | 149,656 | - | - | 149,656 |
| | 6,837,747 | 2,208,370 | 159,575 | 9,205,692 |
| Taxable Temporary Differences on | | | | |
| - Surplus on revaluation of fixed assets | (452,385) | - | (611,239) | (1,063,624) |
| - Surplus on revaluation of property - held for sale | - | - | (406,274) | (406,274) |
| - Surplus on revaluation of non-banking assets | (151,972) | - | 10,619 | (141,353) |
| - Accelerated tax depreciation | (398,770) | 16,240 | - | (382,530) |
| - Unrealized (gain) / loss on forward exchange contracts | (30,429) | 33,507 | - | 3,078 |
| | (1,033,556) | 49,747 | (1,006,894) | (1,990,703) |
| | 5,804,191 | 2,258,117 | (847,319) | 7,214,989 |

**12.1** The net deferred tax asset has been recognized in accordance with the Bank's accounting policy. The management, based on financial projections, estimates that sufficient taxable profits would be available in future against which the deferred tax asset could be realized. The projections includes certain key assumptions underlying management's estimation of profits. Any significant change in such assumptions may have effect on the recoverability of deferred tax asset. The management believes that it is probable that the Bank would be able to achieve the profits and consequently, the deferred tax amount will be fully realized in future.

| 13. OTHER ASSETS | Note | 2019 | 2018 |
|---|---|---|---|
| | | --------- (Rupees in '000) -------- | |
| Income / mark-up accrued in local currency | | **1,325,130** | 1,631,155 |
| Income / mark-up accrued in foreign currency | | **1,768** | 2,805 |
| Advances, deposits, advance rent and other prepayments | | **294,760** | 428,590 |
| Advance taxation (payments less provisions) | | **598,129** | 570,805 |
| Non-banking assets acquired in satisfaction of claims | *13.1* | **2,749,827** | 2,802,674 |
| Branch adjustment account | | **-** | 20 |
| Receivable from other banks against clearing and settlement | | **218,053** | - |
| Mark to market gain on forward foreign exchange contracts | | **6,079** | - |
| Acceptances | | **453,864** | 1,118,180 |
| Receivable from brokers | | **-** | 5,038 |
| Stationery and stamps on hand | | **9,093** | 8,999 |
| Commission receivable on home remittance | *13.2* | **162,594** | 134,985 |
| Property - held for sale | *13.3* | **3,838,719** | 3,838,719 |
| Others | | **523,758** | 435,111 |
| | | **10,181,774** | 10,977,081 |
| Less: Provision held against other assets | *13.4* | **(587,110)** | (584,840) |
| Other assets (net of provision) | | **9,594,664** | 10,392,241 |
| Surplus on revaluation of non-banking assets acquired in satisfaction of claims | | **446,712** | 403,865 |
| Surplus on revaluation of property - held for sale | | **1,160,784** | 1,160,784 |
| Other assets - total | | **11,202,160** | 11,956,890 |

| | | | |
|---|---|---|---|
| **13.1** | Market value of non-banking assets acquired in satisfaction of claims | **3,324,489** | 3,343,789 |

Non-banking assets acquired in satisfaction of claims have been revalued by independent professional valuer as at December 31, 2019. The revaluation was carried out by M/s. Sadruddin Associates on the basis of professional assessment of present market values and resulted in an increase in surplus by Rs. 43.749 million. The total surplus arising against revaluation of non-banking assets acquired in satisfaction of claims as at December 31, 2019 amounts to Rs 446.712 million (2018: Rs. 403.865 million).

| 13.1.1 Non-banking assets acquired in satisfaction of claims | 2019 | 2018 |
|---|---|---|
| | --------- (Rupees in '000) --------- | |
| Opening balance | **2,915,992** | 4,267,296 |
| Additions | **-** | 40,000 |
| Revaluation | **43,749** | 7,335 |
| Disposals | **(10,000)** | (1,317,724) |
| Depreciation | **(43,749)** | (44,559) |
| Provision | **-** | (36,356) |
| Closing balance | **2,905,992** | 2,915,992 |

| 13.1.2 Gain on Disposal of Non-banking assets acquired in satisfaction of claims | | |
|---|---|---|
| Disposal proceeds | **10,000** | 1,589,188 |
| less | | |
| - Cost | **(11,606)** | (1,327,307) |
| - Depreciation | **1,606** | 9,583 |
| | **(10,000)** | (1,317,724) |
| Gain | **-** | 271,464 |

**13.2** This represents commission receivable from the SBP in respect of home remittances channelized through the Bank as per agreement entered into with the SBP.

**13.3** This represents a portion of the Bank's self constructed property which has been earmarked for selling in the near future. This property had been transferred from Property and Equipment (land and capital work in progress) to other assets at the year ended December 31, 2018. Accordingly, the surplus held on this property represents surplus recognized till December 31, 2018 i.e. till the date of transfer of this asset to the 'Other Assets' category in accordance with the accounting policy for fixed assets. Moreover, this property is carried at lower of market value / fair value less cost to sell and carrying amount at the time of transfer from owned assets category.

| 13.4 Provision held against other assets | 2019 | 2018 |
|---|---|---|
| | --------- (Rupees in '000) --------- | |
| Income / mark-up accrued in local currency | **1,389** | 1,389 |
| Advances, deposits, advance rent and other prepayments | **79,664** | 79,664 |
| Non-banking assets acquired in satisfaction of claims | **290,547** | 290,547 |
| Commission receivable on guarantees | **9,880** | 9,880 |
| Receivable from Dewan Group | **34,436** | 34,436 |
| Account Receivable - sundry claims | **136,048** | 133,731 |
| Receivable from Speedway Fondmetal (Pakistan) Limited | **25,694** | 25,694 |
| Others | **9,452** | 9,499 |
| | **587,110** | 584,840 |

| 13.4.1 Movement in provision held against other assets | | |
|---|---|---|
| Opening balance | **584,840** | 488,435 |
| Charge for the year | **2,317** | 96,499 |
| Amount written off | **(47)** | (94) |
| Closing balance | **587,110** | 584,840 |

## 14. CONTINGENT ASSETS

There were no contingent assets at the balance sheet date.

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | --------- (Rupees in '000) --------- | |
| **15. BILLS PAYABLE** | | | |
| In Pakistan | | **1,815,836** | 1,881,107 |
| Outside Pakistan | | **-** | - |
| | | **1,815,836** | 1,881,107 |
| **16. BORROWINGS** | | | |
| ***Secured*** | | | |
| Borrowings from State Bank of Pakistan | | | |
| - Under export refinance scheme | ***16.1*** | **6,780,140** | 6,792,628 |
| - Under Islamic Export Refinance Scheme (IERF) | ***16.2*** | **250,000** | 250,000 |
| - Under long-term financing facility | ***16.3*** | **857,219** | 756,323 |
| - Refinance facility for modernization of SMEs | ***16.4*** | **5,650** | 3,363 |
| - Repurchase agreement borrowings | ***16.5*** | **5,440,716** | 8,163,360 |
| | | **13,333,725** | 15,965,674 |
| Repurchase agreement borrowings | ***16.6*** | **-** | 1,000,000 |
| Foreign bills - rediscounted | | **-** | 608,830 |
| ***Total secured*** | | **13,333,725** | 17,574,504 |
| ***Unsecured*** | | | |
| Call borrowings | ***16.7*** | **-** | 1,911,000 |
| Overdrawn nostro accounts | | **171,055** | 6,350 |
| ***Total unsecured*** | | **171,055** | 1,917,350 |
| | | **13,504,780** | 19,491,854 |

**16.1** The Bank has entered into an agreement with SBP for extending export finance to its customers. Borrowing under the export refinance scheme of SBP carry interest at rates ranging from 1.00% to 3.00% per annum (2018: 1.00% to 2.00% per annum). These are secured against demand promissory notes and are due to mature latest by June 2020 (2018: latest by June 2019).

**16.2** The Bank has entered into an agreement with SBP for extending export finance to its islamic customers. Borrowing under the export refinance scheme of SBP carry interest at rate of 2.00% per annum (2018: 2.00% per annum). These are secured against demand promissory notes and are due to mature by March 2020 (2018: February 2019).

**16.3** These represent borrowings from SBP under scheme for long term financing facility at interest rates ranging from 2.00% to 3.00% per annum (2018: 2.00% to 3.00% per annum) and have varying long term maturities latest due by December 2028 (2018: latest due by November 2022). Under the agreement, SBP has a right to recover the outstanding amount from the Bank at the respective maturity dates of each finance by directly debiting current account of the Bank maintained by the SBP.

**16.4** These borrowings have been obtained from the SBP under a scheme to finance modernization of Small and Medium Enterprises by providing financing facilities for setting up of new units, purchase of new plant and machinery for Balancing, Modernization and Replacement (BMR) of existing units at mark up rate of 2.00% per annum (2018: 2.00% per annum), which will mature latest by February 2024 (2018: latest by July 2023).

**16.5** These represent borrowings from State Bank of Pakistan at mark up rate of 13.36% per annum (2018: 10.20% per annum), which will mature by January 03, 2020 (2018: January 04, 2019).

**16.6** This represented borrowing from a financial institution at mark up rate of 12.5% per annum, have matured on January 2019.

**16.7** This represented call borrowing from a financial institution at mark up rate of 10.50% per annum which matured on January 04, 2019. The Bank had placed GOP Ijarah Sukuks with market value of Rs. 2,209.725 million as collateral against these borrowings.

| 16.8 Particulars of borrowings with respect to currencies | 2019 | 2018 |
|---|---|---|
| | ------- (Rupees in '000) ------- | |
| In local currency | **13,333,725** | 18,876,674 |
| In foreign currencies | **171,055** | 615,180 |
| | **13,504,780** | 19,491,854 |

## 17. DEPOSITS AND OTHER ACCOUNTS

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | In local currency | In foreign currencies | Total | In local currency | In foreign currencies | Total |
| | ---------- (Rupees in '000) ---------- | | | | | |
| **Customers** | | | | | | |
| Current deposits | **25,059,806** | **1,390,243** | **26,450,049** | 27,684,415 | 1,539,251 | 29,223,666 |
| Savings deposits | **41,131,498** | **1,290,353** | **42,421,851** | 34,873,064 | 1,605,157 | 36,478,221 |
| Term deposits | **11,202,150** | **3,032,909** | **14,235,059** | 8,624,571 | 1,579,424 | 10,203,995 |
| Others | **3,323,784** | **24,352** | **3,348,136** | 4,579,025 | 21,838 | 4,600,863 |
| | **80,717,238** | **5,737,857** | **86,455,095** | 75,761,075 | 4,745,670 | 80,506,745 |
| **Financial institutions** | | | | | | |
| Current deposits | **673,169** | **286,055** | **959,224** | 988,132 | 126,472 | 1,114,604 |
| Savings deposits | **741,040** | **5** | **741,045** | 2,254,400 | 4 | 2,254,404 |
| Term deposits | **412,126** | **-** | **412,126** | 800,337 | - | 800,337 |
| Others | **-** | **-** | **-** | - | - | - |
| | **1,826,335** | **286,060** | **2,112,395** | 4,042,869 | 126,476 | 4,169,345 |
| | **82,543,573** | **6,023,917** | **88,567,490** | 79,803,944 | 4,872,146 | 84,676,090 |

| 17.1 Composition of deposits | 2019 | 2018 |
|---|---|---|
| | -------- (Rupees in '000) -------- | |
| - Individuals | **54,714,365** | 51,892,210 |
| - Government (Federal and Provincial) | **5,557,758** | 5,265,529 |
| - Public Sector Entities | **54,528** | 585,047 |
| - Banking Companies | **1,451,708** | 822,670 |
| - Non-Banking Financial Institutions | **2,306,626** | 3,351,728 |
| - Private Sector | **24,482,505** | 22,758,906 |
| | **88,567,490** | 84,676,090 |

**17.2** Deposits include Eligible Deposits of Rs. 55,745.364 million (2018: Rs. 55,944.727 million) protected under Depositors Protection Mechanism introduced by the State Bank of Pakistan.

## 18. SUBORDINATED DEBT

| | |
|---|---|
| Issue amount | Rs.1,500,000,000 |
| Issue date | October 27, 2011 |
| Maturity date | October 27, 2020 (2018: October 27, 2019) |
| | These TFCs were issued by the Bank on October 27, 2011 for an initial tenure of seven years and maturity date of October 27, 2018. In order to protect the interest of the TFC Holders, the tenure of the TFC together with the payment of applicable redemption amounts were extended twice by the Bank to October 27, 2019 and October 27, 2020 through the extraordinary resolutions passed by the TFC holders on November 19, 2018, April 10, 2019 and November 20, 2019. The Bank completed necessary regulatory formalities for these extensions and executed the amended Declaration of Trusts on July 23, 2019 and September 23, 2020. The final approval of these extensions were approved by the SBP vide its letters dated October 21, 2019 and October 21, 2020. |
| | Recently, the TFC holders of the Bank in their extraordinary meeting held October 22, 2020 have approved another extension of one year in the tenure of the TFC issue along with the extension in the payments of all redemption amounts with the revised maturity date of October 27, 2021. The requisite formalities and compliance with the applicable regulatory requirements necessary for this extension have already been completed by the Bank and the final approval is awaited from the State Bank of Pakistan. |
| Rating | 'D' (Default). |
| Security | Unsecured. |
| Redemption / profit payment frequency | The redemption / profit payment details are mentioned in the above maturity date clause. |
| Mark up | Base rate (6 months KIBOR - ask side) plus 325 bps. |
| Call option | The Bank had an option to call the TFC's subject to SBP's prior written approval, on any profit payment date after the 60th month from the last day of public subscription, with not less than 30 days prior notice to be given to the Trustee. The Call option once announced will not be revocable. Further, no premium will be paid to the TFC Holders in case the call option is exercised by the Bank. |
| Lock-in-clause | Neither interest nor principal can be paid (even at maturity) if such payments will result in a shortfall in the Bank's Minimum Capital Requirements (MCR) or Capital Adequacy Ratio (CAR) or increase in the existing shortfall in MCR and CAR. |

## 19. OTHER LIABILITIES

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Mark-up / return / interest payable in local currency | | **1,229,525** | 827,718 |
| Mark-up / return / interest payable in foreign currencies | | **459** | 7,780 |
| Unearned income | | **8,986** | 15,223 |
| Accrued expenses | | **77,216** | 196,893 |
| Advance against sale of property | *19.1* | **476,544** | 438,852 |
| Acceptances | | **453,864** | 1,118,180 |
| Unclaimed dividends | | **2,213** | 2,213 |
| Mark to market loss on forward foreign exchange contracts | | **18,348** | 8,793 |
| Payable to defined benefit plan | *35.7* | **134,673** | 33,358 |
| Charity fund balance | | **504** | 844 |
| Branch adjustment account | | **80** | - |
| Security deposits against lease | | **639,574** | 789,230 |
| Payable to Bangladesh Bank | *19.2* | **41,389** | 41,389 |
| Payable to Rupali Bank - Bangladesh | *19.3* | **16,293** | 16,293 |
| Payable to vendors / creditors | | **199,376** | 126,321 |
| Provision for compensated absences | *35.7* | **109,592** | 101,082 |
| Payable to Bank of Ceylon, Colombo | | **20,163** | 20,163 |
| Retention money | | **29,374** | 6,671 |
| Workers' welfare fund | *19.4* | **13,360** | 13,360 |
| Withholding taxes and government levies payable | | **26,010** | 13,481 |
| Federal excise duty and sales tax payable | | **10,135** | 10,254 |
| Payable to other banks against clearing and settlement | | **-** | 137 |
| Commission payable on home remittances | *19.5* | **137,909** | 125,375 |
| Lease liability against right-of-use assets | *4.1.1 & 19.6* | **2,119,682** | - |
| Others | | **324,871** | 417,213 |
| | | **6,090,140** | 4,330,823 |

**19.1** This includes advance received amounting to Rs. 346.115 million (2018: Rs. 346.115 million) against sale of property included in other assets as property - held for sale.

**19.2** This represents mark up payable to Bangladesh Bank up to June 2006 on Fixed Deposit Receipts (FDR) maintained with the Bank.

**19.3** This represents amount payable in respect of share of Head office expenses of Ex-Rupali Bank Limited - Karachi Branch.

**19.4** This represents provision made for Workers' Welfare Fund (WWF) @ 2% of accounting profit before tax.

**19.5** This represents commission payable to the foreign currency dealers in respect of home remittances channelized through the Bank as per agreement entered into by the Bank with them.

### 19.6 Maturity analysis of lease liability

| | 2019 | 2018 |
|---|---|---|
| | (Rupees in '000) | |
| Not later than one year | **250,972** | - |
| Later than one year and not later than five years | **986,244** | - |
| Later than five years | **882,466** | - |
| | **2,119,682** | - |

## 20. SHARE CAPITAL - NET

### 20.1 Authorized Capital

| 2019 | 2018 | | 2019 | 2018 |
|---|---|---|---|---|
| (Number of shares) | | | (Rupees in '000) | |
| **2,800,000,000** | 2,800,000,000 | Ordinary shares of Rs. 10 each | **28,000,000** | 28,000,000 |

### 20.2 Issued, subscribed and paid up capital

| 2019 | 2018 | | 2019 | 2018 |
|---|---|---|---|---|
| (Number of shares) | | | | |
| | | **Ordinary shares** | | |
| **1,459,686,957** | 1,459,686,957 | Fully paid in cash | **14,596,869** | 14,596,869 |
| **673,997,721** | 673,997,721 | Issue of shares upon conversion of preference shares | **6,739,977** | 6,739,977 |
| **50,000,000** | 50,000,000 | Issued as bonus shares | **500,000** | 500,000 |
| **454,466,382** | 454,466,382 | Issued for consideration other than cash | **4,544,664** | 4,544,664 |
| **2,638,151,060** | 2,638,151,060 | | **26,381,510** | 26,381,510 |
| | | Less: Discount on issue of shares | **(5,881,316)** | (5,881,316) |
| **2,638,151,060** | 2,638,151,060 | | **20,500,194** | 20,500,194 |

**20.3** Number of shares held by the holding company as at December 31, are as follows:

| 2019 | 2018 | | 2019 | 2018 |
|---|---|---|---|---|
| (Number of shares) | | | % age holding | |
| **1,761,412,119** | 1,761,412,119 | Suroor Investments Limited | **66.77%** | 66.77% |

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | (Rupees in '000) | |

## 21. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS

| | | | |
|---|---|---|---|
| Surplus / (deficit) on revaluation of | | | |
| - Available for sale securities | *8.1* | **(86,463)** | (1,676,197) |
| - Fixed assets | *21.1* | **3,568,007** | 3,712,954 |
| - Non-banking assets acquired in satisfaction of claims | *21.2* | **446,712** | 403,865 |
| - Property - held for sale | *21.3* | **1,160,784** | 1,160,784 |
| | | **5,089,040** | 3,601,406 |
| Deferred tax on surplus / (deficit) on revaluation of: | | | |
| - Available for sale securities | | **30,262** | 586,669 |
| - Fixed assets | *21.1* | **(1,026,325)** | (1,063,624) |
| - Non-banking assets acquired in satisfaction of claims | *21.2* | **(156,349)** | (141,353) |
| - Property - held for sale | *21.3* | **(406,274)** | (406,274) |
| | | **(1,558,686)** | (1,024,582) |
| | | **3,530,354** | 2,576,824 |

### 21.1 Surplus on revaluation of fixed assets

| | | |
|---|---|---|
| Surplus on revaluation of fixed assets as at January 01, | **3,712,954** | 2,458,265 |
| Recognised during the year | **-** | 2,529,005 |
| Realised on disposal during the year - net of deferred tax | **(42,080)** | - |
| Transferred to surplus on revaluation of property - held for sale | **-** | (1,160,784) |
| Transferred to accumulated losses in respect of incremental depreciation charged during the year - net of deferred tax | **(65,568)** | (73,796) |
| Related deferred tax liability on surplus realised on disposal | **(1,992)** | - |
| Related deferred tax liability on incremental depreciation charged during the year | **(35,307)** | (39,736) |
| Surplus on revaluation of fixed assets as at December 31 | **3,568,007** | 3,712,954 |
| Less: related deferred tax liability on: | | |
| - revaluation as at January 01 | **(1,063,624)** | (452,383) |
| - revaluation recognised during the year | **-** | (650,977) |
| - surplus realised on disposal during the year | **1,992** | - |
| - incremental depreciation charged during the year | **35,307** | 39,736 |
| | **(1,026,325)** | (1,063,624) |
| | **2,541,682** | 2,649,330 |

### 21.2 Surplus on revaluation of non-banking assets acquired in satisfaction of claims

| | | |
|---|---|---|
| Surplus on revaluation as at January 01, | **403,865** | 434,208 |
| Recognised during the year | **43,749** | 7,335 |
| Realised on disposal during the year - net of deferred tax | **(586)** | (24,491) |
| Related deferred tax liability on surplus realised on disposal | **(316)** | (13,187) |
| Surplus on revaluation as at December 31 | **446,712** | 403,865 |
| Less: related deferred tax liability on: | | |
| - revaluation as at January 01 | **(141,353)** | (151,973) |
| - revaluation recognised during the year | **(15,312)** | (2,567) |
| - surplus realised on disposal during the year | **316** | 13,187 |
| | **(156,349)** | (141,353) |
| | **290,363** | 262,512 |

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **21.3 Surplus on revaluation of Property - Held for sale** | | | |
| Surplus on revaluation as at January 01, | | **1,160,784** | - |
| Transferred from surplus on revaluation of fixed assets | *21.3.1* | **-** | 1,160,784 |
| Surplus on revaluation as at December 31 | | **1,160,784** | 1,160,784 |
| Less: related deferred tax liability on: | | | |
| - revaluation as at January 01 | | **(406,274)** | - |
| - surplus transferred during the year | | **-** | (406,274) |
| | | **(406,274)** | (406,274) |
| | | **754,510** | 754,510 |

**21.3.1** This represented the surplus held on a portion of property at the time of transfer of the same from 'Fixed Assets' to 'Other Assets' category.

## 22. CONTINGENCIES AND COMMITMENTS

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Guarantees | *22.1* | **19,912,355** | 19,970,337 |
| Commitments | *22.2* | **24,718,660** | 31,599,152 |
| Other contingent liabilities | *22.3* | **11,632,928** | 11,661,255 |
| | | **56,263,943** | 63,230,744 |

### 22.1 Guarantees:

| | | |
|---|---|---|
| Financial guarantees | **23,677** | 23,677 |
| Performance guarantees | **16,025,962** | 14,891,050 |
| Other guarantees | **3,862,716** | 5,055,610 |
| | **19,912,355** | 19,970,337 |

### 22.2 Commitments:

| | | | |
|---|---|---|---|
| Documentary credits and short-term trade-related transactions | | | |
| - letters of credit | | **6,953,447** | 6,604,310 |
| Commitments in respect of: | | | |
| - forward foreign exchange contracts | *22.2.1* | **5,507,866** | 4,315,349 |
| - forward lending | *22.2.2* | **6,598,509** | 8,067,231 |
| - operating leases | *22.2.3* | **46,310** | 3,164,673 |
| Commitments for acquisition of: | | | |
| - operating fixed assets | | **75,637** | 140,560 |
| - intangible assets | | **96,175** | 143,669 |
| Other commitments | *22.2.4* | **5,440,716** | 9,163,360 |
| | | **24,718,660** | 31,599,152 |

| | | Note | 2019 | 2018 |
|---|---|---|---|---|
| | | | --------- (Rupees in '000) ------- | |
| 22.2.1 | **Commitments in respect of forward foreign exchange contracts** | | | |
| | Purchase | | **4,815,225** | 3,404,992 |
| | Sale | | **692,641** | 910,357 |
| | | | **5,507,866** | 4,315,349 |
| 22.2.2 | **Commitments in respect of forward lending** | | | |
| | Forward documentary bills | | **4,465,388** | 3,458,501 |
| | Undrawn formal standby facilities, credit lines and other commitments to lend | ***22.2.2.1*** | **2,133,121** | 4,608,730 |
| | | | **6,598,509** | 8,067,231 |

**22.2.2.1** These represent commitments that are irrevocable because they can not be withdrawn at the discretion of the Bank without the risk of incurring significant penalty or expense.

| | | 2019 | 2018 |
|---|---|---|---|
| | | --------- (Rupees in '000) ------- | |
| 22.2.3 | **Commitments in respect of operating lease** | | |
| | Not later than one year | **46,310** | 652,360 |
| | Later than one year and not later than five years | **-** | 1,636,820 |
| | Later than five years | **-** | 875,493 |
| | | **46,310** | 3,164,673 |
| 22.2.4 | **Other commitments** | | |
| | Purchase (Repo) | **5,440,716** | 9,163,360 |
| 22.3 | **Other contingent liabilities - claims against the Bank not acknowledged as debts** | **11,632,928** | 11,661,255 |

**22.4** During the year 2018, Law Enforcement Agencies (LEAs) initiated its investigation on certain bank accounts alleged for money laundering activities in various banks including Summit Bank Limited. The Honourable Supreme Court of Pakistan under Suo Moto Case HRC-39216-G, appointed a Joint Investigation Team (JIT) which was constituted to investigate the matter. On recommendation of JIT, the matter was referred by the Honourable Supreme Court to the National Accountability Bureau (NAB) for further investigation and filing of references in the National Accountability Courts. The matter is currently under NAB investigations and only partial references have been filed in the NAB Courts. The Bank has been and is committed to extending its full cooperation to the Law Enforcement Agencies in their investigations to the best extent possible and the matter is currently sub judice. These proceedings in the opinion of the management will not have any effect on the operations and functioning of the Bank.

**22.5 Contingency for tax payable**

Contingency related to tax payable is disclosed in note 31.2.

| | | Note | 2019 | 2018 |
|---|---|---|---|---|
| | | | --------- (Rupees in '000) -------- | |
| **23.** | **MARK-UP / RETURN / INTEREST EARNED** | | | |
| | On: | | | |
| | Loans and advances | | **4,490,025** | 5,294,762 |
| | Investments | | **1,338,081** | 2,850,230 |
| | Lendings to financial institutions | | **57,579** | 286,614 |
| | Balances with banks | | **23,614** | 20,842 |
| | | | **5,909,299** | 8,452,448 |
| **24.** | **MARK-UP / RETURN / INTEREST EXPENSED** | | | |
| | Deposits | | **5,032,769** | 4,190,075 |
| | Borrowings | | **1,166,677** | 2,026,256 |
| | Subordinated debt | | **214,510** | 152,685 |
| | Cost of foreign currency swaps against foreign currency deposits / borrowings | | **522,250** | 274,009 |
| | Finance cost of lease liability | | **280,047** | - |
| | | | **7,216,253** | 6,643,025 |
| **25.** | **FEE AND COMMISSION INCOME** | | | |
| | Branch banking customer fees | | **29,608** | 32,641 |
| | Consumer finance related fees | | **3,113** | 6,641 |
| | Card related fees (debit cards) | | **108,016** | 81,950 |
| | Credit related fees | | **11,866** | 14,375 |
| | Investment banking fees | | **32,121** | 11,405 |
| | Commission on trade | | **221,984** | 404,507 |
| | Commission on guarantees | | **164,964** | 190,543 |
| | Commission on cash management | | **3,456** | 5,386 |
| | Commission on remittances including home remittances | | **51,617** | 83,050 |
| | Commission on bancassurance | | **2,028** | 5,504 |
| | Commission on Benazir Income Support Programme | | **66,016** | 80,856 |
| | Alternate delivery channels | | **19,118** | 30,094 |
| | Others | | **197** | 1,908 |
| | | | **714,104** | 948,860 |
| **26.** | **LOSS ON SECURITIES** | | | |
| | Realised | ***26.1*** | **(16,890)** | (39,370) |
| | Unrealised - held for trading | ***8.1*** | **(308)** | - |
| | | | **(17,198)** | (39,370) |
| **26.1** | **Realised loss on:** | | | |
| | Federal Government Securities | | **(28,278)** | (15,483) |
| | Shares | | **11,388** | (8,717) |
| | Non Government Debt Securities | | **-** | 1,752 |
| | Units of Mutual Funds | | **-** | (16,922) |
| | | | **(16,890)** | (39,370) |

| 27. OTHER INCOME | Note | 2019 | 2018 |
|---|---|---|---|
| | | --------- (Rupees in '000) -------- | |
| Rent on property / locker | 27.1 | **22,745** | 32,667 |
| Gain / (loss) on sale of fixed assets - net | | **49,072** | (12,651) |
| Gain on sale of non banking assets - net | 27.2 | **-** | 271,464 |
| Gain on sale of ijarah assets | | **4,027** | 2,783 |
| Account maintenance and other relevant charges | | **18,410** | 28,584 |
| Recovery of expenses from customers | | **13,836** | 31,209 |
| Others | | **300** | 144 |
| | | **108,390** | 354,200 |

**27.1** This includes income from Summit Capital Private Limited (subsidiary) amounting to Rs. 3.116 million (2018: Rs. 2.899 million).

**27.2** The Bank recognised a net gain of Nil (2018: Rs. 271.464 million) against the sale of following non-banking assets:

| | 2019 | 2018 |
|---|---|---|
| | --------- (Rupees in '000) -------- | |
| Land located in Karachi | **-** | 145,189 |
| Land located in Nooriabad | **-** | 42,000 |
| Bungalow located in Lahore | **-** | 85,381 |
| Club Memberships | **-** | 200 |
| Office | **-** | (1,306) |
| | **-** | 271,464 |

| 28. OPERATING EXPENSES | Note | 2019 | 2018 |
|---|---|---|---|
| | | --------- (Rupees in '000) -------- | |
| **Total compensation expense** | *28.1* | **1,757,563** | 1,950,708 |
| **Property expense** | | | |
| Rent and taxes | | **147,664** | 808,261 |
| Insurance - property | | **5,077** | 7,730 |
| Insurance - non banking assets | | **80** | 667 |
| Utilities cost | | **257,039** | 252,948 |
| Security (including guards) | | **165,891** | 166,311 |
| Repair and maintenance (including janitorial charges) | | **107,461** | 94,000 |
| Depreciation on owned fixed assets | *10.2* | **296,332** | 421,255 |
| Depreciation on right-of-use assets | *10.3* | **531,200** | - |
| Depreciation on non banking assets | | **43,749** | 44,559 |
| | | **1,554,493** | 1,795,731 |
| **Information technology expenses** | | | |
| Software maintenance | | **59,954** | 49,293 |
| Hardware maintenance | | **68,420** | 50,830 |
| Depreciation on computer equipments | *10.2* | **107,752** | 128,451 |
| Amortisation of computer softwares | *11.2* | **26,798** | 25,815 |
| Network charges | | **87,542** | 92,381 |
| Insurance | | **1,211** | 505 |
| | | **351,677** | 347,275 |
| **Other operating expenses** | | | |
| Directors' fees and allowances | | **750** | 2,650 |
| Fees and allowances to Shariah Board | | **4,800** | 12,085 |
| Legal and professional charges | | **379,612** | 128,581 |
| Outsourced services costs | | **134,853** | 157,977 |
| Travelling and conveyance | | **162,796** | 158,970 |
| NIFT clearing charges | | **29,622** | 32,106 |
| Depreciation | *10.2* | **147,986** | 137,491 |
| Amortisation of core deposits and brand name | *11.2* | **35,371** | 35,373 |
| Training and development | | **5,497** | 5,758 |
| Postage and courier charges | | **42,855** | 46,417 |
| Communication | | **43,992** | 55,902 |
| Stationery and printing | | **118,945** | 98,082 |
| Marketing, advertisement and publicity | | **29,495** | 138,551 |
| Brokerage and commission | | **2,625** | 14,528 |
| Fee and subscription | | **100,887** | 87,203 |
| Cash transportation and sorting charges | | **95,930** | 104,590 |
| Entertainment | | **33,119** | 33,978 |
| Insurance | | **249,920** | 211,986 |
| Repair and maintenance | | **92,499** | 61,069 |
| Auditors' remuneration | *28.2* | **13,514** | 15,638 |
| Others | | **49,387** | 24,420 |
| | | **1,774,455** | 1,563,355 |
| | | **5,438,188** | 5,657,069 |

The total cost for the year included in other operating expenses relating to outsourced activities is Rs. 72.452 million (2018: Rs. 77.957 million). This cost pertains to companies incorporated in Pakistan. This includes payments other than outsourced services cost, which are disclosed above.

| | | Note | 2019 | 2018 |
|---|---|---|---|---|
| **28.1** | **Total compensation expense** | | --------- (Rupees in '000) -------- | |
| | Fees and allowances etc. | | **38,801** | 36,215 |
| | Managerial remuneration | | | |
| | i) Fixed | | **1,015,561** | 1,183,782 |
| | ii) Variable | | | |
| | of which; | | | |
| | a) Cash bonus / awards etc. | | **4,804** | 8,378 |
| | b) Incentives and commission | | **1,701** | 7,585 |
| | Charge for defined benefit plan | ***35.8.1*** | **135,087** | 62,828 |
| | Contribution to defined contribution plan | ***36*** | **57,094** | 67,773 |
| | Charge for employees compensated absences | ***35.8.1*** | **25,563** | 16,697 |
| | Rent and house maintenance | | **330,046** | 390,198 |
| | Utilities | | **73,339** | 86,704 |
| | Medical | | **75,567** | 90,548 |
| | **Total** | | **1,757,563** | 1,950,708 |
| **28.2** | **Auditors' remuneration** | | | |
| | Audit fee | | **3,494** | 3,494 |
| | Fee for other statutory certifications | | **3,899** | 3,899 |
| | Fee for audit of employee funds | | **178** | 178 |
| | Special certifications and sundry advisory services | | **4,714** | 6,469 |
| | Out-of-pocket expenses | | **1,229** | 1,598 |
| | | | **13,514** | 15,638 |
| **29.** | **OTHER CHARGES** | | | |
| | Penalties imposed by State Bank of Pakistan | | **52,215** | 136,671 |
| | Bank charges | | **23,139** | 23,645 |
| | | | **75,354** | 160,316 |
| **30.** | **PROVISIONS AND WRITE OFFS - NET** | | | |
| | Provisions for diminution in value of investments | ***8.3.1*** | **1,284,034** | 1,093,674 |
| | Provisions against loans and advances | ***9.5*** | **7,397,092** | 6,641,834 |
| | Provision against other assets | ***13.4.1*** | **2,317** | 96,499 |
| | Provision for advances and other payments against capital work in progress | | **-** | 1,158,340 |
| | Fixed assets written off | | **13** | 3,061 |
| | Bad debts written off directly | ***9.6.1*** | **89** | 3,688 |
| | Balances with other banks written off | | **30** | - |
| | Recovery of written off / charged off bad debts | | **(1,794)** | (1,061) |
| | | | **8,681,781** | 8,996,035 |
| **31.** | **TAXATION** | | | |
| | Current | ***31.1 & 31.2*** | **105,829** | 128,335 |
| | Prior years | | **-** | - |
| | Deferred | | **(4,925,508)** | (2,258,117) |
| | | | **(4,819,679)** | (2,129,782) |

**31.1** This represents the provision for minimum taxation made in accordance with the requirements of section 113 of the Income Tax Ordinance, 2001. Therefore, reconciliation of tax expense and accounting profit / loss has not been disclosed.

**31.2** The Income Tax Returns of the Bank have been submitted up to and including the Bank's financial year ended December 31, 2018 i.e. tax year 2019.

In respect of assessments of Summit Bank Limited from tax year 2008 to tax year 2013, the tax authorities disputed Bank's treatment on certain issues and created additional tax demand (net of rectification) of Rs. 230.52 million through amended assessment orders and the same have been paid / adjusted against available refunds.

In respect of assessments of ex-My Bank Limited (now Summit Bank Limited) from tax year 2003 to tax year 2011, the tax authorities disputed Bank's treatment on certain issues and created additional tax demand of Rs. 456.62 million through amended assessment orders and the same have been paid / adjusted against available refunds.

In respect of assessments of ex-Atlas Bank Limited (now Summit Bank Limited) from tax year 2003 to tax year 2010, the tax authorities disputed Bank's treatment on certain issues and created additional tax demand of Rs. 89.74 million through amended assessment orders and the same have been paid / adjusted against available refunds.

Such issues mainly include disallowances of mark up payable, taxation of mutual fund distribution at corporate tax rate, disallowance of provision against non-performing loans, disallowance of reversal of provisions, allocation of expenses against dividend income and capital gain, disallowances against non-banking assets etc. The Bank has filed appeals before the various appellate forums against these amended assessment orders which are either pending for hearing or order.

The management of the Bank is confident about the favourable outcome of the appeals hence, no provision / adjustment with respect to the above matters has been made in these unconsolidated financial statements.

| 32. BASIC AND DILUTED LOSS PER SHARE | Note | 2019 | 2018 |
|---|---|---|---|
| | | --------- (Rupees in '000) -------- | |
| Loss for the year | | **(9,450,619)** | (8,751,073) |
| | | **2019** | **2018** |
| | | ------- (Number of shares) ------- | |
| Weighted average number of ordinary shares - Basic | | **2,638,151,060** | 2,638,151,060 |
| | | **2019** | **2018** |
| | | --------- (Rupees) --------- | |
| Basic loss per share | | **(3.58)** | (3.32) |
| | | **2019** | **2018** |
| | | ------- (Number of shares) ------- | |
| Weighted average number of ordinary shares - Diluted | *32.1* | **2,638,151,060** | 2,638,151,060 |
| | | **2019** | **2018** |
| | | --------- (Rupees) --------- | |
| Diluted loss per share | | **(3.58)** | (3.32) |

**32.1** There are no potential ordinary shares outstanding as of December 31, 2019.

| 33. CASH AND CASH EQUIVALENTS | Note | 2019 | 2018 |
|---|---|---|---|
| | | ---------- (Rupees in '000) ---------- | |
| Cash and balances with treasury banks | *5* | **5,613,556** | 5,043,089 |
| Balances with other banks | *6* | **930,810** | 996,982 |
| Overdrawn nostro accounts | *16* | **(171,055)** | (6,350) |
| | | **6,373,311** | 6,033,721 |

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

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Liabilities | | Equity | | | Total |
| | Sub-ordinated debt | Other liabilities | Share Capital | Reserves | Accumulated losses | |
| | (Rupees in '000) | | | | | |
| Balance as at January 01, 2019 | **1,495,515** | **4,330,823** | **20,500,194** | **(425,043)** | **(19,899,372)** | **6,002,117** |
| Changes from financing cash flows | | | | | | |
| Payments of subordinated debt | - | - | - | - | - | - |
| Payment of lease liability against right-of-use-assets | - | **(785,221)** | - | - | - | **(785,221)** |
| | - | **(785,221)** | - | - | - | **(785,221)** |
| Liability related | | | | | | |
| Changes in other liabilities | | | | | | |
| - Cash based | - | **(470,190)** | - | - | - | **(470,190)** |
| - Non cash based | - | **3,014,728** | - | - | - | **3,014,728** |
| Total liability related other changes | - | **2,544,538** | - | - | - | **2,544,538** |
| Total equity related other changes | - | - | - | - | **(9,304,356)** | **(9,304,356)** |
| Balance as at December 31, 2019 | **1,495,515** | **6,090,140** | **20,500,194** | **(425,043)** | **(29,203,728)** | **(1,542,922)** |

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Liabilities | | Equity | | | Total |
| | Sub-ordinated debt | Other liabilities | Share Capital | Reserves | Accumulated losses | |
| | (Rupees in '000) | | | | | |
| Balance as at January 01, 2018 | 1,495,860 | 5,693,620 | 20,500,194 | (425,043) | (11,328,979) | 15,935,652 |
| Changes from financing cash flows | | | | | | |
| Payments of subordinated debt | (345) | - | - | - | - | (345) |
| Payment of lease liability against right-of-use-assets | - | - | - | - | - | - |
| | (345) | - | - | - | - | (345) |
| Liability related | | | | | | |
| Changes in other liabilities | | | | | | |
| - Cash based | - | (1,342,258) | - | - | - | (1,342,258) |
| - Non cash based | - | (20,539) | - | - | - | (20,539) |
| Total liability related other changes | - | (1,362,797) | - | - | - | (1,362,797) |
| Total equity related other changes | - | - | - | - | (8,570,393) | (8,570,393) |
| Balance as at December 31, 2018 | 1,495,515 | 4,330,823 | 20,500,194 | (425,043) | (19,899,372) | 6,002,117 |

## 34. STAFF STRENGTH

| | 2019 | 2018 |
|---|---|---|
| | ----- (Number of employees) ----- | |
| Permanent | **1,657** | 1,800 |
| On Bank contract | **74** | 85 |
| Bank's own staff strength at the end of the year | **1,731** | 1,885 |

**34.1** In addition to the above, 417 (2018: 411) employees of outsourcing services companies were assigned to the Bank as at the end of the year to perform services other than guarding and janitorial services.

## 35. DEFINED BENEFIT PLAN

### 35.1 General description

The Bank maintains two schemes under defined benefit plan:

- **A funded gratuity plan** - under which benefits are payable to eligible employees on retirement or on cessation of services in lump sum. The benefit is equal to one month's last drawn basic salary for each year of confirmed service, subject to a minimum of five years of service.

- **A unfunded employee compensated absences scheme** - under which benefits are payable to permanent and contractual employees on retirement or at the time of their final settlement. The benefit is equal to a maximum of 45 days gross salary subject to availability of privilege leaves balance.

The actuarial valuation of the funded and unfunded scheme is carried out periodically. Latest actuarial valuation was carried out as at December 31, 2019 using 'Projected Unit Credit Method'.

### 35.2 Number of Employees under the scheme

The number of employees covered under the following defined benefit schemes are:

| | 2019 | 2018 |
|---|---|---|
| | ----------(Number) ---------- | |
| - Gratuity fund | 1,728 | 1,800 |
| - Employees Compensated Absences | 1,728 | 1,885 |

### 35.3 Principal actuarial assumptions

Latest actuarial valuation was carried out as at December 31, 2019 using 'Projected Unit Credit Method'.

| | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|
| | Employees compensated absences (Unfunded) | | Gratuity fund (Funded) | |
| | (Per annum) | | | |
| Discount rate | **11.25%** | 13.25% | **11.25%** | 13.25% |
| Expected rate of salary increase | **10.25%** | 12.25% | **10.25%** | 12.25% |
| Expected rate of return on plan assets | - | - | **11.25%** | 13.25% |
| Leave accumulation factor - per annum | **10 days** | 10 days | - | - |
| Withdrawal rates | **Moderate** | High | **Moderate** | High |
| Mortality rates | **SLIC 2001-05** | SLIC 2001-05 | **SLIC 2001-05** | SLIC 2001-05 |

## 35.4 Reconciliation of payable to defined benefit plans

| | Note | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|---|
| | | Employees compensated absences (Unfunded) | | Gratuity fund (Funded) | |
| | | (Rupees in '000) | | | |
| Present value of obligations | | **109,592** | 101,082 | **449,662** | 343,131 |
| Fair value of plan assets | | **-** | - | **(314,989)** | (309,773) |
| Payable | | **109,592** | 101,082 | **134,673** | 33,358 |

## 35.5 Movement in defined benefit obligations

| | | | | | |
|---|---|---|---|---|---|
| Obligations at the beginning of the year | | **101,082** | 104,448 | **343,131** | 344,077 |
| Current service cost | | **3,835** | 40,685 | **61,173** | 61,317 |
| Past service cost | | **-** | - | **71,704** | - |
| Interest cost | | **12,264** | 7,789 | **41,445** | 25,223 |
| Benefits paid by the Bank | | **(17,053)** | (20,063) | **(60,674)** | (62,789) |
| Re-measurement loss / (gain) | | **9,464** | (31,777) | **(7,117)** | (24,697) |
| Obligations at the end of the year | | **109,592** | 101,082 | **449,662** | 343,131 |

## 35.6 Movement in fair value of plan assets

| | | | | | |
|---|---|---|---|---|---|
| Fair value at the beginning of the year | | **-** | - | **309,773** | 293,546 |
| Interest income on plan assets | | **-** | - | **39,235** | 23,712 |
| Contribution by the Bank - net | | **-** | - | **(27,316)** | (12,258) |
| Re-measurements: Net return on plan assets over interest income (loss) / gain | ***35.8.2*** | **-** | - | **(6,703)** | 4,773 |
| Fair value at the end of the year | | **-** | - | **314,989** | 309,773 |

## 35.7 Movement in payable under defined benefit schemes

| | | | | | |
|---|---|---|---|---|---|
| Opening balance | | **101,082** | 104,448 | **33,358** | 50,531 |
| Charge for the year | | **25,563** | 16,697 | **135,087** | 62,828 |
| Contribution by the Bank - net | | **-** | - | **27,316** | 12,258 |
| Re-measurement (gain) recognised in OCI during the year | ***35.8.2*** | **-** | - | **(414)** | (29,470) |
| Benefits paid by the Bank | | **(17,053)** | (20,063) | **(60,674)** | (62,789) |
| Closing balance | | **109,592** | 101,082 | **134,673** | 33,358 |

| | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|
| | Employees compensated absences (Unfunded) | | Gratuity fund (Funded) | |
| | (Rupees in '000) | | | |

**35.8 Charge for defined benefit plans**

**35.8.1 Cost recognised in profit and loss**

| | | | | |
|---|---|---|---|---|
| Current service cost | **13,299** | 8,908 | **61,173** | 61,317 |
| Past service cost | **-** | - | **71,704** | - |
| Net interest on defined benefit asset / liability | **12,264** | 7,789 | **2,210** | 1,511 |
| | **25,563** | 16,697 | **135,087** | 62,828 |

**35.8.2 Re-measurements recognised in OCI during the year**

| | | | | |
|---|---|---|---|---|
| Loss / (gain) on obligation | | | | |
| - Financial assumptions | **-** | - | **(4,580)** | (14,028) |
| - Demographic assumptions | **-** | - | **3,071** | - |
| - Experience adjustment | **-** | - | **(5,608)** | (10,669) |
| Return on plan assets over interest income | **-** | - | **6,703** | (4,773) |
| Total re-measurements recognised in OCI | **-** | - | **(414)** | (29,470) |

**35.9 Components of plan assets**

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents - net | **-** | - | **281,001** | 307,023 |
| Mark-up / profit receivable | **-** | - | **33,988** | 2,750 |

**35.10 Sensitivity analysis**

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

| | | Employees compensated absences (Unfunded) | | Gratuity fund (Funded) | |
|---|---|---|---|---|---|
| | Change in assumption | Increase in assumption | Decrease in assumption | Increase in assumption | Decrease in assumption |
| | | (Rupees in '000) | | | |
| Discount rate | +- 1% | **(5,870)** | **6,559** | **(27,324)** | **30,610** |
| Salary increase rate | +- 1% | **7,085** | **(6,443)** | **32,783** | **(29,714)** |
| Withdrawal rate | +- 10% | **155** | **(188)** | **-** | **-** |
| Leave accumulation factor | +- 1 day | **1,266** | **(1,313)** | **-** | **-** |

### 35.11 Expected contributions to be paid to the funds in the next financial year

The Bank contributes to the employee Compensated absences and gratuity funds according to the actuary's advice.

| | 2019 | |
|---|---|---|
| | Employees compensated absences | Gratuity fund |
| | --------- (Rupees in '000) ------- | |
| **Expected charge for the next financial year** | **14,505** | **69,668** |

### 35.12 Maturity profile

| | | |
|---|---|---|
| The weighted average duration of the obligation (in years) | 6.17 | 6.44 |

### 35.13 Funding Policy

The Bank endeavours to ensure that liabilities under the various employee benefit schemes are covered by the Fund on any valuation date having regards to the various actuarial assumptions such as projected future salary increase, expected future contributions to the fund, projected increase in liability associated with future service and the projected investment income of the Fund.

**35.14** The significant risks associated with Defined Benefits Plans are as under:

**Investment Risks:**

The risk arises when the actual performance of the investment is lower than expectation and thus creating a shortfall in the funding objectives.

**Longevity Risks:**

The risks arises when the actual lifetime of retirees is longer than expectation. Thus risk is measured at plan level over the entire retiree population.

**Salary Increase Risk:**

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than expectation and impact the liability accordingly.

**Withdrawal Risk:**

The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of liability can go either way.

**Asset Volatility:**

The risk arises due to inclusion of the risky assets in the pension / gratuity fund portfolio, inflation and relevant rate volatility.

**Changes in bond yields:**

The risk arises when bond yield is lower than the expected return on the plan assets (duration based PIB discount rate).

**Inflation risk:**

The risk arises if pension / gratuity benefits are linked to inflation and inflation rate is higher or higher than expected, which results in higher liabilities.

## 36. DEFINED CONTRIBUTION PLAN

An amount of Rs. 57.094 million (2018: Rs. 67.773 million) has been charged during the year in respect of contributory provident fund maintained by the Bank.

## 37. COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

### 37.1 Total Compensation Expense

| 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Items | Directors | | | Members Shariah Board | President / CEO | Key Management Personnel | Other Material Risk Takers/ Controllers |
| | Chairman | Executives (other than CEO) | Non-Executives | | | | |
| | (Rupees in '000) | | | | | | |
| Fees and allowances etc. | 50 | - | 700 | 4,800 | - | - | - |
| Managerial remuneration | | | | | | | |
| i) Fixed | - | 380 | - | 3,639 | 13,211 | 51,511 | 32,250 |
| ii) Total variable | | | | | | | |
| of which | | | | | | | |
| - Cash bonus / awards | - | - | - | - | - | 674 | 2,282 |
| Contribution to defined contribution plan | - | 38 | - | 63 | 1,321 | 4,027 | 3,029 |
| Rent and house maintenance | - | 171 | - | 1,637 | 5,945 | 23,180 | 14,512 |
| Utilities | - | 38 | - | 364 | 1,321 | 5,151 | 3,225 |
| Dearness allowance | - | 63 | - | 607 | 2,202 | 8,587 | 5,376 |
| Medical | - | 38 | - | 364 | 1,321 | 5,151 | 3,225 |
| Conveyance | - | 67 | - | 653 | - | 8,800 | 8,051 |
| Car allowance | - | 142 | - | 552 | - | 14,531 | 12,486 |
| General / special allowance | - | - | - | - | 27 | 2,359 | 1,599 |
| Relocation allowance | - | - | - | - | - | 2,026 | 607 |
| Others | - | - | - | 16 | - | 182 | 194 |
| Total | 50 | 937 | 700 | 12,695 | 25,348 | 126,179 | 86,836 |
| Number of persons | 1 | 1 | 6 * | 5 | 1 | 21 | 26 |

* This includes fee paid to outgoing Non-Executives Directors.

| Items | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Directors | | | Members Shariah Board | President / CEO | Key Management Personnel | Other Material Risk Takers/ Controllers |
| | Chairman | Executives (other than CEO) | Non-Executives | | | | |
| | (Rupees in '000) | | | | | | |
| Fees and allowances etc. | - | - | 2,650 | 4,800 | - | - | - |
| Managerial remuneration | | | | | | | |
| i) Fixed | - | 5,111 | - | 3,440 | 14,241 | 53,043 | 38,427 |
| ii) Total variable | | | | | | | |
| of which | | | | | | | |
| - Cash bonus / awards | - | - | - | - | - | - | 175 |
| Contribution to defined contribution plan | - | 511 | - | 43 | 538 | 4,766 | 3,749 |
| Rent and house maintenance | - | 2,300 | - | 1,548 | 6,408 | 23,869 | 17,292 |
| Utilities | - | 564 | - | 344 | 1,424 | 5,304 | 3,843 |
| Dearness allowance | - | 852 | - | 573 | 2,374 | 8,842 | 6,406 |
| Medical | - | 548 | - | 344 | 1,424 | 5,304 | 3,843 |
| Conveyance | - | 544 | - | 469 | 140 | 8,315 | 8,875 |
| Car allowance | - | 1,620 | - | 552 | 405 | 16,444 | 15,952 |
| General / special allowance | - | 352 | - | - | 30 | 3,753 | 971 |
| Relocation allowance | - | - | - | - | - | 2,026 | 1,341 |
| Others | - | - | - | 15 | - | 37 | 360 |
| Total | - | 12,402 | 2,650 | 12,128 | 26,984 | 131,703 | 101,234 |
| Number of persons | - | 1 | 4 | 5 | 2 ** | 20 | 27 |

** Number of persons include outgoing executive.

The Bank's President and Chief Executive Officer and certain executives are provided with free use of bank maintained car and club membership fee in accordance with their entitlements.

Key management personnel include all the staff having a direct reporting line to the President and Chief Executive Officer.

The MRT / MRC inclusion criteria has been developed in accordance with the Bank's Remuneration Guidelines.

The aggregate remuneration paid during the year to executives as defined under the Companies Act, 2017 amounted to Rs. 148.697 million (2018: Rs. 184.331 million).

**37.2 Remuneration paid to Directors for participation in Board and Committee Meetings**

| Name of Director | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Meeting Fees and Allowances Paid | | | | | | |
| | Board Meetings | For Board Committees | | | | | |
| | | Board Audit Committee (BAC) | Board Human Resource and Remuneration Committee (BHR & RC) | Board Information Technology Committee (BITC) | Board Risk Management Committee (BRMC) | Board Compliance Committee (BCC) | Total amount paid |
| | (Rupees in '000) | | | | | | |
| Mr. Shafiqur Rahman Adhami | 50 | - | - | - | - | - | 50 |
| Mr. Rana Ahmed Humayun | 50 | - | - | - | - | - | 50 |
| Mr. Kamran Butt | 50 | - | - | - | - | - | 50 |
| Ms. Fauzia Hasnain | 50 | - | - | - | - | - | 50 |
| Mr. Shehryar Faruque * | 100 | 100 | 50 | - | - | - | 250 |
| Mr. Asadulllah Khawaja ** | 100 | 100 | 50 | - | - | - | 250 |
| Mr. Md. Ataur Rahman *** | 50 | - | - | - | - | - | 50 |
| Total amount paid | 450 | 200 | 100 | - | - | - | 750 |

* Mr. Shehryar Faruque resigned from the Board with effect from July 15, 2019.

** Mr. Asadulllah Khawaja ceased to hold office with effect from April 06, 2019 owing to the election of Directors.

*** Mr. Md. Ataur Rahman ceased to hold office with effect from April 06, 2019 owing to the election of Directors.

| Name of Director | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Meeting Fees and Allowances Paid | | | | | | |
| | Board Meetings | For Board Committees | | | | | |
| | | Board Audit Committee (BAC) | Board Human Resource and Remuneration Committee (BHR & RC) | Board Information Technology Committee (BITC) | Board Risk Management Committee (BRMC) | Board Compliance Committee (BCC) | Total amount paid |
| | (Rupees in '000) | | | | | | |
| Mr. Hussain Lawai - Vice Chairman | 150 | 250 | 100 | - | 100 | - | 600 |
| Mr. Shehryar Faruque | 300 | 300 | 150 | 150 | 150 | 50 | 1,100 |
| Mr. Asadulllah Khawaja | 300 | 300 | 150 | - | 150 | - | 900 |
| Mr. Md. Ataur Rahman | 50 | - | - | - | - | - | 50 |
| Total amount paid | 800 | 850 | 400 | 150 | 400 | 50 | 2,650 |

**37.3 Remuneration paid to Shariah Board Members**

| Items | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Chairman | Resident Member | Non-Resident Member(s) | Chairman | Resident Member | Non-Resident Member(s) |
| | (Rupees in '000) | | | | | |
| Meeting fees and allowances | 1,800 | - | 3,000 | 1,800 | - | 3,000 |
| Other Heads | | | | | | |
| Basic salary | - | 3,639 | - | - | 3,440 | - |
| House rent | - | 1,637 | - | - | 1,548 | - |
| Utilities | - | 364 | - | - | 344 | - |
| Dearness | - | 607 | - | - | 573 | - |
| Medical | - | 364 | - | - | 344 | - |
| Conveyance | - | 653 | - | - | 469 | - |
| Car allowance | - | 552 | - | - | 552 | - |
| General / special allowance | - | - | - | - | - | - |
| Relocation allowance | - | - | - | - | - | - |
| Others | - | 16 | - | - | 15 | - |
| Contribution to defined contribution plan | - | 63 | - | - | 43 | - |
| Total amount | 1,800 | 7,895 | 3,000 | 1,800 | 7,328 | 3,000 |
| Total number of persons | 1 | 2 | 2 | 1 | 2 | 2 |

## 38. FAIR VALUE MEASUREMENTS

The fair value of quoted securities other than those classified as held to maturity, is based on quoted market price. Quoted securities classified as held to maturity are carried at cost. The fair value of unquoted equity securities, other than investments in subsidiary, is determined on the basis of the break-up value of these investments as per their latest available audited financial statements.

The fair value of unquoted debt securities, fixed term loans, other assets, other liabilities, fixed term deposits and borrowings cannot be calculated with sufficient reliability due to the absence of a current and active market for these assets and liabilities and reliable data regarding market rates for similar instruments.

### 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).

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

| | 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **On balance sheet financial instruments** | ---------- (Rupees in '000) ---------- | | | |
| **Financial assets - measured at fair value** | | | | |
| Investments | | | | |
| - Federal Government Securities | - | 19,636,066 | - | 19,636,066 |
| - Shares - Listed | 1,830,984 | - | - | 1,830,984 |
| - Non-Government Debt Securities | - | - | - | - |
| **Financial assets - disclosed but not measured at fair value** | | | | |
| Investments | | | | |
| - Shares - Unlisted | - | - | 2,349 | 2,349 |
| **Non-Financial assets - measured at fair value** | | | | |
| Operating fixed assets | - | - | 7,375,471 | 7,375,471 |
| Non banking assets acquired in satisfaction of claims | - | - | 2,905,992 | 2,905,992 |
| **Off-balance sheet financial instruments - measured at fair value** | | | | |
| Forward purchase of foreign exchange | - | 4,800,861 | - | 4,800,861 |
| Forward sale of foreign exchange | - | 690,545 | - | 690,545 |

| On balance sheet financial instruments | 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | (Rupees in '000) | | | |
| **Financial assets - measured at fair value** | | | | |
| Investments | | | | |
| - Federal Government Securities | - | 16,323,086 | - | 16,323,086 |
| - Shares - Listed | 1,797,857 | - | - | 1,797,857 |
| - Non-Government Debt Securities | - | 12,489 | - | 12,489 |
| **Financial assets - disclosed but not measured at fair value** | | | | |
| Investments | | | | |
| - Shares - Unlisted | - | - | 1,857 | 1,857 |
| **Non-Financial assets - measured at fair value** | | | | |
| Operating fixed assets | - | - | 7,591,618 | 7,591,618 |
| Non banking assets acquired in satisfaction of claims | - | - | 2,915,992 | 2,915,992 |
| **Off-balance sheet financial instruments - measured at fair value** | | | | |
| Forward purchase of foreign exchange | - | 3,416,803 | - | 3,416,803 |
| Forward sale of foreign exchange | - | 930,961 | - | 930,961 |

**Valuation techniques used in determination of fair value**

| Item | Valuation approach and input used |
|---|---|
| Federal Government Securities | The fair values of Federal Government securities are determined using the PKRV rates. |
| Units of mutual funds | The fair values of investments in units of mutual funds are determined based on their net asset values as published at the close of each business day. |
| Ordinary shares - Listed | The fair value of investment in listed equity securities are valued on the basis of closing quoted market price available at the Pakistan Stock Exchange. |
| Ordinary shares - Unlisted | This represents breakup value of investments. |
| Non-Government Debt Securities | Investments in debt securities (comprising term finance certificates, bonds and any other security 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. |
| Forward foreign exchange contracts | The valuation has been incorporated by interpolating the foreign exchange revaluation rates announced by the SBP. |
| Operating fixed assets (land and building) and non-banking assets acquired in satisfaction of claims | The valuation experts used a market based approach to arrive at the fair value of the Bank's properties. The market approach used prices and other relevant information generated by market transactions involving identical or comparable or similar properties. |

## 39. SEGMENT INFORMATION

### 39.1 Segment details with respect to business activities

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Corporate finance | Trading and sales | Branch banking | Islamic | Others | Total |
| | (Rupees in '000) | | | | | |
| **Profit and loss** | | | | | | |
| Net mark-up / return / profit | (583) | (186,476) | (1,056,835) | (63,060) | - | (1,306,954) |
| Inter segment revenue - net | - | (1,342,590) | - | 1,342,590 | - | - |
| Non mark-up / return / interest income | 22,594 | 460,761 | 780,709 | (32,085) | - | 1,231,979 |
| Total income | 22,011 | (1,068,305) | (276,126) | 1,247,445 | - | (74,975) |
| Segment direct expenses | 1,955 | 248,321 | 4,934,923 | 284,514 | 43,829 | 5,513,542 |
| Inter segment expense allocation | - | - | (395,163) | 395,163 | - | - |
| Total expenses | 1,955 | 248,321 | 4,539,760 | 679,677 | 43,829 | 5,513,542 |
| Provisions | - | 1,284,039 | 6,747,530 | 650,212 | - | 8,681,781 |
| **Profit / (loss) before tax** | 20,056 | (2,600,665) | (11,563,416) | (82,444) | (43,829) | (14,270,298) |
| **Balance Sheet** | | | | | | |
| Cash and bank balances | - | 1,870,617 | 4,211,474 | 462,275 | - | 6,544,366 |
| Investments | - | 20,120,181 | 1,557,319 | - | 281,999 | 21,959,499 |
| Net inter segment lending | - | - | - | 14,001,113 | - | 14,001,113 |
| Lendings to financial institutions | - | 791,272 | - | 200,000 | - | 991,272 |
| Advances - performing | - | - | 27,548,061 | 3,755,854 | - | 31,303,915 |
| Advances - non-performing | - | - | 11,863,059 | 75,351 | - | 11,938,410 |
| Others | 36,596 | 4,068,744 | 16,416,347 | 735,424 | 11,880,965 | 33,138,076 |
| **Total assets** | 36,596 | 26,850,814 | 61,596,260 | 19,230,017 | 12,162,964 | 119,876,651 |
| Borrowings | 465 | 5,491,088 | 7,763,227 | 250,000 | - | 13,504,780 |
| Subordinated debt | 4,063 | 440,405 | 1,051,047 | - | - | 1,495,515 |
| Deposits and other accounts | - | - | 73,119,266 | 15,448,224 | - | 88,567,490 |
| Net inter segment borrowing | - | 14,001,113 | - | - | - | 14,001,113 |
| Others | 2,651 | 319,515 | 5,156,226 | 1,989,042 | 438,542 | 7,905,976 |
| **Total liabilities** | 7,179 | 20,252,121 | 87,089,766 | 17,687,266 | 438,542 | 125,474,874 |
| Equity | 29,417 | 6,598,693 | (25,493,506) | 1,542,751 | 11,724,422 | (5,598,223) |
| **Total equity and liabilities** | 36,596 | 26,850,814 | 61,596,260 | 19,230,017 | 12,162,964 | 119,876,651 |
| **Contingencies and Commitments** | - | 10,736,460 | 28,582,452 | 5,140,291 | 11,804,740 | 56,263,943 |

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Corporate finance | Trading and sales | Branch banking | Islamic | Others | Total |
| | (Rupees in '000) | | | | | |
| **Profit and loss** | | | | | | |
| Net mark-up / return / profit | (69) | 510,637 | 785,413 | 513,442 | - | 1,809,423 |
| Inter segment revenue - net | - | (355,152) | - | 355,152 | - | - |
| Non mark-up / return / interest income | 4,103 | 781,330 | 1,052,872 | 13,371 | 271,466 | 2,123,142 |
| Total income | 4,034 | 936,815 | 1,838,285 | 881,965 | 271,466 | 3,932,565 |
| Segment direct expenses | 359 | 364,871 | 5,096,667 | 310,260 | 45,228 | 5,817,385 |
| Inter segment expense allocation | - | - | (399,369) | 399,369 | - | - |
| Total expenses | 359 | 364,871 | 4,697,298 | 709,629 | 45,228 | 5,817,385 |
| Provisions / (reversals) | 1 | 1,121,853 | 7,812,260 | 88,913 | (26,992) | 8,996,035 |
| **Profit / (loss) before tax** | 3,674 | (549,909) | (10,671,273) | 83,423 | 253,230 | (10,880,855) |

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Corporate finance | Trading and sales | Branch banking | Islamic | Others | Total |
| | (Rupees in '000) | | | | | |
| **Balance Sheet** | | | | | | |
| Cash and bank balances | - | 2,090,681 | 3,601,854 | 347,536 | - | 6,040,071 |
| Investments | - | 16,774,074 | 2,200,302 | - | 281,999 | 19,256,375 |
| Net inter segment lending | - | 700,000 | - | 10,722,364 | - | 11,422,364 |
| Lendings to financial institutions | - | - | - | - | - | - |
| Advances - performing | - | - | 40,814,032 | 5,862,800 | - | 46,676,832 |
| Advances - non-performing | - | - | 13,768,955 | 800,090 | - | 14,569,045 |
| Others | 4,010 | 4,059,629 | 11,199,049 | 592,337 | 12,230,644 | 28,085,669 |
| **Total assets** | 4,010 | 23,624,384 | 71,584,192 | 18,325,127 | 12,512,643 | 126,050,356 |
| Borrowings | 3 | 11,076,822 | 8,165,029 | 250,000 | - | 19,491,854 |
| Subordinated debt | 678 | 579,924 | 914,913 | - | - | 1,495,515 |
| Deposits and other accounts | - | - | 69,463,371 | 15,212,719 | - | 84,676,090 |
| Net inter segment borrowing | - | 10,722,364 | - | 700,000 | - | 11,422,364 |
| Others | 497 | 514,859 | 4,743,509 | 537,213 | 415,852 | 6,211,930 |
| **Total liabilities** | 1,178 | 22,893,969 | 83,286,822 | 16,699,932 | 415,852 | 123,297,753 |
| Equity | 2,832 | 730,415 | (11,702,630) | 1,625,195 | 12,096,791 | 2,752,603 |
| **Total equity and liabilities** | 4,010 | 23,624,384 | 71,584,192 | 18,325,127 | 12,512,643 | 126,050,356 |
| **Contingencies and Commitments** | - | 13,475,014 | 31,689,074 | 6,125,410 | 11,941,246 | 63,230,744 |

**39.1.1** The Bank does not have any operations outside Pakistan.

## 40. TRUST ACTIVITIES

The Bank undertakes Trustee and other fiduciary activities that result in the holding or placing of assets on behalf of individuals and other organisations. These are not assets of the Bank and, therefore, are not included as such in these unconsolidated financial statements. Assets held under trust are shown in the table below:

| 2019 | | | | | |
|---|---|---|---|---|---|
| Category | No. of IPS accounts | Securities Held (Face Value) | | | Total |
| | | Market Treasury Bills | Pakistan Investment Bonds | Sukuk | |
| | | (Rupees in '000) | | | |
| Employee Funds | **3** | **72,000** | **100,700** | **-** | **172,700** |
| Insurance company | **1** | **-** | **16,000** | **-** | **16,000** |
| **Total** | **4** | **72,000** | **116,700** | **-** | **188,700** |

| 2018 | | | | | |
|---|---|---|---|---|---|
| Category | No. of IPS accounts | Securities Held (Face Value) | | | Total |
| | | Market Treasury Bills | Pakistan Investment Bonds | Sukuk | |
| | | (Rupees in '000) | | | |
| Employee Funds | 4 | 305,000 | 137,700 | - | 442,700 |
| Insurance company | 1 | 151,000 | 16,000 | 100,000 | 267,000 |
| Individuals | 1 | - | 50,000 | - | 50,000 |
| Total | 6 | 456,000 | 203,700 | 100,000 | 759,700 |

## 41. RELATED PARTY TRANSACTIONS

The Bank has related party transactions with its parent, subsidiary, 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.

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

| | 2019 | | | | | 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Parent company | Directors | Key management personnel | Subsidiary | Other related parties | Parent company | Directors | Key management personnel | Subsidiary | Other related parties |
| | (Rupees in '000) | | | | | | | | | |
| **Balances with other banks** | | | | | | | | | | |
| In current accounts | - | - | - | - | - | - | - | - | - | 26,457 |
| **Investments** | | | | | | | | | | |
| Opening balance | - | - | - | **396,942** | **1,713,990** | - | - | - | 396,942 | 1,803,185 |
| Investment made during the year | - | - | - | - | - | - | - | - | - | 54,983 |
| Investment redeemed / disposed off during the year | - | - | - | - | - | - | - | - | - | (133,317) |
| Transfer in / (out) - net | - | - | - | - | **(21,500)** | - | - | - | - | (10,861) |
| Closing balance | - | - | - | **396,942** | **1,692,490** | - | - | - | 396,942 | 1,713,990 |
| Provision for diminution in value of investments | - | - | - | **114,943** | **1,613,242** | - | - | - | 114,943 | 1,539,327 |
| **Advances** | | | | | | | | | | |
| Opening balance | - | - | **259,303** | - | **932,302** | - | - | 409,534 | - | 1,213,053 |
| Addition during the year | - | - | **36,601** | - | **2,139,568** | - | - | 32,134 | 52,168 | 3,635,109 |
| Repaid during the year | - | - | **(18,393)** | - | **(2,214,009)** | - | - | (180,248) | (52,168) | (3,915,860) |
| Transfer in / (out) - net | - | - | **(11,718)** | - | **(197,069)** | - | - | (2,117) | - | - |
| Closing balance | - | - | **265,793** | - | **660,792** | - | - | 259,303 | - | 932,302 |
| Provision held against advances | - | - | - | - | - | - | - | - | - | - |



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| | 2019 | | | | | 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Parent company | Directors | Key management personnel | Subsidiary | Other related parties | Parent company | Directors | Key management personnel | Subsidiary | Other related parties |
| | (Rupees in '000) | | | | | | | | | |
| **Other Assets** | | | | | | | | | | |
| Interest / mark-up accrued | - | - | - | - | 11,320 | - | - | 758 | - | 22,292 |
| Other receivable | 699 | - | 375 | - | - | 578 | - | 2,002 | - | 758 |
| **Deposits and other accounts** | | | | | | | | | | |
| Opening balance | - | 18,463 | 13,421 | 102,458 | 1,769,716 | - | 32,259 | 67,291 | 128,456 | 860,510 |
| Received during the year | - | - | 224,304 | 7,270,665 | 852,565 | - | 23,465 | 566,173 | 7,046,626 | 16,458,586 |
| Withdrawn during the year | - | - | (217,761) | (7,280,197) | (848,128) | - | (37,261) | (606,161) | (7,072,624) | (15,549,380) |
| Transfer (out) / in - net | - | (18,463) | 78 | - | (261,192) | - | - | (13,882) | - | - |
| Closing balance | - | - | 20,042 | 92,926 | 1,512,961 | - | 18,463 | 13,421 | 102,458 | 1,769,716 |
| **Other Liabilities** | | | | | | | | | | |
| Interest / mark-up payable | - | - | 245 | 103 | 16,293 | - | 119 | 325 | 207 | 11,855 |
| Payable to defined benefit plan | - | - | - | - | 134,673 | - | - | - | - | 33,358 |
| Payable to Rupali Bank | - | - | - | - | - | - | - | - | - | 16,293 |
| Brokerage payable | - | - | - | 127 | - | - | - | - | 184 | - |
| **Contingencies and Commitments** | | | | | | | | | | |
| Guarantees, letters of credit and acceptances | - | - | - | - | 86,500 | - | - | - | - | 918,975 |
| Commitments to extend credit | - | - | - | 400,000 | 9,915 | - | - | - | 400,000 | 230,337 |
| **Income** | | | | | | | | | | |
| Mark-up / return / interest earned | - | - | 13,528 | - | 78,890 | - | - | 19,286 | 50 | 99,684 |
| Fee and commission income | - | - | - | 123 | - | - | - | - | 31 | - |
| Dividend income | - | - | - | - | - | - | - | - | - | 612 |
| Foreign exchange income | - | - | - | - | - | - | - | - | - | 25,789 |
| Loss on securities | - | - | - | - | - | - | - | - | - | (15,505) |
| Other income | - | - | 8 | 3,116 | - | - | - | 8 | 2,899 | - |
| **Expense** | | | | | | | | | | |
| Mark-up / return / interest expensed | - | - | 2,759 | 2,559 | 165,407 | - | 1,005 | 1,029 | 2,118 | 64,071 |
| Operating expenses: | | | | | | | | | | |
| - Rent and taxes | - | - | - | - | - | - | - | - | - | 35,878 |
| - Directors' fees and allowances | - | 750 | - | - | - | - | 2,650 | - | - | - |
| - Legal and professional charges | - | - | - | - | - | - | - | - | - | 265 |
| - Training and development | - | - | - | - | - | - | - | - | - | 2,550 |
| - Marketing, advertisement and publicity | - | - | - | - | - | - | - | - | - | 205 |
| - Brokerage and commission | - | - | - | 399 | - | - | - | - | 2,529 | - |
| - Fee and subscription | - | - | 1,944 | - | - | - | - | 2,125 | - | 750 |
| - Managerial remuneration | - | - | 175,134 | - | - | - | - | 186,957 | - | - |
| - Contribution to defined contribution plan | - | - | - | - | 57,094 | - | - | - | - | 67,773 |
| - Charge for defined benefit plan | - | - | - | - | 135,087 | - | - | - | - | 62,828 |
| Provision / (reversal of provision) for diminution in value of investments | - | - | - | - | 79,591 | - | - | - | (26,992) | 13,923 |

Directors include Non-Executive Directors only. Executive Directors including the President / CEO are part of key management personnel.

## 42. CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

| | 2019 | 2018 |
|---|---|---|
| | -------- (Rupees in '000) -------- | |
| **Minimum Capital Requirement (MCR):** | | |
| Paid-up capital (net of losses) | **(9,282,739)** | 21,617 |
| **Capital Adequacy Ratio (CAR):** | | |
| Eligible Common Equity Tier 1 (CET 1) Capital | **(21,621,286)** | (7,962,104) |
| Eligible Additional Tier 1 (ADT 1) Capital | **-** | - |
| Total Eligible Tier 1 Capital | **(21,621,286)** | (7,962,104) |
| Eligible Tier 2 Capital | **-** | - |
| Total Eligible Capital (Tier 1 + Tier 2) | **(21,621,286)** | (7,962,104) |
| Risk Weighted Assets (RWAs): | | |
| Credit Risk | **70,053,222** | 82,548,281 |
| Market Risk | **6,972,343** | 8,129,085 |
| Operational Risk | **8,420,159** | 8,564,851 |
| Total | **85,445,724** | 99,242,217 |
| Common Equity Tier 1 Capital Adequacy Ratio | **-25.30%** | -8.02% |
| Tier 1 Capital Adequacy Ratio | **-25.30%** | -8.02% |
| Total Capital Adequacy Ratio | **-25.30%** | -8.02% |

Under the applicable Laws and Regulations, the Bank is required to maintain a minimum paid-up capital (free of losses) of Rs. 10 billion. Moreover, the Bank is subject to the Basel II capital adequacy guideline stipulated by the State Bank of Pakistan under BSD Circular No. 8 of 2006 and Basel III guideline vide its BPRD Circular No. 6 of 2013. As of December 31, 2019, the Bank is required to maintain minimum CET 1 ratio of 6%, minimum Tier 1 capital ratio of 7.5% and minimum total capital adequacy ratio of 12.50% (inclusive of Capital Conservation Buffer of 2.50%).

Under Basel III framework, Bank's regulatory capital has been analysed into two tiers as follows:

**a)** Tier 1 capital (going concern capital), which comprises Common Equity Tier 1 (CET 1) and Additional Tier 1 (AT 1 capital), which includes fully paid up capital, balance in share premium account net of discount on issue of shares, reserves arising on amalgamation and un-appropriated /accumulated losses. Moreover, regulatory deductions pertaining to book value of intangibles, deferred tax assets, reciprocal crossholdings and investment in subsidiary are made from Tier 1 capital as per the applicable Basel III guidelines.

**b)** Tier 2 Capital (gone concern capital), which includes general provisions for loan losses (up to a maximum of 1.25% of credit risk weighted assets), reserves on revaluation of fixed assets and available for sale investments after deduction of deficit on available for sale investments (as per Basel III requirement). The outstanding sub-ordinated debt / TFC of the Bank has not been included in Tier 2 capital as of December 31, 2019 because the said TFC has less than one year remaining maturity (revised maturity date is October 27, 2020) and therefore not eligible as Tier 2 capital as per the applicable Basel III guidelines.

Due to negative Tier 1 capital, the Bank could not take benefit of available Tier 2 capital which includes surplus / (deficit) on revaluation of assets and general provision / reserve for loan losses amounting to Rs. 3,280.499 million.

As on December 31, 2019, the Bank does not meet the applicable requirements stipulated by the SBP as explained above. In this regard management of the Bank is taking various steps to comply with applicable minimum capital requirements. A business plan has been put in place which has been approved by the Board of Directors and aims to improve the Bank's Capital base and risk absorption capacity and to provide impetus to its future growth initiatives. This plan indicates future profitable operations based on various assumptions including capital injection as explained in note 1.3 to these unconsolidated financial statements. Moreover, the management is committed to taking all the necessary steps for successful execution of the business plan to comply with the capital requirements as explained above.

**Capital Management**

The Bank manages its capital to meet the regulatory requirements and current and future business needs considering the risks associated with its businesses, expectation of shareholders and investors, and the available options for raising capital. The Bank is committed to comply with the capital requirements as per the SBP's Basel III guidelines.

The capital management framework of the Bank is administered by the Finance Division and Risk Management Group under the supervision of the Board of Directors and Board Risk Management Committee.

As per the guidelines issued by the SBP, the Bank is applying standardised approach for the measurement of credit risk, standardised approach for market risk and Basic Indicator Approach for the operational risk.

| | 2019 | 2018 |
|---|---|---|
| | -------- (Rupees in '000) -------- | |
| **Leverage Ratio (LR):** | | |
| Eligible Tier-1 Capital | **(21,621,286)** | (7,962,104) |
| Total Exposures | **138,263,360** | 183,954,593 |
| | **-15.64%** | -4.33% |
| **Liquidity Coverage Ratio (LCR):** | | |
| Total High Quality Liquid Assets | **14,935,767** | 27,495,433 |
| Total Net Cash Outflow | **17,180,961** | 31,044,717 |
| Liquidity Coverage Ratio | **86.93%** | 88.57% |
| **Net Stable Funding Ratio (NSFR):** | | |
| Total Available Stable Funding | **66,795,162** | 72,435,261 |
| Total Required Stable Funding | **66,682,561** | 82,307,865 |
| Net Stable Funding Ratio | **100.17%** | 88.01% |

Under the applicable Laws and Regulations, the Bank is required to maintain the Leverage Ratio (LR) at 3%, Liquidity Coverage Ratio (LCR) at 100% and Net Stable Funding Ratio (NSFR) at 100%. While the Bank meets the applicable requirements for NSFR, the Bank is not meeting LR and LCR requirements. Subsequently, from June 30, 2020, the Bank achieved compliance with the applicable LCR requirements, while efforts are under way to comply with LR requirements at the earliest timeline. As more fully explained in note 1.3 of these unconsolidated financial statements, the Bank has made a business plan which envisages the compliance with capital and liquidity requirements.

**42.1** The full disclosure on the Capital Adequacy, Leverage Ratio and Liquidity requirements as per SBP instructions has been placed on the website. The link to the full disclosure is http://summitbank.com.pk/index.php/investor-relations/financial-statements.

## 43. RISK MANAGEMENT

The acceptance and management of financial risk is inherent to banking business activities. The Bank is exposed to numerous risks in pursuit of its business objectives. The core risks are Credit, Market and Liquidity risks. These risks arise directly through the Bank's commercial activities whilst Operational and Compliance / Legal / Regulatory risks are normal consequences of any business undertaking. A sound Risk Management Framework provides principles for identifying, assessing and monitoring risk. The Framework specifies the key elements of the risk management process in order to maximise opportunities, to minimise adversity and to achieve improved outcomes and outputs based on informed decision making.

Clearly defined risk management policies and procedures covering all activities of the Bank including general banking, trade finance, credit evaluation, credit management, treasury operations, administration and human resources management, compliance functions, risk management, central finance, audit and control are in place. The basic principles employed in formulation of the above policies and procedures involves identification, measurement, monitoring and controlling risks to ensure that:

- The Bank's risk exposure is within the limits established by Board of Directors.
- Risk taking decisions are in line with the business strategy and objectives of the Bank.
- The expected payoffs compensate the risks taken by the Bank.
- The decisions are explicit and clear.
- Sufficient capital as buffer is available to mitigate risk.

**Risk responsibilities**

The Board of Directors is responsible for overall supervision of the risk management process. This is discharged by distributing responsibilities at the senior management level and determining the manner in which risk authorities are set. The Board is also responsible for approval of all risk policies and ensuring that these are properly implemented. Further, the Board appoints senior management personnel capable of managing the risk activities conducted by the Bank.

The Board of Directors approves the policies proposed by the risk management committee of the Bank which discharge various responsibilities assigned to it by the Board. The Risk Management is headed by a Group Head - Enterprise Risk Management and strategic planning with responsibility to look after this function as per the approved policies and procedures of the Bank.

**Risk management group organization**

A clear management structure has been put in place by the Bank, which clusters around three distinct groups namely, the Business Group, the Support Group and the Risk Management Group. The Business Group is responsible for generation and management of the business and acts as the front office of the Bank. The Support Group provides various services necessary for maintaining operations of the Bank on a sustainable basis. The Risk Management Group is responsible for management of the risk inherent in the Bank's operations. The Risk Management Group comprises of Credit Division and Risk Management Division. Whilst the activities of the Credit Division are focused on independent risk management of the Bank's credit activities and the Risk Management Division is responsible for managing all other risks emanating from various activities of the Bank. In addition to above, Compliance Division ensures compliance of all internal and external policies, laws and regulations. The management has established various committees for periodic risk review.

The Bank has hPLUS™ a core banking software. hPLUS™ is a fully functional, well proven, single integrated banking application and is also capable of generating numerous standard and customised MIS reports. In line with the Bank's strategic direction, a work is under way for implementation of a new core banking system which will support the Bank in execution of its plan to convert to a full fledge islamic bank. The new core banking system is expected to improve the risk assessment of the bank by facilitating the management with detailed analytical review reports.

## 43.1 Credit Risk

Credit risk is the risk that one party to financial instrument fails to discharge an obligation and cause other party to incur a financial loss. The Bank is exposed to credit risk through its lending and investment activities as well as in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The following objectives govern the credit policy of the Bank:

- The Bank complies with the requirements of Prudential Regulations prescribed by SBP.
- Facilities provided by the Bank are well diversified into different sectors and products to achieve a strong market position and adequate return on capital.
- Return commensurate with the risk.
- Lending decision is based on a full appreciation for the risks inherent in the transaction and within the approved limits by the Board of Directors.
- Risk changes are identified promptly and remedial actions are taken in a timely manner.

The Bank creates loan loss provisions against non-performing advances in accordance with the Prudential Regulations issued by SBP. Please refer to note 9.5 for reconciliation in loan loss provision.

Concentrations of credit risk (including funded and non-funded portfolio) arises when the counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be affected in a similar way by changes in economic or other conditions. As part of managing concentration risk, sector risk is managed on a portfolio basis. Please refer to note 43.1.4, 43.1.5, 43.1.6 and 43.1.7.

Credit approval authorities are based on the nature and size of exposure. Disbursement authorisation, collateral and security management, documentation and monitoring are managed by the Credit Administration Department. Proactive monitoring is ensured for assets under stress. This enable the Bank to put in place viable solutions to prevent further deterioration in credit quality. SAM function is in place to handle stressed assets and to ensure a focused remedial strategy.

As a matter of paramount importance the affairs of the customers enjoying credit facilities are carefully reviewed and reconsidered periodically. The facility review provides a timely signal of unfavourable developments in clients' affairs and identifies the risk before the Bank is faced with undesirable positions. For this reason, facilities of a continuing character are periodically reviewed and approved.

Credit administration tasks include the following:

- Maintain credit, custody and security documentation files;
- Register security and collateral documents;
- Tracking of covenants;
- Administer facility fees / receipts / payments;
- Load limits into credit system; and
- Satisfy internal and external risk reporting requirements.

It is the Bank's policy to reduce or mitigate credit risk on credit facilities or exposure, as much as possible, in a given commercial environment by securing credit facilities or exposure with collateral. To correctly assess the extent to which the collateral mitigates the credit risk, the collateral must be valued according to a specified valuation method and documented and monitored. The legal mechanism by which collateral is secured and the Bank's procedures ensure that the Bank has clear rights over the collateral and may liquidate, retain or take legal possession of it in a timely manner in the event of the default, insolvency or bankruptcy or otherwise defined credit event set out in the transaction documentation, of the counterparty and, where applicable, of the custodian holding the collateral.

### 43.1.1 Credit Risk Approach for Capital Adequacy Ratio: Standardised Approach

The Bank has adopted the standardised approach of Basel II for risk weighing its credit risk exposures.

Under standardised approach, the capital requirement is based on the credit rating assigned to the counterparties by the External Credit Assessment Institutions (ECAIs) duly recognised by SBP for capital adequacy purposes.

The standardised approach to credit risk sets out fixed risk weights corresponding, where appropriate, to external credit assessment levels or for unrated claims.

**Types of exposures and ECAI's used**

The following table illustrates the approved External Credit Assessment Institution (ECAI) whose rating are being utilised by the Bank with respect to material categories of exposure :

| | 2019 | | | | |
|---|---|---|---|---|---|
| **Exposures** | **Fitch** | **Moody's** | **S&P** | **PACRA** | **JCR-VIS** |
| Corporate | - | - | - | Yes | Yes |
| Banks | Yes | Yes | Yes | Yes | Yes |
| Sovereigns | - | - | - | - | - |
| SME's | - | - | - | - | - |
| Securitisations | - | - | - | - | - |
| PSE's | - | - | - | Yes | Yes |
| Others | - | - | - | Yes | Yes |

Sovereign Exposures: For foreign currency claims on sovereigns, the Bank uses country risk scores of Export Credit Agencies (ECA) participating in the 'Arrangement on Officially Supported Export Credits' available on Organisation for Economic Co-operation and Development (OECD) website.

Exposures to Multilateral Development Banks (MDBs): For exposures on MDBs not eligible for a 0% risk weight, ratings of Moody's, S&P and Fitch are being used to calculate risk-weighted assets.

Bank Exposures: For foreign banks (i.e., incorporated outside Pakistan), ratings of Moody's, S&P and Fitch are being used to arrive at risk weights. However, for local banks (i.e. incorporated in Pakistan) ratings of PACRA and JCR-VIS are used.

The Bank prefers solicited ratings over unsolicited ratings at all times, owing to the greater degree of accuracy (in general) associated with solicited ratings as compared to unsolicited ratings. Unsolicited ratings may only be used in cases where a solicited rating is not available.

**Mapping to SBP rating grades**

The selected final ratings (after application of the principles stated above) for all exposures need to be translated to the standard rating grades given by the SBP. In this regard, the mapping tables to be used for converting ECAI ratings to SBP rating grades are given below:

**Long-Term Rating Grades Mapping**

| SBP rating grade | Fitch | Moody's | S&P | PACRA | JCR-VIS | ECA scores |
|---|---|---|---|---|---|---|
| 1 | AAA | Aaa | AAA | AAA | AAA | 0 |
| | AA+ | Aa1 | AA+ | AA+ | AA+ | 1 |
| | AA | Aa2 | AA | AA | AA | |
| | AA- | Aa3 | AA- | AA- | AA- | |
| 2 | A+ | A1 | A+ | A+ | A+ | 2 |
| | A | A2 | A | A | A | |
| | A- | A3 | A- | A- | A- | |
| 3 | BBB+ | Baa1 | BBB+ | BBB+ | BBB+ | 3 |
| | BBB | Baa2 | BBB | BBB | BBB | |
| | BBB- | Baa3 | BBB- | BBB- | BBB- | |
| 4 | BB+ | Ba1 | BB+ | BB+ | BB+ | 4 |
| | BB | Ba2 | BB | BB | BB | |
| | BB- | Ba3 | BB- | BB- | BB- | |
| 5 | B+ | B1 | B+ | B+ | B+ | 5 |
| | B | B2 | B | B | B | 6 |
| | B- | B3 | B- | B- | B- | |
| 6 | CCC+ and below | Caa1 and below | CCC+ and below | CCC | CCC | 7 |
| | | CC | | CC | CC | |
| | | | | C | C | |
| | | | | D | D | |

**Short-Term Rating Grades Mapping**

| SBP Rating grade | Fitch | Moody's | S&P | PACRA | JCR-VIS |
|---|---|---|---|---|---|
| S1 | F1 | P-1 | A-1+ | A-1+ | A-1+ |
| | | | A-1 | A-1 | A-1 |
| S2 | F2 | P-2 | A-2 | A-2 | A-2 |
| S3 | F3 | P-3 | A-3 | A-3 | A-3 |
| S4 | Others | Others | Others | Others | Others |

The Bank has used specific rating for risk weighing specific exposures and entity rating for risk weighing claims against the counter parties. Both short and long term ratings have been used for corresponding short and long term exposures.

### 43.1.2 Credit Risk Mitigation Approach for Capital Adequacy Ratio: Comprehensive Approach

The Bank has adopted the comprehensive approach of Credit Risk Mitigation for the Banking Book. Since the trading book of the Bank does not contain instrument for which benefit is available; therefore no Credit Risk Mitigation benefit is taken in the trading book. In instances where the Bank's exposure on an obligor is secured by collateral that conforms with the eligibility criteria under the comprehensive Approach of CRM, then the Bank reduces its exposure under that particular transaction by taking into account the risk mitigating effect of the collateral for the calculation of capital requirement.

The Bank accepts cash, lien on deposits, government securities and eligible financial instruments etc. under the comprehensive approach of Credit Risk Mitigation. The Bank has in place detailed guidelines with respect to valuation and management of various collateral types. In order to obtain the credit risk mitigation benefit, the Bank uses realizable value of eligible collaterals to the extent of outstanding exposure.

### 43.1.3 Credit Risk Summary for On-Balance Sheet Exposures:

The below summary of Credit risk for On-Balance Sheet Banking book exposures are calculated using the policies described above:

| Rating category | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Amount outstanding | Deduction CRM | Net amount | Amount outstanding | Deduction CRM | Net amount |
| | ---------- (Rupees in '000) ---------- | | | | | |
| **Exposure category:** | | | | | | |
| Corporate | | | | | | |
| 20% | **16,536** | **-** | **16,536** | 1,102,812 | 147,919 | 954,893 |
| 50% | **3,027,256** | **100,164** | **2,927,092** | 2,952,404 | - | 2,952,404 |
| 100% | **963,798** | **-** | **963,798** | 770,919 | 172,300 | 598,619 |
| unrated | **14,813,900** | **2,543,141** | **12,270,759** | 22,457,869 | 3,970,919 | 18,486,950 |
| 125% | **7,712,257** | **-** | **7,712,257** | 9,387,662 | 672,840 | 8,714,822 |
| Retail | | | | | | |
| 75% | **3,004,615** | **197,492** | **2,807,123** | 6,757,012 | 676,683 | 6,080,329 |
| Past due loan | | | | | | |
| 150% | **6,531,573** | **40,967** | **6,490,606** | 9,161,526 | 561,590 | 8,599,936 |
| 100% | **2,622,716** | **142,143** | **2,480,573** | 2,754,417 | 208,867 | 2,545,550 |
| 50% | **2,784,122** | **66,015** | **2,718,107** | 2,653,102 | 215,559 | 2,437,543 |
| Bank | | | | | | |
| 20% | **2,388,011** | **-** | **2,388,011** | 1,829,760 | - | 1,829,760 |
| 50% | **120,555** | **-** | **120,555** | 531,093 | - | 531,093 |
| 100% | **88,228** | **-** | **88,228** | - | - | - |
| 150% | **568,149** | **-** | **568,149** | 46,314 | - | 46,314 |
| unrated | **97,977** | **-** | **97,977** | 1,209,724 | - | 1,209,724 |
| Sovereign etc. | | | | | | |
| 0% | **6,139,128** | **-** | **6,139,128** | 5,530,669 | - | 5,530,669 |
| Others | | | | | | |
| 0% | **-** | **-** | **-** | - | - | - |
| 35% | **2,312,916** | **-** | **2,312,916** | 3,264,727 | - | 3,264,727 |
| 50% | | **-** | | | - | |
| 100% | **18,271,871** | **-** | **18,271,871** | 16,716,181 | - | 16,716,181 |
| 150% | **-** | **-** | **-** | - | - | - |
| 250% | **-** | **-** | **-** | - | - | - |
| | **71,463,608** | **3,089,922** | **68,373,686** | 87,126,191 | 6,626,677 | 80,499,514 |

### 43.1.4 Lendings to financial institutions

| Credit risk by public / private sector | Gross lendings | | Non-performing lendings | | Provision held | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | (Rupees in '000) | | | | | |
| Public / Government | - | - | - | - | - | - |
| Private | **991,272** | - | - | - | - | - |
| | **991,272** | - | - | - | - | - |

### 43.1.5 Investment in debt securities

| | Gross investments | | Non-performing investments | | Provision held | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| **Credit risk by industry sector** | (Rupees in '000) | | | | | |
| Textile | **200,000** | 200,000 | **200,000** | 200,000 | **200,000** | 200,000 |
| Chemical and pharmaceuticals | **499,586** | 499,586 | **499,586** | 499,586 | **499,586** | 499,586 |
| Sugar | **281,566** | 289,965 | **281,566** | - | **118,981** | - |
| Electronics and electrical appliances | - | 12,500 | - | - | - | - |
| Power (electricity), gas, water, sanitary | - | 189,569 | - | - | - | - |
| Financial | **15,557** | 18,807 | **15,557** | 18,807 | **15,557** | 18,807 |
| Services | **803,641** | 803,641 | **803,641** | 803,641 | **803,641** | 490,107 |
| | **1,800,350** | 2,014,068 | **1,800,350** | 1,522,034 | **1,637,765** | 1,208,500 |
| **Credit risk by public / private sector** | | | | | | |
| Public / Government | - | - | - | - | - | - |
| Private | **1,800,350** | 2,014,068 | **1,800,350** | 1,522,034 | **1,637,765** | 1,208,500 |
| | **1,800,350** | 2,014,068 | **1,800,350** | 1,522,034 | **1,637,765** | 1,208,500 |

### 43.1.6 Advances

| | Gross advances | | Non-performing advances | | Provision held | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| **Credit risk by industry sector** | (Rupees in '000) | | | | | |
| Agriculture, forestry, hunting and fishing | **606,153** | 609,228 | **601,774** | 488,298 | **594,966** | 351 |
| Automobile and transportation equipment | **1,242,030** | 1,259,964 | **1,126,538** | 912,656 | **732,471** | 728,609 |
| Banaspati and allied industries | **169,506** | 345,107 | **141,431** | 141,431 | **131,378** | 126,023 |
| Carpet | **42,310** | 42,648 | **38,458** | 38,458 | **38,458** | 38,458 |
| Cement | **658,056** | 756,709 | **329,169** | 329,169 | **329,169** | 329,169 |
| Chemical and pharmaceuticals | **1,711,861** | 2,085,661 | **338,918** | 336,897 | **121,907** | 106,774 |
| Construction | **2,395,548** | 3,173,425 | **1,359,823** | 1,246,241 | **705,913** | 531,309 |
| Dairy and poultry | **132,465** | 119,114 | **999** | 999 | **999** | 999 |
| Education | **158,499** | 298,439 | **37,570** | 34,394 | **32,813** | 29,793 |
| Electronics and electrical appliances | **1,858,364** | 2,468,288 | **488,486** | 352,550 | **255,579** | 97,092 |
| Exports / imports | **6,202,506** | 6,461,972 | **4,758,694** | 1,736,111 | **2,858,414** | 1,120,067 |
| Financial | **3,764,011** | 3,885,688 | **3,038,316** | 2,793,412 | **1,604,473** | 1,232,275 |
| Food, tobacco and beverages | **2,577,967** | 3,207,167 | **1,039,534** | 740,435 | **696,124** | 578,069 |
| Footwear and leather garments | **377,759** | 526,740 | **31,385** | 48,308 | **31,382** | 46,923 |
| Furniture and allied products | **124,530** | 419,151 | **7,112** | 150,803 | **4,117** | 125,051 |
| Glass and ceramics | **57,660** | 57,660 | **57,660** | 57,660 | **54,460** | 54,460 |
| Health care | **221,858** | 323,704 | **59,175** | 115,153 | **40,116** | 115,153 |
| Hotels | **211,382** | 329,545 | **162,585** | 162,058 | **161,316** | 160,709 |
| Individuals | **4,240,611** | 5,811,621 | **387,553** | 266,940 | **186,830** | 167,434 |
| Mining and quarrying | **1,280,870** | 1,997,882 | **4,670** | 1,922,670 | **4,670** | 405,872 |
| Miscellaneous manufacturing | **950,914** | 1,385,469 | **260,016** | 188,197 | **158,743** | 117,479 |
| Paper and allied products | **8,528** | 42,544 | **6,803** | 6,803 | **6,803** | 6,803 |
| Power (electricity), gas, water, sanitary | **2,058,917** | 2,073,624 | **1,745,517** | 1,664,372 | **1,225,798** | 1,003,612 |
| Printing, publishing and allied industries | **92,823** | 108,462 | **34,088** | 30,152 | **27,327** | 27,277 |
| Services | **4,055,398** | 4,426,765 | **1,528,409** | 1,242,178 | **1,066,294** | 528,147 |
| Steel and engineering | **2,944,336** | 3,666,727 | **2,785,112** | 1,225,542 | **1,225,620** | 373,616 |
| Sugar | **9,500,181** | 9,796,573 | **9,308,669** | 8,875,325 | **7,109,300** | 5,276,199 |
| Textile | **12,122,192** | 13,412,899 | **4,426,542** | 4,359,460 | **4,302,766** | 4,263,873 |
| Transport, storage and communication | **2,263,384** | 2,009,556 | **683,007** | 638,593 | **508,484** | 332,356 |
| Wholesale and retail trade | **5,181,161** | 6,101,976 | **2,274,503** | 2,209,458 | **1,707,721** | 1,654,807 |
| Others | **4,974,457** | 5,591,221 | **3,779,298** | 3,756,986 | **2,978,993** | 1,923,905 |
| | **72,186,237** | 82,795,529 | **40,841,814** | 36,071,709 | **28,903,404** | 21,502,664 |

| | Gross advances | | Non-performing advances | | Provision held | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | (Rupees in '000) | | | | | |
| **Credit risk by public / private sector** | | | | | | |
| Public / Government | - | - | - | - | - | - |
| Private | **72,186,237** | 82,795,529 | **40,841,814** | 36,071,709 | **28,903,404** | 21,502,664 |
| | **72,186,237** | 82,795,529 | **40,841,814** | 36,071,709 | **28,903,404** | 21,502,664 |

### 43.1.7 Contingencies and Commitments

| **Credit risk by industry sector** | 2019 | 2018 |
|---|---|---|
| | (Rupees in '000) | |
| Agriculture, forestry, hunting and fishing | **129,869** | 338,051 |
| Automobile and transportation equipment | **156,190** | 325,487 |
| Banaspati and allied industries | **-** | 62,000 |
| Carpet | **319,839** | 454 |
| Cement | **323,174** | 618,668 |
| Chemical and pharmaceuticals | **285,207** | 946,952 |
| Construction | **3,253,209** | 5,381,379 |
| Consumer | **433,000** | 2,677,508 |
| Dairy and poultry | **-** | 6,239 |
| Education | **38,598** | 67,148 |
| Electronics and electrical appliances | **866,731** | 1,019,924 |
| Exports / imports | **1,652,063** | 2,763,015 |
| Financial | **11,495,739** | 17,827,007 |
| Food, tobacco and beverages | **1,348,137** | 502,111 |
| Footwear and leather garments | **35,822** | 206,349 |
| Furniture and allied products | **107,594** | 119,223 |
| Glass and ceramics | **22,783** | 2,975 |
| Health care | **125,424** | 268,475 |
| Hotels | **81,357** | 102,498 |
| Individuals | **1,599,119** | 3,507,303 |
| Miscellaneous manufacturing | **1,173,143** | 1,514,099 |
| Others | **2,264,835** | 1,539,967 |
| Paper and allied products | **4,701** | 48,458 |
| Power (electricity), gas, water, sanitary | **561,813** | 748,019 |
| Printing, publishing and allied industries | **9,756** | 11,610 |
| Services | **11,872,844** | 10,793,899 |
| Steel and engineering | **899,578** | 946,558 |
| Sugar | **1** | 51,733 |
| Textile | **10,240,704** | 6,570,550 |
| Transport, Storage and Communication | **1,365,685** | 1,687,219 |
| Wholesale and retail trade | **5,597,028** | 2,575,866 |
| | **56,263,943** | 63,230,744 |
| **Credit risk by public / private sector** | | |
| Public / Government | **7,770,403** | 4,433,173 |
| Private | **48,493,540** | 58,797,571 |
| | **56,263,943** | 63,230,744 |

### 43.1.8 Concentration of Advances

The Bank top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs. 18,822.237 million (2018: Rs. 17,280.520 million) are as follows:

| | 2019 | 2018 |
|---|---|---|
| | ------- (Rupees in '000) ------- | |
| Funded | **11,851,059** | 13,387,691 |
| Non Funded | **6,971,178** | 3,892,829 |
| Total Exposure | **18,822,237** | 17,280,520 |

The sanctioned limits against these top 10 exposures aggregated to Rs. 20,639.987 million (2018: Rs. 19,333.306 million).

**Total funded classified therein**

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Amount | Provision held | Amount | Provision held |
| | ---------- (Rupees in '000) ---------- | | | |
| OAEM | **-** | **-** | - | - |
| Substandard | **-** | **-** | 3,242,481 | 401,202 |
| Doubtful | **215,735** | **5,014** | 2,100,000 | 376,516 |
| Loss | **5,565,397** | **2,751,241** | - | - |
| Total | **5,781,132** | **2,756,255** | 5,342,481 | 777,718 |

### 43.1.9 Advances - Province / Region-wise Disbursement & Utilization

| Province / Region | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Disbursements | Utilization | | | | | |
| | | Punjab | Sindh | KPK including FATA | Balochistan | Islamabad | AJK including Gilgit-Baltistan |
| | ---------- (Rupees in '000) ---------- | | | | | | |
| Punjab | **27,084,886** | **27,071,085** | **2,266** | **5,861** | **-** | **5,674** | **-** |
| Sindh | **51,618,020** | **-** | **51,618,020** | **-** | **-** | **-** | **-** |
| KPK including FATA | **47,605** | **-** | **-** | **47,605** | **-** | **-** | **-** |
| Balochistan | **93,326** | **-** | **-** | **-** | **93,326** | **-** | **-** |
| Islamabad | **180,588** | **-** | **-** | **-** | **-** | **180,588** | **-** |
| AJK including Gilgit-Baltistan | **164,041** | **-** | **-** | **-** | **-** | **-** | **164,041** |
| Total | **79,188,466** | **27,071,085** | **51,620,286** | **53,466** | **93,326** | **186,262** | **164,041** |

| Province / Region | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Disbursements | Utilization | | | | | |
| | | Punjab | Sindh | KPK including FATA | Balochistan | Islamabad | AJK including Gilgit-Baltistan |
| | ---------- (Rupees in '000) ---------- | | | | | | |
| Punjab | 85,449,446 | 85,319,253 | 26,366 | 7,206 | - | 96,621 | - |
| Sindh | 200,355,690 | - | 200,355,690 | - | - | - | - |
| KPK including FATA | 154,085 | - | - | 154,085 | - | - | - |
| Balochistan | 517,487 | - | - | - | 517,487 | - | - |
| Islamabad | 3,413,518 | - | - | - | - | 3,413,518 | - |
| AJK including Gilgit-Baltistan | 418,508 | - | - | - | - | - | 418,508 |
| Total | 290,308,734 | 85,319,253 | 200,382,056 | 161,291 | 517,487 | 3,510,139 | 418,508 |

### 43.2 Market Risk

Market risk is the risk that the value of on-balance sheet and off-balance sheet exposures of the Bank will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates, equity prices and / or commodity prices resulting in a loss to earnings and capital. Market risks arise generally from trading activities, open foreign currency positions, holding common equity and other products. All such instruments and transactions are exposed to general and specific market movements.

The Bank seeks to mitigate market risk by employing strategies that correlate price, rate and spread movements of its earning assets, liabilities and trading activities. Treasury front office and market risk management / treasury middle office perform market risk management activities within the Bank.

#### 43.2.1 Balance sheet split by trading and banking books

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Banking book | Trading book | Total | Banking book | Trading book | Total |
| | (Rupees in '000) | | | | | |
| Cash and balances with treasury banks | **5,613,556** | **-** | **5,613,556** | 5,043,089 | - | 5,043,089 |
| Balances with other banks | **930,810** | **-** | **930,810** | 996,982 | - | 996,982 |
| Lendings to financial institutions | **991,272** | **-** | **991,272** | - | - | - |
| Investments | **492,017** | **21,467,482** | **21,959,499** | 1,122,931 | 18,133,444 | 19,256,375 |
| Advances | **43,242,325** | | **43,242,325** | 61,245,877 | - | 61,245,877 |
| Fixed assets | **10,180,966** | **-** | **10,180,966** | 8,708,878 | - | 8,708,878 |
| Intangible assets | **148,557** | **-** | **148,557** | 204,912 | - | 204,912 |
| Deferred tax assets | **11,606,393** | **-** | **11,606,393** | 7,214,989 | - | 7,214,989 |
| Other assets | **11,202,160** | **-** | **11,202,160** | 11,956,890 | - | 11,956,890 |
| | **84,408,056** | **21,467,482** | **105,875,538** | 96,494,548 | 18,133,444 | 114,627,992 |

#### 43.2.2 Foreign Exchange Risk

The Bank has set the following objectives for managing the inherent risk on foreign currency exposures:

- Maximise profitability with minimum risk by keeping the exposure at desirable levels in view of strict compliance of regulatory / international standards and the Bank's internal guidelines.
- Manage appropriate maturity mismatch gaps.
- Identify warning and stress zones for mismatch gaps.
- Usage of different tools to manage the inherent risk of product and market, such as compliance of credit limit, monitoring of foreign exchange exposure limit, review of mark to market portfolio and safe settlement, etc.
- Foreign exchange risk represents exposures to changes in the values of current holdings and future cash flows denominated in foreign currencies. The potential for loss arises from the process of revaluing foreign currency positions in rupee terms. The Bank's foreign exchange risk is presently limited to future cash flows in foreign currencies arising from foreign exchange transactions and translation of net open position in foreign currencies. The Bank is carefully monitoring the net foreign currency exposure as well as utilizing the forward contract to hedge the related exposure.

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Foreign Currency Assets | Foreign Currency Liabilities | Off-balance sheet items | Net foreign currency exposure | Foreign Currency Assets | Foreign Currency Liabilities | Off-balance sheet items | Net foreign currency exposure |
| | (Rupees in '000) | | | | | | | |
| United States Dollar | **2,078,673** | **5,647,236** | **5,284,130** | **1,715,567** | 3,936,026 | 5,565,469 | 1,678,239 | 48,796 |
| Great Britain Pound Sterling | **34,014** | **449,795** | **-** | **(415,781)** | 28,721 | 522,489 | 508,617 | 14,849 |
| Euro | **363,537** | **544,390** | **223,736** | **42,883** | 145,381 | 509,823 | 322,981 | (41,461) |
| Japanese Yen | **-** | **-** | **-** | **-** | 2,975 | - | - | 2,975 |
| Other currencies | **55,325** | **2,125** | **-** | **53,200** | 169,694 | 15,740 | (15,202) | 138,752 |
| | **2,531,549** | **6,643,546** | **5,507,866** | **1,395,869** | 4,282,797 | 6,613,521 | 2,494,635 | 163,911 |

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Banking book | Trading book | Banking book | Trading book |
| | ---------- (Rupees in '000) ---------- | | | |
| Impact of 1% change in foreign exchange rates on | | | | |
| - Profit and loss account | **41,120** | **40,673** | (23,307) | 44,338 |
| - Other comprehensive income | **-** | **-** | - | - |

### 43.2.3 Equity position Risk

Equity position risk is the risk that the fair value of financial instruments will fluctuate due to changes in the prices of individual stocks or the level of equity indices. The Bank's equity book comprises of held for trading (HFT) and available for sale (AFS) portfolios. The objective of the HFT portfolio is to make short-term capital gains, whilst the AFS portfolio is maintained with a medium term view of earning both capital gains and dividend income. Policies and procedures have been developed to provide guidelines on the risk and their mitigants, limits and related controls for the equity portfolio of the Bank.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Banking book | Trading book | Banking book | Trading book |
| | ---------- (Rupees in '000) ---------- | | | |
| Impact of 5% change in equity prices on | | | | |
| - Profit and loss account | **-** | **30,203** | - | 33,496 |
| - Other comprehensive income | **-** | **61,347** | - | 56,397 |

### 43.2.4 Interest Rate Risk

Interest rate risk is the risk that fair value of a financial instrument will fluctuate as a result of changes in interest rates, including changes in the shape of yield curves. Interest rate risk is inherent in many of the Bank's businesses and arises from mismatches between the contractual maturities or the re-pricing of on and off-balance sheet assets and liabilities. The interest rate sensitivity profile is prepared on a quarterly basis based on the re-pricing or contractual maturities of assets and liabilities.

Interest rate risk is monitored and managed by performing periodic gap analysis, sensitivity analysis and stress testing and taking appropriate actions where required.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Banking book | Trading book | Banking book | Trading book |
| | ---------- (Rupees in '000) ---------- | | | |
| Impact of 1% change in interest rates on | | | | |
| - Profit and loss account | **272,524** | **-** | 69,725 | - |
| - Other comprehensive income | **-** | **364,655** | - | 334,155 |

### 43.2.5 Mismatch of Interest Rate Sensitive Assets and Liabilities

| | 2019 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Exposed to Yield / Interest risk | | | | | | | | | Non-interest bearing financial instruments |
| | Effective Yield / Interest Rate | Total | Up to 1 Month | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years | |
| On-balance sheet financial instruments | | (Rupees in '000) | | | | | | | | | | |
| **Assets** | | | | | | | | | | | | |
| Cash and balances with treasury banks | 0% to 1.51% | 5,613,556 | 146,827 | - | - | - | - | - | - | - | - | 5,466,729 |
| Balances with other banks | 0% to 11.40% | 930,810 | 463,456 | - | 126,201 | 61,939 | - | - | - | - | - | 279,214 |
| Lendings to financial institutions | 9.00% to 13.00% | 991,272 | 991,272 | - | - | - | - | - | - | - | - | - |
| Investments | 5.24% to 14.24% | 21,959,499 | - | 5,514,242 | 477,500 | 4,170,168 | 2,406,184 | 1,953,172 | 3,286,865 | 899,008 | 1,091,512 | 2,160,848 |
| Advances | 0% to 28% | 43,242,325 | 1,081,615 | 23,955,532 | 2,885,008 | 3,158,484 | - | - | - | - | 11,938,410 | 223,276 |
| Other assets | - | 2,483,440 | - | - | - | - | - | - | - | - | - | 2,483,440 |
| | | 75,220,902 | 2,683,170 | 29,469,774 | 3,488,709 | 7,390,591 | 2,406,184 | 1,953,172 | 3,286,865 | 899,008 | 13,029,922 | 10,613,507 |
| **Liabilities** | | | | | | | | | | | | |
| Bills payable | - | 1,815,836 | - | - | - | - | - | - | - | - | - | 1,815,836 |
| Borrowings | 1.00 % to 13.36% | 13,504,780 | 5,806,016 | 5,793,690 | 871,150 | - | 794 | 78,890 | 558,786 | 224,399 | - | 171,055 |
| Deposits and other accounts | 0% to 14.3% | 88,567,490 | 3,777,476 | 46,577,462 | 2,328,751 | 4,631,787 | 225,423 | 160,888 | 106,994 | 1,300 | - | 30,757,409 |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | - | - | - |
| Subordinated debt | 14.34% | 1,495,515 | - | - | - | 1,495,515 | - | - | - | - | - | - |
| Other liabilities | - | 4,728,723 | - | - | - | - | - | - | - | - | - | 4,728,723 |
| | | 110,112,344 | 9,583,492 | 52,371,152 | 3,199,901 | 6,127,302 | 226,217 | 239,778 | 665,780 | 225,699 | - | 37,473,023 |
| **On-balance sheet gap** | | (34,891,442) | (6,900,322) | (22,901,378) | 288,808 | 1,263,289 | 2,179,967 | 1,713,394 | 2,621,085 | 673,309 | 13,029,922 | (26,859,516) |
| **Off-balance sheet financial instruments** | | | | | | | | | | | | |
| Commitments in respect of: | | | | | | | | | | | | |
| - forward foreign exchange contracts | | 5,507,866 | 5,507,866 | - | - | - | - | - | - | - | - | - |
| **Off-balance sheet gap** | | 5,507,866 | 5,507,866 | - | - | - | - | - | - | - | - | - |
| **Total Yield / Interest Risk Sensitivity Gap** | | | (1,392,456) | (22,901,378) | 288,808 | 1,263,289 | 2,179,967 | 1,713,394 | 2,621,085 | 673,309 | 13,029,922 | (26,859,516) |
| **Cumulative Yield / Interest Risk Sensitivity Gap** | | | (1,392,456) | (24,293,834) | (24,005,026) | (22,741,737) | (20,561,770) | (18,848,376) | (16,227,291) | (15,553,982) | (2,524,060) | (29,383,576) |

**Reconciliation of assets and liabilities exposed to yield / interest rate risk with total assets and liabilities**

| | 2019 |
|---|---|
| | -- (Rupees in '000) -- |
| **Total financial assets** | 75,220,902 |
| **Add: Non financial assets** | |
| Fixed assets | 10,180,966 |
| Intangible assets | 148,557 |
| Deferred tax assets | 11,606,393 |
| Other assets | 8,718,720 |
| **Total assets as per statement of financial position** | 105,875,538 |
| **Total financial liabilities** | 110,112,344 |
| **Add: Non financial liabilities** | |
| Other liabilities | 1,361,417 |
| **Total liabilities as per statement of financial position** | 111,473,761 |

| On-balance sheet financial instruments | Effective Yield / Interest Rate | Total | Exposed to Yield / Interest risk | | | | | | | | | Non-interest bearing financial instruments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Up to 1 Month | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years | |
| | | 2018 | | | | | | | | | | |
| | | (Rupees in '000) | | | | | | | | | | |
| **Assets** | | | | | | | | | | | | |
| Cash and balances with treasury banks | 0% to 1.35% | 5,043,089 | 125,904 | - | - | - | - | - | - | - | - | 4,917,185 |
| Balances with other banks | 0% to 8.10% | 996,982 | - | 439,520 | 113,172 | 55,545 | - | - | - | - | - | 388,745 |
| Lendings to financial institutions | - | - | - | - | - | - | - | - | - | - | - | - |
| Investments | 5.24% to 13.05% | 19,256,375 | - | 1,892,703 | 161,291 | 2,251,203 | 7,775,992 | 1,950,533 | 999,560 | 1,094,716 | 1,002,655 | 2,127,722 |
| Advances | 0% to 28% | 61,245,877 | 1,368,263 | 38,899,405 | 2,372,467 | 2,363,101 | 125,959 | 115,616 | 229,017 | 541,031 | 14,934,674 | 296,344 |
| Other assets | - | 3,033,001 | - | - | - | - | - | - | - | - | - | 3,033,001 |
| | | 89,575,324 | 1,494,167 | 41,231,628 | 2,646,930 | 4,669,849 | 7,901,951 | 2,066,149 | 1,228,577 | 1,635,747 | 15,937,329 | 10,762,997 |
| **Liabilities** | | | | | | | | | | | | |
| Bills payable | - | 1,881,107 | - | - | - | - | - | - | - | - | - | 1,881,107 |
| Borrowings | 1.00 % to 12.50% | 19,491,854 | 12,038,590 | 5,390,128 | 1,303,450 | - | - | 1,318 | 580,083 | 178,285 | - | - |
| Deposits and other accounts | 0% to 14.3% | 84,676,090 | 37,141 | 40,184,526 | 2,331,083 | 1,168,669 | 5,523,391 | 126,527 | 101,143 | 264,478 | - | 34,939,132 |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | - | - | - |
| Subordinated debt | 12.84% | 1,495,515 | - | - | - | 1,495,515 | - | - | - | - | - | - |
| Other liabilities | - | 2,755,799 | - | - | - | - | - | - | - | - | - | 2,755,799 |
| | | 110,300,365 | 12,075,731 | 45,574,654 | 3,634,533 | 2,664,184 | 5,523,391 | 127,845 | 681,226 | 442,763 | - | 39,576,038 |
| **On-balance sheet gap** | | (20,725,041) | (10,581,564) | (4,343,026) | (987,603) | 2,005,665 | 2,378,560 | 1,938,304 | 547,351 | 1,192,984 | 15,937,329 | (28,813,041) |
| **Off-balance sheet financial instruments** | | | | | | | | | | | | |
| Commitments in respect of: | | | | | | | | | | | | |
| - forward foreign exchange contracts | | 4,315,350 | 1,357,729 | 2,453,109 | 504,512 | - | - | - | - | - | - | - |
| **Off-balance sheet gap** | | 4,315,350 | 1,357,729 | 2,453,109 | 504,512 | - | - | - | - | - | - | - |
| **Total Yield / Interest Risk Sensitivity Gap** | | | (9,223,835) | (1,889,917) | (483,091) | 2,005,665 | 2,378,560 | 1,938,304 | 547,351 | 1,192,984 | 15,937,329 | (28,813,041) |
| **Cumulative Yield / Interest Risk Sensitivity Gap** | | | (9,223,835) | (11,113,752) | (11,596,843) | (9,591,178) | (7,212,618) | (5,274,314) | (4,726,963) | (3,533,979) | 12,403,350 | (16,409,691) |

**Reconciliation of assets and liabilities exposed to yield / interest rate risk with total assets and liabilities**

| | 2018 -- (Rupees in '000) -- |
|---|---|
| **Total financial assets** | 89,575,324 |
| **Add: Non financial assets** | |
| Fixed assets | 8,708,878 |
| Intangible assets | 204,912 |
| Deferred tax assets | 7,214,989 |
| Other assets | 8,923,889 |
| **Total assets as per statement of financial position** | 114,627,992 |
| **Total financial liabilities** | 110,300,365 |
| **Add: Non financial liabilities** | |
| Other liabilities | 1,575,024 |
| **Total liabilities as per statement of financial position** | 111,875,389 |



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### 43.3 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Board Risk Management Committee oversees the implementation of operational risk management which is governed by the Operational Risk Management Policy and Procedures of the Bank. In compliance with the regulatory guidelines, a separate unit is established within the Risk Management Division which is responsible for the implementation of the risk management framework across the Bank.
In accordance with the Operational Risk policy and framework, various tools and techniques are being implemented to identify, assess, measure and control operational risk embedded in the exposures, products, systems and processes. These tools include collection of operational loss data, development and monitoring of Key Risk Indicators and Risk Control Self Assessment exercise.

The Bank seeks to manage the operational risk from two perspectives, firstly by way of ensuring compliance of standard operating procedures including defined processes for prevention and detection of any fraud and forgery, and work place safety and security, secondly through contingency planning to ensure continuity of business. Policies and procedures covering all activities in Bank are in place. Besides these, to ensure business continuity, the Bank has implemented Business Continuity Plan (BCP) across the Bank for which BCP and Disaster Recovery Tests are performed on a regular basis.

The Bank maintains a system of internal controls designed to keep operational risk at appropriate levels, in view of the Bank's financial strength and the characteristics of the activities and market in which it operates. These internal controls are periodically updated to conform to the industry best practices.

The Bank implemented the Internal Control Guidelines issued by the State Bank of Pakistan and had successfully completed the road map issued with respect to internal controls over financial reporting. Moreover, a separate Internal Control Unit has been setup to continuously monitor the implementation of sound internal controls within the Bank.

The Bank has set up IT Security Division to manage IT security risk faced by the Bank. The Bank will continue to strengthen its cyber defence mechanism by utilising effective preventive and detective information security measure to counter evolving cyber challenges.

### 43.4 Liquidity Risk

Liquidity Risk is the risk that the Bank may be unable to meet its payment obligations as they become due, or to fund assets, at a reasonable cost, because of an inability to liquidate assets, or to obtain adequate funding.

The liquidity risk policy of the Bank is formulated keeping in view State Bank guidelines on risk management and best market practice. The Bank's Asset and Liability Committee (ALCO) reviews the liquidity position on a periodic basis. Liquidity Management policy of the Bank aims to maintain adequate liquidity at all times and in all currencies under both normal and stress conditions, to meet the Bank's contractual and potential payment obligations without incurring additional and unacceptable cost to the business. Treasury is responsible for managing liquidity under the guidance of Asset and Liability Committee of the Bank.

The Bank maintains a portfolio of highly marketable assets i.e. Market Treasury Bills, Pakistan Investment Bonds and GoP Ijarah Sukuk, that can either be sold in the open market or funds can be arranged there against under repo arrangements. This is further supported by investments in short term securities. In line with its liquidity risk management policy, the Bank aims to maintain a cushion over and above the minimum statutory liquidity requirement prescribed by SBP for maintaining liquidity reserves to ensure continuity of cash flows.

The Bank uses liquidity gap ladder to assess the liquidity gaps and liquidity needs in different time buckets, under normal and stressed scenarios. Sources of liquidity are regularly reviewed / monitored by the Asset and Liability Committee (ALCO). The ALCO reviews the current economic situation, projected cash flows and asset / liability mix and approves strategy for managing appropriate liquidity. The liquidity risk management policy of the Bank encompasses liquidity contingency plan for actions to be taken in case of liquidity crises.

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

| | 2019 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Up to 1 Day | Over 1 to 7 days | Over 7 to 14 days | Over 14 days to 1 Month | Over 1 to 2 Months | Over 2 to 3 Months | Over 3 to 6 Months | Over 6 to 9 Months | Over 9 months to 1 year | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 5 Years | Over 5 Years |
| | (Rupees in '000) | | | | | | | | | | | | | |
| **Assets** | | | | | | | | | | | | | | |
| Cash and balances with treasury banks | 5,613,556 | 4,688,473 | 60,756 | 56,286 | 119,102 | 67,063 | 149,358 | 147,600 | 107,943 | 185,627 | 14,288 | 10,197 | 6,781 | 82 |
| Balances with other banks | 930,810 | 355,551 | - | - | 387,119 | - | - | 126,201 | - | 61,939 | - | - | - | - |
| Lendings to financial institutions | 991,272 | - | 991,272 | - | - | - | - | - | - | - | - | - | - | - |
| Investments | 21,959,499 | 1,771 | 76,669 | 78,440 | 156,880 | 313,760 | 5,955,381 | 1,413,239 | 4,188,623 | - | 2,443,093 | 1,990,080 | 3,357,179 | 1,984,384 |
| Advances | 43,242,325 | 48,686 | 28,319 | 35,880 | 2,714,137 | 2,356,519 | 2,057,247 | 5,959,754 | 5,135,121 | 1,969,548 | 7,426,845 | 1,521,210 | 1,830,457 | 12,158,602 |
| Fixed assets | 10,180,966 | 1,394 | 8,364 | 9,758 | 22,305 | 41,822 | 41,822 | 125,466 | 125,466 | 203,300 | 508,834 | 508,834 | 727,252 | 7,856,349 |
| Intangible assets | 148,557 | 59 | 351 | 410 | 933 | 1,756 | 1,756 | 5,267 | 5,267 | 52,747 | 21,361 | 21,361 | 23,110 | 14,179 |
| Deferred tax assets | 11,606,393 | (264) | (7,481) | (7,745) | (15,808) | (31,296) | 42,925 | (99,013) | (12,643) | (15,137) | 896,310 | 3,159,919 | 5,972,834 | 1,723,792 |
| Other assets | 11,202,160 | 57,332 | 927,936 | 196,842 | 432,832 | 528,409 | 369,671 | 371,197 | 354,514 | 354,514 | 3,369,561 | 3,369,543 | 869,809 | - |
| | 105,875,538 | 5,153,002 | 2,086,186 | 369,871 | 3,817,500 | 3,278,033 | 8,618,160 | 8,049,711 | 9,904,291 | 2,812,538 | 14,680,292 | 10,581,144 | 12,787,422 | 23,737,388 |
| **Liabilities** | | | | | | | | | | | | | | |
| Bills payable | 1,815,836 | 1,815,836 | - | - | - | - | - | - | - | - | - | - | - | - |
| Borrowings | 13,504,780 | 171,055 | 5,450,716 | 11,000 | 344,300 | 3,625,640 | 2,168,050 | 871,150 | - | - | 794 | 78,890 | 558,786 | 224,399 |
| Deposits and other accounts | 88,567,490 | 73,972,065 | 958,570 | 888,056 | 1,879,092 | 1,058,087 | 2,356,478 | 2,328,751 | 1,703,069 | 2,928,717 | 225,423 | 160,888 | 106,994 | 1,300 |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Subordinated debt | 1,495,515 | - | - | - | - | - | - | - | - | 1,495,515 | - | - | - | - |
| Deferred tax liabilities | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other liabilities | 6,090,140 | 55,990 | 645,014 | 86,060 | 327,833 | 311,096 | 244,319 | 518,619 | 88,699 | 249,404 | 959,358 | 866,803 | 676,959 | 1,059,986 |
| | 111,473,761 | 76,014,946 | 7,054,300 | 985,116 | 2,551,225 | 4,994,823 | 4,768,847 | 3,718,520 | 1,791,768 | 4,673,636 | 1,185,575 | 1,106,581 | 1,342,739 | 1,285,685 |
| **Net assets** | (5,598,223) | (70,861,944) | (4,968,114) | (615,245) | 1,266,275 | (1,716,790) | 3,849,313 | 4,331,191 | 8,112,523 | (1,861,098) | 13,494,717 | 9,474,563 | 11,444,683 | 22,451,703 |

| | |
|---|---|
| Share capital - net | 20,500,194 |
| Reserves | (425,043) |
| Accumulated losses | (29,203,728) |
| Surplus on revaluation of assets | 3,530,354 |
| | (5,598,223) |



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| | 2018 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Up to 1 Day | Over 1 to 7 days | Over 7 to 14 days | Over 14 days to 1 Month | Over 1 to 2 Months | Over 2 to 3 Months | Over 3 to 6 Months | Over 6 to 9 Months | Over 9 months to 1 year | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 5 Years | Over 5 Years |
| | (Rupees in '000) | | | | | | | | | | | | | |
| **Assets** | | | | | | | | | | | | | | |
| Cash and balances with treasury banks | 5,043,089 | 4,387,698 | - | 2,198 | 14 | 84,380 | 2,092 | 138,833 | 67,921 | 1,682 | 328,959 | 7,536 | 6,024 | 15,752 |
| Balances with other banks | 996,982 | 481,110 | - | - | - | 347,155 | - | 113,172 | - | 55,545 | - | - | - | - |
| Lendings to financial institutions | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Investments | 19,256,375 | 10,082 | 97,115 | 76,829 | 153,658 | 307,315 | 1,684,416 | 1,117,707 | 1,778,155 | 535,441 | 7,914,591 | 1,987,441 | 1,073,378 | 2,520,247 |
| Advances | 61,245,877 | 2,746,402 | 116,748 | 333,163 | 5,134,817 | 4,450,902 | 3,585,311 | 7,928,017 | 7,175,062 | 3,475,324 | 3,237,243 | 2,571,701 | 3,057,142 | 17,434,045 |
| Fixed assets | 8,708,878 | 1,241 | 7,443 | 8,684 | 19,849 | 37,217 | 37,217 | 111,652 | 504,872 | 117,855 | 452,809 | 452,809 | 772,540 | 6,184,690 |
| Intangible assets | 204,912 | 244 | 333 | 575 | 1,315 | 2,465 | 2,465 | 7,395 | 7,395 | 61,294 | 29,992 | 29,992 | 59,984 | 1,463 |
| Deferred tax assets | 7,214,989 | (2) | 4,974 | 4,972 | 9,613 | 19,556 | 451,219 | 55,590 | (14,871) | (15,696) | 402,102 | 1,913,527 | 3,703,775 | 680,230 |
| Other assets | 11,956,890 | 239,279 | 1,591,878 | 71,156 | 261,310 | 553,188 | 186,305 | 294,933 | 215,927 | 350,912 | 3,563,920 | 3,563,920 | 1,064,162 | - |
| | 114,627,992 | 7,866,054 | 1,818,491 | 497,577 | 5,580,576 | 5,802,178 | 5,949,025 | 9,767,299 | 9,734,461 | 4,582,357 | 15,929,616 | 10,526,926 | 9,737,005 | 26,836,427 |
| **Liabilities** | | | | | | | | | | | | | | |
| Bills payable | 1,881,107 | 1,881,107 | - | - | - | - | - | - | - | - | - | - | - | - |
| Borrowings | 19,491,854 | 6,350 | 10,683,190 | 2,000 | 1,353,400 | 4,936,728 | 453,400 | 1,297,100 | - | - | - | 1,318 | 580,083 | 178,285 |
| Deposits and other accounts | 84,676,090 | 73,671,758 | - | 36,900 | 241 | 1,416,781 | 35,119 | 2,331,083 | 1,140,421 | 28,248 | 5,523,391 | 126,527 | 101,143 | 264,478 |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Subordinated debt | 1,495,515 | - | - | - | - | - | - | - | - | 1,495,515 | - | - | - | - |
| Deferred tax liabilities | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other liabilities | 4,330,823 | 233,314 | 504,298 | 82,587 | 256,247 | 589,693 | 214,436 | 211,636 | 28,233 | 251,050 | 848,972 | 655,534 | 448,406 | 6,417 |
| | 111,875,389 | 75,792,529 | 11,187,488 | 121,487 | 1,609,888 | 6,943,202 | 702,955 | 3,839,819 | 1,168,654 | 1,774,813 | 6,372,363 | 783,379 | 1,129,632 | 449,180 |
| **Net assets** | 2,752,603 | (67,926,475) | (9,368,997) | 376,090 | 3,970,688 | (1,141,024) | 5,246,070 | 5,927,480 | 8,565,807 | 2,807,544 | 9,557,253 | 9,743,547 | 8,607,373 | 26,387,247 |
| Share capital - net | 20,500,194 | | | | | | | | | | | | | |
| Reserves | (425,043) | | | | | | | | | | | | | |
| Accumulated losses | (19,899,372) | | | | | | | | | | | | | |
| Surplus on revaluation of assets | 2,576,824 | | | | | | | | | | | | | |
| | 2,752,603 | | | | | | | | | | | | | |

### 43.4.2 Maturities of assets and liabilities - based on expected maturities of the assets and liabilities of the Bank

Maturity gaps of all assets and liabilities are based on contractual maturities. The maturity profile of certain non-contractual assets and liabilities is based on the behavioural study. The Bank has used VAR methodology which excludes 5% extreme volatilities thus leaving 95% confidence results.

| | 2019 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Up to 1 Month | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years |
| | (Rupees in '000) | | | | | | | | | |
| **Assets** | | | | | | | | | | |
| Cash and balances with treasury banks | 5,613,556 | 542,026 | 339,207 | 185,566 | 338,830 | 61,600 | 19,888 | 700,729 | 1,716,185 | 1,709,525 |
| Balances with other banks | 930,810 | 742,670 | - | 126,201 | 61,939 | - | - | - | - | - |
| Lendings to financial institutions | 991,272 | 991,272 | - | - | - | - | - | - | - | - |
| Investments | 21,959,499 | 313,760 | 6,269,141 | 1,413,239 | 4,188,623 | 2,443,093 | 1,990,080 | 3,357,179 | 1,984,384 | - |
| Advances | 43,242,325 | 2,827,021 | 4,413,767 | 5,959,754 | 7,104,669 | 7,426,845 | 1,521,210 | 1,830,457 | 220,192 | 11,938,410 |
| Fixed assets | 10,180,966 | 41,821 | 83,644 | 125,466 | 328,766 | 508,834 | 508,834 | 727,252 | 1,476,160 | 6,380,189 |
| Intangible assets | 148,557 | 1,756 | 3,509 | 5,267 | 58,014 | 21,361 | 21,361 | 23,110 | 14,179 | - |
| Deferred tax assets | 11,606,393 | (31,298) | 11,629 | (99,013) | (27,780) | 896,310 | 3,159,919 | 5,972,834 | 2,621,207 | (897,415) |
| Other assets | 11,202,160 | 1,614,942 | 898,080 | 371,197 | 709,028 | 3,369,561 | 3,369,543 | 869,809 | - | - |
| | 105,875,538 | 7,043,970 | 12,018,977 | 8,087,677 | 12,762,089 | 14,727,604 | 10,590,835 | 13,481,370 | 8,032,307 | 19,130,709 |
| **Liabilities** | | | | | | | | | | |
| Bills payable | 1,815,836 | 1,815,836 | - | - | - | - | - | - | - | - |
| Borrowings | 13,504,780 | 5,977,070 | 5,793,691 | 871,150 | - | 794 | 78,890 | 558,786 | 224,399 | - |
| Deposits and other accounts | 88,567,490 | 8,551,784 | 5,351,797 | 2,927,759 | 5,345,869 | 971,886 | 313,783 | 11,055,703 | 27,076,995 | 26,971,914 |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | - |
| Subordinated debt | 1,495,515 | - | - | - | 1,495,515 | - | - | - | - | - |
| Deferred tax liabilities | - | - | - | - | - | - | - | - | - | - |
| Other liabilities | 6,090,140 | 1,114,896 | 555,416 | 518,619 | 338,103 | 959,358 | 866,803 | 676,959 | 1,059,986 | - |
| | 111,473,761 | 17,459,586 | 11,700,904 | 4,317,528 | 7,179,487 | 1,932,038 | 1,259,476 | 12,291,448 | 28,361,380 | 26,971,914 |
| **Net assets** | (5,598,223) | (10,415,616) | 318,073 | 3,770,149 | 5,582,602 | 12,795,566 | 9,331,359 | 1,189,922 | (20,329,073) | (7,841,205) |
| Share capital - net | 20,500,194 | | | | | | | | | |
| Reserves | (425,043) | | | | | | | | | |
| Accumulated losses | (29,203,728) | | | | | | | | | |
| Surplus on revaluation of assets | 3,530,354 | | | | | | | | | |
| | (5,598,223) | | | | | | | | | |



Summit Bank Committed to you

| | 2018 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Up to 1 Month | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years |
| | (Rupees in '000) | | | | | | | | | |
| **Assets** | | | | | | | | | | |
| Cash and balances with treasury banks | 5,043,089 | 133,755 | 175,617 | 213,032 | 215,823 | 390,038 | 64,894 | 656,988 | 1,608,322 | 1,584,620 |
| Balances with other banks | 996,982 | 481,110 | 347,155 | 113,172 | 55,545 | - | - | - | - | - |
| Lendings to financial institutions | - | - | - | - | - | - | - | - | - | - |
| Investments | 19,256,375 | 337,683 | 1,991,731 | 1,117,707 | 2,313,597 | 7,914,591 | 1,987,441 | 1,073,378 | 2,520,247 | - |
| Advances | 61,245,877 | 8,331,130 | 8,036,213 | 7,928,017 | 10,650,386 | 3,237,243 | 2,571,701 | 3,057,142 | 2,865,000 | 14,569,045 |
| Fixed assets | 8,708,878 | 37,218 | 74,434 | 111,652 | 622,726 | 452,809 | 452,809 | 772,540 | 881,092 | 5,303,598 |
| Intangible assets | 204,912 | 2,467 | 4,930 | 7,395 | 68,689 | 29,992 | 29,992 | 59,984 | 1,463 | - |
| Deferred tax assets | 7,214,989 | 19,557 | 470,775 | 55,590 | (30,567) | 402,102 | 1,913,527 | 3,703,775 | 1,627,212 | (946,982) |
| Other assets | 11,956,890 | 2,163,623 | 739,493 | 294,933 | 566,839 | 3,563,920 | 3,563,920 | 1,064,162 | - | - |
| | 114,627,992 | 11,506,543 | 11,840,348 | 9,841,498 | 14,463,038 | 15,990,695 | 10,584,284 | 10,387,969 | 9,503,336 | 20,510,281 |
| **Liabilities** | | | | | | | | | | |
| Bills payable | 1,881,107 | 1,881,107 | - | - | - | - | - | - | - | - |
| Borrowings | 19,491,854 | 12,044,940 | 5,390,128 | 1,297,100 | - | - | 1,318 | 580,083 | 178,285 | - |
| Deposits and other accounts | 84,676,090 | 2,245,791 | 2,948,709 | 3,576,924 | 3,623,780 | 6,548,945 | 1,089,610 | 11,031,169 | 27,004,569 | 26,606,593 |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | - |
| Subordinated debt | 1,495,515 | - | - | - | 1,495,515 | - | - | - | - | - |
| Deferred tax liabilities | - | - | - | - | - | - | - | - | - | - |
| Other liabilities | 4,330,823 | 1,076,446 | 804,129 | 211,636 | 279,283 | 848,972 | 655,534 | 448,406 | 6,417 | - |
| | 111,875,389 | 17,248,284 | 9,142,966 | 5,085,660 | 5,398,578 | 7,397,917 | 1,746,462 | 12,059,658 | 27,189,271 | 26,606,593 |
| **Net assets** | 2,752,603 | (5,741,741) | 2,697,382 | 4,755,838 | 9,064,460 | 8,592,778 | 8,837,822 | (1,671,689) | (17,685,935) | (6,096,312) |

| | |
|---|---|
| Share capital - net | 20,500,194 |
| Reserves | (425,043) |
| Accumulated losses | (19,899,372) |
| Surplus on revaluation of assets | 2,576,824 |
| | 2,752,603 |

### 43.5 Derivative Risk

The policy guidelines for taking derivative exposures are approved by the Board of Directors (BOD). Bank's Asset and Liability Committee (ALCO) is responsible for reviewing and managing associated risks of the transactions.

The overall responsibility for managing derivatives and sustaining profitability lies with the treasury front office / Head of Treasury. Treasury middle office (TMO) / market risk management function of the Bank is responsible for monitoring the risk exposure and for analysis of present and potential risk factors arising from the same. The TMO also monitors associated risks in line with the Board of Directors' approved limits / policies and coordinates with the business for necessary approvals of the derivatives risk limits and also produces necessary reports / analysis as may be required.

## 44. CORRESPONDING FIGURES

Corresponding figures have been re-classified, wherever necessary for the purposes of comparison.

## 45. DATE OF AUTHORISATION FOR ISSUE

These unconsolidated financial statements were authorised for issue on October 08, 2021 by the Board of Directors of the Bank.

| President / Chief Executive | Chief Financial Officer | Director | Director | Director |
|---|---|---|---|---|

Annexure - I

## STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF RUPEES FIVE HUNDRED THOUSAND OR ABOVE PROVIDED DURING THE YEAR ENDED DECEMEBR 31, 2019

| S.No. | Name and address of the borrower | Name of individuals / partners / directors (with CNIC No.) | Father's / Husband's name | Outstanding Liabilities as at January 01, 2019 | | | | Principal written-off | Interest / Mark-up written-off / waived | Other financial relief provided | Total (9+10+11) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Principal | Interest / Mark-up | Other than Interest / | Total | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| | | | | (Rupees in '000) | | | | | | | |
| 1 | Muhammad Younas Chaudry St#2 Mehar Bagoo Wali Muhallah Bakhtay Wala Grw | 34101-2722258-9 | Muhammad Amin | 2,594 | 466 | - | 3,060 | 573 | 465 | - | 1,038 |
| 2 | Mujahid Hussain 235/6 Haji Mehar Din Rd Misri Shah Lahore | 35202-7866193-7 | Muhammad Yaqoob | 1,198 | 335 | - | 1,533 | 336 | 335 | - | 671 |
| 3 | Shahzad Rafique House No 05 Raza Shaheed Road Cantt Peshawar | 17301-0525852-9 | Muhammad Rafique | 945 | 308 | - | 1,253 | 284 | 308 | - | 592 |
| 4 | Chaudhary Rashid Sana H# 08 St# 23 Sector F-7/2 Islamabad | 61101-2014691-7 | Chaudhary Sana Ullah | 1,492 | 486 | - | 1,978 | 448 | 486 | - | 934 |
| | | | **Total** | **6,229** | **1,595** | **-** | **7,824** | **1,641** | **1,594** | **-** | **3,235** |

**Annexure - II**

## ISLAMIC BANKING BUSINESS

The Bank commenced its Islamic Banking Operations in Pakistan on March 07, 2014 and is operating with 14 (2018: 14) Islamic banking branches and 35 (2018: 35) Islamic banking windows at the end of the year.

## STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2019

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | -------- (Rupees in '000) -------- | |
| **ASSETS** | | | |
| Cash and balances with treasury banks | | **451,368** | 269,475 |
| Balances with other banks | | **10,907** | 78,061 |
| Due from financial institutions | *1* | **14,201,113** | 10,722,364 |
| Investments | | **-** | - |
| Islamic financing and related assets - net | *2* | **3,831,205** | 6,662,890 |
| Fixed assets | | **320,842** | 121,507 |
| Intangible assets | | **4,638** | 6,861 |
| Due from Head Office | | **-** | - |
| Other assets | | **409,944** | 463,969 |
| **Total Assets** | | **19,230,017** | 18,325,127 |
| **LIABILITIES** | | | |
| Bills payable | | **194,231** | 125,319 |
| Due to financial institutions | *3* | **250,000** | 950,000 |
| Deposits and other accounts | *4* | **15,448,224** | 15,212,719 |
| Due to Head Office | | **-** | - |
| Subordinated debt | | **-** | - |
| Deferred tax liabilities - net | | **-** | - |
| Other liabilities | | **1,794,811** | 411,894 |
| | | **17,687,266** | 16,699,932 |
| **NET ASSETS** | | **1,542,751** | 1,625,195 |
| **REPRESENTED BY** | | | |
| Islamic Banking Fund | | **1,000,000** | 1,000,000 |
| Reserves | | **-** | - |
| Surplus on revaluation of assets | | **-** | - |
| Unappropriated / unremitted profit | *6* | **542,751** | 625,195 |
| | | **1,542,751** | 1,625,195 |
| **CONTINGENCIES AND COMMITMENTS** | *7* | | |

Summit Bank
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Annexure - II

## ISLAMIC BANKING BUSINESS
## PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED DECEMBER 31, 2019

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | -------- (Rupees in '000) -------- | |
| Profit / return earned | 8 | **2,101,420** | 1,548,534 |
| Profit / return expensed | 9 | **821,890** | 679,940 |
| **Net Profit / return** | | **1,279,530** | 868,594 |
| **Other income** | | | |
| Fee and commission income | | **66,229** | 90,200 |
| Dividend income | | **-** | - |
| Foreign exchange loss | | **(105,624)** | (73,178) |
| Income / (loss) from derivatives | | **-** | - |
| Loss on sale of securities | | **(3,170)** | (14,638) |
| Other income | | **10,480** | 10,987 |
| **Total other income** | | **(32,085)** | 13,371 |
| **Total income** | | **1,247,445** | 881,965 |
| **Other expenses** | | | |
| Operating expenses | | **678,975** | 708,394 |
| Workers' welfare fund | | **-** | - |
| Other charges | | **702** | 1,235 |
| **Total other expenses** | | **679,677** | 709,629 |
| **Profit before provisions** | | **567,768** | 172,336 |
| Provisions and write offs - net | | **650,212** | 88,913 |
| **(Loss) / profit before taxation** | | **(82,444)** | 83,423 |
| Taxation | | **-** | - |
| **(Loss) / profit after taxation** | | **(82,444)** | 83,423 |

## ISLAMIC BANKING BUSINESS
## NOTES TO THE ANNEXURE II
## FOR THE YEAR ENDED DECEMBER 31, 2019

| | Note | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | | In Local Currency | In Foreign currencies | Total | In Local Currency | In Foreign currencies | Total |
| | | (Rupees in '000) | | | | | |
| **1 Due from Financial Institutions** | | | | | | | |
| ***Unsecured*** | | | | | | | |
| Bai Muajjal Receivable from other Financial Institutions | *1.1* | **14,001,113** | **-** | **14,001,113** | 10,722,364 | - | 10,722,364 |
| Musharakah | *1.2* | **200,000** | **-** | **200,000** | - | - | - |
| | | **14,201,113** | **-** | **14,201,113** | 10,722,364 | - | 10,722,364 |

**1.1** This represents Bai Muajjal agreements with conventional operations of Summit Bank Limited.

**1.2** This represents Musharakah placement to a financial institution at mark-up rate of 9.00% (2018: Nil) per annum and is due to mature by January 2020.

| **2 Islamic financing and related assets** | **Note** | **2019** | **2018** |
|---|---|---|---|
| | | (Rupees in '000) | |
| Ijarah | **2.1** | **636,161** | 919,439 |
| Murabaha | **2.2** | **8,945** | 16,444 |
| Running Musharakah | | **698,301** | 1,007,981 |
| Term Musharakah | | **-** | - |
| Diminishing Musharakah | | **2,516,321** | 3,721,717 |
| Istisna | | **-** | 31,403 |
| Tijarah | | **717,068** | 1,056,823 |
| Advance against Murabaha | | **-** | 4,042 |
| Advance against Diminishing Musharakah | | **-** | 500 |
| Qarz-e-Hasna | | **80** | - |
| Gross Islamic financing and related assets | | **4,576,876** | 6,758,349 |
| Less: provision against Islamic financings | | | |
| - Specific | | **(734,190)** | (82,573) |
| - General | | **(11,481)** | (12,886) |
| | | **(745,671)** | (95,459) |
| Islamic financing and related assets - net of provision | | **3,831,205** | 6,662,890 |

## 2.1 Ijarah

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cost | | | Accumulated Depreciation | | | Book Value as at December 31, 2019 |
| | As at January 01, 2019 | Additions / (deletions) | As at December 31, 2019 | As at January 01, 2019 | Charge for the year | As at December 31, 2019 | |
| | (Rupees in '000) | | | | | | |
| Plant and machinery | - | - | - | - | - | - | - |
| Vehicles consumer | 771,595 | (76,528) | 695,067 | 138,321 | 86,726 | 225,047 | 470,020 |
| Vehicles corporate | 590,237 | (37,792) | 552,445 | 304,072 | 82,232 | 386,304 | 166,141 |
| Equipment | - | | - | - | | - | - |
| Total | 1,361,832 | (114,320) | 1,247,512 | 442,393 | 168,958 | 611,351 | 636,161 |

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cost | | | Accumulated Depreciation | | | Book Value as at December 31, 2018 |
| | As at January 01, 2018 | Additions / (deletions) | As at December 31, 2018 | As at January 01, 2018 | Charge for the year | As at December 31, 2018 | |
| | (Rupees in '000) | | | | | | |
| Plant and machinery | - | - | - | - | - | - | - |
| Vehicles consumer | 537,613 | 233,982 | 771,595 | 40,230 | 98,091 | 138,321 | 633,274 |
| Vehicles corporate | 576,495 | 13,742 | 590,237 | 217,715 | 86,357 | 304,072 | 286,165 |
| Equipment | - | | - | - | | - | - |
| Total | 1,114,108 | 247,724 | 1,361,832 | 257,945 | 184,448 | 442,393 | 919,439 |

**Future Ijarah payments receivable**

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Not later than 1 year | Later than 1 year& less than 5 years | Over Five years | Total | Not later than 1 year | Later than 1 year& less than 5 years | Over Five years | Total |
| | (Rupees in 000) | | | | | | | |
| Ijarah rental receivables | 240,528 | 395,633 | - | 636,161 | 98,824 | 818,665 | 1,950 | 919,439 |

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **2.2 Murabaha** | | | |
| Murabaha financing | 2.2.1 | 8,945 | 16,444 |
| Advances for Murabaha | | - | 4,042 |
| | | 8,945 | 20,486 |
| **2.2.1** Murabaha receivable - gross | 2.2.2 | 9,594 | 52,168 |
| Less: Deferred murabaha income | 2.2.4 | (649) | (35,724) |
| Murabaha financings | | 8,945 | 16,444 |

| | | Note | 2019 | 2018 |
|---|---|---|---|---|
| | | | ------- (Rupees in '000) ------- | |
| 2.2.2 | The movement in Murabaha financing during the year is as follows: | | | |
| | Opening balance | | **52,168** | 720,848 |
| | Sales during the year | | **22,423** | 2,300,048 |
| | Adjusted during the year | | **(64,997)** | (2,968,728) |
| | Closing balance | | **9,594** | 52,168 |
| 2.2.3 | Murabaha sale price | | **22,423** | 2,300,048 |
| | Murabaha purchase price | | **(20,899)** | (2,239,451) |
| | | | **1,524** | 60,597 |
| 2.2.4 | Deferred murabaha income | | | |
| | Opening balance | | **35,724** | 23,525 |
| | Arising during the year | | **1,524** | 60,597 |
| | Less: Recognised during the year | | **(36,599)** | (48,398) |
| | Closing balance | | **649** | 35,724 |
| 3 | **Due to financial institutions** | | | |
| | ***Secured*** | | | |
| | Acceptances from the SBP under Islamic Export Refinance Scheme | *3.1* | **250,000** | 250,000 |
| | ***Total secured*** | | **250,000** | 250,000 |
| | ***Unsecured*** | | | |
| | Musharakah | *3.2* | **-** | 700,000 |
| | ***Total unsecured*** | | **-** | 700,000 |
| | | | **250,000** | 950,000 |

**3.1** The Bank has entered into an agreement with SBP for extending export finance to its islamic customers. Borrowing under the export refinance scheme of SBP carry profit rate of 2.00% per annum (2018: 2.00% per annum). These are secured against demand promissory notes and are due to mature by March 2020 (2018: February 2019).

**3.2** This represented Musharaka acceptance with conventional operations of Summit Bank Limited.

**4 Deposits**

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | In local currency | In foreign currencies | Total | In local currency | In foreign currencies | Total |
| | ---------- (Rupees in '000) ---------- | | | | | |
| **Customers** | | | | | | |
| Current deposits | **4,794,164** | **487,731** | **5,281,895** | 4,865,906 | 541,588 | 5,407,494 |
| Savings deposits | **8,248,534** | **86,186** | **8,334,720** | 7,700,010 | 127,458 | 7,827,468 |
| Term deposits | **1,152,052** | **293,686** | **1,445,738** | 1,038,665 | 95,320 | 1,133,985 |
| Margin accounts | **230,383** | **-** | **230,383** | 581,337 | - | 581,337 |
| | **14,425,133** | **867,603** | **15,292,736** | 14,185,918 | 764,366 | 14,950,284 |
| **Financial Institutions** | | | | | | |
| Current deposits | **77,812** | **121** | **77,933** | 96,313 | 107 | 96,420 |
| Savings deposits | **77,555** | **-** | **77,555** | 156,015 | - | 156,015 |
| Term deposits | **-** | **-** | **-** | 10,000 | - | 10,000 |
| | **155,367** | **121** | **155,488** | 262,328 | 107 | 262,435 |
| | **14,580,500** | **867,724** | **15,448,224** | 14,448,246 | 764,473 | 15,212,719 |

| | | 2019 | 2018 |
|---|---|---|---|
| | | ------ (Rupees in '000) ------ | |
| **4.1** | **Composition of deposits** | | |
| | - Individuals | **10,851,572** | 9,250,813 |
| | - Government (Federal and Provincial) | **557,777** | 1,153,904 |
| | - Public Sector Entities | **5,494** | 10,098 |
| | - Banking Companies | **22,856** | 4 |
| | - Non-Banking Financial Institutions | **430,836** | 262,486 |
| | - Private Sector | **3,579,689** | 4,535,414 |
| | | **15,448,224** | 15,212,719 |

**4.2** This includes deposits eligible to be covered under insurance arrangements amounting to Rs. 9,033.794 million (2018: Rs. 8,885.304 million).

| | | 2019 | 2018 |
|---|---|---|---|
| | | ------ (Rupees in '000) ------ | |
| **5** | **Charity Fund** | | |
| | Opening balance | **1,032** | 63 |
| | **Additions during the year** | | |
| | - Received from customers on account of delayed payment | **504** | 969 |
| | - Dividend purification amount | **-** | - |
| | - Profit on charity saving account | **-** | - |
| | - Other Non-Shariah compliant income | **-** | - |
| | | **504** | 969 |
| | **Payments / utilization during the year** | | |
| | - Education | **-** | - |
| | - Health | **(1,032)** | - |
| | - Others | **-** | - |
| | | **(1,032)** | - |
| | Closing balance | **504** | 1,032 |
| **6** | **Islamic Banking Business Unappropriated Profit** | | |
| | Opening balance | **625,195** | 541,772 |
| | (Less) / add: Islamic Banking (loss) / profit for the year | **(82,444)** | 83,423 |
| | Closing balance | **542,751** | 625,195 |

| | 2019 | 2018 |
|---|---|---|
| | ------ (Rupees in '000) ------ | |

## 7 CONTINGENCIES AND COMMITMENTS

| | | |
|---|---|---|
| -Guarantees | **3,962,232** | 4,478,490 |
| -Commitments | **1,178,059** | 1,646,920 |
| -Other contingent liabilities | **-** | - |
| | **5,140,291** | 6,125,410 |

## 8 Profit / Return Earned of Financing, Investments and Placement

| | | |
|---|---|---|
| Profit earned on: | | |
| Financing | **733,045** | 779,243 |
| Investments | **-** | 639,159 |
| Placements | **1,367,791** | 130,132 |
| Balances with banks | **584** | - |
| | **2,101,420** | 1,548,534 |

## 9 Profit on Deposits and other Dues Expensed

| | | |
|---|---|---|
| Deposits and other accounts | **762,134** | 665,026 |
| Due to Financial Institutions | **29,111** | 14,914 |
| Finance cost of lease liability | **30,645** | - |
| | **821,890** | 679,940 |

## 10 Pool Management

Summit Bank Limited - Islamic Banking Division (SMBL-IBD) operates General & Specific Pools for deposits and interbank funds accepted under Modaraba and Musharkah modes.

Features, risks and rewards of the pools are given below:

### (i) Specific pool

Specific pools are operated for funds acquired / accepted from customers in foreign currencies (FCY) in addition to Pakistani Rupees (PKR) for customers willing to invest in specific sectors / industry / exposures for want of higher returns. These pools operate in accordance with the rules as specified under general pool disclosure, however, varies in degree of risks associated with the investments / assets. Similarly, for interbank acceptances specific pool(s) based on Musharkah are also maintained by the Bank to meet liquidity requirement of the Bank. SMBL-IBD maintains 10 (Ten) Local Currency (LCY) and 01 (one) Foreign Currency (FCY) specific pools.

### (ii) General pool

General pool is the basket in which all the deposits from depositors are placed along with the Bank's own equity as well as funds from other financial institutions. The general pool is based on the principle of unrestricted Modaraba. An unrestricted Modaraba contract is a contract in which the depositor permits the Bank to administer the funds without any restrictions. In this case, the Bank has a wide range of trade or business freedom on the basis of trust and the business expertise the Bank has acquired.

However, such unrestricted business freedom in an unrestricted Modaraba must be exercised only in accordance with the interests of the parties and the objectives of the Modaraba contract, which is making profit. Therefore, the actions of the Bank must be in accordance with the business customs relating to the Banking operations. SMBL-IBD maintains 01 LCY and 01 FCY General pool.

**(a) Priority of utilization of funds in the general pool shall be:**

- Depositor Funds.
- Equity Funds.
- Placement / Investments of Other IBI.
- Modaraba Placement of Summit Bank Limited (Counterparty).

**(b) Weightages for distribution of profit in general pool**

The weightages are calculated and declared monthly as the pool is constructively liquidated at end of each month and created simultaneously. The Bank declares such weightages at least 3 days before the beginning of the month, after the approval of the Shariah Advisor / RSBM of the Bank. The maximum weightage to the Modaraba based deposit of any nature, tenor and amount does not exceed 3 times of the weightages assigned to normal saving deposits (minimum balance category).

The weightages assigned to all categories of pool deposits are assigned uniformly on a consistent basis, based on the following parameters / criteria (but not limited to):

- contracted period of deposits;
- frequency of profit distribution, monthly, quarterly or on maturity;
- volume of the deposit;
- product structure; and
- management discretion.

**(c) Identification and allocation of pool related income and expenditure**

The allocation of income and expenses to different pools is based on pre-defined basis and accounting principles / standards. According to Shariah rules and principles, all direct expenses are expensed out of the total profit i.e. always charged to the pool.

The direct expenses to be charged to the pool shall include all the direct cost of transaction including the following:

- depreciation of Ijarah assets;
- cost of sales of inventories;
- Takaful expenses of pool assets;
- taxes (sales tax and service tax levied by the provincial government);
- stamp fee or documentation charges;
- other costs / foreign exchange losses (if ascertainable);
- brokerage fee for purchase of securities / commodities etc.; and
- impairment / losses due to physical damages to specific assets in pools etc.

Indirect expenses can be categorized as those which are agreed with the saving and deposit account holders to be borne by the Mudarib.

All income pertaining to specific assets for specific periods should be allocated to the pool to which the assets are tagged during the period. Due care should be taken while recognizing revenue from assets. Revenue recognition for each type / class of assets should be in-line with the respective Shariah principles. Further, the financing will be diversified across different sectors and in compliance with the prudential regulation for exposure of individual and corporate clients. Income generated from non-financing activities (fee / commission / service charges) that were not relevant to the general pool were not credited to the pool and relevant expenses were also not charged to the pool.

**(d) Parameters associated with risk and rewards**

**(i)** The risks related to any pool depend upon the nature of the pool and the purpose for which the pool has been created. Considering the low risk tolerance of the investors of the profit and loss distribution pool, the key objective remained to earn competitive returns while containing the risk (volatility) of the returns to a minimum.

**(ii) Risks to which the financing assets of the Bank may be exposed to are:**

- Credit risk which is generally defined as the potential that a counter party fails to meet its obligations in accordance with agreed terms. Therefore, the Bank has sound credit risk management policies to protect the depositors' / Investment Account Holders (IAH) from loss due to credit risk;

- Market risk is generally defined as defined as the risk of losses in on- and off-balance sheet positions arising from movements in market prices i.e. fluctuations in values in tradable or marketable assets (including Sukuks) and in off-balance sheet individual portfolios (for example restricted investment accounts). The risks relate to the current and future volatility of market values of specific assets and of foreign exchange rates; and

- Equity Investment Risk is generally defined as risk associated with holding equity investments during unfavourable situations, where decline in investment caused by market conditions in turn gives volatility of earnings of Musharakah and Modaraba investments.

**(iii) Risks to which the profit and loss distribution pool may be exposed to are:**

- Liquidity risk which is the potential loss to the Bank arising from their inability either to meet their obligations or to fund increases in assets as they fall due without incurring unacceptable costs or losses. In order to mitigate the liquidity risk the Bank should invest in a combination of liquid and illiquid assets to be able to meet their obligations towards the depositors' / investment account holder; and

- Rate of return risk to which the Bank may be exposed to in the context of its overall balance sheet exposures. An increase in benchmark rates may result in savings account holders having expectations of a higher rate of return. A consequence of rate of return risk may be displaced commercial risk. Therefore, the Bank employ a gapping method for allocating positions into time bands with remaining maturities or re-pricing dates, whichever is earlier.

| **Avenues / sectors of economy / business where deposits have been deployed*** | **2019** | **2018** |
|---|---|---|
| | **------ (Rupees in '000) ------** | |
| Cement | **254,967** | 378,330 |
| Chemical and pharmaceuticals | **218,052** | 61,167 |
| Construction | **47,275** | 205,970 |
| Education | **11,998** | 23,996 |
| Electronics and electrical appliances | **991,624** | 1,403,041 |
| Exports / imports | **80,505** | 106,608 |
| Food, tobacco and beverages | **263,541** | 282,802 |
| Health care | **11,781** | 14,867 |
| Individuals | **634,738** | 859,033 |
| Miscellaneous manufacturing | **265,978** | 360,970 |
| Paper and allied products | **1,109** | 2,126 |
| Power (electricity), gas, water, sanitary | **17,070** | 67,840 |
| Services | **538,940** | 672,078 |
| Sugar | **699,998** | 699,998 |
| Textile | **2,442** | 25,581 |
| Transport, storage and communication | **181,053** | 286,084 |
| Wholesale and retail trade | **165,437** | 698,614 |
| Others | **49,733** | 415,472 |
| | **4,436,241** | 6,564,577 |

* Staff financing amounting Rs. 140.635 million (2018: Rs. 193.772 million) is not included as it is financed through Islamic Banking Fund.

**Basis of profit allocation**

Profit of the general pool has been distributed between Modarib and Rabbul Maal by using pre-agreed profit sharing ratio. The profit was distributed between Mudarib and Rabbul Maal on the under mentioned profit sharing ratios based upon Gross Income Level less Direct Expenses.

| | Profit sharing ratio | |
|---|---|---|
| | LCY Deposits | FCY Deposits |
| | 2019 | |
| | ----------%---------- | |
| Rabbul Maal | 50% | 50% |
| Mudarib | 50% | 50% |

**Mudarib share (in amount and percentage of distributable income)**

| | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|
| | ------ (Rupees in '000) ------ | | % | |
| Rabbul Maal | **720,143** | 608,884 | **68%** | 66% |
| Mudarib | **346,196** | 310,854 | **32%** | 34% |
| | **1,066,339** | 919,738 | | |

**Amount and percentage of Mudarib share transferred to depositors through Hiba**

| | 2019 | 2018 |
|---|---|---|
| | ------ (Rupees in '000) ------ | |
| Mudarib share | **306,313** | 268,316 |
| Hiba | **39,883** | 42,537 |
| | ----------%---------- | |
| Hiba percentage of Mudarib share | **12** | 14 |

**Profit rate earned vs profit rate distributed to the depositors during the year ended December 31, 2019**

| | 2019 | 2018 |
|---|---|---|
| | ----------%---------- | |
| Profit rate earned | **12.61%** | 7.58% |
| Profit rate distributed to depositors | **8.01%** | 5.00% |

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# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SUMMIT BANK LIMITED

# REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

## Opinion

We have audited the annexed consolidated financial statements of Summit Bank Limited and its subsidiary (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the accounting and reporting standards as applicable in Pakistan.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material Uncertainty Related to Going Concern

We draw attention to note 1.2 to the consolidated financial statements. As more fully described in that note, the Group has incurred net loss of Rs. 9,486.918 million during the year ended December 31, 2019, resulting in accumulated losses of Rs. 29,286.726 million and negative equity of Rs. 5,665.882 million as at December 31, 2019. The Group's paid-up capital (net of losses), Capital Adequacy Ratio (CAR) and Leverage Ratio (LR) do not meet the requirements provided by State Bank of Pakistan (SBP) as at December 31, 2019. These conditions indicate the existence of material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. However, the Group is making continued efforts for necessary injection of capital and implementation of the Group's Plan to comply with applicable capital requirements. Our opinion is not qualified in respect of this matter.

## Emphasis of Matter

We draw attention to the following matters:

- As described in note 22.4 to the consolidated financial statements, the National Accountability Bureau (NAB) is currently conducting an investigation against certain bank accounts alleged of involvement in illegal activities in various banks. The Group's management is of the view that such investigations will not affect the ongoing operations and functions of the Group.

- As described in note 13.3 to the consolidated financial statements, the Group holds an immovable property which is partially in contravention with the provisions of Banking Companies Ordinance, 1962. The same has been held in "Other Assets" for sale at the earliest possible timeline.

Our opinion is not qualified in respect of the matters stated above.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Material Uncertainty Related to Going Concern section, we have determined the following to be the key audit matters to be communicated in our report:

| S.No. | Key Audit Matters | How the matter was addressed in our audit |
|---|---|---|
| 1. | **Provision against advances** | |
| | The Group's credit portfolios include loans and advances, and non-funded credit facilities. The credit portfolio is spread across various domestic branches operations.<br><br>As per the Group's accounting policy (refer note 4.6 to the consolidated financial statements), the Group periodically assesses the adequacy of its provisions against non-performing credit exposures in accordance with the requirements of Prudential Regulations of State Bank of Pakistan. Such regulations require specific provisioning against loan losses on the basis of an age-based criteria which should be supplemented by a subjective evaluation of Group's credit portfolio. The determination of loan loss provision against certain vulnerable corporate loans, therefore, involve use of management judgment, on a case to case basis, taking into account factors such as the economic and business conditions, borrowers repayment behaviors and realizability of collateral held by the Group.<br><br>In view of the significance of this area in terms of its impact on the consolidated financial statements and the level of involvement of management's judgment, we identified adequacy and completeness of loan loss provision as a significant area of audit judgment and a key audit matter. | We applied a range of audit procedures on selected samples including the following:<br><br>· We reviewed the Group's process for identification and classification of non- performing loans including the quality of underlying data and systems. As part of such review we performed an analysis of the changes within different categories of classified non-performing accounts from last year to the current reporting date. This analysis was used to gather audit evidence regarding downgrading of impaired loans and declassification of accounts from non-performing to regular, as the case may be;<br><br>· We performed independent checks for the computations of provisions in line with the requirements of the applicable Prudential Regulations;<br><br>· In addition, we selected a representative sample of borrowers from the credit portfolios across various branches including individually significant corporate loans and performed tests and procedures such as review of credit documentation, repayment history and past due status, financial condition as depicted by the borrowers' financial statements, nature of collateral held by the group and status of litigation, if any, with the borrower;<br><br>· Based on the said credit reviews, we identified and discussed with the management the loan accounts where the credit risk appear to have increased. We reviewed the adequacy of provisions against such accounts on the basis of our independent objective evaluation of the risk mitigating factors that exist in such cases; and |

| S.No. | Key Audit Matters | How the matter was addressed in our audit |
|---|---|---|
| | | · We also assessed adequacy of disclosures in the consolidated financial statements regarding the non-performing loans and provisions made for the same in accordance with the requirements of the applicable financial reporting framework. |
| 2. | **Deferred tax assets** | |
| | The recognition of a deferred tax asset in respect of tax losses is permitted only to the extent that it is probable that future taxable profits will be available to utilize the tax losses carried forward.<br><br>When considering the availability of future taxable profits, judgement is required when assessing projections of future taxable income which are based on approved business plans/forecasts. | We obtained an understanding and evaluated the design and tested the effectiveness of controls in this area relevant to our audit. We performed substantive audit procedures on the recognition of deferred tax balances based on local tax regulations, and on the analysis of the recoverability of the deferred tax assets in the light of relevant accounting standard.<br><br>We have evaluated the group's assumptions and estimates in relation to the likelihood of generating sufficient future taxable income based on plans, prepared by the management. We have also assessed previous forecast and compared with the actual outcome for evidence of bias.<br><br>Finally, we reviewed the adequacy of the disclosures made by the group in this area and recognition / non-recognition of deferred tax asset / liability. |
| 3. | **Valuation of investments** | |
| | As at December 31, 2019, the Group has investments classified as "Available-for-sale" and "Held for trading" amounting to Rs. 21,709.150 million (2018: Rs. 19,007.773 million).<br><br>Investments are carried at cost or fair value in accordance with the Group's accounting policy relating to their recognition. Provision against investments is based on impairment policy of the Group which includes both objective and subjective factors.<br><br>We identified the valuation of investments including determination of impairment allowance on investments classified as "Available-for-sale" as a key audit matter because of their significance in relation to the total assets of the Group and judgment/estimates involved in assessing impairment allowance. | Our procedures in respect of valuation of investments included the following:<br><br>· Assessing the design and testing the operating effectiveness of the relevant controls in place relating to valuation of investments;<br><br>· Examining the reasons of significant decline in the carrying value of investments.<br><br>· Checking, on a sample basis, the valuation of investments to supporting documents, observable market and break-up values; and<br><br>· Evaluating the management's assessment of available for sale and held to maturity investments for any additional impairment in accordance with the Group's accounting policies and performed an independent assessment of the assumptions. |

| S.No. | Key Audit Matters | How the matter was addressed in our audit |
|---|---|---|
| 4. | **Capitalization and asset lives** | |
| | There are a number of areas where management judgement impacts the carrying value of property and equipment, intangible assets and their respective depreciation/amortization profiles. These include:<br><br>· the decision to capitalize or expense costs;<br><br>· the annual asset life review;<br><br>· the timeliness of the transfer from assets in the course of construction; and<br><br>· making capital expenditures in accordance with applicable regulations and IFRS. | We tested controls in place over the fixed asset cycle, evaluated the appropriateness of capitalization policies, performed tests of details on costs capitalized and assessed the timeliness of the transfer of assets in the course of construction.<br><br>Our detailed testing on the application of the asset life review identified no issues. In performing these procedures, we challenged the judgements made by management including:<br><br>· the nature of underlying costs capitalized;<br><br>· the appropriateness of asset lives applied in the calculation of depreciation; and<br><br>· compliance with relevant regulations and IFRS. |
| 5. | **Litigations and regulatory requirements** | |
| | There are a number of threatened and actual legal, regulatory and tax cases against the Group. There is a high level of judgement involved in estimating the level of provisioning required. | Our procedures included the following:<br><br>· testing key controls surrounding litigation, regulatory and tax procedures;<br><br>· where relevant, reviewing external legal opinions obtained by management;<br><br>· discussing open matters with the Group's general counsel, litigation, regulatory and tax teams;<br><br>· assessing and challenging management's conclusions through understanding precedents set in similar cases; and<br><br>· circularizing confirmations where appropriate, to relevant third-party legal representatives. |
| 6. | **Adoption of IFRS 16 "Leases"** | |
| | As referred to in note 4.1.1 to the financial statements, IFRS 16 "Leases" (the standard) has become effective for the current financial year as per the SECP notification S.R.O. 434 (i)/2018 dated April 09, 2018 read with SBP's directive BPRD Circular Letter no. 08 of 2019 dated April 30, 2019.<br><br>The standard has introduced a new accounting model for operating lease contracts from the standpoint of a lessee. As per the new requirements, the Bank is required to recognize right-of-use assets for leased assets and liabilities of the lease payments over the lease term. | We applied a range of audit procedures including the following:<br><br>· We evaluated the appropriateness of the new accounting policies for recognition of lease contracts and their measurement in the financial statements.<br><br>· We obtained an understanding of the process and controls in place for identification of in scope and material lease contracts and capturing of relevant data regarding the terms and condition of the lease contracts in lease database. |

| S.No. | Key Audit Matters | How the matter was addressed in our audit |
|---|---|---|
| | The impact of the adoption of the standard on the financial statements of the Bank are disclosed in note 4.1.1 to the financial statements.<br><br>The application of the new standard requires management to make significant estimates and judgements such as in related to determination of lease term and appropriate discount rate for measurement of lease liability. | · We corroborated the completeness of lease database by comparing the previously identified operating lease contracts and the lease / rent expenses with the contracts appearing in the lease database.<br><br>· We performed independent checks of lease accounting computations for a sample of lease contracts through reperformance of such computations.<br><br>· We evaluated the appropriateness of the assumptions used by the management in measuring lease liabilities such as discount rate and lease term. |

**Information Other than the Consolidated and Unconsolidated Financial Statements and Auditors' Reports Thereon**

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated and unconsolidated financial statements and our auditors' reports thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting and reporting standards as applicable in Pakistan and the Companies Act, 2017 and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of directors is responsible for overseeing the Group's financial reporting process.

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide to the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is ***Mehmood A. Razzak.***

**BAKER TILLY MEHMOOD IDREES QAMAR**
CHARTERED ACCOUNTANTS

Karachi
Date: October 08, 2021

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AS AT DECEMBER 31, 2019*

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | ------- (Rupees in '000) ------- | |
| **ASSETS** | | | |
| Cash and balances with treasury banks | 5 | **5,613,561** | 5,043,105 |
| Balances with other banks | 6 | **947,572** | 1,008,279 |
| Lendings to financial institutions | 7 | **991,272** | - |
| Investments | 8 | **21,709,150** | 19,007,773 |
| Advances | 9 | **43,242,951** | 61,246,803 |
| Fixed assets | 10 | **10,220,651** | 8,751,339 |
| Intangible assets | 11 | **153,027** | 209,418 |
| Deferred tax assets | 12 | **11,572,394** | 7,180,595 |
| Other assets | 13 | **11,357,267** | 12,150,539 |
| | | **105,807,845** | 114,597,851 |
| **LIABILITIES** | | | |
| Bills payable | 15 | **1,815,836** | 1,881,107 |
| Borrowings | 16 | **13,504,780** | 19,491,854 |
| Deposits and other accounts | 17 | **88,474,564** | 84,573,632 |
| Liabilities against assets subject to finance lease | | **-** | - |
| Subordinated debt | 18 | **1,495,515** | 1,495,515 |
| Deferred tax liabilities | | **-** | - |
| Other liabilities | 19 | **6,183,032** | 4,434,250 |
| | | **111,473,727** | 111,876,358 |
| **NET ASSETS** | | **(5,665,882)** | 2,721,493 |
| **REPRESENTED BY** | | | |
| Share capital - net | 20 | **20,500,194** | 20,500,194 |
| Reserves | | **(425,043)** | (425,043) |
| Surplus / (deficit) on revaluation of assets | 21 | **3,545,693** | 2,593,910 |
| Accumulated losses | | **(29,286,726)** | (19,947,568) |
| | | **(5,665,882)** | 2,721,493 |
| **CONTINGENCIES AND COMMITMENTS** | 22 | | |

*The annexed notes 1 to 45 and annexures I and II form an integral part of these consolidated financial statements.*

| President / Chief Executive | Chief Financial Officer | Director | Director | Director |
|---|---|---|---|---|

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# CONSOLIDATED PROFIT AND LOSS ACCOUNT

*FOR THE YEAR ENDED DECEMBER 31, 2019*

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | -------- (Rupees in '000) -------- | |
| Mark-up / return / interest earned | 23 | **5,915,333** | 8,456,392 |
| Mark-up / return / interest expensed | 24 | **7,213,694** | 6,641,292 |
| Net Mark-up / interest (expense) / income | | **(1,298,361)** | 1,815,100 |
| **NON MARK-UP / INTEREST INCOME** | | | |
| Fee and commission income | 25 | **770,953** | 1,014,000 |
| Dividend income | | **38,004** | 59,224 |
| Foreign exchange income | | **390,082** | 801,340 |
| Income / (loss) from derivatives | | **-** | - |
| Loss on securities | 26 | **(17,198)** | (35,654) |
| Other income | 27 | **106,870** | 352,752 |
| Total non-markup / interest income | | **1,288,711** | 2,191,662 |
| Total income | | **(9,650)** | 4,006,762 |
| **NON MARK-UP / INTEREST EXPENSES** | | | |
| Operating expenses | 28 | **5,534,743** | 5,749,991 |
| Workers' welfare fund | | **-** | - |
| Other charges | 29 | **75,394** | 160,352 |
| Total non-markup / interest expenses | | **5,610,137** | 5,910,343 |
| Loss before provisions | | **(5,619,787)** | (1,903,581) |
| Provisions and write offs - net | 30 | **8,681,372** | 9,022,463 |
| Extra ordinary / unusual items | | **-** | - |
| **LOSS BEFORE TAXATION** | | **(14,301,159)** | (10,926,044) |
| Taxation | 31 | **(4,814,241)** | (2,135,054) |
| **LOSS AFTER TAXATION** | | **(9,486,918)** | (8,790,990) |
| | | ---------- (Rupees) ---------- | |
| **Basic loss per share** | 32 | **(3.60)** | (3.33) |
| **Diluted loss per share** | 32 | **(3.60)** | (3.33) |

*The annexed notes 1 to 45 and annexures I and II form an integral part of these consolidated financial statements.*

| President / Chief Executive | Chief Financial Officer | Director | Director | Director |
|---|---|---|---|---|

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*FOR THE YEAR ENDED DECEMBER 31, 2019*

| | 2019 | 2018 |
|---|---|---|
| | -------- (Rupees in '000) -------- | |
| Loss after taxation for the year | **(9,486,918)** | (8,790,990) |
| **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 | **1,031,580** | (310,505) |
| **Items that will not be reclassified to profit and loss account in subsequent periods:** | | |
| Remeasurement gain on defined benefit obligations | **1,911** | 30,050 |
| Movement in surplus on revaluation of operating fixed assets - net of tax | **37,299** | 756,980 |
| Movement in surplus on revaluation of non-banking assets - net of tax | **28,753** | 17,955 |
| Movement in surplus on revaluation of held for sale property - net of tax | **-** | 754,510 |
| | **67,963** | 1,559,495 |
| **Total comprehensive loss** | **(8,387,375)** | (7,542,000) |

*The annexed notes 1 to 45 and annexures I and II form an integral part of these consolidated financial statements.*

President / Chief Executive | Chief Financial Officer | Director | Director | Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*FOR THE YEAR ENDED DECEMBER 31, 2019*



| | Share capital | Capital reserves | | | Surplus / (deficit) on revaluation of | | | Revenue reserve | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | Share premium | Statutory reserve | Reserve arising on amalgamation | Investments | Fixed / Non banking assets | Property held for sale | Accumulated losses | |
| | (Rupees in '000) | | | | | | | | |
| **Balance as at January 01, 2018** | 20,500,194 | 1,000,000 | 154,162 | (1,579,205) | (761,937) | 2,288,117 | - | (11,337,838) | 10,263,493 |
| Loss after taxation for the year ended December 31, 2018 | - | - | - | - | - | - | - | (8,790,990) | (8,790,990) |
| Other comprehensive income - net of tax | - | - | - | - | (310,505) | 774,935 | 754,510 | 30,050 | 1,248,990 |
| Transfer to statutory reserve | - | - | - | - | - | - | - | - | - |
| Transfer in respect of incremental depreciation from surplus on revaluation of fixed assets to accumulated losses | - | - | - | - | - | (113,532) | - | 113,532 | - |
| Surplus realized on disposal of non-banking assets | - | - | - | - | - | (37,678) | - | 37,678 | - |
| **Balance as at January 01, 2019** | **20,500,194** | **1,000,000** | **154,162** | **(1,579,205)** | **(1,072,442)** | **2,911,842** | **754,510** | **(19,947,568)** | **2,721,493** |
| Loss after taxation for the year ended December 31, 2019 | - | - | - | - | - | - | - | **(9,486,918)** | **(9,486,918)** |
| Other comprehensive income - net of tax | - | - | - | - | **1,031,580** | **66,052** | - | **1,911** | **1,099,543** |
| Transfer to statutory reserve | - | - | - | - | - | - | - | - | - |
| Transfer in respect of incremental depreciation from surplus on revaluation of fixed assets to accumulated losses | - | - | - | - | - | **(100,875)** | - | **100,875** | - |
| Surplus realized on disposal of fixed assets | - | - | - | - | - | **(44,072)** | - | **44,072** | - |
| Surplus realized on disposal of non-banking assets | - | - | - | - | - | **(902)** | - | **902** | - |
| **Balance as at December 31, 2019** | **20,500,194** | **1,000,000** | **154,162** | **(1,579,205)** | **(40,862)** | **2,832,045** | **754,510** | **(29,286,726)** | **(5,665,882)** |

*The annexed notes 1 to 45 and annexures I and II form an integral part of these consolidated financial statements.*

| President / Chief Executive | Chief Financial Officer | Director | Director | Director |
|---|---|---|---|---|

# CONSOLIDATED CASH FLOW STATEMENT

*FOR THE YEAR ENDED DECEMBER 31, 2019*

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | --------- (Rupees in '000) --------- | |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| **Loss before taxation** | | **(14,301,159)** | (10,926,044) |
| Less: Dividend income | | **(38,004)** | (59,224) |
| | | **(14,339,163)** | (10,985,268) |
| **Adjustments:** | | | |
| Depreciation on operating fixed assets | *10.2* | **554,935** | 690,625 |
| Depreciation on right-of-use assets | *28* | **531,200** | - |
| Depreciation on non-banking assets | *13.1.1* | **44,135** | 44,952 |
| Finance cost of lease liability | | **280,047** | - |
| Amortization | *11.2* | **62,205** | 61,239 |
| Provision and write-offs excluding recoveries | | **8,683,136** | 9,023,524 |
| Charge for defined benefit plan | *28.1* | **136,356** | 64,011 |
| Charge for employees compensated absences | *28.1* | **25,389** | 17,106 |
| (Gain) / loss on sale of fixed assets | *27* | **(49,072)** | 12,651 |
| Gain on disposal of non-banking assets - net | *27* | **-** | (271,464) |
| Unrealised loss on revaluation of investments classified as held-for-trading securities - net | *8.1* | **308** | - |
| | | **10,268,639** | 9,642,644 |
| | | **(4,070,524)** | (1,342,624) |
| **(Increase) / decrease in operating assets** | | | |
| Lendings to financial institutions | | **(991,272)** | 10,671,003 |
| Held-for-trading securities | | **(5,850)** | 59,486 |
| Advances | | **10,606,671** | 16,700,505 |
| Others assets (excluding advance taxation) | | **809,833** | 424,623 |
| | | **10,419,382** | 27,855,617 |
| **(Decrease) / increase in operating liabilities** | | | |
| Bills Payable | | **(65,271)** | (1,184,272) |
| Borrowings from financial institutions | | **(6,151,779)** | (47,788,951) |
| Deposits | | **3,900,932** | (61,033,099) |
| Other liabilities (excluding current taxation) | | **(480,404)** | (1,316,459) |
| | | **(2,796,522)** | (111,322,781) |
| Payments on account of staff retirement benefits | | **(50,330)** | (71,430) |
| Income tax paid | | **(140,517)** | (162,765) |
| **Net cash generated from / (used in) operating activities** | | **3,361,489** | (85,043,983) |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Net investments in available-for-sale securities | | **(2,391,882)** | 74,074,784 |
| Dividends received | | **38,004** | 64,292 |
| Investments in operating fixed assets | | **(156,508)** | (603,639) |
| Investments in intangible assets | | **(5,814)** | (17,117) |
| Proceeds from sale of fixed assets | | **274,976** | 17,994 |
| Proceeds from sale of non-banking assets | | **10,000** | 1,589,188 |
| **Net cash (used in) / generated from investing activities** | | **(2,231,224)** | 75,125,502 |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Payment of lease liability against right-of-use assets | | **(785,221)** | - |
| Payments of subordinated debt | | **-** | (345) |
| **Net cash used in financing activities** | | **(785,221)** | (345) |
| Effect of exchange rate changes on cash and cash equivalents | | **167,488** | 1,148,842 |
| **Increase / (decrease) in cash and cash equivalents** | | **512,532** | (8,769,984) |
| Cash and cash equivalents at beginning of the year | | **5,877,546** | 14,815,018 |
| **Cash and cash equivalents at end of the year** | *33* | **6,390,078** | 6,045,034 |

*The annexed notes 1 to 45 and annexures I and II form an integral part of these consolidated financial statements.*

President / Chief Executive | Chief Financial Officer | Director | Director | Director

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED DECEMBER 31, 2019*

## 1. STATUS AND NATURE OF BUSINESS

**1.1** The Group comprises of:

### 1.1.1 Holding Company: Summit Bank Limited

Summit Bank Limited (the Bank) is a banking company incorporated in Pakistan on December 09, 2005 as public company limited by shares under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). The Bank's registered office is situated at Plot No. 9-C, F-6 Markaz, Supermarket, Islamabad, Pakistan. The Bank is a subsidiary of Suroor Investments Limited, a company incorporated in Mauritius, holding 66.77% of the issued, subscribed and paid up capital of the Bank as at December 31, 2019.

The Bank is engaged in banking services as described in the Banking Companies Ordinance, 1962 and is operating through its 179 Conventional Banking Branches and 14 Islamic Banking Branches (2018: 179 Conventional Banking Branches and 14 Islamic Banking Branches) in Pakistan as defined in the Banking Companies Ordinance, 1962.

In November 2018, VIS Credit Rating Company Limited assigned the Bank medium to long-term rating of 'BBB -' (Triple B minus) and short term rating of 'A-3' (A-three) while the Bank's TFC was assigned a rating of 'BBB - (SO)' (Triple B minus (Structured Obligation)).

These ratings were placed on 'Rating Watch – Negative' status. In the year 2019, VIS Credit Rating Company Limited suspended the Bank's medium to long-term rating of 'BBB -' (Triple B minus) and short term rating of 'A-3' (A-three) due to non-availability of updated information. VIS Credit Rating Company Limited would reassess the ratings once required information along with latest financials are made available. Moreover, the Bank's TFC rating was assigned 'D' (Default) due to non-payment of its latest mark-up payment on account of lock-in-clause invoked by the Bank under the applicable Regulations of the State Bank of Pakistan (SBP). However, the TFC holders have approved extension in the maturity date of the TFC issue along with payment of all the instalments (mark-up and principal) till October 27, 2021, subject to applicable regulatory approvals and compliances.

### 1.1.2 Subsidiary

**Summit Capital Private Limited - 100 % Shareholding**

SCPL, the subsidiary company was incorporated in Pakistan on March 08, 2006 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). The subsidiary company is a corporate member / TREC holder of Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited. The principal activities of the subsidiary company are equity and money market brokerage, interbank foreign exchange brokerage, commodity brokerage and research. The registered office of the Subsidiary is situated at 701-702, 7th Floor, Business and Finance Centre, opposite State Bank of Pakistan, I.I. Chundrigar Road, Karachi. The Group acquired interest in SCPL by virtue of amalgamation of Atlas Bank Limited.

**1.2** During the year, the Group has incurred a net loss of Rs. 9,486.918 million resulting in accumulated losses of Rs. 29,286.726 million and negative equity of Rs. 5,665.882 million. As per the applicable laws and regulations, the Group is required to maintain Minimum Paid-up Capital (net of losses) (MCR) of Rs. 10 billion, Capital Adequacy Ratio (CAR) at 12.50% (inclusive of Capital Conservation Buffer of 2.50%), Leverage Ratio (LR) at 3.00%, Liquidity Coverage Ratio (LCR) at 100% and Net Stable Funding Ratio (NSFR) at 100% as of December 31, 2019. However, the paid up capital of the Group (net of losses), CAR and LR are negative, while LCR is below prescribed level as at December 31, 2019. Subsequently, from June 30, 2020 onwards, the Group achieved compliance with the applicable LCR requirements.

In light of the above, the Group is making best efforts to comply with applicable capital requirements through increase in capital / capital injection at the earliest. For this, the management has prepared a business plan, which has been approved by the Board.

This plan aims to improve the Group's capital base and risk absorption capacity and provide impetus to its future growth initiatives. The key assumptions considered in the business plan are as follows:

- Injection of capital
- Reaping benefits from the expected growth of Islamic finance in Pakistan since the Group will speed-up the implementation process of its earlier decision of conversion to a full-fledged Islamic bank.
- Recoveries from non-performing advances through strenuous and focused recovery efforts
- Reduction in overall level of non-earning assets held by the Group;
- Identifying opportunities for rationalization of the cost structure;
- Improvement in the risk management and technological infrastructure of the Group to support the business plan;
- Investments / exposures in safe avenues for achieving solid growth in the core business income; and
- Income generation through avenues for mark up income and non-mark up income.

In this respect, the Bank had received a revised letter dated May 20, 2021 from H.E. Nasser Abdulla Hussain Lootah (The Investor) pursuant to which The Investor had communicated his intention to acquire at least controlling stake in the Bank by subscribing to fresh equity in the Bank. In compliance with the requirements of Securities Act, 2015 and Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2017 applicable to such transactions, this was followed by a public announcement by The Investor of the intention to acquire at least 51% of the issued and paid up capital of the Bank together with the management control.

The Investor has submitted his offer via a letter dated October 01, 2021, as per the Share Subscription Agreement (SSA) dated October 04, 2021 entered between the Bank and The Investor for the proposed subscription of new ordinary shares in the Bank by way of fresh equity injection Without Rights Offering at a discounted price of Rs. 2.51 per share. The Investor presented the offer as set out in the Share Subscription Agreement which is duly approved by the Board of Directors. The Bank intends to issue total 5,976.096 million new ordinary shares.

The management and the Board of Directors are hopeful that with the capital injection along with the growth factors and other key assumptions stipulated in the business plan materialize, the Bank will be able to achieve compliance with applicable regulatory requirements.

## 2. BASIS OF PRESENTATION

### 2.1 STATEMENT OF COMPLIANCE

These consolidated financial statements represent financial statements of the Holding Company - Summit Bank Limited and its subsidiary. The assets and liabilities of subsidiary have been consolidated on a line-by-line basis and the investment held by the holding company is eliminated against the corresponding share capital of the subsidiary in these consolidated financial statements.

**2.2** These consolidated 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:

- 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 as are notified under the Companies Act, 2017;
- Provisions of and directives issued under the Banking Companies Ordinance, 1962 and Companies Act, 2017; and
- Directives issued by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP).

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.

The SBP, vide its BSD Circular Letter no. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for banking companies till further instructions. Moreover, the SBP vide BPRD Circular No. 4 of 2015, dated February 25, 2015 has deferred the applicability of Islamic Financial Accounting Standards (IFAS) 3, Profit and Loss Sharing on Deposits. Further, the SECP has deferred the applicability of International Financial Reporting Standard (IFRS) 7 'Financial Instruments: Disclosures' for banks through its notification 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 consolidated financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

### 2.3 Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed, or has rights, to variable returns from its investment with investee and has the ability to effect these return through its power over the investee.

These consolidated financial statements incorporate the financial statements of subsidiary from the date that control commences until the date that control ceases.

Non-controlling interests are that part of the net results of operations and of net assets of subsidiary attributable to the interest which are not owned by the Group. Material intra-group balances and transactions are eliminated.

**2.4** Key financial figures of the Islamic banking branches are disclosed in Annexure II to these consolidated financial statements.

**2.5 Standards, interpretations of and amendments to published approved accounting standards that are effective in the current year**

IFRS 16 - Leases and IFRS 15 - Revenue from Contracts with Customers, became effective for annual reporting periods commencing on or after January 01, 2019. The impact of the adoption of these standards are disclosed in note 4.1.1 and 4.1.2 to these consolidated financial statements respectively.

In addition to the above, there are certain new and amended standards, interpretation and amendments that are mandatory for the Group's accounting periods beginning on or after January 01, 2019 but are considered not to be relevant or do not have any significant effect on the Group's operations and therefore not detailed in these consolidated financial statements.

**2.6 Standards, interpretations of and amendments to published approved accounting standards that are not yet effective**

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

| Standard, Interpretation and Amendment | Effective date (annual periods beginning on or after) |
|---|---|
| IFRS 3 - Definitions of Business (Amendments) | January 01, 2020 |
| IAS 1 / IAS 8 - Definition of Material - Amendment to IAS 1 and IAS 8 | January 01, 2020 |
| IFRS 14 - Regulatory Deferral Accounts | July 01, 2019 |

The SECP, through SRO229(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, as per BPRD Circular No. 04 of 2019 dated October 23, 2019 of the SBP, effective date of IFRS 9 implementation is 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 Group is in the process of assessing the full impact of this standard.

The Group expects that adoption of the remaining interpretations and amendments will not affect its financial statements in the period of initial application.

## 2.7 Critical accounting estimates and judgments

The preparation of these consolidated financial statements in conformity with approved accounting standards as applicable in Pakistan requires the management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses as well as in the disclosure of contingent liabilities. It also requires the management to exercise judgement in application of its accounting policies. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an going basis. Revision to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgements were made by the management in the application of accounting policies are as follows:

| | Note |
|---|---|
| - Classification and provisioning against investments | 4.5, 4.17, 8 and 30 |
| - Classification and provisioning against non-performing loans and advances | 4.6, 9 and 30 |
| - Useful lives of fixed and intangible assets, depreciation, amortization and revaluation | 4.7, 4.7.3.1, 4.8, 10 and 11 |
| - Impairment of assets | 4.7.3.1 and 4.17 |
| - Valuation of right-of-use assets and their related lease liability | 4.7.3.1 and 4.7.3.2 |
| - Accounting for staff retirement and other benefits | 4.13, 35 and 36 |
| - Taxation | 4.16 and 31 |
| - Other provisions | 4.18 |
| - Fair value of financial instruments | 38 |
| - Valuation of non-banking assets | 4.9 and 13.1.1 |
| - Remuneration framework and related disclosures | 4.12 and 37 |

### 2.7.1 Changes in Accounting Estimate during the year

During the current year, the management of the Group has revised its estimate of the useful lives of building on leasehold land. The management has decreased the depreciation rate from 5% per annum to 2.5% to 5% per annum. The revision has been made after taking into account the expected pattern of recovery of economic benefits associated with the use of these assets. The revision has been accounted for as a change in accounting estimate as defined in International Accounting Standard 8, 'Accounting Policies, Changes in Accounting Estimate and Errors'. Had the revision in useful lives in respect of building on leasehold land not been made, depreciation expense for the year would have been higher by Rs. 252.502 million and consequently the profit before tax would have been lower by the same amount.

## 3. BASIS OF MEASUREMENT

### 3.1 Accounting convention

These consolidated financial statements have been prepared under the historical cost convention except that certain operating fixed assets and non banking assets in satisfaction of claims are stated at revalued amounts and certain investments and derivative financial instruments have been stated at fair value and defined benefit obligations which are carried at present value.

### 3.2 Functional and Presentation Currency

These consolidated financial statements are presented in Pakistani Rupees, which is the Group's functional and presentation currency.

The amounts are rounded off to the nearest thousand rupees except as stated otherwise.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are consistent with those of the previous financial year except as disclosed below in note 4.1.

### 4.1 Changes in accounting policies

### 4.1.1 IFRS 16 - Leases

During the current year, 'IFRS 16 - Leases' becomes applicable for the banks. IFRS 16 replaces existing guidance on accounting for Leases including 'IAS 17 - Leases', 'IFRIC' 'Determining whether an arrangement contains a Lease', 'SIC 15 - Operating Lease Incentives' and 'SIC 27 - Evaluating the substance of transactions involving the legal form of lease'. IFRS 16 introduces single lease accounting model and requires a lessee to recognize assets and liabilities of all leases with a term of more than 12 months unless the underlying assets are of low value. A lessee recognizes right-of-use asset representing its right of using underlying asset and corresponding lease liability representing its obligation to make lease payments. Lessor accounting remains similar to the current standard i.e. lessor continue to classify leases as either finance or operating leases. The Bank has adopted IFRS 16 using the modified retrospective approach with the date of initial application as January 01, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard being recognized at the date of initial application. Accordingly, the Bank has not restated comparatives for the 2018 reporting period.

On adoption of IFRS 16, the Group has recognized liabilities in respect of leases which had previously been classified as operating leases under IAS 17. These liabilities were initially measured as the present value of the remaining lease payments, discounted using the Group's incremental weighted average borrowing rate of 14.34% per annum at January 1, 2019. The Group has used a single discount rate methodology for each portfolio of leases with similar characteristics. The lease liability is subsequently measured at amortized cost using the effective interest rate method.

| | December 31, 2019 | January 01, 2019 |
|---|---|---|
| | ------ (Rupees in '000) ------ | |
| Lease liability against right-of-use assets | **2,119,682** | 2,075,149 |

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 recognized in the statement of financial position immediately before the date of initial application.

The right-of-use assets recognized 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 at | |
|---|---|---|
| | December 31, 2019 | January 01, 2019 |
| | ------ (Rupees in '000) ------ | |
| Right-of-Use Assets | **2,093,656** | 2,207,128 |
| **Effect of change in Accounting policy** | | |
| **Impact on Statement of Financial Position** | | |
| Increase in fixed assets - ROU Assets | **2,093,656** | 2,207,128 |
| Decrease in other assets - Advances , Deposits and Prepayments | **(185,595)** | (131,979) |
| Increase in other assets - Advance Taxation | **-** | - |
| Increase in other liabilities - Lease Liability in respect of ROU Assets | **(2,119,682)** | (2,075,149) |
| **(Decrease ) / increase in net assets** | **(211,621)** | - |

| | For the year | |
|---|---|---|
| | December 31, 2019 | January 01, 2019 |
| | ------ (Rupees in '000) ------ | |
| **Impact on Profit and Loss Account** | | |
| Increase in mark-up expense | **(280,047)** | - |
| | **(280,047)** | - |
| **(Increase) / decrease in administrative expenses:** | | |
| -Depreciation of ROU Assets | **(531,200)** | - |
| -Rent expense | **599,626** | - |
| | **68,426** | - |
| Increase in loss before tax | **(211,621)** | - |
| Taxation | **-** | - |
| Increase in loss after tax | **(211,621)** | - |

Loss per share for the year ended December 31, 2019 is Re 0.08 per share higher as a result of the adoption of IFRS 16.

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at January 01, 2019.

| | (Rupees in '000) |
|---|---|
| Operating lease commitments disclosed as at December 31, 2018 | 3,164,673 |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | 2,112,435 |
| Less: short-term leases recognised on a straight-line basis as expense | 37,286 |
| Lease liability recognised as at January 01, 2019 | 2,075,149 |
| Of which are: | |
| - Current lease liabilities | 573,525 |
| - Non Current lease liabilities | 1,501,624 |
| | 2,075,149 |

### 4.1.2 IFRS 15 - Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether how much and when revenue is recognized. It replaces IAS 18 'Revenue' IAS 11 'Construction Contracts' and related interpretations.

The Group initially applied IFRS 15 on January 01, 2019 retrospectively in accordance with IAS 18 without any practical expedients. The application of IFRS 15 has no impact on the financial position and / or financial performance of the Group. Accordingly, there was no adjustment in retained earnings on application of IFRS 15 as at January 01, 2019.

### 4.2 Additional / amended disclosure effective from the accounting year ending December 31, 2019

The SBP through its letter BPRD / R & PD/ 2018 / 17232 had relaxed the implementation and disclosure requirements under the revised framework for Governance and Regulation practices. The implementation of the risk adjusted remuneration framework, as described in the guidelines across the converged business areas and MRTs / MRCs were made effective from January 01, 2019 while the disclosures were made effective from December 31, 2019. Accordingly, the information required under the said framework and as required under the revised format of annual financial statements by SBP through BPRD circular No. 2 of 2018 dated January 25, 2018 have been prescribed and disclosed in Note 4.12, Note 28.1 and Note 37 to the financial statements.

### 4.3 Cash and cash equivalents

For the purpose of cash flow statement cash and cash equivalents include cash in hand, national prize bond, balances with treasury banks and balances with other banks (net of overdrawn nostro balances) in current and deposit accounts.

### 4.4 Lendings to / borrowings from financial institutions

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

### a Sale of securities under repurchase agreements (Repo)

Securities sold subject to an agreement to repurchase at a specified future date (repos) continue to be recognized in the consolidated statement of financial position and are measured in accordance with accounting policies for investment securities. The counterparty liability for amounts received under these agreements is included in borrowings. The difference between sale and repurchase price is treated as mark-up expense and is accrued over the period of the repo agreement.

**b Other borrowings**

Other borrowings include borrowings from the SBP and unsecured call borrowings which are recorded at the proceeds received. Mark-up paid on such borrowings is charged to the consolidated profit and loss account over the period of borrowings on time proportionate basis.

**c Purchase of securities under resale agreements (Reverse Repo)**

Securities purchased under agreement to resell at a specified future date (reverse repos) are not recognized in the consolidated statement of financial position. Amounts paid under these agreements are included in lendings to financial institutions. The difference between purchase and resale price is treated as mark up earned and is accrued over the period of the reverse repo agreement. Securities purchased are not recognized in the consolidated financial statements, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability under borrowings from financial institutions.

**d Other lendings**

Other lendings include term lendings and unsecured lendings to financial institutions. These are stated net of provision. Return on such lendings is accrued to consolidated profit and loss account on a time proportionate basis using effective interest rate method except mark-up on impaired / delinquent lendings, which are recognized on receipt basis in accordance with the requirements of the Prudential Regulations of the SBP.

**e Musharakah**

Musharakah is a profit and loss sharing transaction in which the Group and counterparty place their funds in a pool of specific asset (managed with us in case of acceptance transaction and managed by the counter party in case of placement transaction) yielding a specified return on a predetermined profit sharing ratio. The profit of the pool is shared according to this pre-agreed ratio.

**f Bai Muajjal**

Bai Muajjal is a transaction in which a party in need of funds purchases an easily sellable Shariah compliant security (such as Sukuk) from a counter party (the party with excess funds) on deferred payment basis and sells it on spot payment basis to a third party thereby raises liquidity. Receivable against such sale is recognized at the agreed sale price. The difference between the sale price and the carrying value on the date of disposal is accrued and recorded as income in the consolidated profit and loss account over the period of credit sale.

## 4.5 Investments

### 4.5.1 Classification

Investments of the Group, other than investments in subsidiary, are classified as held-for-trading, held-to-maturity and available-for-sale. The management determines the appropriate classification of its investments at the time of purchase.

**Held-for-trading**

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

**Held-to-maturity**

These are securities with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold till maturity.

**Available-for-sale**

These are investments that do not fall under the held-for-trading or held-to-maturity categories.

### 4.5.2 Regular way contracts

All purchases and sales of investments that require delivery within time frame established by regulations or market conventions are recognized at the trade date. Trade date is the date on which the Group commits to purchase or sell the investment.

### 4.5.3 Initial recognition and measurement

Investment other than those categorized as held-for-trading are initially recognized at fair value which includes transaction costs associated with the investment. Investment categorized as held-for-trading are initially recognized at fair value and transaction costs are expensed in the consolidated profit and loss account.

### 4.5.4 Subsequent measurement

**Held-for-trading**

These are measured at subsequent reporting dates at fair value. Gains and losses on re-measurement are included in the consolidated profit and loss account.

**Held-to-maturity**

These are measured at amortized cost using the effective interest rate method, less any impairment loss recognized to reflect irrecoverable amounts.

**Available-for-sale**

Quoted securities classified as available-for-sale investments are measured at subsequent reporting dates at fair value. Any surplus / deficit arising thereon is kept in a separate account shown in the consolidated statement of financial position below equity and is taken to the consolidated profit and loss account when actually realized upon disposal or when the investment is considered to be impaired.

Unquoted equity securities are valued at the lower of cost and break-up value. The break-up value of these securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. A decline in the carrying value is charged to the consolidated profit and loss account. A subsequent increase in the carrying value, up to the cost of the investment, is credited to the consolidated profit and loss account. Investments in other unquoted securities are valued at cost less impairment, if any.

Provision for diminution in the value of securities (except term finance certificates and sukuks) is made for impairment, if any. Provision for diminution in the value of term finance certificates and sukuks is made as per the ageing criteria prescribed by the Prudential Regulations issued by the SBP.

Available-for-sale listed equity investments are impaired when there has been a significant or prolonged decline in their fair value below their cost. The determination of what is significant or prolonged requires judgment. In making this judgement, the Group evaluates, among other factors, the normal level of volatility in a share price.

## 4.6 Advances

Advances are stated net of specific and general provisions. The specific and general provisions for advances are made in accordance with the requirements of Prudential Regulations and other directives issued by the State Bank of Pakistan and are charged to the consolidated profit and loss account. Non-performing loans and advances in respect of which the Group does not expect any recoveries in future years are written off.

Leases, where the Group transfers substantially all the risks and rewards incidental to the ownership of an asset are classified as finance leases. A receivable is recognized at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any. Unearned finance income is recognized over the term of the lease, so as to produce a constant periodic return on the outstanding net investment in lease. Finance lease receivables are included in advances to the customers.

The Group provides Islamic financing and related assets mainly through Ijarah, Murabaha, Diminishing Musharakah, Salam, Tijarah, Istisna, Musharakah and Export Refinance under SBP Islamic Export Refinance Scheme. The purchases and sales arising under these arrangements are not reflected in these consolidated financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of profit thereon. The income on such financing is recognized in accordance with the principles of Islamic Shariah. The Group determines specific and general provision against Islamic financing and related assets in accordance with the requirements of the Prudential Regulations issued by the SBP. The net provision made / reversed during the year is charged to the consolidated profit and loss account and accumulated provision is netted off against Islamic financing and related assets. Islamic financing and related assets are written off when there is no realistic prospects of recovery.

### 4.7 Fixed assets

#### 4.7.1 Owned

Property and equipment, other than leasehold land (which is not depreciated) and capital work-in-progress, are stated at cost or revalued amount less accumulated depreciation and accumulated impairment losses, if any. Land is carried at revalued amount less impairment losses while capital work-in-progress is stated at cost less impairment losses, if any.

Depreciation is calculated by the Group using the straight line method which writes down the cost of assets to their residual values over the estimated useful lives. The rates at which the assets are depreciated are disclosed in note 10.2 to these consolidated financial statements. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each statement of financial position date.

Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off.

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

Land and buildings are revalued by professionally qualified valuers with sufficient regularity to ensure that their net carrying value does not differ materially from their fair value. A surplus arising on revaluation is credited to the surplus on revaluation of fixed assets account. Any deficit arising on subsequent revaluation of fixed assets is adjusted against the surplus of that asset or, if no surplus exists, is charged to consolidated profit and loss account as an impairment of the asset. The surplus on revaluation of fixed assets, to the extent of incremental depreciation, is transferred to retained earnings.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the assets is recognized in the consolidated profit and loss account in the year when asset is derecognized.

#### 4.7.2 Capital work-in-progress

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

### 4.7.3 Right-of-use assets and their related lease liability

#### 4.7.3.1 Right-of-use assets

On initial recognition, right-of-use assets are measured at an amount equal to initial lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to be incurred to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. The Group does not apply the recognition and measurement approach of IFRS 16 for short-term leases.

Right-of-use assets are subsequently stated at cost less any accumulated depreciation / accumulated impairment losses and are adjusted for any remeasurement of lease liability. The remeasurement of lease liability will only occur in cases where the terms of the lease are changed during the lease tenor.

Right-of-use assets are depreciated on straight line basis over shorter of expected useful life or the lease term. Depreciation on additions (new leases) is charged from the month in which the leases are entered into.

#### 4.7.3.2 Lease liability against right-of-use assets

The lease liabilities are initially measured as the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Bank's incremental borrowing rate.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. The lease liability is also remeasured to reflect any reassessment or change in lease terms. These remeasurements of lease liabilities are recognised as adjustments to the carrying amount of related right-of-use assets after the date of initial recognition.

Each lease payment is allocated between a reduction of the liability and a finance cost. The finance cost is charged to the profit and loss account as mark-up expense over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

### 4.8 Intangible assets

#### 4.8.1 Intangible assets in use

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with finite lives are amortized using the straight line method at rates specified in the relevant note. Intangible assets' residual values, if significant and their useful lives are reviewed at each balance sheet date and adjusted prospectively, if appropriate, at each balance sheet date.

Amortization on additions to intangible assets is charged from the month in which an asset is acquired or capitalized while no amortization is charged for the month in which that asset is disposed off.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supported. If not, the change in useful life from indefinite to finite is made on a prospective basis.

### 4.8.2 Capital work-in-progress

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

### 4.8.3 Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed as an intangible asset.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is tested for impairment annually or whenever there is an indication of impairment as per the requirement of International Accounting Standard (IAS) 36, 'Impairment of Assets'. Impairment charge in respect of goodwill is recognized in the consolidated profit and loss account.

## 4.9 Non-banking assets acquired in satisfaction of claim

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

## 4.10 Deposits

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

Deposits under Islamic Banking operations are accepted on the basis of two modes i.e. Qard and Mudaraba.

Deposits taken on Qard basis are classified as 'Current accounts' and Deposits generated on Mudaraba basis are classified as 'Savings deposits' and 'Islamic Savings Certificate'. No profit or loss is passed on to current account depositors.

While the product features of each product differ, there is usually no restriction on withdrawals or number of transactions in current and saving accounts. In case of Islamic Savings Certificates, pre-mature withdrawals can be made as per approved terms only.

Profits realized in investment pools are distributed in pre-agreed profit sharing ratio. Rab-ul-Maal (usually Customer) share is distributed among depositors according to weightages assigned at the inception of profit calculation period. The Mudarib (Bank) can distribute its share of profit to Rab-ul-Maal as Hiba up to a specified percentage of its share in profit.

Profits are distributed from the pool and the depositors (remunerative) bear the risk of assets in the pool during the profit calculation period. In case of loss in a pool during the profit calculation period, the loss is distributed among the depositors (remunerative) according to their ratio of investments.

Asset pools are created at the Group's discretion and the Group can add, amend and transfer an asset to any other pool in the interests of the deposit holders.

### 4.11 Subordinated debt

Subordinated loans are initially recorded at the amount of proceeds received. Mark-up accrued on subordinated loans is recognized separately as part of other liabilities and is charged to the consolidated profit and loss account over the period on an accrual basis.

### 4.12 Remuneration framework

In accordance with Guidelines on Remuneration Practices, the Group has developed a comprehensive remuneration framework. The aim of this framework is to promote an effective risk management culture, and to ensure that the remuneration practice at the Bank is in line with the Bank's objectives taking into consideration all risks that the Group may face. As a result, a fair, objective, transparent and sound remuneration policy, aligned with risks and responsibilities of Financial Intermediation has been put in place. The framework was reviewed and recommended by the Board's Human Resource & Remuneration Committee (BHRRC) and approved by the Board of Directors (BoD) during the year.

### 4.13 Staff retirement benefits

#### 4.13.1 Defined contribution plan

The Bank and Summit Capital (Private) Limited (SCPL) operate their separate defined contribution provident funds for all their permanent employees. Equal monthly contributions are made both by the Group and its employees to the respective funds at the rate of 10% of basic salary respectively.

#### 4.13.2 Defined benefit plan

The Bank and Summit Capital (Private) Limited (SCPL) operate their separate funded gratuity plans for all their permanent employees who have completed the minimum qualifying period as per their respective fund rules. Provision is made by respective funds to meet the cost of such gratuity benefits on the basis of actuarial recommendations. The actuarial valuations are periodically carried out using the 'Projected Unit Credit Method'.

Annual contributions towards the defined benefit schemes are made on the basis of actuarial valuation carried out using the Projected Unit Credit Method.

The Group follows International Accounting Standard (IAS) 19, 'Employee Benefits'. Actuarial gains and losses are recognized in consolidated other comprehensive income (OCI) in the periods in which they occur. Amounts recorded in the consolidated profit and loss account are limited to current and past service costs, gains or losses on settlements, and net interest income / expense. All other changes in the net defined benefit obligation are recognized directly in other comprehensive income with no subsequent recycling through the consolidated profit and loss account.

#### 4.13.3 Employees' compensated absences

The Group provides its liability towards compensated absences accumulated by its employees on the basis of actuarial valuation carried out using the Projected Unit Credit Method as per the requirements given in International Accounting Standard (IAS) 19, 'Employee Benefits'. Actuarial gains and losses are credited or charged to the consolidated profit and loss account in the year in which they occur.

### 4.14 Foreign currencies

#### Foreign currency transactions

Transactions in foreign currencies are translated into rupees at the exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupees terms at the rates of exchange ruling on the consolidated statement of financial position date. Forward foreign exchange contracts are valued at forward rates determined with reference to their respective maturities.

**Translation gains and losses**

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

## 4.15 Revenue recognition

- Mark-up income / interest on advances and return on investments are recognized on a time proportion basis using the effective yield on the arrangement / instrument except that mark-up / return on non-performing advances and investments are recognized on receipt basis. Interest / return / mark-up on rescheduled / restructured advances and investments is recognized as permitted by the SBP except where in the opinion of the management it would not be prudent to do so.

- Income from lease financing is accounted for using the financing method. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Gains / losses on termination of lease contracts are recognized as income when these are realized.

- Fee, commission and brokerage income is recognized upon performance of obligations. Fees for ongoing account management are charged to the customer's account on monthly basis. Transaction based fees are charged to the customer's account when transaction takes place.

- Dividend income from investments is recognized when the Group's right to receive the dividend is established.

- Premium or discount on acquisition of investments is amortized using the effective yield method and taken to consolidated profit and loss account over the remaining maturity of the security.

- Gains and losses on disposal of investments and certain operating fixed assets are taken to the consolidated profit and loss account in the year in which they arise.

- Ijarah income is recognized on an accrual basis as and when the rentals become due.

- Profits on Bai Muajjal lendings are recognized on a straight-line basis.

- Murabaha income is recognized on deferred income basis.

## 4.16 Taxation

**Current**

The charge for current taxation is based on taxable income at the current rate of taxation after taking into account applicable tax credit, rebates and exemptions available, if any, or minimum tax on turnover, whichever is higher.

**Prior years**

The taxation charge for prior years represents adjustments to the tax charge relating to prior years, arising from assessments / changes in laws and changes in estimates made during the current year.

**Deferred**

Deferred tax is recognized on all major temporary differences, tax credits and unused tax losses at the consolidated statement of financial position date between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is calculated at the rates that are expected to apply to the periods when the differences will reverse, based on tax rates that have been enacted or substantially enacted at the consolidated statement of financial position date.

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

The Group also recognizes deferred tax asset / liability on deficit / surplus on revaluation of assets which is adjusted against related deficit / surplus in accordance with the requirements of the International Accounting Standard (IAS) 12 'Income Taxes'.

### 4.17 Impairment

The carrying amounts of assets are reviewed at each statement of financial position date for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The resulting impairment loss is taken to the consolidated profit and loss account.

### 4.18 Other provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each consolidated statement of financial position date and are adjusted to reflect the current best estimate.

### 4.19 Off setting

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

### 4.20 Acceptances

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

### 4.21 Financial instruments

#### Financial Assets and Liabilities

Financial instruments carried on the consolidated statement of financial position include cash and bank balances, lendings to financial institutions, investments, advances, certain other receivables, borrowings from financial institutions, deposits and certain other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them. Financial assets are de-recognized when the contractual right to future cash flows from the asset expire or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognized when obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liabilities is recognized in the consolidated profit and loss account of the current period.

#### Derivative financial instruments

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

### 4.22 Earnings per share

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

### 4.23 Segment reporting

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

### 4.23.1 Business segments

**Corporate finance**

This includes underwriting, securitization, investment banking, syndications, IPO related activities (excluding investments) and secondary private placements.

**Trading and sales**

This segment undertakes the Group's treasury, money market and capital market activities.

**Branch banking**

This includes loans, deposits and other banking services to retail, individual customers, agriculture, SME and commercial customers of the Group.

**Islamic banking**

This segment pertains to full scale Islamic Banking operations of the Group.

**Brokerage business**

It includes brokerage activities handled through the Subsidiary - Summit Capital (Private) Limited.

**Others**

This includes the head office related activities, and all other activities not tagged to the segment above.

### 4.23.2 Geographical segments

The Group conducts all its operations in Pakistan.

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | -------- (Rupees in '000) ----- | |
| **5. CASH AND BALANCES WITH TREASURY BANKS** | | | |
| **In hand** | | | |
| Local currency | | **2,918,525** | 2,699,678 |
| Foreign currency | | **375,536** | 190,719 |
| | | **3,294,061** | 2,890,397 |
| **With State Bank of Pakistan in** | | | |
| Local currency current account | *5.1* | **961,761** | 1,011,453 |
| Foreign currency current account | *5.2* | **370,395** | 302,719 |
| Foreign currency deposit account | *5.3* | **146,827** | 125,904 |
| | | **1,478,983** | 1,440,076 |
| With National Bank of Pakistan in Local currency current account | | **789,312** | 703,743 |
| Prize bonds | | **51,205** | 8,889 |
| | | **5,613,561** | 5,043,105 |

**5.1** These represent current accounts maintained under the Cash Reserve Requirement of the SBP.

**5.2** These represent foreign currency current accounts maintained under the Cash Reserve Requirement and Special Cash Reserve Requirement of the SBP.

**5.3** These represent deposit accounts maintained under Special Cash Reserve requirement of the SBP and a US Dollar Settlement account maintained with SBP. These carry mark up at rates ranging from 0.00% to 1.51% (2018: 0.00% to 1.35%) per annum.

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | -------- (Rupees in '000) ----- | |
| **6. BALANCES WITH OTHER BANKS** | | | |
| **In Pakistan** | | | |
| In current account | | **47,525** | 31,759 |
| In deposit account | *6.1* | **76,882** | 92,378 |
| | | **124,407** | 124,137 |
| **Outside Pakistan** | | | |
| In current account | | **247,906** | 368,270 |
| In deposit account | *6.2* | **575,259** | 515,872 |
| | | **823,165** | 884,142 |
| | | **947,572** | 1,008,279 |

**6.1** These represent placements with correspondent banks, carrying interest rate determined with respect to underlying currency benchmark rates ranging from 4.14% to 11.40% per annum (2018: 4.20% to 8.10% per annum).

**6.2** These represent placements with correspondent banks, carrying interest rate determined with respect to underlying currency benchmark rates ranging from 0.00 % to 4.00 % per annum (2018: 0.00 % to 3.75 % per annum).

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | -------- (Rupees in '000) ------ | |
| **7. LENDINGS TO FINANCIAL INSTITUTIONS** | | | |
| Call money lending | *7.3* | **200,000** | - |
| Repurchase agreement lendings (Reverse Repo) | *7.4* | **791,272** | - |
| | | **991,272** | - |
| Less: provision held against Lendings to Financial Institutions | | - | - |
| Lendings to Financial Institutions - net of provision | | **991,272** | - |

**7.1 Particulars of lending**

| | | |
|---|---|---|
| In local currency | **991,272** | - |
| In foreign currencies | - | - |
| | **991,272** | - |

**7.2 Securities held as collateral against Lendings to Financial Institutions**

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Held by group | Further given as collateral | Total | Held by group | Further given as collateral | Total |
| | ---------- (Rupees in '000) ---------- | | | | | |
| Market Treasury Bills | **791,272** | - | **791,272** | - | - | - |

**7.2.1** The market value of securities held as collateral against repurchase agreement lendings amounted to Rs. 791.836 million (2018: Nil).

**7.3** This represents call money lending to a financial institution at profit rate of 9.00% (2018: Nil) per annum and is due to mature by January 2020.

**7.4** This represents lending against securities to a financial institution at mark up rates of 13.00% (2018: Nil) per annum and is due to mature by January 2020.

## 8. INVESTMENTS

### 8.1 Investments by type:

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost / amortised cost | Provision for diminution | Surplus / (Deficit) | Carrying value | Cost / amortised cost | Provision for diminution | Surplus / (Deficit) | Carrying value |
| | (Rupees in '000) | | | | | | | |
| **Held-for-trading securities** | | | | | | | | |
| Shares | 5,850 | - | (308) | 5,542 | - | - | - | - |
| **Available-for-sale securities** | | | | | | | | |
| **Federal Government Securities** | | | | | | | | |
| - Market Treasury Bills | 3,050,459 | - | 13,210 | 3,063,669 | 1,377,071 | - | 29 | 1,377,100 |
| - Pakistan Investment Bonds | 15,551,796 | - | (563,399) | 14,988,397 | 13,969,584 | - | (1,233,323) | 12,736,261 |
| - GoP Ijarah Sukuks | 1,600,000 | - | (16,000) | 1,584,000 | 2,250,000 | - | (40,275) | 2,209,725 |
| **Shares** | | | | | | | | |
| - Fully paid up ordinary shares - Listed | 4,152,347 | (2,801,965) | 495,065 | 1,845,447 | 4,152,347 | (1,947,196) | (385,542) | 1,819,609 |
| - Fully paid up ordinary shares - Unlisted | 14,475 | (1,000) | - | 13,475 | 14,475 | (1,000) | - | 13,475 |
| - Preference shares - Unlisted | 46,035 | - | - | 46,035 | 46,035 | - | - | 46,035 |
| **Non Government Debt Securities** | | | | | | | | |
| - Term Finance Certificates | 1,600,350 | (1,437,765) | - | 162,585 | 1,611,998 | (1,008,500) | - | 603,498 |
| - Sukuk Bonds | 200,000 | (200,000) | - | - | 402,070 | (200,000) | - | 202,070 |
| | 26,215,462 | (4,440,730) | (71,124) | 21,703,608 | 23,823,580 | (3,156,696) | (1,659,111) | 19,007,773 |
| **Total Investments** | 26,221,312 | (4,440,730) | (71,432) | 21,709,150 | 23,823,580 | (3,156,696) | (1,659,111) | 19,007,773 |

### 8.2 Investments by segments:

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost / amortised cost | Provision for diminution | Surplus / (Deficit) | Carrying value | Cost / amortised cost | Provision for diminution | Surplus / (Deficit) | Carrying value |
| | (Rupees in '000) | | | | | | | |
| **Federal Government Securities** | | | | | | | | |
| Market Treasury Bills | 3,050,459 | - | 13,210 | 3,063,669 | 1,377,071 | - | 29 | 1,377,100 |
| Pakistan Investment Bonds | 15,551,796 | - | (563,399) | 14,988,397 | 13,969,584 | - | (1,233,323) | 12,736,261 |
| GoP Ijarah Sukuks | 1,600,000 | - | (16,000) | 1,584,000 | 2,250,000 | - | (40,275) | 2,209,725 |
| | 20,202,225 | - | (566,189) | 19,636,066 | 17,596,655 | - | (1,273,569) | 16,323,086 |
| **Shares** | | | | | | | | |
| Listed Companies | 4,158,197 | (2,801,965) | 494,757 | 1,850,989 | 4,152,347 | (1,947,196) | (385,542) | 1,819,609 |
| Unlisted Companies | 60,510 | (1,000) | - | 59,510 | 60,510 | (1,000) | - | 59,510 |
| | 4,218,707 | (2,802,965) | 494,757 | 1,910,499 | 4,212,857 | (1,948,196) | (385,542) | 1,879,119 |
| **Non Government Debt Securities** | | | | | | | | |
| Listed | 14,016 | (14,016) | - | - | 17,266 | (17,266) | - | - |
| Unlisted | 1,786,334 | (1,623,749) | - | 162,585 | 1,996,802 | (1,191,234) | - | 805,568 |
| | 1,800,350 | (1,637,765) | - | 162,585 | 2,014,068 | (1,208,500) | - | 805,568 |
| **Total Investments** | 26,221,312 | (4,440,730) | (71,432) | 21,709,150 | 23,823,580 | (3,156,696) | (1,659,111) | 19,007,773 |

| 8.2.1 Investments given as collateral - Market Value | 2019 | 2018 |
|---|---|---|
| | -------- (Rupees in '000) -------- | |
| Pakistan Investment Bonds | **5,443,670** | 8,190,815 |
| GoP Ijarah Sukuks | **-** | 2,209,725 |
| Ordinary shares - Listed | **-** | 1,718,824 |
| | **5,443,670** | 12,119,364 |

**8.3 Provision for diminution in value of investments**

| | | | |
|---|---|---|---|
| **8.3.1** | Opening balance | **3,156,696** | 2,036,030 |
| | Charge / reversals | | |
| | Charge for the year | **1,287,284** | 1,120,666 |
| | Reversals for the year | **(3,250)** | - |
| | | **1,284,034** | 1,120,666 |
| | Closing balance | **4,440,730** | 3,156,696 |

**8.3.2 Particulars of provision against debt securities**

| Category of classification | 2019 | | 2018 | |
|---|---|---|---|---|
| | NPI | Provision | NPI | Provision |
| | ---------- (Rupees in '000) ---------- | | | |
| **Domestic** | | | | |
| Doubtful | **281,567** | **118,982** | - | - |
| Loss | **1,518,783** | **1,518,783** | 1,522,034 | 1,208,500 |
| | **1,800,350** | **1,637,765** | 1,522,034 | 1,208,500 |

**8.3.3** Pursuant to the applicable Prudential Regulations, the Group has availed the Forced Sale Value (FSV) benefit of securities / collaterals held against a non-performing investment. Had this FSV benefit not been availed by the Group, the specific provision against investments would have been higher by Rs. 21.802 million (2018: Rs. 313.534 million). This has a net of tax positive impact of Rs. 14.171 million (2018: Rs. 203.797 million) on the profit and loss account. As per the applicable Prudential Regulations, the positive impact of FSV benefit is not available for distribution either as cash or stock dividend to shareholders and bonus to employees.

## 8.4 Quality of Available for Sale Securities

Details regarding quality of Available for Sale (AFS) securities are as follows:

| | Cost | |
|---|---|---|
| | 2019 | 2018 |
| | -------- (Rupees in '000) -------- | |
| **8.4.1 Federal Government Securities - Government guaranteed** | | |
| Market Treasury Bills | **3,050,459** | 1,377,071 |
| Pakistan Investment Bonds | **15,551,796** | 13,969,584 |
| GoP Ijarah Sukuks | **1,600,000** | 2,250,000 |
| | **20,202,255** | 17,596,655 |
| **8.4.2 Shares** | | |
| **Listed Companies** | | |
| - Cement | **1,444,470** | 1,444,470 |
| - Commercial Banks | **440,566** | 440,566 |
| - Cable and electrical goods | **7,170** | 7,170 |
| - Chemical | **1,192,904** | 1,192,904 |
| - Engineering | **260,555** | 260,555 |
| - Glass and ceramics | **487,038** | 487,038 |
| - Investment Banks / Investment Companies / Securities Companies | **94,733** | 94,733 |
| - Power generation and distribution | **124,179** | 124,179 |
| - Technology and communication | **61,304** | 61,304 |
| - Transport | **39,428** | 39,428 |
| | **4,152,347** | 4,152,347 |
| **Preference Shares** | | |
| - Sugar and allied industries | **46,035** | 46,035 |

| Unlisted Companies | Breakup Value as at | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | Cost | Breakup value | Cost | Breakup value |
| | | ---------- (Rupees in '000) ---------- | | | |
| Arabian Sea Country Club Ltd. | June 30, 2018 | **1,000** | **(1,022)** | 1,000 | (591) |
| Pakistan Mortgage Refinance Company Limited | December 31, 2019 | **1,830** | **2,349** | 1,830 | 1,857 |
| ISE Towers REIT Management Company Limited | June 30, 2019 | **5,301** | **43,979** | 5,301 | 42,765 |
| LSE Financial Services Limited | June 30, 2019 | **6,344** | **19,155** | 6,344 | 18,318 |
| | | **14,475** | **64,461** | 14,475 | 62,349 |

| | Cost | |
|---|---|---|
| | 2019 | 2018 |
| | -------- (Rupees in '000) ------- | |
| **8.4.3 Non Government Debt Securities** | | |
| **Listed** | | |
| - Unrated | **14,016** | 17,266 |
| **Unlisted** | | |
| - A+, A, A- | **-** | 202,070 |
| - Unrated | **1,786,334** | 1,794,732 |
| | **1,786,334** | 1,996,802 |

## 9. ADVANCES

| | Note | Performing | | Non-Performing | | Total | |
|---|---|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | | (Rupees in '000) | | | | | |
| Loans, cash credits, running finances, etc. | 9.1 | **27,028,337** | 39,213,887 | **39,955,184** | 35,141,957 | **66,983,521** | 74,355,844 |
| Islamic financing and related assets | 9.2 | **3,767,335** | 5,875,686 | **809,541** | 882,663 | **4,576,876** | 6,758,349 |
| Bills discounted and purchased | | **549,377** | 1,635,173 | **77,089** | 47,089 | **626,466** | 1,682,262 |
| Advances - gross | | **31,345,049** | 46,724,746 | **40,841,814** | 36,071,709 | **72,186,863** | 82,796,455 |
| Provision against advances | | | | | | | |
| - Specific | | **-** | - | **(28,903,404)** | (21,502,664) | **(28,903,404)** | (21,502,664) |
| - General | | **(40,508)** | (46,988) | **-** | - | **(40,508)** | (46,988) |
| | | **(40,508)** | (46,988) | **(28,903,404)** | (21,502,664) | **(28,943,912)** | (21,549,652) |
| Advances - net of provision | | **31,304,541** | 46,677,758 | **11,938,410** | 14,569,045 | **43,242,951** | 61,246,803 |

**9.1** Includes Net Investment in finance lease as disclosed below:

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Not later than one year | Later than one and less than five years | Over five years | Total | Not later than one year | Later than one and less than five years | Over five years | Total |
| | (Rupees in '000) | | | | | | | |
| Lease rentals receivable | **247,490** | **441,188** | **-** | **688,678** | 442,465 | 596,316 | - | 1,038,781 |
| Residual value | **163,803** | **150,816** | **-** | **314,619** | 234,280 | 196,809 | - | 431,089 |
| Minimum lease payments | **411,293** | **592,004** | **-** | **1,003,297** | 676,745 | 793,125 | - | 1,469,870 |
| Financial charges for future periods | **(39,022)** | **(86,809)** | **-** | **(125,831)** | (52,704) | (99,624) | - | (152,328) |
| Present value of minimum lease payments | **372,271** | **505,195** | **-** | **877,466** | 624,041 | 693,501 | - | 1,317,542 |

**9.2** This represents Islamic financing and related assets placed under Shariah permissible modes and are presented in Annexure - II to these consolidated financial statements.

| **9.3 Particulars of advances (Gross)** | 2019 | 2018 |
|---|---|---|
| | (Rupees in '000) | |
| In local currency | **71,881,548** | 81,172,241 |
| In foreign currencies | **305,315** | 1,624,214 |
| | **72,186,863** | 82,796,455 |

**9.4** Advances include Rs. 40,841.814 million (2018: Rs. 36,071.709 million) which have been placed under non-performing status as detailed below:

| Category of Classification | 2019 | | 2018 | |
|---|---|---|---|---|
| | Non Performing Loans | Provision | Non Performing Loans | Provision |
| | (Rupees in '000) | | | |
| **Domestic** | | | | |
| Other Assets Especially Mentioned | **8,963** | **873** | 505,380 | 721 |
| Substandard | **2,057,443** | **339,271** | 5,479,696 | 460,682 |
| Doubtful | **1,668,552** | **109,872** | 7,709,088 | 1,609,889 |
| Loss | **37,106,856** | **28,453,388** | 22,377,545 | 19,431,372 |
| | **40,841,814** | **28,903,404** | 36,071,709 | 21,502,664 |

**9.5 Particulars of provision against advances**

| | Note | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | | Specific | General | Total | Specific | General | Total |
| | | (Rupees in '000) | | | | | |
| Opening balance | | **21,502,664** | **46,988** | **21,549,652** | 14,909,014 | 30,250 | 14,939,264 |
| Charge for the year | | **8,222,910** | **-** | **8,222,910** | 7,247,738 | 16,738 | 7,264,476 |
| Reversals | | **(819,338)** | **(6,480)** | **(825,818)** | (622,642) | - | (622,642) |
| | | **7,403,572** | **(6,480)** | **7,397,092** | 6,625,096 | 16,738 | 6,641,834 |
| Amounts written off | **9.6** | **(2,832)** | **-** | **(2,832)** | (31,446) | - | (31,446) |
| Closing balance | | **28,903,404** | **40,508** | **28,943,912** | 21,502,664 | 46,988 | 21,549,652 |

**9.5.1 Particulars of provision against advances**

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Specific | General | Total | Specific | General | Total |
| | (Rupees in '000) | | | | | |
| In local currency | **28,889,686** | **40,508** | **28,930,194** | 21,488,946 | 46,988 | 21,535,934 |
| In foreign currencies | **13,718** | **-** | **13,718** | 13,718 | - | 13,718 |
| | **28,903,404** | **40,508** | **28,943,912** | 21,502,664 | 46,988 | 21,549,652 |

**9.5.2** The general provision against consumer financing is required to be maintained at varying percentages based on the non-performing loan ratio present in the portfolio. These percentages ranges from 1% to 2.5% for secured and 4% to 7% for unsecured portfolio. Further, general provision against Small Enterprise Finance represents provision maintained at an amount equal to 1% of unsecured performing portfolio.

The Group has availed the Forced Sale Value (FSV) benefit of pledged stocks, mortgaged properties, plant and machinery, shares and Cash Margin / TDRs held as collateral against non-performing advances as allowed under the applicable Prudential Regulations issued by the State Bank of Pakistan. Had the benefit not been taken by the Group, the specific provision against non-performing advances would have been higher by Rs. 9,347.484 million (2018: Rs. 5,944.384 million). The positive impact on the profit and loss account arising from availing this benefit - net of tax amounts to Rs. 6,075.865 million (2018: Rs. 3,863.850 million). As per the applicable Prudential Regulations, the positive impact of FSV benefit is not available for distribution either as cash or stock dividend to shareholders and bonus to employees.

**9.5.3** The SBP has granted relaxation in provisioning requirements in respect of exposure in Dewan Group. Had this relaxation not been available, provision against loans and advances would have been higher by Rs. 205.502 million (2018: Rs. 205.502 million).

| 9.6 PARTICULARS OF WRITE OFFs: | Note | 2019 | 2018 |
|---|---|---|---|
| | | -------- (Rupees in '000) -------- | |
| **9.6.1** Against Provisions | ***9.5*** | **2,832** | 31,446 |
| Directly charged to profit and loss account | ***30*** | **89** | 3,688 |
| | | **2,921** | 35,134 |
| **9.6.2** Write Offs of Rs. 500,000 and above | | | |
| - Domestic | ***9.7*** | **1,641** | 30,980 |
| Write Offs of below Rs. 500,000 | | **1,280** | 4,154 |
| | | **2,921** | 35,134 |

## 9.7 DETAILS OF LOAN WRITE OFF OF Rs. 500,000/- AND ABOVE

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 the Statement in respect of written-off loans or any other financial relief of rupees five hundred thousand or above allowed to a person(s) during the year ended December 31, 2019 is given in Annexure - I.

| 10. FIXED ASSETS | Note | 2019 | 2018 |
|---|---|---|---|
| | | -------- (Rupees in '000) -------- | |
| Capital work-in-progress | ***10.1*** | **73,364** | 395,722 |
| Property and equipment | ***10.2*** | **8,053,631** | 8,355,617 |
| Rights of use asset | ***10.3*** | **2,093,656** | - |
| | | **10,220,651** | 8,751,339 |

## 10.1 Capital work-in-progress

| | | |
|---|---|---|
| Civil works and related payments / progress billings | **68,738** | 390,698 |
| Advances and other payments to suppliers and contractors | **4,626** | 5,024 |
| Advances and other payments against capital work in progress considered doubtful | **1,158,340** | 1,158,340 |
| Less: Provision held there against | **(1,158,340)** | (1,158,340) |
| | **-** | **-** |
| | **73,364** | 395,722 |

## 10.2 Property and Equipment

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Leasehold land | Building on leasehold land | Building improvements | Furniture and fixture | Electrical, office and computer equipment | Vehicles | Total |
| | (Rupees in '000) | | | | | | |
| **At January 01, 2019** | | | | | | | |
| Cost / Revalued amount | 1,672,965 | 8,367,747 | 1,552,315 | 504,481 | 2,030,965 | 192,230 | 14,320,703 |
| Accumulated depreciation / impairment | (5,670) | (2,889,092) | (1,082,061) | (364,320) | (1,494,785) | (129,158) | (5,965,086) |
| Net book value | 1,667,295 | 5,478,655 | 470,254 | 140,161 | 536,180 | 63,072 | 8,355,617 |
| **Year ended December 31, 2019** | | | | | | | |
| Opening net book value | 1,667,295 | 5,478,655 | 470,254 | 140,161 | 536,180 | 63,072 | 8,355,617 |
| Additions | - | - | 296,864 | 68,811 | 113,191 | - | 478,866 |
| Movement in surplus on assets revalued during the year | - | - | - | - | - | - | - |
| Transferred out to other assets | - | - | - | - | - | - | - |
| **Disposals** | | | | | | | |
| Cost | (203,695) | (20,678) | (14,811) | (76) | (36,367) | (28,231) | (303,858) |
| Accumulated depreciation | - | 9,838 | 12,667 | 53 | 30,491 | 24,905 | 77,954 |
| **Write off** | | | | | | | |
| Cost | - | - | - | - | (721) | - | (721) |
| Accumulated depreciation | - | - | - | - | 708 | - | 708 |
| Depreciation charge | - | (162,389) | (133,982) | (33,984) | (203,701) | (20,879) | (554,935) |
| Closing net book value | 1,463,600 | 5,305,426 | 630,992 | 174,965 | 439,781 | 38,867 | 8,053,631 |
| **At December 31, 2019** | | | | | | | |
| Cost / Revalued amount | 1,469,270 | 8,347,069 | 1,834,368 | 573,216 | 2,107,068 | 163,999 | 14,494,990 |
| Accumulated depreciation / impairment | (5,670) | (3,041,643) | (1,203,376) | (398,251) | (1,667,287) | (125,132) | (6,441,359) |
| Net book value | 1,463,600 | 5,305,426 | 630,992 | 174,965 | 439,781 | 38,867 | 8,053,631 |
| Rate of depreciation (percentage) | - | 2.5 - 5 | 10 | 10 - 15 | 10 - 30 | 20 | |

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Leasehold land | Building on leasehold land | Building improvements | Furniture and fixture | Electrical, office and computer equipment | Vehicles | Total |
| | (Rupees in '000) | | | | | | |
| **At January 01, 2018** | | | | | | | |
| Cost / Revalued amount | 3,041,716 | 5,715,905 | 1,660,345 | 498,219 | 1,920,304 | 192,637 | 13,029,126 |
| Accumulated depreciation / impairment | (5,670) | (2,621,463) | (1,021,552) | (337,179) | (1,363,001) | (105,511) | (5,454,376) |
| Net book value | 3,036,046 | 3,094,442 | 638,793 | 161,040 | 557,303 | 87,126 | 7,574,750 |
| **Year ended December 31, 2018** | | | | | | | |
| Opening net book value | 3,036,046 | 3,094,442 | 638,793 | 161,040 | 557,303 | 87,126 | 7,574,750 |
| Additions | 176 | 791,906 | 9,416 | 22,943 | 187,954 | 1,793 | 1,014,188 |
| Movement in surplus on assets revalued during the year | 669,069 | 1,859,936 | - | - | - | - | 2,529,005 |
| Transferred out to other assets | (2,037,996) | - | - | - | - | - | (2,037,996) |
| **Disposals** | | | | | | | - |
| Cost | - | - | (111,493) | (15,860) | (77,293) | (2,200) | (206,846) |
| Accumulated depreciation | - | - | 89,917 | 12,654 | 71,431 | 2,200 | 176,202 |
| **Write off** | | | | | | | |
| Cost | - | - | (5,953) | (821) | - | - | (6,774) |
| Accumulated depreciation | - | - | 3,243 | 470 | - | - | 3,713 |
| Depreciation charge | - | (267,629) | (153,669) | (40,265) | (203,215) | (25,847) | (690,625) |
| Closing net book value | 1,667,295 | 5,478,655 | 470,254 | 140,161 | 536,180 | 63,072 | 8,355,617 |
| **At December 31, 2018** | | | | | | | |
| Cost / Revalued amount | 1,672,965 | 8,367,747 | 1,552,315 | 504,481 | 2,030,965 | 192,230 | 14,320,703 |
| Accumulated depreciation / impairment | (5,670) | (2,889,092) | (1,082,061) | (364,320) | (1,494,785) | (129,158) | (5,965,086) |
| Net book value | 1,667,295 | 5,478,655 | 470,254 | 140,161 | 536,180 | 63,072 | 8,355,617 |
| Rate of depreciation (percentage) | - | 5 | 10 | 10 - 15 | 10 - 30 | 20 | |

**10.2.1** The cost of fully depreciated fixed assets still in use amounts to Rs. 1,982.818 million (2018: Rs. 1,464.526 million).

**10.2.2** The carrying amount of idle properties amounts to Rs. 306.826 million (2018: Rs. 436.171 million).

**10.2.3** The properties of the Group were last revalued by independent professional valuer as at December 31, 2018. The revaluation was carried out by M/s. Sadruddin Associates on the basis of professional assessment of the present market values. This revaluation had resulted in an increase in surplus by Rs. 2,529.005 million. The total surplus arising against revaluation of fixed assets as at December 31, 2019 amounts to Rs 3,568.007 million.

Had there been no revaluation, the carrying value of revalued assets would have been as follows:

| | 2019 | 2018 |
|---|---|---|
| | Carrying value at cost model | |
| | (Rupees in '000) | |
| Leasehold land | **827,958** | 993,272 |
| Buildings on leasehold land | **2,376,051** | 2,452,961 |
| Buildings improvements | **628,002** | 457,017 |

**10.2.4** Sale of fixed assets to related parties are disclosed below:

| Particulars of assets | Cost | Net book value | Sale price | Mode of disposal | Particulars of purchaser |
|---|---|---|---|---|---|
| | ---------- (Rupees in '000) ---------- | | | | |
| **Electrical, office and computer equipment** | | | | | |
| Laptop | 115 | 38 | 40 | Buy Back - As Per Policy | Mr. Imran Ahmed (ex-employee) |
| Laptop | 66 | 44 | 44 | Buy Back - As Per Policy | Mr. Faisal Shaikha (ex-employee) |
| Laptop | 53 | - | 6 | Buy Back - As Per Policy | Mr. Habib Ur Rehman Khan (ex-employee) |

**10.3** This has arisen due to adoption of IFRS 16 as detailed in note 4.1.1. Depreciation expense on right-of-use asset during the year is Rs. 531.200 million. Movement in right-of-use assets is as follows:

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | -------- (Rupees in '000) -------- | |
| Effect of initial application of IFRS 16 as at January 01, 2019 | | **2,207,128** | - |
| Additions | | **417,728** | - |
| Depreciation charge | ***28*** | **(531,200)** | - |
| Closing net book value | | **2,093,656** | - |

## 11. INTANGIBLE ASSETS

| | | | |
|---|---|---|---|
| Capital work-in-progress | ***11.1*** | **47,187** | 53,488 |
| Intangible assets in use | ***11.2*** | **105,840** | 155,930 |
| | | **153,027** | 209,418 |

### 11.1 Capital work-in-progress

| | | |
|---|---|---|
| Advances to suppliers and contractors | **47,187** | 53,488 |
| Advances against capital work in progress considered doubtful | **141,224** | 141,224 |
| Less: Provision held there against | **(141,224)** | (141,224) |
| | **-** | - |
| | **47,187** | 53,488 |

## 11.2 Intangible assets in use

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Computer softwares | Core deposits | Brand name | Trading Rights Entitlement Certificate | Total |
| | (Rupees in 000) | | | | |
| **At January 01, 2019** | | | | | |
| Cost | 480,726 | 209,874 | 143,838 | 4,386 | 838,824 |
| Accumulated amortisation and impairment | (407,089) | (164,340) | (111,465) | - | (682,894) |
| Net book value | 73,637 | 45,534 | 32,373 | 4,386 | 155,930 |
| **Year ended December 31, 2019** | | | | | |
| Opening net book value | 73,637 | 45,534 | 32,373 | 4,386 | 155,930 |
| Additions: | | | | | |
| - directly purchased | 12,115 | - | - | - | 12,115 |
| Amortisation charge | (26,834) | (20,987) | (14,384) | - | (62,205) |
| Closing net book value | 58,918 | 24,547 | 17,989 | 4,386 | 105,840 |
| **At December 31, 2019** | | | | | |
| Cost | 492,841 | 209,874 | 143,838 | 4,386 | 850,939 |
| Accumulated amortisation and impairment | (433,923) | (185,327) | (125,849) | - | (745,099) |
| Net book value | 58,918 | 24,547 | 17,989 | 4,386 | 105,840 |
| Rate of amortization (percentage) | 20 - 30 | 10 | 10 | | |
| Useful life (years) | 3.33 - 5 | 10 | 10 | | |

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Computer softwares | Core deposits | Brand name | Trading Rights Entitlement Certificate | Total |
| | (Rupees in 000) | | | | |
| **At January 01, 2018** | | | | | |
| Cost | 465,754 | 209,874 | 143,838 | 4,386 | 823,852 |
| Accumulated amortisation and impairment | (381,223) | (143,353) | (97,079) | - | (621,655) |
| Net book value | 84,531 | 66,521 | 46,759 | 4,386 | 202,197 |
| **Year ended December 31, 2018** | | | | | |
| Opening net book value | 84,531 | 66,521 | 46,759 | 4,386 | 202,197 |
| Additions: | | | | | |
| - directly purchased | 14,972 | - | - | - | 14,972 |
| Amortisation charge | (25,866) | (20,987) | (14,386) | - | (61,239) |
| Closing net book value | 73,637 | 45,534 | 32,373 | 4,386 | 155,930 |
| **At December 31, 2018** | | | | | |
| Cost | 480,726 | 209,874 | 143,838 | 4,386 | 838,824 |
| Accumulated amortisation and impairment | (407,089) | (164,340) | (111,465) | - | (682,894) |
| Net book value | 73,637 | 45,534 | 32,373 | 4,386 | 155,930 |
| Rate of amortisation (percentage) | 20 - 30 | 10 | 10 | | |
| Useful life (years) | 3.33 - 5 | 10 | 10 | | |

**11.2.1** The cost of fully amortised intangible assets still in use amounts to Rs. 354.350 million (2018: Rs. 337.933 million).

## 12. DEFERRED TAX ASSETS

| | 2019 | | | |
|---|---|---|---|---|
| | At January 01, 2019 | Recognised in profit and loss account | Recognised in other comprehensive income | At December 31, 2019 |
| | (Rupees in '000) | | | |
| Deductible Temporary Differences on | | | | |
| - Tax losses carried forward | 3,811,925 | 2,077,380 | - | 5,889,305 |
| - Deficit on revaluation of investments | 586,668 | - | (556,406) | 30,262 |
| - Provision against advances, off balance sheet etc. | 3,433,882 | 2,392,514 | - | 5,826,396 |
| - Provision for impairment loss - Investment | 1,104,844 | 449,412 | - | 1,554,256 |
| - Provision against intangible assets | 43,107 | - | - | 43,107 |
| - Staff compensated absences | 36,027 | 3,562 | - | 39,589 |
| - Unrealised loss on HFT Portfolio | - | 108 | - | 108 |
| - Provision against other assets | 149,656 | - | - | 149,656 |
| - Minimum tax | 773 | (220) | - | 553 |
| - Unrealized gain on forward exchange contracts | 3,078 | 1,216 | - | 4,294 |
| - Alternative corporate tax | 4,512 | - | - | 4,512 |
| | 9,174,472 | 4,923,972 | (556,406) | 13,542,038 |
| Taxable Temporary Differences on | | | | |
| - Surplus on revaluation of fixed assets | (1,063,624) | - | 37,299 | (1,026,325) |
| - Surplus on revaluation of property - held for sale | (406,274) | - | - | (406,274) |
| - Surplus on revaluation of non-banking assets | (141,352) | - | (14,997) | (156,349) |
| - Accelerated tax depreciation | (382,627) | 1,931 | - | (380,696) |
| | (1,993,877) | 1,931 | 22,302 | (1,969,644) |
| | 7,180,595 | 4,925,903 | (534,104) | 11,572,394 |

| | 2018 | | | |
|---|---|---|---|---|
| | At January 01, 2018 | Recognised in profit and loss account | Recognised in other comprehensive income | At December 31, 2018 |
| | (Rupees in '000) | | | |
| Deductible Temporary Differences on | | | | |
| - Tax losses carried forward | 4,103,555 | (291,630) | - | 3,811,925 |
| - Deficit on revaluation of investments | 427,093 | - | 159,575 | 586,668 |
| - Provision against advances, off balance sheet etc. | 1,309,930 | 2,123,952 | - | 3,433,882 |
| - Provision for impairment loss - Investment | 712,611 | 392,233 | - | 1,104,844 |
| - Provision against intangible assets | 43,107 | - | - | 43,107 |
| - Staff compensated absences | 36,592 | (565) | - | 36,027 |
| - Unrealised loss on HFT Portfolio | 5,560 | (5,560) | - | - |
| - Provision against other assets | 149,656 | - | - | 149,656 |
| - Minimum tax | 827 | (54) | - | 773 |
| - Alternative corporate tax | 4,512 | - | - | 4,512 |
| | 6,793,443 | 2,218,376 | 159,575 | 9,171,394 |
| Taxable Temporary Differences on | | | | |
| - Surplus on revaluation of fixed assets | (452,385) | - | (611,239) | (1,063,624) |
| - Surplus on revaluation of property - held for sale | - | - | (406,274) | (406,274) |
| - Surplus on revaluation of non-banking assets | (151,972) | - | 10,620 | (141,352) |
| - Accelerated tax depreciation | (398,779) | 16,152 | - | (382,627) |
| - Unrealized (gain) / loss on forward exchange contracts | (30,429) | 33,507 | - | 3,078 |
| | (1,033,565) | 49,659 | (1,006,893) | (1,990,799) |
| | 5,759,878 | 2,268,035 | (847,318) | 7,180,595 |

**12.1** The net deferred tax asset has been recognized in accordance with the Group's accounting policy. The management based on financial projections, estimates that sufficient taxable profits would be available in future against which the deferred tax asset could be realized. The projections includes certain key assumptions underlying management's estimation of profits. Any significant change in such assumptions may have effect on the recoverability of deferred tax asset. The management believes that it is probable that the Group would be able to achieve the profits and consequently, the deferred tax amount will be fully realized in future.

| 13. OTHER ASSETS | Note | 2019 | 2018 |
|---|---|---|---|
| | | --------- (Rupees in '000) --------- | |
| Income / mark-up accrued in local currency | | **1,325,130** | 1,631,155 |
| Income / mark-up accrued in foreign currency | | **1,768** | 2,805 |
| Advances, deposits, advance rent and other prepayments | | **346,680** | 502,044 |
| Advance taxation (payments less provisions) | | **630,380** | 601,525 |
| Non-banking assets acquired in satisfaction of claims | *13.1* | **2,768,708** | 2,821,941 |
| Branch adjustment account | | **-** | 20 |
| Receivable from other banks against clearing and settlement | | **218,053** | - |
| Mark to market gain on forward foreign exchange contracts | | **6,079** | - |
| Acceptances | | **453,864** | 1,118,180 |
| Receivable from brokers | | **-** | 5,038 |
| Stationery and stamps on hand | | **9,093** | 8,999 |
| Commission receivable on home remittance | *13.2* | **162,594** | 134,985 |
| Commission receivable on brokerage | | **8,352** | 6,477 |
| Property - held for sale | *13.3* | **3,838,719** | 3,838,719 |
| Account receivable | | **106,839** | 127,275 |
| Others | | **523,761** | 435,115 |
| | | **10,400,020** | 11,234,278 |
| Less: Provision held against other assets | *13.4* | **(650,249)** | (648,388) |
| Other assets (net of provision) | | **9,749,771** | 10,585,890 |
| Surplus on revaluation of non-banking assets acquired in satisfaction of claims | | **446,712** | 403,865 |
| Surplus on revaluation of property - held for sale | | **1,160,784** | 1,160,784 |
| Other assets - total | | **11,357,267** | 12,150,539 |

**13.1** Market value of non-banking assets acquired in satisfaction of claims **3,348,341** 3,371,419

Non-banking assets acquired in satisfaction of claims have been revalued by independent professional valuer as at December 31, 2019. The revaluation was carried out by M/s. Sadruddin Associates on the basis of professional assessment of present market values and resulted in an increase in surplus by Rs. 43.749 million. The total surplus arising against revaluation of non-banking assets acquired in satisfaction of claims as at December 31, 2019 amounts to Rs. 446.712 million (2018: Rs. 403.865 million).

**13.1.1 Non-banking assets acquired in satisfaction of claims**

| | 2019 | 2018 |
|---|---|---|
| | --------- (Rupees in '000) --------- | |
| Opening balance | **2,935,259** | 4,286,956 |
| Additions | **-** | 40,000 |
| Revaluation | **43,749** | 7,335 |
| Disposals | **(10,000)** | (1,317,724) |
| Depreciation | **(44,135)** | (44,952) |
| Provision | **-** | (36,356) |
| Closing balance | **2,924,873** | 2,935,259 |

**13.1.2 Gain on disposal of non-banking assets acquired in satisfaction of claims**

| | | |
|---|---|---|
| Disposal proceeds | **10,000** | 1,589,188 |
| less | | |
| - Cost | **(11,606)** | (1,327,307) |
| - Impairment / Depreciation | **1,606** | 9,583 |
| | **(10,000)** | (1,317,724) |
| Gain | **-** | 271,464 |

**13.2** This represents commission receivable from the SBP in respect of home remittances channelized through the Group as per agreement entered into with the SBP.

**13.3** This represents a portion of the Group's self constructed property which has been earmarked for selling in the near future. This property had been transferred from Property and Equipment (land and capital work in progress) to other assets at the year ended December 31, 2018. Accordingly, the surplus held on this property represents surplus recognized till December 31, 2018 i.e. till the date of transfer of this asset to the 'Other Assets' category in accordance with the accounting policy for fixed assets. Moreover, this property will be carried at lower of market value / fair value less cost to sell and carrying amount at the time of transfer from owned assets category.

| | 2019 | 2018 |
|---|---|---|
| | --------- (Rupees in '000) --------- | |
| **13.4 Provision held against other assets** | | |
| Income/ mark-up accrued in local currency | **1,389** | 1,389 |
| Advances, deposits, advance rent and other prepayments | **79,664** | 79,664 |
| Non-banking assets acquired in satisfaction of claims | **290,547** | 290,547 |
| Commission receivable on guarantees | **9,880** | 9,880 |
| Receivable from Dewan Group | **34,436** | 34,436 |
| Account Receivable - Sundry Claims | **199,188** | 197,279 |
| Receivable from Speedway Fondmetal (Pakistan) Limited | **25,694** | 25,694 |
| Others | **9,451** | 9,499 |
| | **650,249** | 648,388 |

**13.4.1 Movement in provision held against other assets**

| | | |
|---|---|---|
| Opening balance | **648,388** | 552,547 |
| Charge for the year | **2,317** | 96,499 |
| Reversals | **(409)** | (564) |
| Amount written off | **(47)** | (94) |
| Closing balance | **650,249** | 648,388 |

## 14. CONTINGENT ASSETS

There were no contingent assets at the balance sheet date.

| | 2019 | 2018 |
|---|---|---|
| | --------- (Rupees in '000) --------- | |
| **15. BILLS PAYABLE** | | |
| In Pakistan | **1,815,836** | 1,881,107 |
| Outside Pakistan | **-** | - |
| | **1,815,836** | 1,881,107 |

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | -------- (Rupees in '000) -------- | |
| **16. BORROWINGS** | | | |
| ***Secured*** | | | |
| Borrowings from State Bank of Pakistan | | | |
| - Under export refinance scheme | *16.1* | **6,780,140** | 6,792,628 |
| - Under Islamic Export Refinance Scheme (IERF) | *16.2* | **250,000** | 250,000 |
| - Under long-term financing facility | *16.3* | **857,219** | 756,323 |
| - Refinance facility for modernization of SMEs | *16.4* | **5,650** | 3,363 |
| - Repurchase agreement borrowings | *16.5* | **5,440,716** | 8,163,360 |
| | | **13,333,725** | 15,965,674 |
| Repurchase agreement borrowings | *16.6* | **-** | 1,000,000 |
| Foreign bills - rediscounted | | **-** | 608,830 |
| ***Total secured*** | | **13,333,725** | 17,574,504 |
| ***Unsecured*** | | | |
| Call borrowings | *16.7* | **-** | 1,911,000 |
| Overdrawn nostro accounts | | **171,055** | 6,350 |
| ***Total unsecured*** | | **171,055** | 1,917,350 |
| | | **13,504,780** | 19,491,854 |

**16.1** The Group has entered into an agreement with SBP for extending export finance to its customers. Borrowing under the export refinance scheme of SBP carry interest at rates ranging from 1.00% to 3.00% per annum (2018: 1.00% to 2.00% per annum). These are secured against demand promissory notes and are due to mature latest by June 2020 (2018: latest by June 2019).

**16.2** The Group has entered into an agreement with SBP for extending export finance to its islamic customers. Borrowing under the export refinance scheme of SBP carry interest at rate of 2.00% per annum (2018: 2.00% per annum). These are secured against demand promissory notes and are due to mature by March 2020 (2018: February 2019).

**16.3** These represent borrowings from SBP under scheme for long term financing facility at interest rates ranging from 2.00% to 3.00% per annum (2018: 2.00% to 3.00% per annum) and have varying long term maturities latest due by December 2028 (2018: latest due by November 2022). Under the agreement, SBP has a right to recover the outstanding amount from the Group at the respective maturity dates of each finance by directly debiting current account of the Group maintained by the SBP.

**16.4** These borrowings have been obtained from the SBP under a scheme to finance modernization of Small and Medium Enterprises by providing financing facilities for setting up of new units, purchase of new plant and machinery for Balancing, Modernization and Replacement (BMR) of existing units at mark up rate of 2.00% per annum (2018: 2.00% per annum), which will mature latest by February 2024 (2018: latest by July 2023).

**16.5** These represent borrowings from State Bank of Pakistan at mark up rate of 13.36% per annum (2018: 10.20% per annum), which will mature by January 2020 (2018: January 04, 2019).

**16.6** This represented borrowing from a financial institution at mark up rate of 12.5% per annum, have matured on January 2019.

**16.7** This represented call borrowing from a financial institution at mark up rate of 10.50% per annum which matured on January 04, 2019. The Bank had placed GOP Ijarah Sukuks with market value of Rs. 2,209.725 million as collateral against these borrowings.

| 16.8 Particulars of borrowings with respect to currencies | 2019 | 2018 |
|---|---|---|
| | ------- (Rupees in '000) ------- | |
| In local currency | **13,333,725** | 18,876,674 |
| In foreign currencies | **171,055** | 615,180 |
| | **13,504,780** | 19,491,854 |

## 17. DEPOSITS AND OTHER ACCOUNTS

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | In local currency | In foreign currencies | Total | In local currency | In foreign currencies | Total |
| | ---------- (Rupees in '000) ---------- | | | | | |
| **Customers** | | | | | | |
| Current deposits | **25,059,806** | **1,390,243** | **26,450,049** | 27,684,415 | 1,539,251 | 29,223,666 |
| Savings deposits | **41,131,498** | **1,290,353** | **42,421,851** | 34,873,064 | 1,605,157 | 36,478,221 |
| Term deposits | **11,202,150** | **3,032,909** | **14,235,059** | 8,624,571 | 1,579,424 | 10,203,995 |
| Others | **3,323,784** | **24,352** | **3,348,136** | 4,579,025 | 21,838 | 4,600,863 |
| | **80,717,238** | **5,737,857** | **86,455,095** | 75,761,075 | 4,745,670 | 80,506,745 |
| **Financial institutions** | | | | | | |
| Current deposits | **602,199** | **286,055** | **888,254** | 932,005 | 126,472 | 1,058,477 |
| Savings deposits | **719,084** | **5** | **719,089** | 2,208,069 | 4 | 2,208,073 |
| Term deposits | **412,126** | **-** | **412,126** | 800,337 | - | 800,337 |
| Others | **-** | **-** | **-** | - | - | - |
| | **1,733,409** | **286,060** | **2,019,469** | 3,940,411 | 126,476 | 4,066,887 |
| | **82,450,647** | **6,023,917** | **88,474,564** | 79,701,486 | 4,872,146 | 84,573,632 |

| 17.1 Composition of deposits | 2019 | 2018 |
|---|---|---|
| | -------- (Rupees in '000) -------- | |
| - Individuals | **54,714,365** | 51,892,210 |
| - Government (Federal and Provincial) | **5,557,758** | 5,265,529 |
| - Public Sector Entities | **54,528** | 585,047 |
| - Banking Companies | **1,451,708** | 822,670 |
| - Non-Banking Financial Institutions | **2,213,700** | 3,249,270 |
| - Private Sector | **24,482,505** | 22,758,906 |
| | **88,474,564** | 84,573,632 |

**17.2** Deposits include Eligible Deposits of Rs. 55,745.364 million (2018: Rs. 55,944.727 million) protected under Depositors Protection Mechanism introduced by the State Bank of Pakistan.

## 18. SUBORDINATED DEBT

| | |
|---|---|
| Issue amount | Rs.1,500,000,000 |
| Issue date | October 27, 2011 |
| Maturity date | October 27, 2020 (2018: October 27, 2019) |
| | These TFCs were issued by the Bank on October 27, 2011 for an initial tenure of seven years and maturity date of October 27, 2018. In order to protect the interest of the TFC Holders, the tenure of the TFC together with the payment of applicable redemption amounts were extended twice by the Bank to October 27, 2019 and October 27, 2020 through the extraordinary resolutions passed by the TFC holders on November 19, 2018, April 10, 2019 and November 20, 2019. The Bank completed necessary regulatory formalities for these extensions and executed the amended Declaration of Trusts on July 23, 2019 and September 23, 2020. The final approval of these extensions were approved by the SBP vide its letters dated October 21, 2019 and October 21, 2020. |
| | Recently, the TFC holders of the Bank in their extraordinary meeting held on October 22, 2020 have approved another extension of one year in the tenure of the TFC issue along with the extension in the payments of all redemption amounts with the revised maturity date of October 27, 2021. The requisite formalities and compliance with the applicable regulatory requirements necessary for this extension have already been completed by the Bank and the final approval is awaited from the State Bank of Pakistan. |
| Rating | 'D' (Default). |
| Security | Unsecured. |
| Redemption / profit payment frequency | The redemption / profit payment details are mentioned in the above maturity date clause. |
| Mark up | Base rate (6 months KIBOR - ask side) plus 325 bps. |
| Call option | The Bank had an option to call the TFC's subject to SBP's prior written approval, on any profit payment date after the 60th month from the last day of public subscription, with not less than 30 days prior notice to be given to the Trustee. The Call option once announced will not be revocable. Further, no premium will be paid to the TFC Holders in case the call option is exercised by the Bank. |
| Lock-in-clause | Neither interest nor principal can be paid (even at maturity) if such payments will result in a shortfall in the Bank's Minimum Capital Requirements (MCR) or Capital Adequacy Ratio (CAR) or increase in the existing shortfall in MCR and CAR. |

| 19. OTHER LIABILITIES | Note | 2019 | 2018 |
|---|---|---|---|
| | | ---------- (Rupees in '000) ---------- | |
| Mark-up / return / interest payable in local currency | | **1,229,525** | 827,767 |
| Mark-up / return / interest payable in foreign currencies | | **459** | 7,780 |
| Unearned income | | **8,986** | 15,223 |
| Accrued expenses | | **89,293** | 201,796 |
| Advance against sale of property | ***19.1*** | **476,544** | 438,852 |
| Acceptances | | **453,864** | 1,118,180 |
| Unclaimed dividends | | **2,213** | 2,213 |
| Mark to market loss on forward foreign exchange contracts | | **18,348** | 8,793 |
| Payable to defined benefit plan | ***35.1.7*** | **134,673** | 33,358 |
| Charity fund balance | | **504** | 844 |
| Branch adjustment account | | **80** | - |
| Security deposits against lease | | **641,208** | 790,621 |
| Payable to Bangladesh Bank | ***19.2*** | **41,389** | 41,389 |
| Payable to Rupali Bank - Bangladesh | ***19.3*** | **16,293** | 16,293 |
| Payable to vendors / creditors | | **199,376** | 126,321 |
| Provision for compensated absences | ***35.1.7 & 35.2.7*** | **113,928** | 105,739 |
| Payable to Bank of Ceylon, Colombo | | **20,163** | 20,163 |
| Retention money | | **29,374** | 6,671 |
| Workers welfare fund | ***19.4*** | **13,360** | 13,360 |
| Withholding taxes and government levies payable | | **26,010** | 13,481 |
| Federal excise duty and sales tax payable | | **10,135** | 10,254 |
| Payable to other banks against clearing and settlement | | **-** | 137 |
| Commission payable on home remittances | ***19.5*** | **137,909** | 125,375 |
| Lease liability against right-of-use assets | ***4.1.1 & 19.6*** | **2,119,682** | - |
| Account payable | | **74,624** | 92,312 |
| Others | | **325,092** | 417,328 |
| | | **6,183,032** | 4,434,250 |

**19.1** This includes advance received amounting to Rs. 346.115 million (2018: Rs. 346.115 million) against sale of property included in other assets as property - held for sale.

**19.2** This represents mark up payable to Bangladesh Bank up to June 2006 on Fixed Deposit Receipts (FDR) maintained with the Group.

**19.3** This represents amount payable in respect of share of Head office expenses of Ex-Rupali Bank Limited - Karachi Branch.

**19.4** This represents provision made for Workers' Welfare Fund (WWF) @ 2% of accounting profit before tax.

**19.5** This represents commission payable to the foreign currency dealers in respect of home remittances channelized through the Group as per agreement entered into by the Group with them.

| 19.6 Maturity analysis of lease liability | 2019 | 2018 |
|---|---|---|
| | ---------- (Rupees in '000) ---------- | |
| Not later than one year | **250,972** | - |
| Later than one year and not later than five years | **986,244** | - |
| Later than five years | **882,466** | - |
| | **2,119,682** | - |

## 20. SHARE CAPITAL - NET

### 20.1 Authorized Capital

| 2019 | 2018 | | 2019 | 2018 |
|---|---|---|---|---|
| (Number of shares) | | | (Rupees in '000) | |
| **2,800,000,000** | 2,800,000,000 | Ordinary shares of Rs. 10 each | **28,000,000** | 28,000,000 |

### 20.2 Issued, subscribed and paid up capital

| 2019 | 2018 | | 2019 | 2018 |
|---|---|---|---|---|
| (Number of shares) | | | | |
| | | **Ordinary shares** | | |
| **1,459,686,957** | 1,459,686,957 | Fully paid in cash | **14,596,869** | 14,596,869 |
| **673,997,721** | 673,997,721 | Issue of shares upon conversion of preference shares | **6,739,977** | 6,739,977 |
| **50,000,000** | 50,000,000 | Issued as bonus shares | **500,000** | 500,000 |
| **454,466,382** | 454,466,382 | Issued for consideration other than cash | **4,544,664** | 4,544,664 |
| **2,638,151,060** | 2,638,151,060 | | **26,381,510** | 26,381,510 |
| | | Less: Discount on issue of shares | **(5,881,316)** | (5,881,316) |
| **2,638,151,060** | 2,638,151,060 | | **20,500,194** | 20,500,194 |

**20.3** Number of shares held by the holding company as at December 31, are as follows:

| 2019 | 2018 | | 2019 | 2018 |
|---|---|---|---|---|
| (Number of shares) | | | %age holding | |
| **1,761,412,119** | 1,761,412,119 | Suroor Investments Limited | **66.77%** | 66.77% |

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | --------- (Rupees in '000) -------- | |
| **21. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS** | | | |
| Surplus / (deficit) on revaluation of | | | |
| - Available for sale securities | *8.1* | **(71,124)** | (1,659,111) |
| - Fixed assets | *21.1* | **3,568,007** | 3,712,954 |
| - Non-banking assets acquired in satisfaction of claims | *21.2* | **446,712** | 403,865 |
| - Property - held for sale | *21.3* | **1,160,784** | 1,160,784 |
| | | **5,104,379** | 3,618,492 |
| Deferred tax on surplus / (deficit) on revaluation of: | | | |
| - Available for sale securities | | **30,262** | 586,669 |
| - Fixed assets | *21.1* | **(1,026,325)** | (1,063,624) |
| - Non-banking assets acquired in satisfaction of claims | *21.2* | **(156,349)** | (141,353) |
| - Property - held for sale | *21.3* | **(406,274)** | (406,274) |
| | | **(1,558,686)** | (1,024,582) |
| | | **3,545,693** | 2,593,910 |
| **21.1 Surplus on revaluation of fixed assets** | | | |
| Surplus on revaluation of fixed assets as at January 01, | | **3,712,954** | 2,458,265 |
| Recognised during the year | | **-** | 2,529,005 |
| Realised on disposal during the year - net of deferred tax | | **(42,080)** | - |
| Transferred to surplus on revaluation of property - held for sale | | **-** | (1,160,784) |
| Transferred to accumulated losses in respect of incremental depreciation charged during the year - net of deferred tax | | **(65,568)** | (73,796) |
| Related deferred tax liability on surplus realised on disposal | | **(1,992)** | - |
| Related deferred tax liability on incremental depreciation charged during the year | | **(35,307)** | (39,736) |
| Surplus on revaluation of fixed assets as at December 31 | | **3,568,007** | 3,712,954 |
| Less: related deferred tax liability on: | | | |
| - revaluation as at January 01 | | **(1,063,624)** | (452,383) |
| - revaluation recognised during the year | | **-** | (650,977) |
| - surplus realised on disposal during the year | | **1,992** | - |
| - incremental depreciation charged during the year | | **35,307** | 39,736 |
| | | **(1,026,325)** | (1,063,624) |
| | | **2,541,682** | 2,649,330 |
| **21.2 Surplus on revaluation of non-banking assets acquired in satisfaction of claims** | | | |
| Surplus on revaluation as at January 01 | | **403,865** | 434,208 |
| Recognised during the year | | **43,749** | 7,335 |
| Realised on disposal during the year - net of deferred tax | | **(586)** | (24,491) |
| Related deferred tax liability on surplus realised on disposal | | **(316)** | (13,187) |
| Surplus on revaluation as at December 31 | | **446,712** | 403,865 |
| Less: related deferred tax liability on: | | | |
| - revaluation as at January 01 | | **(141,353)** | (151,973) |
| - revaluation recognised during the year | | **(15,312)** | (2,567) |
| - surplus realised on disposal during the year | | **316** | 13,187 |
| | | **(156,349)** | (141,353) |
| | | **290,363** | 262,512 |

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | --------- (Rupees in '000) -------- | |
| **21.3 Surplus on revaluation of Property - Held for sale** | | | |
| Surplus on revaluation as at January 01 | | **1,160,784** | - |
| Transferred from surplus on revaluation of fixed assets | *21.3.1* | **-** | 1,160,784 |
| Surplus on revaluation as at December 31 | | **1,160,784** | 1,160,784 |
| Less: related deferred tax liability on: | | | |
| - revaluation as at January 01 | | **(406,274)** | - |
| - surplus transferred during the year | | **-** | (406,274) |
| | | **(406,274)** | (406,274) |
| | | **754,510** | 754,510 |

**21.3.1** This represented the surplus held on a portion of property at the time of transfer of the same from 'Fixed Assets' to 'Other Assets' category.

## 22. CONTINGENCIES AND COMMITMENTS

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | --------- (Rupees in '000) -------- | |
| Guarantees | *22.1* | **19,912,355** | 19,970,337 |
| Commitments | *22.2* | **24,318,660** | 31,199,152 |
| Other contingent liabilities | *22.3* | **11,632,928** | 11,661,255 |
| | | **55,863,943** | 62,830,744 |

### 22.1 Guarantees:

| | | |
|---|---|---|
| Financial guarantees | **23,677** | 23,677 |
| Performance guarantees | **16,025,962** | 14,891,050 |
| Other guarantees | **3,862,716** | 5,055,610 |
| | **19,912,355** | 19,970,337 |

### 22.2 Commitments:

| | | | |
|---|---|---|---|
| Documentary credits and short-term trade-related transactions | | | |
| - letters of credit | | **6,953,447** | 6,604,310 |
| Commitments in respect of: | | | |
| - forward foreign exchange contracts | *22.2.1* | **5,507,866** | 4,315,349 |
| - forward lending | *22.2.2* | **6,198,509** | 7,667,231 |
| - operating leases | *22.2.3* | **46,310** | 3,164,673 |
| Commitments for acquisition of: | | | |
| - operating fixed assets | | **75,637** | 140,560 |
| - intangible assets | | **96,175** | 143,669 |
| Other commitments | *22.2.4* | **5,440,716** | 9,163,360 |
| | | **24,318,660** | 31,199,152 |

| | | Note | 2019 | 2018 |
|---|---|---|---|---|
| | | | -------- (Rupees in '000) ------- | |
| 22.2.1 | **Commitments in respect of forward foreign exchange contracts** | | | |
| | Purchase | | **4,815,225** | 3,404,992 |
| | Sale | | **692,641** | 910,357 |
| | | | **5,507,866** | 4,315,349 |
| 22.2.2 | **Commitments in respect of forward lending** | | | |
| | Forward documentary bills | | **4,465,388** | 3,458,501 |
| | Undrawn formal standby facilities, credit lines and other commitments to lend | **22.2.2.1** | **1,733,121** | 4,208,730 |
| | | | **6,198,509** | 7,667,231 |

**22.2.2.1** These represent commitments that are irrevocable because they can not be withdrawn at the discretion of the Bank without the risk of incurring significant penalty or expense.

| | | 2019 | 2018 |
|---|---|---|---|
| | | -------- (Rupees in '000) ------- | |
| 22.2.3 | **Commitments in respect of operating leases** | | |
| | Not later than one year | **46,310** | 652,360 |
| | Later than one year and not later than five years | **-** | 1,636,820 |
| | Later than five years | **-** | 875,493 |
| | | **46,310** | 3,164,673 |
| 22.2.4 | **Commitments in respect of forward government securities transaction** | | |
| | Purchase (Repo) | **5,440,716** | 9,163,360 |
| 22.3 | **Other contingent liabilities - claims against the Group not acknowledged as debts** | **11,632,928** | 11,661,255 |

**22.4** During the year 2018, Law Enforcement Agencies (LEAs) initiated its investigation on certain bank accounts alleged for money laundering activities in various banks including Summit Bank Limited. The Honourable Supreme Court of Pakistan under Suo Moto Case HRC-39216-G, appointed a Joint Investigation Team (JIT) which was constituted to investigate the matter. On recommendation of JIT, the matter was referred by the Honourable Supreme Court to the National Accountability Bureau (NAB) for further investigation and filing of references in the National Accountability Courts. The matter is currently under NAB investigations and only partial references have been filed in the NAB Courts. The Group has been and is committed to extending its full cooperation to the Law Enforcement Agencies in their investigations to the best extent possible and the matter is currently sub judice. These proceedings in the opinion of the management will not have any effect on the operations and functioning of the Group.

22.5 Contingency for tax payable

Contingency related to tax payable is disclosed in note 31.2.

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | --------- (Rupees in '000) -------- | |
| **23. MARK-UP / RETURN / INTEREST EARNED** | | | |
| On: | | | |
| Loans and advances | | **4,490,090** | 5,294,850 |
| Investments | | **1,338,081** | 2,850,230 |
| Lendings to financial institutions | | **57,579** | 286,614 |
| Balances with banks | | **29,583** | 24,698 |
| | | **5,915,333** | 8,456,392 |
| **24. MARK-UP / RETURN / INTEREST EXPENSED** | | | |
| Deposits | | **5,030,210** | 4,188,292 |
| Borrowings | | **1,166,677** | 2,026,306 |
| Subordinated debt | | **214,510** | 152,685 |
| Cost of foreign currency swaps against foreign currency deposits / borrowings | | **522,250** | 274,009 |
| Finance cost of lease liability | | **280,047** | - |
| | | **7,213,694** | 6,641,292 |
| **25. FEE AND COMMISSION INCOME** | | | |
| Branch banking customer fees | | **29,485** | 32,610 |
| Consumer finance related fees | | **3,113** | 6,641 |
| Card related fees (debit cards) | | **108,016** | 81,950 |
| Credit related fees | | **11,866** | 14,375 |
| Investment banking fees | | **32,121** | 11,405 |
| Commission on trade | | **221,984** | 404,507 |
| Commission on guarantees | | **164,964** | 190,543 |
| Commission on cash management | | **3,456** | 5,386 |
| Commission on remittances including home remittances | | **51,617** | 83,050 |
| Commission on bancassurance | | **2,028** | 5,504 |
| Commission on Benazir Income Support Programme | | **66,016** | 80,856 |
| Commission on brokerage | | **54,766** | 62,530 |
| Alternate delivery channels (ADC) | | **19,118** | 30,094 |
| Others | | **2,403** | 4,549 |
| | | **770,953** | 1,014,000 |
| **26. LOSS ON SECURITIES** | | | |
| Realised | ***26.1*** | **(16,890)** | (35,654) |
| Unrealised - held for trading | ***8.1*** | **(308)** | - |
| | | **(17,198)** | (35,654) |
| **26.1 Realised loss on:** | | | |
| Federal Government Securities | | **(28,278)** | (15,483) |
| Shares | | **11,388** | (5,001) |
| Non-Government Debt Securities | | **-** | 1,752 |
| Units of Mutual Funds | | **-** | (16,922) |
| | | **(16,890)** | (35,654) |

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | --------- (Rupees in '000) -------- | |
| **27. OTHER INCOME** | | | |
| Rent on property / locker | | **21,225** | 31,219 |
| Gain / (loss) on sale of fixed assets - net | | **49,072** | (12,651) |
| Gain on sale of non banking assets - net | ***27.1*** | **-** | 271,464 |
| Gain on sale of ijarah assets | | **4,027** | 2,783 |
| Account maintenance and other relevant charges | | **18,410** | 28,584 |
| Recovery of expenses from customers | | **13,836** | 31,209 |
| Others | | **300** | 144 |
| | | **106,870** | 352,752 |

**27.1** The Group recognised a net gain of Nil (2018: Rs. 271.464 million) against the sale of following non-banking assets:

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | --------- (Rupees in '000) -------- | |
| Land located in Karachi | | **-** | 145,189 |
| Land located in Nooriabad | | **-** | 42,000 |
| Bungalow located in Lahore | | **-** | 85,381 |
| Club Memberships | | **-** | 200 |
| Office | | **-** | (1,306) |
| | | **-** | 271,464 |

**28. OPERATING EXPENSES**

| | | | |
|---|---|---|---|
| **Total compensation expense** | ***28.1*** | **1,822,106** | 2,013,437 |
| **Property expense** | | | |
| Rent and taxes | | **148,264** | 808,861 |
| Insurance - property | | **5,077** | 7,730 |
| Insurance - non banking assets | | **109** | 667 |
| Utilities cost | | **260,198** | 256,136 |
| Security (including guards) | | **165,891** | 166,311 |
| Repair and maintenance (including janitorial charges) | | **108,791** | 95,302 |
| Depreciation on owned fixed assets | ***10.2*** | **296,371** | 421,257 |
| Depreciation on right-of-use assets | ***10.3*** | **531,200** | - |
| Depreciation on non banking assets | | **44,135** | 44,952 |
| | | **1,560,036** | 1,801,216 |
| **Information technology expenses** | | | |
| Software maintenance | | **60,492** | 49,831 |
| Hardware maintenance | | **68,844** | 51,197 |
| Depreciation on computer equipments | ***10.2*** | **108,185** | 128,451 |
| Amortisation of computer softwares | ***11.2*** | **26,834** | 25,866 |
| Network charges | | **90,725** | 95,329 |
| Insurance | | **1,211** | 505 |
| | | **356,291** | 351,179 |

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | --------- (Rupees in '000) -------- | |
| **Other operating expenses** | | | |
| Directors' fees and allowances | | **750** | 2,650 |
| Fees and allowances to Shariah Board | | **4,800** | 12,085 |
| Legal and professional charges | | **380,766** | 128,925 |
| Outsourced services costs | | **135,177** | 158,301 |
| Travelling and conveyance | | **166,241** | 162,070 |
| NIFT clearing charges | | **29,622** | 32,106 |
| Depreciation | ***10.2*** | **150,379** | 140,917 |
| Amortisation of core deposit and brand name | ***11.2*** | **35,371** | 35,373 |
| Training and development | | **5,497** | 5,758 |
| Postage and courier charges | | **43,134** | 46,694 |
| Communication | | **45,915** | 57,736 |
| Stationery and printing | | **119,742** | 98,581 |
| Marketing, advertisement and publicity | | **29,495** | 138,551 |
| Brokerage and commission | | **2,226** | 11,999 |
| Fee and subscription | | **101,608** | 94,067 |
| Cash transportation and sorting charges | | **95,930** | 104,590 |
| Entertainment | | **34,615** | 35,715 |
| Insurance | | **252,546** | 214,968 |
| Repair and maintenance | | **92,499** | 61,069 |
| Auditors' remuneration | ***28.2*** | **14,523** | 17,024 |
| Others | | **55,474** | 24,980 |
| | | **1,796,310** | 1,584,159 |
| | | **5,534,743** | 5,749,991 |

The total cost for the year included in other operating expenses relating to outsourced activities is Rs. 72.452 million (2018: Rs. 77.957 million). This cost pertains to companies incorporated in Pakistan. This includes payments other than outsourced services cost, which are disclosed above.

| **28.1 Total compensation expense** | Note | 2019 | 2018 |
|---|---|---|---|
| | | --------- (Rupees in '000) -------- | |
| Fees and allowances etc. | | **38,801** | 36,215 |
| Managerial remuneration | | | |
| i) Fixed | | **1,069,919** | 1,235,417 |
| ii) Variable | | | |
| of which; | | | |
| a) Cash bonus / awards etc. | | **4,804** | 12,228 |
| b) Incentives and commission | | **5,586** | 7,875 |
| Charge for defined benefit plan | ***35.1.8.1 & 35.2.5*** | **136,356** | 64,011 |
| Contribution to defined contribution plan | ***36*** | **59,910** | 70,712 |
| Charge for employees compensated absences | ***35.1.8.1 & 35.2.7*** | **25,389** | 17,106 |
| Rent and house maintenance | | **330,046** | 390,198 |
| Utilities | | **73,339** | 86,704 |
| Medical | | **77,441** | 92,452 |
| Employee old age benefit institution | | **515** | 519 |
| **Total** | | **1,822,106** | 2,013,437 |

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | --------- (Rupees in '000) -------- | |

## 28.2 Auditors' remuneration

| | | |
|---|---|---|
| Audit fee | **3,995** | 3,949 |
| Fee for other statutory certifications | **4,375** | 4,800 |
| Fee for audit of employee funds | **178** | 178 |
| Special certifications and sundry advisory services | **4,714** | 6,469 |
| Out-of-pocket expenses | **1,261** | 1,628 |
| | **14,523** | 17,024 |

## 29. OTHER CHARGES

| | | |
|---|---|---|
| Penalties imposed by State Bank of Pakistan | **52,215** | 136,671 |
| Bank charges | **23,179** | 23,681 |
| | **75,394** | 160,352 |

## 30. PROVISIONS AND WRITE OFFS - NET

| | | | |
|---|---|---|---|
| Provisions for diminution in value of investments | ***8.3.1*** | **1,284,034** | 1,120,666 |
| Provisions against loans and advances | ***9.5*** | **7,397,092** | 6,641,834 |
| Provision against other assets | ***13.4.1*** | **1,908** | 95,935 |
| Provision for advances and other payments against capital work in progress | | **-** | 1,158,340 |
| Fixed assets written off | | **13** | 3,061 |
| Bad debts written off directly | ***9.6.1*** | **89** | 3,688 |
| Balances with other banks written off | | **30** | - |
| Recovery of written off / charged off bad debts | | **(1,794)** | (1,061) |
| | | **8,681,372** | 9,022,463 |

## 31. TAXATION

| | | | |
|---|---|---|---|
| Current | ***31.1 & 31.2*** | **111,505** | 132,981 |
| Prior years | | **157** | - |
| Deferred | | **(4,925,903)** | (2,268,035) |
| | | **(4,814,241)** | (2,135,054) |

**31.1** This represents the provision for minimum taxation made in accordance with the requirements of section 113 of the Income Tax Ordinance, 2001. Therefore, reconciliation of tax expense and accounting profit / loss has not been disclosed.

**31.2** The Income Tax Returns of the Bank and its subsidiary have been submitted up to and including financial year ended December 31, 2018 i.e. tax year 2019.

In respect of assessments of Summit Bank Limited from tax year 2008 to tax year 2013, the tax authorities disputed Group's treatment on certain issues and created additional tax demand (net of rectification) of Rs. 230.52 million through amended assessment orders and the same have been paid / adjusted against available refunds.

In respect of assessments of ex-My Bank Limited (now Summit Bank Limited) from tax year 2003 to tax year 2011, the tax authorities disputed Bank's treatment on certain issues and created additional tax demand of Rs. 456.62 million through amended assessment orders and the same have been paid / adjusted against available refunds.

In respect of assessments of ex-Atlas Bank Limited (now Summit Bank Limited) from tax year 2003 to tax year 2010, the tax authorities disputed Bank's treatment on certain issues and created additional tax demand of Rs. 89.74 million through amended assessment orders and the same have been paid/adjusted against available refunds.

Such issues mainly include disallowances of mark up payable, taxation of mutual fund distribution at corporate tax rate, disallowance of provision against non-performing loans, disallowance of reversal of provisions, allocation of expenses against dividend income and capital gain, disallowances against non-banking assets etc. The Bank has filed appeals before the various appellate forums against these amended assessment orders which are either pending for hearing or order.

The management of the Group is confident about the favourable outcome of the appeals hence, no provision / adjustment with respect to the above matters has been made in these consolidated financial statements.

## 32. BASIC AND DILUTED LOSS PER SHARE

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | --------- (Rupees in '000) -------- | |
| Loss for the year | | **(9,486,918)** | (8,790,990) |
| | | **2019** | **2018** |
| | | ------- (Number of shares) ------- | |
| Weighted average number of ordinary shares - Basic | | **2,638,151,060** | 2,638,151,060 |
| | | **2019** | **2018** |
| | | --------- (Rupees) --------- | |
| Basic loss per share | | **(3.60)** | (3.33) |
| | | **2019** | **2018** |
| | | ------- (Number of shares) ------- | |
| Weighted average number of ordinary shares - Diluted | *32.1* | **2,638,151,060** | 2,638,151,060 |
| | | **2019** | **2018** |
| | | --------- (Rupees) --------- | |
| Diluted loss per share | | **(3.60)** | (3.33) |

**32.1** There are no potential ordinary shares outstanding as of December 31, 2019.

## 33. CASH AND CASH EQUIVALENTS

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | ---------- (Rupees in '000) ---------- | |
| Cash and balances with treasury banks | *5* | **5,613,561** | 5,043,105 |
| Balances with other banks | *6* | **947,572** | 1,008,279 |
| Overdrawn nostro accounts | *16* | **(171,055)** | (6,350) |
| | | **6,390,078** | 6,045,034 |

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

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Liabilities | | Equity | | | Total |
| | Subordinated debt | Other liabilities | Share Capital | Reserves | Accumulated losses | |
| | (Rupees in '000) | | | | | |
| Balance as at January 01, 2019 | **1,495,515** | **4,434,250** | **20,500,194** | **(425,043)** | **(19,947,568)** | **6,057,348** |
| Changes from financing cash flows | | | | | | |
| Payments of Subordinated debt | - | - | - | - | - | - |
| Payment of lease liability against right-of-use-assets | - | **(785,221)** | - | - | - | **(785,221)** |
| | - | **(785,221)** | - | - | - | **(785,221)** |
| Liability related | | | | | | |
| Changes in other liabilities | | | | | | |
| - Cash based | - | **(480,404)** | - | - | - | **(480,404)** |
| - Non cash based | - | **3,014,407** | - | - | - | **3,014,407** |
| Total liability related other changes | - | **2,534,003** | - | - | - | **2,534,003** |
| Total equity related other changes | - | - | - | - | **(9,339,158)** | **(9,339,158)** |
| Balance as at December 31, 2019 | **1,495,515** | **6,183,032** | **20,500,194** | **(425,043)** | **(29,286,726)** | **(1,533,028)** |

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Liabilities | | Equity | | | Total |
| | Subordinated debt | Other liabilities | Share Capital | Reserves | Accumulated losses | |
| | (Rupees in '000) | | | | | |
| Balance as at January 01, 2018 | 1,495,860 | 5,771,072 | 20,500,194 | (425,043) | (11,337,838) | 16,004,245 |
| Changes from financing cash flows | | | | | | |
| Payments of subordinated debt | (345) | - | - | - | - | (345) |
| Payment of lease liability against right-of-use-assets | - | | - | - | - | - |
| | (345) | - | - | - | - | (345) |
| Liability related | | | | | | |
| Changes in other liabilities | | | | | | |
| - Cash based | - | (1,346,509) | - | - | - | (1,346,509) |
| - Non cash based | - | 9,687 | - | - | - | 9,687 |
| Total liability related other changes | - | (1,336,822) | - | - | - | (1,336,822) |
| Total equity related other changes | - | - | - | - | (8,609,730) | (8,609,730) |
| Balance as at December 31, 2018 | 1,495,515 | 4,434,250 | 20,500,194 | (425,043) | (19,947,568) | 6,057,348 |

| 34. STAFF STRENGTH | 2019 | 2018 |
|---|---|---|
| | ---- (Number of employees) ---- | |
| Permanent | **1,708** | 1,858 |
| On Group contract | **77** | 85 |
| Group's own staff strength at the end of the year | **1,785** | 1,943 |

**34.1** In addition to the above, 417 (2018: 411) employees of outsourcing services companies were assigned to the Group as at the end of the year to perform services other than guarding and janitorial services.

## 35. DEFINED BENEFIT PLAN

### 35.1 Holding Company - Summit Bank Limited

#### 35.1.1 General description

The Holding Company maintains two schemes under defined benefit plan:

- **A funded gratuity plan** - under which benefits are payable to eligible employees on retirement or on cessation of services in lump sum. The benefit is equal to one month's last drawn basic salary for each year of confirmed service, subject to a minimum of five years of service.

- **A unfunded employee compensated absences scheme** - under which benefits are payable to permanent and contractual employees on retirement or at the time of their final settlement. The benefit is equal to a maximum of 45 days gross salary subject to availability of privilege leaves balance.

The actuarial valuation of the funded and unfunded scheme is carried out periodically. Latest actuarial valuation was carried out as at December 31, 2019 using 'Projected Unit Credit Method'.

#### 35.1.2 Number of Employees under the scheme

The number of employees covered under the following defined benefit schemes are:

| | 2019 | 2018 |
|---|---|---|
| | ----------(Number) ---------- | |
| - Gratuity fund | 1,728 | 1,800 |
| - Employees Compensated Absences | 1,728 | 1,885 |

#### 35.1.3 Principal actuarial assumptions

Latest actuarial valuation was carried out as at December 31, 2019 using 'Projected Unit Credit Method'.

| | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|
| | Employees Compensated Absences (Unfunded) | | Gratuity fund (Funded) | |
| | (Per annum) | | | |
| Discount rate | **11.25%** | 13.25% | **11.25%** | 13.25% |
| Expected rate of salary increase | **10.25%** | 12.25% | **10.25%** | 12.25% |
| Expected rate of return on plan assets | - | - | **11.25%** | 13.25% |
| Leave accumulation factor - per annum | **10 days** | 10 days | - | - |
| Withdrawal rates | **Moderate** | High | **Moderate** | High |
| Mortality rates | **SLIC 2001-05** | SLIC 2001-05 | **SLIC 2001-2005** | SLIC 2001-2005 |

### 35.1.4 Reconciliation of payable to defined benefit plans

| | Note | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|---|
| | | Employees Compensated Absences (Unfunded) | | Gratuity fund (Funded) | |
| | | (Rupees in '000) | | | |
| Present value of obligations | | **109,592** | 101,082 | **449,662** | 343,131 |
| Fair value of plan assets | | **-** | - | **(314,989)** | (309,773) |
| Payable | | **109,592** | 101,082 | **134,673** | 33,358 |

### 35.1.5 Movement in defined benefit obligations

| | | | | | |
|---|---|---|---|---|---|
| Obligations at the beginning of the year | | **101,082** | 104,448 | **343,131** | 344,077 |
| Current service cost | | **3,835** | 40,685 | **61,173** | 61,317 |
| Past service cost | | **-** | - | **71,704** | - |
| Interest cost | | **12,264** | 7,789 | **41,445** | 25,223 |
| Benefits paid by the holding company | | **(17,053)** | (20,063) | **(60,674)** | (62,789) |
| Re-measurement loss / (gain) | | **9,464** | (31,777) | **(7,117)** | (24,697) |
| Obligations at the end of the year | | **109,592** | 101,082 | **449,662** | 343,131 |

### 35.1.6 Movement in fair value of plan assets

| | | | | | |
|---|---|---|---|---|---|
| Fair value at the beginning of the year | | **-** | - | **309,773** | 293,546 |
| Interest income on plan assets | | **-** | - | **39,235** | 23,712 |
| Contribution by the holding company - net | | **-** | - | **(27,316)** | (12,258) |
| Re-measurements: Net return on plan assets over interest income (loss) / gain | ***35.1.8.2*** | **-** | - | **(6,703)** | 4,773 |
| Fair value at the end of the year | | **-** | - | **314,989** | 309,773 |

### 35.1.7 Movement in payable under defined benefit schemes

| | | | | | |
|---|---|---|---|---|---|
| Opening balance | | **101,082** | 104,448 | **33,358** | 50,531 |
| Charge for the year | | **25,563** | 16,697 | **135,087** | 62,828 |
| Contribution by the holding company - net | | **-** | - | **27,316** | 12,258 |
| Re-measurement (gain) recognised in OCI during the year | ***35.1.8.2*** | **-** | - | **(414)** | (29,470) |
| Benefits paid by the holding company | | **(17,053)** | (20,063) | **(60,674)** | (62,789) |
| Closing balance | | **109,592** | 101,082 | **134,673** | 33,358 |

| | | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|---|
| | | Employees Compensated Absences (Unfunded) | | Gratuity fund (Funded) | |
| | | (Rupees in '000) | | | |
| **35.1.8** | **Charge for defined benefit plans** | | | | |
| **35.1.8.1** | **Cost recognised in profit and loss** | | | | |
| | Current service cost | **13,299** | 8,908 | **61,173** | 61,317 |
| | Past service cost | **-** | - | **71,704** | - |
| | Net interest on defined benefit asset / liability | **12,264** | 7,789 | **2,210** | 1,511 |
| | | **25,563** | 16,697 | **135,087** | 62,828 |
| **35.1.8.2** | **Re-measurements recognised in OCI during the year** | | | | |
| | Loss / (gain) on obligation | | | | |
| | - Financial assumptions | **-** | - | **(4,580)** | (14,028) |
| | - Demographic assumptions | **-** | - | **3,071** | - |
| | - Experience adjustment | **-** | - | **(5,608)** | (10,669) |
| | Return on plan assets over interest income | **-** | - | **6,703** | (4,773) |
| | Total re-measurements recognised in OCI | **-** | - | **(414)** | (29,470) |
| **35.1.9** | **Components of plan assets** | | | | |
| | Cash and cash equivalents - net | **-** | **-** | **281,001** | 307,023 |
| | Mark-up / profit receivable | **-** | **-** | **33,988** | 2,750 |

**35.1.10 Sensitivity analysis**

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

| | Change in assumption | Employees Compensated Absences (Unfunded) | | Gratuity fund (Funded) | |
|---|---|---|---|---|---|
| | | Increase in assumption | Decrease in assumption | Increase in assumption | Decrease in assumption |
| | | (Rupees in '000) | | | |
| Discount rate | +- 1% | **(5,870)** | **6,559** | **(27,324)** | **30,610** |
| Salary increase rate | +- 1% | **7,085** | **(6,443)** | **32,783** | **(29,714)** |
| Withdrawal rate | +- 10% | **155** | **(188)** | **-** | **-** |
| Leave accumulation factor | +- 1 day | **1,266** | **(1,313)** | **-** | **-** |

**35.1.11 Expected contributions to be paid to the funds in the next financial year**

The Holding Company contributes to the employee Compensated absences and gratuity funds according to the actuary's advice.

| | 2019 | |
|---|---|---|
| | Employees Compensated Absences | Gratuity fund |
| | ---------- (Rupees in '000) --------- | |
| **Expected charge for the next financial year** | **14,505** | **69,668** |

**35.1.1.2 Maturity profile**

| | | |
|---|---|---|
| The weighted average duration of the obligation (in years) | 6.17 | 6.44 |

**35.1.13 Funding Policy**

The Holding Company endeavours to ensure that liabilities under the various employee benefit schemes are covered by the Fund on any valuation date having regards to the various actuarial assumptions such as projected future salary increase, expected future contributions to the fund, projected increase in liability associated with future service and the projected investment income of the Fund.

**35.1.14** The significant risks associated with Defined Benefits Plans are as under:

**Investment Risks:**

The risk arises when the actual performance of the investment is lower than expectation and thus creating a shortfall in the funding objectives.

**Longevity Risks:**

The risks arises when the actual lifetime of retirees is longer than expectation. Thus risk is measured at plan level over the entire retiree population.

**Salary Increase Risk:**

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than expectation and impact the liability accordingly.

**Withdrawal Risk:**

The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of liability can go either way.

**Asset Volatility:**

The risk arises due to inclusion of the risky assets in the pension / gratuity fund portfolio, inflation and relevant rate volatility.

**Changes in bond yields:**

The risk arises when bond yield is lower than the expected return on the plan assets (duration based PIB discount rate).

**Inflation risk:**

The risk arises if pension / gratuity benefits are linked to inflation and inflation rate is higher or higher than expected , which results in higher liabilities.

**35.2 Subsidiary - Summit Capital (Private) Limited**

**35.2.1 General description**

The Company has a gratuity fund that has been recognized by the Income Tax Authorities under Part III of Sixth Schedule to the Income Tax Ordinance, 2001 on November 03, 2007. The trust deed for the fund has been duly executed on July 12, 2007.

The cost of providing benefits under gratuity fund is determined using the Projected Unit Credit method, with actuarial valuation being carried out as at balance sheet date. The latest valuation was carried out as on December 31, 2019.

### 35.2.2 Principal actuarial assumptions

| | 2019 | 2018 |
|---|---|---|
| | -------- % per annum --------- | |
| The following principal assumptions were used for the valuation: | | |
| Estimated rate of increase in salary of employees - percent, per annum (%) | **13.00** | 10.75 |
| Expected rate of return on plan assets - percent, per annum (%) | **13.00** | 10.75 |
| Discount rate - per annum (%) | **13.00** | 10.75 |

### 35.2.3 Reconciliation of payable to / (receivable from) defined benefit plan

| | 2019 | 2018 |
|---|---|---|
| | -------- (Rupees in '000) --------- | |
| Present value of defined benefit obligation | **12,479** | 11,372 |
| Fair value of plan assets | **(12,479)** | (11,372) |
| Asset / liability recognized in balance sheet | **-** | - |

### 35.2.4 Movement in net liability recognized

| | | |
|---|---|---|
| Opening net (asset) / liability | **-** | - |
| Expense recognized | **1,269** | 1,183 |
| Other comprehensive income (OCI) | **(1,497)** | (580) |
| Contribution paid to the fund during the year | **228** | (603) |
| Closing net (asset) / liability | **-** | - |

### 35.2.5 Expense recognized in the profit and loss account

| | | |
|---|---|---|
| Current service cost | **1,257** | 1,211 |
| Net interest | **12** | (28) |
| | **1,269** | 1,183 |

### 35.2.6 Sensitivity analysis on significant actuarial assumptions

| | Change in assumption | Impact on present value of DBO | |
|---|---|---|---|
| | | Increase in assumption | Decrease in assumption |
| | | ------- (Rupees in '000) -------- | |
| Discount Rate | ± 1 % | **11,184** | 13,989 |
| Salary Increase Rate | ± 1 % | **14,036** | 11,124 |
| Withdrawal Rate | ± 1 % | **12,465** | 12,494 |
| 1 year mortality age set | Back/Forward | **12,477** | 12,482 |

### 35.2.7 Provision for staff compensated absences

| | 2019 | 2018 |
|---|---|---|
| | ------- (Rupees in '000) -------- | |
| Opening balance | **4,657** | 4,481 |
| (Reversal) / charge for the year | **(174)** | 409 |
| Encashment during the year | **(147)** | (233) |
| Closing balance | **4,336** | 4,657 |

## 36. DEFINED CONTRIBUTION PLAN

### 36.1 Holding Company - Summit Bank Limited

An amount of Rs. 57.094 million (2018: Rs. 67.773 million) has been charged during the year in respect of contributory provident fund maintained by the Holding Company.

### 36.2 Subsidiary Company - Summit Capital (Private) Limited

An amount of Rs. 2.816 million (2018: Rs. 2.939 million) has been charged during the year in respect of contributory provident fund maintained by the Subsidiary Company.

## 37. COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

### 37.1 Total Compensation Expense

| Items | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Directors | | | Members Shariah Board | President / CEO | Key Management Personnel | Other Material Risk Takers/ Controllers |
| | Chairman | Executives (other than CEO) | Non-Executives | | | | |
| | (Rupees in '000) | | | | | | |
| Fees and allowances etc. | 50 | - | 700 | 4,800 | - | - | - |
| Managerial remuneration | | | | | | | |
| i) Fixed | - | 380 | - | 3,639 | 13,211 | 63,576 | 32,250 |
| ii) Total variable | | | | | | | |
| of which | | | | | | | |
| a) Cash bonus / awards | - | - | - | - | - | 674 | 2,282 |
| b) Commission | - | - | - | - | - | 855 | - |
| Contribution to defined contribution plan | - | 38 | - | 63 | 1,321 | 5,234 | 3,029 |
| Rent and house maintenance | - | 171 | - | 1,637 | 5,945 | 28,609 | 14,512 |
| Utilities | - | 38 | - | 364 | 1,321 | 6,358 | 3,225 |
| Dearness allowance | - | 63 | - | 607 | 2,202 | 8,587 | 5,376 |
| Medical | - | 38 | - | 364 | 1,321 | 5,381 | 3,225 |
| Conveyance | - | 67 | - | 653 | - | 10,503 | 8,051 |
| Car allowance | - | 142 | - | 552 | - | 14,531 | 12,486 |
| General / special allowance | - | - | - | - | 27 | 4,168 | 1,599 |
| Relocation allowance | - | - | - | - | - | 2,026 | 607 |
| Others | - | - | - | 16 | - | 182 | 194 |
| Total | 50 | 937 | 700 | 12,695 | 25,348 | 150,684 | 86,836 |
| Number of persons | 1 | 1 | 6 * | 5 | 1 | 28 | 26 |

* This includes fee paid to outgoing Non-Executives Directors.

| Items | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Directors | | | Members Shariah Board | President / CEO | Key Management Personnel | Other Material Risk Takers/ Controllers |
| | Chairman | Executives (other than CEO) | Non-Executives | | | | |
| | (Rupees in '000) | | | | | | |
| Fees and allowances etc. | - | - | 2,650 | 4,800 | - | - | - |
| Managerial remuneration | | | | | | | |
| i) Fixed | - | 5,111 | - | 3,440 | 14,241 | 65,108 | 38,427 |
| ii) Total variable | | | | | | | |
| of which | | | | | | | |
| a) Cash bonus / awards | - | - | - | - | - | - | 175 |
| b) Commission | - | - | - | - | - | 2,003 | - |
| Contribution to defined contribution plan | - | 511 | - | 43 | 538 | 5,973 | 3,749 |
| Rent and house maintenance | - | 2,300 | - | 1,548 | 6,408 | 29,298 | 17,292 |
| Utilities | - | 564 | - | 344 | 1,424 | 6,511 | 3,843 |
| Dearness allowance | - | 852 | - | 573 | 2,374 | 8,842 | 6,406 |
| Medical | - | 548 | - | 344 | 1,424 | 5,534 | 3,843 |
| Conveyance | - | 544 | - | 469 | 140 | 9,787 | 8,875 |
| Car allowance | - | 1,620 | - | 552 | 405 | 16,444 | 15,952 |
| General / special allowance | - | 352 | - | - | 30 | 5,563 | 971 |
| Relocation allowance | - | - | - | - | - | 2,026 | 1,341 |
| Others | - | - | - | 15 | - | 37 | 360 |
| Total | - | 12,402 | 2,650 | 12,128 | 26,984 | 157,126 | 101,234 |
| Number of persons | - | 1 | 4 | 5 | 2 ** | 27 | 27 |

** Number of persons include outgoing executive.

The Bank's President and Chief Executive Officer and certain executives are provided with free use of bank maintained car and club membership fee in accordance with their entitlements.

Key management personnel of the Group includes all the staff having a direct reporting line to the Bank's President and Chief Executive Officer and key management personnel classified by the subsidiary company.

The MRT / MRC inclusion criteria has been developed in accordance with the Bank's Remuneration Guidelines.

The aggregate remuneration paid during the year to executives as defined under the Companies Act, 2017 amounted to Rs. 173.202 million (2018: Rs. 209.754 million).

**37.2 Remuneration paid to Directors for participation in Board and Committee Meetings**

| Name of Director | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Meeting Fees and Allowances Paid | | | | | | |
| | | For Board Committees | | | | | |
| | Board Meetings | Board Audit Committee (BAC) | Board Human Resource and Remuneration Committee (BHR&RC) | Board Information Technology Committee (BITC) | Board Risk Management Committee (BRMC) | Board Compliance Committee (BCC) | Total amount paid |
| | (Rupees in '000) | | | | | | |
| Mr. Shafiqur Rahman Adhami | 50 | - | - | - | - | - | 50 |
| Mr. Rana Ahmed Humayun | 50 | - | - | - | - | - | 50 |
| Mr. Kamran Butt | 50 | - | - | - | - | - | 50 |
| Ms. Fauzia Hasnain | 50 | - | - | - | - | - | 50 |
| Mr. Shehryar Faruque * | 100 | 100 | 50 | - | - | - | 250 |
| Mr. Asadulllah Khawaja ** | 100 | 100 | 50 | - | - | - | 250 |
| Mr. Md. Ataur Rahman *** | 50 | - | - | - | - | - | 50 |
| Total amount paid | 450 | 200 | 100 | - | - | - | 750 |

* Mr. Shehryar Faruque resigned from the Board with effect from July 15, 2019.

** Mr. Asadulllah Khawaja ceased to hold office with effect from April 06, 2019 owing to the election of Directors.

*** Mr. Md. Ataur Rahman ceased to hold office with effect from April 06, 2019 owing to the election of Directors.

| Name of Director | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Meeting Fees and Allowances Paid | | | | | | |
| | | For Board Committees | | | | | |
| | Board Meetings | Board Audit Committee (BAC) | Board Human Resource and Remuneration Committee (BHR&RC) | Board Information Technology Committee (BITC) | Board Risk Management Committee (BRMC) | Board Compliance Committee (BCC) | Total amount paid |
| | (Rupees in '000) | | | | | | |
| Mr. Hussain Lawai - Vice Chairman | 150 | 250 | 100 | - | 100 | - | 600 |
| Mr. Shehryar Faruque | 300 | 300 | 150 | 150 | 150 | 50 | 1,100 |
| Mr. Asadulllah Khawaja | 300 | 300 | 150 | - | 150 | - | 900 |
| Mr. Md. Ataur Rahman | 50 | - | - | - | - | - | 50 |
| Total amount paid | 800 | 850 | 400 | 150 | 400 | 50 | 2,650 |

### 37.3 Remuneration paid to Shariah Board Members

| Items | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Chairman | Resident Member | Non-Resident Member(s) | Chairman | Resident Member | Non-Resident Member(s) |
| | (Rupees in '000) | | | | | |
| Meeting fees and allowances | **1,800** | **-** | **3,000** | 1,800 | - | 3,000 |
| Other Heads | | | | | | |
| Basic salary | **-** | **3,639** | **-** | - | 3,440 | - |
| House rent | **-** | **1,637** | **-** | - | 1,548 | - |
| Utilities | **-** | **364** | **-** | - | 344 | - |
| Dearness | **-** | **607** | **-** | - | 573 | - |
| Medical | **-** | **364** | **-** | - | 344 | - |
| Conveyance | **-** | **653** | **-** | - | 469 | - |
| Car allowance | **-** | **552** | **-** | - | 552 | - |
| General / special allowance | **-** | **-** | **-** | - | - | - |
| Relocation allowance | **-** | **-** | **-** | - | - | - |
| Others | **-** | **16** | **-** | - | 15 | - |
| Contribution to defined contribution plan | **-** | **63** | **-** | - | 43 | - |
| Total amount | **1,800** | **7,895** | **3,000** | 1,800 | 7,328 | 3,000 |
| Total number of persons | **1** | **2** | **2** | 1 | 2 | 2 |

## 38. FAIR VALUE MEASUREMENTS

The fair value of quoted securities other than those classified as held to maturity, is based on quoted market price. Quoted securities classified as held to maturity are carried at cost. The fair value of unquoted equity securities is determined on the basis of the break-up value of these investments as per their latest available audited financial statements.

The fair value of unquoted debt securities, fixed term loans, other assets, other liabilities, fixed term deposits and borrowings cannot be calculated with sufficient reliability due to the absence of a current and active market for these assets and liabilities and reliable data regarding market rates for similar instruments.

### 38.1 Fair value of financial assets

The Group 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).

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

| | 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **On balance sheet financial instruments** | (Rupees in '000) | | | |
| **Financial assets - measured at fair value** | | | | |
| Investments | | | | |
| - Federal Government Securities | - | 19,636,066 | - | 19,636,066 |
| - Shares - Listed | 1,850,989 | - | - | 1,850,989 |
| - Non-Government Debt Securities | - | - | - | - |
| **Financial assets - disclosed but not measured at fair value** | | | | |
| Investments | | | | |
| - Shares - Unlisted | - | - | 65,483 | 65,483 |
| **Non-Financial assets - measured at fair value** | | | | |
| Operating fixed assets | - | - | 7,400,018 | 7,400,018 |
| Non banking assets acquired in satisfaction of claims | - | - | 2,924,873 | 2,924,873 |
| **Off-balance sheet financial instruments - measured at fair value** | | | | |
| Forward purchase of foreign exchange | - | 4,800,861 | - | 4,800,861 |
| Forward sale of foreign exchange | - | 690,545 | - | 690,545 |

| | 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **On balance sheet financial instruments** | (Rupees in '000) | | | |
| **Financial assets - measured at fair value** | | | | |
| Investments | | | | |
| - Federal Government Securities | - | 16,323,086 | - | 16,323,086 |
| - Shares - Listed | 1,819,609 | - | - | 1,819,609 |
| - Non-Government Debt Securities | - | 12,489 | - | 12,489 |
| **Financial assets - disclosed but not measured at fair value** | | | | |
| Investments | | | | |
| - Shares - Unlisted | - | - | 62,940 | 62,940 |
| **Non-Financial assets - measured at fair value** | | | | |
| Operating fixed assets | - | - | 7,616,204 | 7,616,204 |
| Non banking assets acquired in satisfaction of claims | - | - | 2,935,259 | 2,935,259 |
| **Off-balance sheet financial instruments - measured at fair value** | | | | |
| Forward purchase of foreign exchange | - | 3,416,803 | - | 3,416,803 |
| Forward sale of foreign exchange | - | 930,961 | - | 930,961 |

**Valuation techniques used in determination of fair value**

| Item | Valuation approach and input used |
|---|---|
| Federal Government Securities | The fair values of Federal Government securities are determined using the PKRV rates. |
| Units of mutual funds | The fair values of investments in units of mutual funds are determined based on their net asset values as published at the close of each business day. |
| Ordinary shares - Listed | The fair value of investment in listed equity securities are valued on the basis of closing quoted market price available at the Pakistan Stock Exchange. |
| Ordinary shares - Unlisted | This represents breakup value of investments. |
| Non-Government Debt Securities | Investments in debt securities (comprising term finance certificates, bonds and any other security 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. |
| Forward foreign exchange contracts | The valuation has been incorporated by interpolating the foreign exchange revaluation rates announced by the SBP. |
| Operating fixed assets (land and building) and non-banking assets acquired in satisfaction of claims | The valuation experts used a market based approach to arrive at the fair value of the Group's properties. The market approach used prices and other relevant information generated by market transactions involving identical or comparable or similar properties. |

## 39. SEGMENT INFORMATION

### 39.1 Segment details with respect to business activities

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Corporate finance | Trading and sales | Branch Banking | Islamic | Brokerage Business | Others | Total |
| | (Rupees in '000) | | | | | | |
| **Profit and loss** | | | | | | | |
| Net mark-up / return / profit | (583) | (186,476) | (1,056,835) | (63,060) | 8,593 | - | (1,298,361) |
| Inter segment revenue - net | - | (1,342,590) | - | 1,342,590 | - | - | - |
| Non mark-up / return / interest income | 22,594 | 460,761 | 777,071 | (32,085) | 60,370 | - | 1,288,711 |
| Total income | 22,011 | (1,068,305) | (279,764) | 1,247,445 | 68,963 | - | (9,650) |
| Segment direct expenses | 1,955 | 248,321 | 4,931,285 | 284,514 | 100,233 | 43,829 | 5,610,137 |
| Inter segment expense allocation | - | - | (395,163) | 395,163 | - | - | - |
| Total expenses | 1,955 | 248,321 | 4,536,122 | 679,677 | 100,233 | 43,829 | 5,610,137 |
| Provisions / (reversals) | - | 1,284,039 | 6,747,530 | 650,212 | (409) | - | 8,681,372 |
| **Profit / (loss) before tax** | 20,056 | (2,600,665) | (11,563,416) | (82,444) | (30,861) | (43,829) | (14,301,159) |
| **Balance Sheet** | | | | | | | |
| Cash and bank balances | - | 1,870,617 | 4,130,983 | 462,275 | 97,258 | - | 6,561,133 |
| Investments | - | 20,120,181 | 1,557,319 | - | 31,650 | - | 21,709,150 |
| Net inter segment lending | - | - | - | 14,001,113 | - | - | 14,001,113 |
| Lendings to financial institutions | - | 791,272 | - | 200,000 | - | - | 991,272 |
| Advances - performing | - | - | 27,548,061 | 3,755,854 | 626 | - | 31,304,541 |
| Advances - non-performing | - | - | 11,863,059 | 75,351 | - | - | 11,938,410 |
| Others | 36,596 | 4,068,744 | 16,416,347 | 735,424 | 218,051 | 11,828,177 | 33,303,339 |
| **Total assets** | 36,596 | 26,850,814 | 61,515,769 | 19,230,017 | 347,585 | 11,828,177 | 119,808,958 |
| Borrowings | 465 | 5,491,088 | 7,763,227 | 250,000 | - | - | 13,504,780 |
| Subordinated debt | 4,063 | 440,405 | 1,051,047 | - | - | - | 1,495,515 |
| Deposits and other accounts | - | - | 73,026,340 | 15,448,224 | - | - | 88,474,564 |
| Net inter segment borrowing | - | 14,001,113 | - | - | - | - | 14,001,113 |
| Others | 2,651 | 319,515 | 5,156,226 | 1,989,042 | 93,019 | 438,415 | 7,998,868 |
| **Total liabilities** | 7,179 | 20,252,121 | 86,996,840 | 17,687,266 | 93,019 | 438,415 | 125,474,840 |
| Equity | 29,417 | 6,598,693 | (25,481,071) | 1,542,751 | 254,566 | 11,389,762 | (5,665,882) |
| **Total equity and liabilities** | 36,596 | 26,850,814 | 61,515,769 | 19,230,017 | 347,585 | 11,828,177 | 119,808,958 |
| **Contingencies and Commitments** | - | 10,736,460 | 28,182,452 | 5,140,291 | - | 11,804,740 | 55,863,943 |

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Corporate finance | Trading and sales | Branch Banking | Islamic | Brokerage Business | Others | Total |
| | (Rupees in '000) | | | | | | |
| **Profit and loss** | | | | | | | |
| Net mark-up / return / profit | (69) | 510,637 | 785,413 | 513,442 | 5,677 | - | 1,815,100 |
| Inter segment revenue - net | - | (355,152) | - | 355,152 | - | - | - |
| Non mark-up / return / interest income | 4,103 | 781,330 | 1,047,413 | 13,371 | 73,979 | 271,466 | 2,191,662 |
| Total income | 4,034 | 936,815 | 1,832,826 | 881,965 | 79,656 | 271,466 | 4,006,762 |
| Segment direct expenses | 359 | 364,871 | 5,091,208 | 310,260 | 98,417 | 45,228 | 5,910,343 |
| Inter segment expense allocation | - | - | (399,369) | 399,369 | - | - | - |
| Total expenses | 359 | 364,871 | 4,691,839 | 709,629 | 98,417 | 45,228 | 5,910,343 |
| Provisions / (reversals) | 1 | 1,121,853 | 7,812,260 | 88,913 | (564) | - | 9,022,463 |
| **Profit / (loss) before tax** | 3,674 | (549,909) | (10,671,273) | 83,423 | (18,197) | 226,238 | (10,926,044) |
| **Balance Sheet** | | | | | | | |
| Cash and bank balances | - | 2,090,681 | 3,499,928 | 347,536 | 113,239 | - | 6,051,384 |
| Investments | - | 16,774,074 | 2,200,302 | - | 33,397 | - | 19,007,773 |
| Net inter segment lending | - | 700,000 | - | 10,722,364 | - | - | 11,422,364 |
| Lendings to financial institutions | - | - | - | - | - | - | - |
| Advances - performing | - | - | 40,814,032 | 5,862,800 | 926 | - | 46,677,758 |
| Advances - non-performing | - | - | 13,768,955 | 800,090 | - | - | 14,569,045 |
| Others | 4,010 | 4,059,629 | 11,199,049 | 592,337 | 247,164 | 12,189,702 | 28,291,891 |
| **Total assets** | 4,010 | 23,624,384 | 71,482,266 | 18,325,127 | 394,726 | 12,189,702 | 126,020,215 |
| Borrowings | 3 | 11,076,822 | 8,165,029 | 250,000 | - | - | 19,491,854 |
| Subordinated debt | 678 | 579,924 | 914,913 | - | - | - | 1,495,515 |
| Deposits and other accounts | - | - | 69,360,913 | 15,212,719 | - | - | 84,573,632 |
| Net inter segment borrowing | - | 10,722,364 | - | 700,000 | - | - | 11,422,364 |
| Others | 497 | 514,859 | 4,743,509 | 537,213 | 103,611 | 415,668 | 6,315,357 |
| **Total liabilities** | 1,178 | 22,893,969 | 83,184,364 | 16,699,932 | 103,611 | 415,668 | 123,298,722 |
| Equity | 2,832 | 730,415 | (11,702,098) | 1,625,195 | 291,115 | 11,774,034 | 2,721,493 |
| **Total equity and liabilities** | 4,010 | 23,624,384 | 71,482,266 | 18,325,127 | 394,726 | 12,189,702 | 126,020,215 |
| **Contingencies and Commitments** | - | 13,475,014 | 31,289,074 | 6,125,410 | - | 11,941,246 | 62,830,744 |

**39.1.1** The Group does not have any operations outside Pakistan.

## 40. TRUST ACTIVITIES

The Group undertakes Trustee and other fiduciary activities that result in the holding or placing of assets on behalf of individuals and other organisations. These are not assets of the Group and, therefore, are not included as such in these consolidated financial statements. Assets held under trust are shown in the table below:

| 2019 | | | | | |
|---|---|---|---|---|---|
| Category | No. of IPS accounts | Securities Held (Face Value) | | | Total |
| | | Market Treasury Bills | Pakistan Investment Bonds | Sukuk | |
| | | ---------- (Rupees in '000) ---------- | | | |
| Employee Funds | 3 | 72,000 | 100,700 | - | 172,700 |
| Insurance company | 1 | - | 16,000 | - | 16,000 |
| Total | 4 | 72,000 | 116,700 | - | 188,700 |

| 2018 | | | | | |
|---|---|---|---|---|---|
| Category | No. of IPS accounts | Securities Held (Face Value) | | | Total |
| | | Market Treasury Bills | Pakistan Investment Bonds | Sukuk | |
| | | ---------- (Rupees in '000) ---------- | | | |
| Employee Funds | 4 | 305,000 | 137,700 | - | 442,700 |
| Insurance company | 1 | 151,000 | 16,000 | 100,000 | 267,000 |
| Individuals | 1 | - | 50,000 | - | 50,000 |
| Total | 6 | 456,000 | 203,700 | 100,000 | 759,700 |

## 41. RELATED PARTY TRANSACTIONS

The Group has related party transactions with its parent, employee benefit plans and its directors and Key Management Personnel.

The Group 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.

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

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Parent company | Directors | Key management personnel | Other related parties | Parent company | Directors | Key management personnel | Other related parties |
| | (Rupees in '000) | | | | | | | |
| **Balances with other banks** | | | | | | | | |
| In current accounts | - | - | - | - | - | - | - | 26,457 |
| **Investments** | | | | | | | | |
| Opening balance | - | - | - | **1,713,990** | - | - | - | 1,803,185 |
| Investment made during the year | - | - | - | - | - | - | - | 54,983 |
| Investment redeemed / disposed off during the year | - | - | - | - | - | - | - | (133,317) |
| Transfer in / (out) - net | - | - | - | **(21,500)** | - | - | - | (10,861) |
| Closing balance | - | - | - | **1,692,490** | - | - | - | 1,713,990 |
| Provision for diminution in value of investments | - | - | - | **1,613,242** | - | - | - | 1,539,327 |
| **Advances** | | | | | | | | |
| Opening balance | - | - | **259,303** | **932,302** | - | - | 409,534 | 1,213,053 |
| Addition during the year | - | - | **36,601** | **2,139,568** | - | - | 32,134 | 3,635,109 |
| Repaid during the year | - | - | **(18,393)** | **(2,214,009)** | - | - | (180,248) | (3,915,860) |
| Transfer in / (out) - net | - | - | **(11,718)** | **(197,069)** | - | - | (2,117) | - |
| Closing balance | - | - | **265,793** | **660,792** | - | - | 259,303 | 932,302 |
| Provision held against advances | - | - | - | - | - | - | - | - |

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Parent company | Directors | Key management personnel | Other related parties | Parent company | Directors | Key management personnel | Other related parties |
| | (Rupees in '000) | | | | | | | |
| **Other Assets** | | | | | | | | |
| Interest / mark-up accrued | - | - | - | 11,320 | - | - | 758 | 22,292 |
| Other receivable | 699 | - | 375 | - | 578 | - | 2,002 | 757 |
| **Deposits and other accounts** | | | | | | | | |
| Opening balance | - | 18,463 | 13,421 | 1,769,716 | - | 32,259 | 67,291 | 860,510 |
| Received during the year | - | - | 224,304 | 852,565 | - | 23,465 | 566,173 | 16,458,586 |
| Withdrawn during the year | - | - | (217,761) | (848,128) | - | (37,261) | (606,161) | (15,549,380) |
| Transfer in / (out) - net | - | (18,463) | 78 | (261,192) | - | - | (13,882) | - |
| Closing balance | - | - | 20,042 | 1,512,961 | - | 18,463 | 13,421 | 1,769,716 |
| **Other Liabilities** | | | | | | | | |
| Interest / mark-up payable | - | - | 245 | 16,293 | - | 119 | 325 | 11,855 |
| Payable to defined benefit plan | - | - | - | 134,673 | - | - | - | 33,358 |
| Payable to Rupali Bank | - | - | - | | - | - | - | 16,293 |
| **Contingencies and Commitments** | | | | | | | | |
| Guarantees, letters of credit and acceptances | - | - | - | 86,500 | - | - | - | 918,975 |
| Commitments to extend credit | - | - | - | 9,915 | - | - | - | 230,337 |



Summit Bank Committed to you

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Parent company | Directors | Key management personnel | Other related parties | Parent company | Directors | Key management personnel | Other related parties |
| | (Rupees in '000) | | | | | | | |
| **Income** | | | | | | | | |
| Mark-up / return / interest earned | - | - | **13,528** | **78,890** | - | - | 19,286 | 99,684 |
| Fee and commission income | - | - | **19** | - | - | - | 189 | - |
| Dividend income | - | - | - | - | - | - | - | 612 |
| Foreign exchange income | - | - | - | - | - | - | - | 25,789 |
| Loss on securities | - | - | - | - | - | - | - | (15,505) |
| Other income | - | - | **8** | - | - | - | 8 | - |
| **Expense** | | | | | | | | |
| Mark-up / return / interest paid | - | - | **2,759** | **165,407** | - | 1,005 | 1,029 | 64,071 |
| Operating expenses: | | | | | | | | |
| - Rent and taxes | - | - | - | - | - | - | - | 35,878 |
| - Directors' fees and allowances | - | **750** | - | - | - | 2,650 | - | - |
| - Legal and professional charges | - | - | - | - | - | - | - | 265 |
| - Training and development | - | - | - | - | - | - | - | 2,550 |
| - Marketing, advertisement and publicity | - | - | - | - | - | - | - | 205 |
| - Fee and subscription | - | - | **1,944** | - | - | - | 2,125 | 750 |
| - Managerial remuneration | - | - | **180,606** | - | - | - | 192,382 | - |
| - Contribution to defined contribution plan | - | - | - | **59,910** | - | - | - | 70,712 |
| - Charge for defined benefit plan | - | - | - | **136,356** | - | - | - | 64,011 |
| Provision for diminution in value of investments | - | - | - | **79,591** | - | - | - | 13,923 |

Directors include Non-Executive Directors only. Executive Directors including the President / CEO are part of key management personnel.

## 42. CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

| | 2019 | 2018 |
|---|---|---|
| | -------- (Rupees in '000) -------- | |
| **Minimum Capital Requirement (MCR):** | | |
| Paid-up capital (net of losses) | **(9,365,737)** | (26,579) |
| **Capital Adequacy Ratio (CAR):** | | |
| Eligible Common Equity Tier 1 (CET 1) Capital | **(21,424,406)** | (7,731,810) |
| Eligible Additional Tier 1 (ADT 1) Capital | **-** | - |
| Total Eligible Tier 1 Capital | **(21,424,406)** | (7,731,810) |
| Eligible Tier 2 Capital | **-** | - |
| Total Eligible Capital (Tier 1 + Tier 2) | **(21,424,406)** | (7,731,810) |
| Risk Weighted Assets (RWAs): | | |
| Credit Risk | **70,219,585** | 82,555,930 |
| Market Risk | **6,972,343** | 8,129,083 |
| Operational Risk | **5,755,700** | 8,723,054 |
| Total | **82,947,628** | 99,408,067 |
| Common Equity Tier 1 Capital Adequacy ratio | **-25.83%** | -7.78% |
| Tier 1 Capital Adequacy Ratio | **-25.83%** | -7.78% |
| Total Capital Adequacy Ratio | **-25.83%** | -7.78% |

Under the applicable Laws and Regulations, the Group is required to maintain a minimum paid-up capital (free of losses) of Rs. 10 billion. Moreover, the Group is subject to the Basel II capital adequacy guideline stipulated by the State Bank of Pakistan under BSD Circular No. 8 of 2006 and Basel III guideline vide its BPRD Circular No. 6 of 2013. As of December 31, 2019, the Group is required to maintain minimum CET 1 ratio of 6%, minimum Tier 1 capital ratio of 7.5% and minimum total capital adequacy ratio of 12.50% (inclusive of Capital Conservation Buffer of 2.50%).

Under Basel III framework, Group's regulatory capital has been analysed into two tiers as follows:

**a)** Tier 1 capital (going concern capital) which comprises Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1 capital), which includes fully paid up capital, balance in share premium account net of discount on issue of shares, reserves arising on amalgamation and un-appropriated / accumulated losses. Moreover, regulatory deductions pertaining to book value of intangibles, deferred tax assets and reciprocal crossholdings are made from Tier 1 capital as per the applicable Basel III guidelines.

**b)** Tier 2 Capital (gone concern capital), which includes general provisions for loan losses (up to a maximum of 1.25% of credit risk weighted assets), reserves on revaluation of fixed assets and available for sale investments after deduction of deficit on available for sale investments (as per Basel III requirement). The outstanding sub-ordinated debt / TFC of the Group has not been included in Tier-2 capital as of December 31, 2019 because the said TFC has less than one year remaining maturity (revised maturity date is October 27, 2020) and therefore not eligible as Tier 2 capital as per the applicable Basel III guidelines.

Due to negative Tier 1 capital, the Bank could not take benefit of available Tier 2 capital which includes surplus / (deficit) on revaluation of assets and general provision / reserve for loan losses amounting to Rs. 3,295.838 million.

As on December 31, 2019, the Group does not meet the applicable requirements stipulated by the SBP as explained above. In this regard management of the Group is taking various steps to comply with applicable minimum capital requirements. A business plan has been put in place which has been approved by the Board of Directors and aims to improve the Group's Capital base and risk absorption capacity and to provide impetus to its future growth initiatives. This plan indicates future profitable operations based on various assumptions including capital injection as explained in note 1.2 to these consolidated financial statements. Moreover, the management is committed to taking all the necessary steps for successful execution of the business plan to comply with the capital requirements as explained above.

**Capital Management**

The Group manages its capital to meet the regulatory requirements and current and future business needs considering the risks associated with its businesses, expectation of shareholders and investors, and the available options for raising capital. The Group is committed to comply with the capital requirements as per the SBP's Basel III guidelines.

The capital management framework of the Group is administered by the Finance Division and Risk Management Group under the supervision of the Board of Directors and Board Risk Management Committee.

As per the guidelines issued by the SBP, the Group is applying standardised approach for the measurement of credit risk, standardised approach for market risk and Basic Indicator Approach for the operational risk.

| | 2019 | 2018 |
|---|---|---|
| | -------- (Rupees in '000) -------- | |
| **Leverage Ratio (LR):** | | |
| Eligible Tier-1 Capital | **(21,424,406)** | (7,731,810) |
| Total Exposures | **138,078,420** | 184,103,481 |
| | **-15.52%** | -4.20% |
| **Liquidity Coverage Ratio (LCR):** | | |
| Total High Quality Liquid Assets | **14,935,767** | 27,495,433 |
| Total Net Cash Outflow | **17,180,961** | 31,044,717 |
| Liquidity Coverage Ratio | **86.93%** | 88.57% |
| **Net Stable Funding Ratio (NSFR):** | | |
| Total Available Stable Funding | **66,795,162** | 72,435,261 |
| Total Required Stable Funding | **66,682,561** | 82,307,865 |
| Net Stable Funding Ratio | **100.17%** | 88.01% |

Under the applicable Laws and Regulations, the Group is required to maintain the Leverage Ratio (LR) at 3%, Liquidity Coverage Ratio (LCR) at 100% and Net Stable Funding Ratio (NSFR) at 100%. While the Group meets the applicable requirements for NSFR, the Group is not meeting LR and LCR requirements. Subsequently, from June 30, 2020, the Bank achieved compliance with the applicable LCR requirements, while efforts are under way to comply with LR requirements at the earliest timeline. As more fully explained in note 1.2 of these consolidated financial statements, the Group has made a business plan which envisages the compliance with capital and liquidity requirements.

**42.1** The full disclosure on the Capital Adequacy, Leverage Ratio and Liquidity requirements as per SBP instructions has been placed on the website. The link to the full disclosure is http://summitbank.com.pk/index.php/investor-relations/financial-statements.

## 43. RISK MANAGEMENT

The acceptance and management of financial risk is inherent to banking business activities. The Group is exposed to numerous risks in pursuit of its business objectives. The core risks are Credit, Market and Liquidity risks. These risks arise directly through the Group's commercial activities whilst Operational and Compliance / Legal / Regulatory risks are normal consequences of any business undertaking. A sound Risk Management Framework provides principles for identifying, assessing and monitoring risk. The Framework specifies the key elements of the risk management process in order to maximise opportunities, to minimise adversity and to achieve improved outcomes and outputs based on informed decision making.

Clearly defined risk management policies and procedures covering all activities of the Group including general banking, trade finance, credit evaluation, credit management, treasury operations, administration and human resources management, compliance functions, risk management, central finance, audit and control are in place. The basic principles employed in formulation of the above policies and procedures involves identification, measurement, monitoring and controlling risks to ensure that:

- The Group's risk exposure is within the limits established by Board of Directors.
- Risk taking decisions are in line with the business strategy and objectives of the Group.
- The expected payoffs compensate the risks taken by the Group.
- The decisions are explicit and clear.
- Sufficient capital as buffer is available to mitigate risk.

**Risk responsibilities**

The Board of Directors is responsible for overall supervision of the risk management process. This is discharged by distributing responsibilities at the senior management level and determining the manner in which risk authorities are set. The Board is also responsible for approval of all risk policies and ensuring that these are properly implemented. Further, the Board appoints senior management personnel capable of managing the risk activities conducted by the Group.

The Board of Directors approves the policies proposed by the risk management committee of the Bank which discharge various responsibilities assigned to it by the Board. The Risk Management is headed by a Group Head - Enterprise Risk Management and strategic planning with responsibility to look after this function as per the approved policies and procedures of the Group.

**Risk management group organization**

A clear management structure has been put in place by the Group, which clusters around three distinct groups namely, the Business Group, the Support Group and the Risk Management Group. The Business Group is responsible for generation and management of the business and acts as the front office of the Group. The Support Group provides various services necessary for maintaining operations of the Bank on a sustainable basis. The Risk Management Group is responsible for management of the risk inherent in the Group's operations. The Risk Management Group comprises of Credit Division and Risk Management Division. Whilst the activities of the Credit Division are focused on independent risk management of the Group's credit activities and the Risk Management Division is responsible for managing all other risks emanating from various activities of the Group. In addition to above, Compliance Division ensures compliance of all internal and external policies, laws and regulations. The management has established various committees for periodic risk review.

The Bank has hPLUS™ a core banking software. hPLUS™ is a fully functional, well proven, single integrated banking application and is also capable of generating numerous standard and customised MIS reports. In line with the Group's strategic direction, a work is under way for implementation of a new core banking system which will support the Group in execution of its plan to convert to a full fledge islamic bank. The new core banking system is expected to improve the risk assessment of the bank by facilitating the management with detailed analytical review reports.

## 43.1 Credit Risk

Credit risk is the risk that one party to financial instrument fails to discharge an obligation and cause other party to incur a financial loss. The Group is exposed to credit risk through its lending and investment activities as well as in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The following objectives govern the credit policy of the Group:

- The Group complies with the requirements of Prudential Regulations prescribed by SBP.
- Facilities provided by the Group are well diversified into different sectors as well as financing in different consumer products to achieve a strong market position and adequate return on capital.
- Return commensurate with the risk.
- Lending decision is based on a full appreciation for the risks inherent in the transaction and within the approved limits by the Board of Directors.
- Risk changes are identified promptly and remedial actions are taken.

The Group creates loan loss provisions against non-performing advances in accordance with the Prudential Regulations issued by SBP. Please refer to note 9.5 for reconciliation in loan loss provision.

Concentrations of credit risk (including funded and non-funded portfolio) arises when the counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be affected in a similar way by changes in economic or other conditions. As part of managing concentration risk, sector risk is managed on a portfolio basis. Please refer to note 43.1.4, 43.1.5, 43.1.6 and 43.1.7

Credit approval authorities are based on the nature and size of exposure. Disbursement authorisation, collateral and security management, documentation and monitoring are managed by the Credit Administration Department. Proactive monitoring is ensured for assets under stress. This enable the Group to put in place viable solutions to prevent further deterioration in credit quality. SAM function is in place to handle stressed assets and to ensure a focused remedial strategy.

As a matter of paramount importance the affairs of the customers enjoying credit facilities are carefully reviewed and reconsidered periodically. The facility review provides a timely signal of unfavourable developments in clients' affairs and identifies the risk before the Group is faced with undesirable positions. For this reason, facilities of a continuing character are periodically reviewed and approved.

Credit administration tasks include the following:

- Maintain credit, custody and security documentation files;
- Register security and collateral documents;
- Tracking of covenants;
- Administer facility fees / receipts / payments;
- Load limits into credit system; and
- Satisfy internal and external risk reporting requirements.

It is the Group's policy to reduce or mitigate credit risk on credit facilities or exposure, as much as possible, in a given commercial environment by securing credit facilities or exposure with collateral. To correctly assess the extent to which the collateral mitigates the credit risk, the collateral must be valued according to a specified valuation method and documented and monitored. The legal mechanism by which collateral is secured and the Group's procedures ensure that the Group has clear rights over the collateral and may liquidate, retain or take legal possession of it in a timely manner in the event of the default, insolvency or bankruptcy or otherwise defined credit event set out in the transaction documentation, of the counterparty and, where applicable, of the custodian holding the collateral.

### 43.1.1 Credit Risk Approach for Capital Adequacy Ratio: Standardised Approach

The Group has adopted the standardized approach of Basel II for risk weighing its credit risk exposures.

Under standardised approach, the capital requirement is based on the credit rating assigned to the counterparties by the External Credit Assessment Institutions (ECAIs) duly recognised by SBP for capital adequacy purposes.

The standardised approach to credit risk sets out fixed risk weights corresponding, where appropriate, to external credit assessment levels or for unrated claims.

Types of exposures and ECAI's used

The following table illustrates the approved External Credit Assessment Institution (ECAI) whose rating are being utilised by the Group with respect to material categories of exposure:

| | 2019 | | | | |
|---|---|---|---|---|---|
| **Exposures** | **Fitch** | **Moody's** | **S&P** | **PACRA** | **JCR-VIS** |
| Corporate | - | - | - | Yes | Yes |
| Banks | Yes | Yes | Yes | Yes | Yes |
| Sovereigns | - | - | - | - | - |
| SME's | - | - | - | - | - |
| Securitisations | - | - | - | - | - |
| Others | - | - | - | Yes | Yes |

Sovereign Exposures: For foreign currency claims on sovereigns, the Group uses country risk scores of Export Credit Agencies (ECA) participating in the 'Arrangement on Officially Supported Export Credits' available on Organisation for Economic Co-operation and Development (OECD) website.

Exposures to Multilateral Development Banks (MDBs): For exposures on MDBs not eligible for a 0% risk weight, ratings of Moody's, S&P and Fitch are being used to calculate risk-weighted assets.

Bank Exposures: For foreign banks (i.e., incorporated outside Pakistan), ratings of Moody's, S&P and Fitch are being used to arrive at risk weights. However, for local banks (i.e. incorporated in Pakistan) ratings of PACRA and JCR-VIS are used.

The Group prefers solicited ratings over unsolicited ratings at all times, owing to the greater degree of accuracy (in general) associated with solicited ratings as compared to unsolicited ratings. Unsolicited ratings may only be used in cases where a solicited rating is not available.

**Mapping to SBP rating grades**

The selected final ratings (after application of the principles stated above) for all exposures need to be translated to the standard rating grades given by the SBP. In this regard, the mapping tables to be used for converting ECAI ratings to SBP rating grades are given below:

**Long-Term Rating Grades Mapping**

| SBP rating grade | Fitch | Moody's | S&P | PACRA | JCR-VIS | ECA scores |
|---|---|---|---|---|---|---|
| 1 | AAA | Aaa | AAA | AAA | AAA | 0 |
| | AA+ | Aa1 | AA+ | AA+ | AA+ | 1 |
| | AA | Aa2 | AA | AA | AA | |
| | AA- | Aa3 | AA- | AA- | AA- | |
| 2 | A+ | A1 | A+ | A+ | A+ | 2 |
| | A | A2 | A | A | A | |
| | A- | A3 | A- | A- | A- | |
| 3 | BBB+ | Baa1 | BBB+ | BBB+ | BBB+ | 3 |
| | BBB | Baa2 | BBB | BBB | BBB | |
| | BBB- | Baa3 | BBB- | BBB- | BBB- | |
| 4 | BB+ | Ba1 | BB+ | BB+ | BB+ | 4 |
| | BB | Ba2 | BB | BB | BB | |
| | BB- | Ba3 | BB- | BB- | BB- | |
| 5 | B+ | B1 | B+ | B+ | B+ | 5 |
| | B | B2 | B | B | B | 6 |
| | B- | B3 | B- | B- | B- | |
| 6 | CCC+ and below | Caa1 and below | CCC+ and below | CCC | CCC | 7 |
| | | CC | | CC | CC | |
| | | | | C | C | |
| | | | | D | D | |

**Short-Term Rating Grades Mapping**

| SBP Rating grade | Fitch | Moody's | S&P | PACRA | JCR-VIS |
|---|---|---|---|---|---|
| S1 | F1 | P-1 | A-1+ | A-1+ | A-1+ |
| | | | A-1 | A-1 | A-1 |
| S2 | F2 | P-2 | A-2 | A-2 | A-2 |
| S3 | F3 | P-3 | A-3 | A-3 | A-3 |
| S4 | Others | Others | Others | Others | Others |

The Group has used specific rating for risk weighing specific exposures and entity rating for risk weighing claims against the counter parties. Both short and long term ratings have been used for corresponding short and long term exposures.

### 43.1.2 Credit Risk Mitigation Approach for Capital Adequacy Ratio: Comprehensive Approach

The Group has adopted the comprehensive approach of Credit Risk Mitigation for the Banking Book. Since the trading book of the Group only comprises equity investments; therefore no Credit Risk Mitigation benefit is taken in the trading book. In instances where the Group's exposure on an obligor is secured by collateral that confirms with the eligibility criteria under the comprehensive Approach of CRM, then the Group reduces its exposure under that particular transaction by taking into account the risk mitigating effect of the collateral for the calculation of capital requirement.

The Group accepts cash, lien on deposits, government securities and eligible financial instruments etc. under the comprehensive approach of Credit Risk Mitigation. The Group has in place detailed guidelines with respect to valuation and management of various collateral types. In order to obtain the credit risk mitigation benefit, the Group uses realizable value of eligible collaterals to the extent of outstanding exposure.

### 43.1.3 Credit Risk Summary for On-Balance Sheet Exposures:

The below summary of Credit risk for On-Balance Sheet Banking book exposures are calculated using the policies described above:

| Rating category | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Amount outstanding | Deduction CRM | Net amount | Amount outstanding | Deduction CRM | Net amount |
| | (Rupees in '000) | | | | | |
| **Exposure category:** | | | | | | |
| Corporate | | | | | | |
| 20% | **16,536** | **-** | **16,536** | 1,102,812 | 147,919 | 954,893 |
| 50% | **3,027,256** | **100,164** | **2,927,092** | 2,952,404 | - | 2,952,404 |
| 100% | **963,798** | **-** | **963,798** | 770,919 | 172,300 | 598,619 |
| unrated | **14,813,900** | **2,543,141** | **12,270,759** | 22,457,869 | 3,970,919 | 18,486,950 |
| 125% | **7,712,257** | **-** | **7,712,257** | 9,387,662 | 672,840 | 8,714,822 |
| Retail | | | | | | |
| 75% | **3,005,241** | **197,492** | **2,807,749** | 6,757,938 | 677,609 | 6,080,329 |
| Past due loan | | | | | | |
| 150% | **6,531,573** | **40,967** | **6,490,606** | 9,161,526 | 561,590 | 8,599,936 |
| 100% | **2,622,716** | **142,143** | **2,480,573** | 2,754,417 | 208,867 | 2,545,550 |
| 50% | **2,784,122** | **66,015** | **2,718,107** | 2,653,102 | 215,559 | 2,437,543 |
| Bank | | | | | | |
| 20% | **2,404,773** | **-** | **2,404,773** | 2,090,995 | - | 2,090,995 |
| 50% | **120,555** | **-** | **120,555** | 281,155 | - | 281,155 |
| 100% | **88,228** | **-** | **88,228** | - | - | - |
| 150% | **568,149** | **-** | **568,149** | 46,314 | - | 46,314 |
| unrated | **97,977** | **-** | **97,977** | 1,209,724 | - | 1,209,724 |
| | | | | | | - |
| Sovereign etc. | | | | | | |
| 0% | **6,171,384** | **-** | **6,171,384** | 5,561,405 | - | 5,561,405 |
| Others | | | | | | |
| 0% | **-** | **-** | **-** | - | - | - |
| 35% | **2,312,916** | **-** | **2,312,916** | 3,264,727 | - | 3,264,727 |
| 50% | **-** | **-** | **-** | - | - | - |
| 100% | **18,434,412** | **-** | **18,434,412** | 16,921,571 | - | 16,921,571 |
| 150% | **-** | **-** | **-** | - | - | - |
| 250% | **-** | **-** | **-** | - | - | - |
| | **71,675,793** | **3,089,922** | **68,585,871** | 87,374,540 | 6,627,603 | 80,746,937 |

### 43.1.4 Lendings to financial institutions

**Credit risk by public / private sector**

| | Gross lendings | | Non-performing lendings | | Provision held | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | (Rupees in '000) | | | | | |
| Public / Government | - | - | - | - | - | - |
| Private | 991,272 | - | - | - | - | - |
| | 991,272 | - | - | - | - | - |

### 43.1.5 Investment in debt securities

| | Gross investments | | Non-performing investments | | Provision held | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| **Credit risk by industry sector** | (Rupees in '000) | | | | | |
| Textile | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 |
| Chemical and pharmaceuticals | 499,586 | 499,586 | 499,586 | 499,586 | 499,586 | 499,586 |
| Sugar | 281,566 | 289,965 | 281,566 | - | 118,981 | - |
| Electronics and electrical appliances | - | 12,500 | - | - | - | - |
| Power (electricity), gas, water, sanitary | - | 189,569 | - | - | - | - |
| Financial | 15,557 | 18,807 | 15,557 | 18,807 | 15,557 | 18,807 |
| Services | 803,641 | 803,641 | 803,641 | 803,641 | 803,641 | 490,107 |
| | 1,800,350 | 2,014,068 | 1,800,350 | 1,522,034 | 1,637,765 | 1,208,500 |
| **Credit risk by public / private sector** | | | | | | |
| Public / Government | - | - | - | - | - | - |
| Private | 1,800,350 | 2,014,068 | 1,800,350 | 1,522,034 | 1,637,765 | 1,208,500 |
| | 1,800,350 | 2,014,068 | 1,800,350 | 1,522,034 | 1,637,765 | 1,208,500 |

### 43.1.6 Advances

| | Gross advances | | Non-performing advances | | Provision held | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| **Credit risk by industry sector** | (Rupees in '000) | | | | | |
| Agriculture, forestry, hunting and fishing | 606,153 | 609,228 | 601,774 | 488,298 | 594,966 | 351 |
| Automobile and transportation equipment | 1,242,030 | 1,259,964 | 1,126,538 | 912,656 | 732,471 | 728,609 |
| Banaspati and allied industries | 169,506 | 345,107 | 141,431 | 141,431 | 131,378 | 126,023 |
| Carpet | 42,310 | 42,648 | 38,458 | 38,458 | 38,458 | 38,458 |
| Cement | 658,056 | 756,709 | 329,169 | 329,169 | 329,169 | 329,169 |
| Chemical and pharmaceuticals | 1,711,861 | 2,085,661 | 338,918 | 336,897 | 121,907 | 106,774 |
| Construction | 2,395,548 | 3,173,425 | 1,359,823 | 1,246,241 | 705,913 | 531,309 |
| Dairy and poultry | 132,465 | 119,114 | 999 | 999 | 999 | 999 |
| Education | 158,499 | 298,439 | 37,570 | 34,394 | 32,813 | 29,793 |
| Electronics and electrical appliances | 1,858,364 | 2,468,288 | 488,486 | 352,550 | 255,579 | 97,092 |
| Exports / imports | 6,202,506 | 6,461,972 | 4,758,694 | 1,736,111 | 2,858,414 | 1,120,067 |
| Financial | 3,764,011 | 3,885,688 | 3,038,316 | 2,793,412 | 1,604,473 | 1,232,275 |
| Food, tobacco and beverages | 2,577,967 | 3,207,167 | 1,039,534 | 740,435 | 696,124 | 578,069 |
| Footwear and leather garments | 377,759 | 526,740 | 31,385 | 48,308 | 31,382 | 46,923 |
| Furniture and allied products | 124,530 | 419,151 | 7,112 | 150,803 | 4,117 | 125,051 |
| Glass and ceramics | 57,660 | 57,660 | 57,660 | 57,660 | 54,460 | 54,460 |
| Health care | 221,858 | 323,704 | 59,175 | 115,153 | 40,116 | 115,153 |
| Hotels | 211,382 | 329,545 | 162,585 | 162,058 | 161,316 | 160,709 |
| Individuals | 4,241,237 | 5,811,621 | 387,553 | 266,940 | 186,830 | 167,434 |
| Mining and quarrying | 1,280,870 | 1,997,882 | 4,670 | 1,922,670 | 4,670 | 405,872 |
| Miscellaneous manufacturing | 950,914 | 1,385,469 | 260,016 | 188,197 | 158,743 | 117,479 |
| Paper and allied products | 8,528 | 42,544 | 6,803 | 6,803 | 6,803 | 6,803 |
| Power (electricity), gas, water, sanitary | 2,058,917 | 2,073,624 | 1,745,517 | 1,664,372 | 1,225,798 | 1,003,612 |
| Printing, publishing and allied industries | 92,823 | 108,462 | 34,088 | 30,152 | 27,327 | 27,277 |
| Services | 4,055,398 | 4,426,765 | 1,528,409 | 1,242,178 | 1,066,294 | 528,147 |
| Steel and engineering | 2,944,336 | 3,666,727 | 2,785,112 | 1,225,542 | 1,225,620 | 373,616 |
| Sugar | 9,500,181 | 9,796,573 | 9,308,669 | 8,875,325 | 7,109,300 | 5,276,199 |
| Textile | 12,122,192 | 13,412,899 | 4,426,542 | 4,359,460 | 4,302,766 | 4,263,873 |
| Transport, storage and communication | 2,263,384 | 2,009,556 | 683,007 | 638,593 | 508,484 | 332,356 |
| Wholesale and retail trade | 5,181,161 | 6,101,976 | 2,274,503 | 2,209,458 | 1,707,721 | 1,654,807 |
| Others | 4,974,457 | 5,592,147 | 3,779,298 | 3,756,986 | 2,978,993 | 1,923,905 |
| | 72,186,863 | 82,796,455 | 40,841,814 | 36,071,709 | 28,903,404 | 21,502,664 |
| **Credit risk by public / private sector** | | | | | | |
| Public / Government | - | - | - | - | - | - |
| Private | 72,186,863 | 82,796,455 | 40,841,814 | 36,071,709 | 28,903,404 | 21,502,664 |
| | 72,186,863 | 82,796,455 | 40,841,814 | 36,071,709 | 28,903,404 | 21,502,664 |

### 43.1.7 Contingencies and Commitments

| Credit risk by industry sector | 2019 | 2018 |
|---|---|---|
| | ------ (Rupees in '000) ------ | |
| Agriculture, forestry, hunting and fishing | **129,869** | 331,051 |
| Automobile and transportation equipment | **156,190** | 325,033 |
| Banaspati and allied industries | **-** | 60,480 |
| Carpet | **319,839** | 454 |
| Cement | **323,174** | 618,668 |
| Chemical and pharmaceuticals | **285,207** | 944,932 |
| Construction | **3,253,209** | 3,998,240 |
| Consumer | **433,000** | 2,677,508 |
| Dairy and poultry | **-** | 6,153 |
| Education | **38,598** | 67,148 |
| Electronics and electrical appliances | **866,731** | 1,019,924 |
| Exports / imports | **1,652,063** | 2,759,625 |
| Financial | **11,095,739** | 17,427,007 |
| Food, tobacco and beverages | **1,348,137** | 502,111 |
| Footwear and Leather garments | **35,822** | 206,349 |
| Furniture and allied products | **107,594** | 119,223 |
| Glass and ceramics | **22,783** | 2,975 |
| Health care | **125,424** | 210,975 |
| Hotels | **81,357** | 102,498 |
| Individuals | **1,599,119** | 3,390,089 |
| Mining and quarrying | **-** | 1 |
| Miscellaneous manufacturing | **1,173,143** | 1,514,099 |
| Others | **2,264,835** | 3,294,884 |
| Paper and allied products | **4,701** | 748,019 |
| Power (electricity), gas, water, sanitary | **561,813** | 11,610 |
| Printing, publishing and allied industries | **9,756** | 48,458 |
| Services | **11,872,844** | 10,785,385 |
| Steel and engineering | **899,578** | 946,558 |
| Sugar | **1** | 51,733 |
| Textile | **10,240,704** | 6,604,120 |
| Transport, Storage and Communication | **1,365,685** | 1,687,219 |
| Wholesale and retail trade | **5,597,028** | 2,368,215 |
| | **55,863,943** | 62,830,744 |
| **Credit risk by public / private sector** | | |
| Public / Government | **7,770,403** | 4,433,173 |
| Private | **48,093,540** | 58,397,571 |
| | **55,863,943** | 62,830,744 |

### 43.1.8 Concentration of Advances

The Group top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs. 18,822.237 million (2018: Rs. 17,280.520 million) are as follows:

| | 2019 | 2018 |
|---|---|---|
| | ------- (Rupees in '000) ------- | |
| Funded | **11,851,059** | 13,387,691 |
| Non Funded | **6,971,178** | 3,892,829 |
| Total Exposure | **18,822,237** | 17,280,520 |

The sanctioned limits against these top 10 exposures aggregated to Rs. 20,639.987 million (2018: Rs. 19,333.306 million).

**Total funded classified therein**

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Amount | Provision held | Amount | Provision held |
| | (Rupees in '000) | | | |
| OAEM | - | - | - | - |
| Substandard | - | - | 3,242,481 | 401,202 |
| Doubtful | 215,735 | 5,014 | 2,100,000 | 376,516 |
| Loss | 5,565,397 | 2,751,241 | - | - |
| Total | 5,781,132 | 2,756,255 | 5,342,481 | 777,718 |

**43.1.9 Advances - Province / Region-wise Disbursement & Utilization**

| Province / Region | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Disbursements | Utilization | | | | | |
| | | Punjab | Sindh | KPK including FATA | Balochistan | Islamabad | AJK including Gilgit-Baltistan |
| | (Rupees in '000) | | | | | | |
| Punjab | 27,084,886 | 27,071,085 | 2,266 | 5,861 | - | 5,674 | - |
| Sindh | 51,618,020 | - | 51,618,020 | - | - | - | - |
| KPK including FATA | 47,605 | - | - | 47,605 | - | - | - |
| Balochistan | 93,326 | - | - | - | 93,326 | - | - |
| Islamabad | 180,588 | - | - | - | - | 180,588 | - |
| AJK including Gilgit-Baltistan | 164,041 | - | - | - | - | - | 164,041 |
| Total | 79,188,466 | 27,071,085 | 51,620,286 | 53,466 | 93,326 | 186,262 | 164,041 |

| Province / Region | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Disbursements | Utilization | | | | | |
| | | Punjab | Sindh | KPK including FATA | Balochistan | Islamabad | AJK including Gilgit-Baltistan |
| | (Rupees in '000) | | | | | | |
| Punjab | 85,449,446 | 85,319,253 | 26,366 | 7,206 | - | 96,621 | - |
| Sindh | 200,355,690 | - | 200,355,690 | - | - | - | - |
| KPK including FATA | 154,085 | - | - | 154,085 | - | - | - |
| Balochistan | 517,487 | - | - | - | 517,487 | - | - |
| Islamabad | 3,413,518 | - | - | - | - | 3,413,518 | - |
| AJK including Gilgit-Baltistan | 418,508 | - | - | - | - | - | 418,508 |
| Total | 290,308,734 | 85,319,253 | 200,382,056 | 161,291 | 517,487 | 3,510,139 | 418,508 |

## 43.2 Market Risk

Market risk is the risk that the value of on-balance sheet and off-balance sheet exposures of the Group will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates equity prices and / or commodity prices resulting in a loss to earnings and capital. Market risks arise generally from trading activities, open foreign currency positions, holding common equity and other products. All such instruments and transactions are exposed to general and specific market movements.

The Group seeks to mitigate market risk by employing strategies that correlate price, rate and spread movements of its earning assets, liabilities and trading activities. Treasury front office and market risk management / treasury middle office perform market risk management activities within the Group.

**43.2.1 Balance sheet split by trading and banking books**

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Banking book | Trading book | Total | Banking book | Trading book | Total |
| | (Rupees in '000) | | | | | |
| Cash and balances with treasury banks | 5,613,561 | - | 5,613,561 | 5,043,105 | - | 5,043,105 |
| Balances with other banks | 947,572 | - | 947,572 | 1,008,279 | - | 1,008,279 |
| Lendings to financial institutions | 991,272 | - | 991,272 | - | - | - |
| Investments | 329,432 | 21,379,718 | 21,709,150 | 1,122,931 | 17,884,842 | 19,007,773 |
| Advances | 43,242,951 | - | 43,242,951 | 61,246,803 | - | 61,246,803 |
| Fixed assets | 10,220,651 | - | 10,220,651 | 8,751,339 | - | 8,751,339 |
| Intangible assets | 153,027 | - | 153,027 | 209,418 | - | 209,418 |
| Deferred tax assets | 11,572,394 | - | 11,572,394 | 7,180,595 | - | 7,180,595 |
| Other assets | 11,357,267 | - | 11,357,267 | 12,150,539 | - | 12,150,539 |
| | 84,428,127 | 21,379,718 | 105,807,845 | 96,713,009 | 17,884,842 | 114,597,851 |

### 43.2.2 Foreign Exchange Risk

The Group has set the following objectives for managing the inherent risk on foreign currency exposures:

- Maximize profitability with minimum risk by keeping the exposure at desirable levels in view of strict compliance of regulatory / international standards and the Group's internal guidelines.
- Manage appropriate maturity mismatch gaps.
- Identify warning and stress zones for mismatch gaps.
- Usage of different tools to manage the inherent risk of product and market, such as compliance of credit limit, monitoring of foreign exchange exposure limit, review of mark to market portfolio and safe settlement, etc.
- Foreign exchange risk represents exposures to changes in the values of current holdings and future cash flows denominated in foreign currencies. The potential for loss arises from the process of revaluing foreign currency positions in rupee terms. The Group's foreign exchange risk is presently limited to future cash flows in foreign currencies arising from foreign exchange transactions and translation of net open position in foreign currencies. The Group is carefully monitoring the net foreign currency exposure as well as utilizing the forward contract to hedge the related exposure.

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Foreign Currency Assets | Foreign Currency Liabilities | Off-balance sheet items | Net foreign currency exposure | Foreign Currency Assets | Foreign Currency Liabilities | Off-balance sheet items | Net foreign currency exposure |
| | ---------- Rupees in '000) ---------- | | | | | | | |
| United States Dollar | **2,078,673** | **5,647,236** | **5,284,130** | **1,715,567** | 3,936,026 | 5,565,469 | 1,678,239 | 48,796 |
| Great Britain Pound Sterling | **34,014** | **449,795** | **-** | **(415,781)** | 28,721 | 522,489 | 508,617 | 14,849 |
| Euro | **363,537** | **544,390** | **223,736** | **42,883** | 145,381 | 509,823 | 322,981 | (41,461) |
| Japanese Yen | **-** | **-** | **-** | **-** | 2,975 | - | - | 2,975 |
| Other currencies | **55,325** | **2,125** | **-** | **53,200** | 169,694 | 15,740 | (15,202) | 138,752 |
| | **2,531,549** | **6,643,546** | **5,507,866** | **1,395,869** | 4,282,797 | 6,613,521 | 2,494,635 | 163,911 |

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Banking book | Trading book | Banking book | Trading book |
| | ---------- (Rupees in '000) ---------- | | | |
| Impact of 1% change in foreign exchange rates on | | | | |
| - Profit and loss account | **41,120** | **40,673** | (23,307) | 44,338 |
| - Other comprehensive income | **-** | **-** | - | - |

### 43.2.3 Equity position Risk

Equity position risk is the risk that the fair value of financial instruments will fluctuate due to changes in the prices of individual stocks or the level of equity indices. The Group's equity book comprises of held for trading (HFT) and available for sale (AFS) portfolios. The objective of the HFT portfolio is to make short-term capital gains, whilst the AFS portfolio is maintained with a medium term view of earning both capital gains and dividend income. Policies and procedures have been developed to provide guidelines on the risk and their mitigants, limits and related controls for the equity portfolio of the Group.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Banking book | Trading book | Banking book | Trading book |
| | ---------- (Rupees in '000) ---------- | | | |
| Impact of 5% change in equity prices on | | | | |
| - Profit and loss account | **-** | **30,203** | - | 33,496 |
| - Other comprehensive income | **-** | **61,347** | - | 56,397 |

### 43.2.4 Interest Rate Risk

Interest rate risk is the risk that fair value of a financial instrument will fluctuate as a result of changes in interest rates, including changes in the shape of yield curves. Interest rate risk is inherent in many of the Group's businesses and arises from mismatches between the contractual maturities or the re-pricing of on and off-balance sheet assets and liabilities. The interest rate sensitivity profile is prepared on a quarterly basis based on the re-pricing or contractual maturities of assets and liabilities.

Interest rate risk is monitored and managed by performing periodic gap analysis, sensitivity analysis and stress testing and taking appropriate actions where required.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Banking book | Trading book | Banking book | Trading book |
| | ---------- (Rupees in '000) ---------- | | | |
| Impact of 1% change in interest rates on | | | | |
| - Profit and loss account | **272,524** | **-** | 69,725 | - |
| - Other comprehensive income | **-** | **364,655** | - | 334,155 |

### 43.2.5 Mismatch of Interest Rate Sensitive Assets and Liabilities

| On-balance sheet financial instruments | Effective Yield / Interest Rate | Total | Exposed to Yield / Interest risk | | | | | | | | | Non-interest bearing financial instruments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Up to 1 Month | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years | |
| | | 2019 | | | | | | | | | | |
| | | (Rupees in '000) | | | | | | | | | | |
| **Assets** | | | | | | | | | | | | |
| Cash and balances with treasury banks | 0% to 1.51% | 5,613,561 | 146,827 | - | - | - | - | - | - | - | - | 5,466,734 |
| Balances with other banks | 0% to 11.40% | 947,572 | 463,456 | - | 126,746 | 61,939 | - | - | - | - | - | 295,431 |
| Lendings to financial institutions | 9.00% to 13.00% | 991,272 | 991,272 | - | - | - | - | - | - | - | - | - |
| Investments | 5.24% to 14.24% | 21,709,150 | - | 5,514,242 | 477,500 | 4,170,168 | 2,406,184 | 1,953,172 | 3,286,865 | 899,008 | 1,091,512 | 1,910,499 |
| Advances | 0% to 28% | 43,242,951 | 1,081,615 | 23,955.532 | 2,885,008 | 3,159,110 | - | - | - | - | 11,938,410 | 223,276 |
| Other assets | - | 2,535,494 | - | - | - | - | - | - | - | - | - | 2,535,494 |
| | | 75,040,000 | 2,683,170 | 29,469,774 | 3,489,254 | 7,391,217 | 2,406,184 | 1,953,172 | 3,286,865 | 899,008 | 13,029,922 | 10,431,434 |
| **Liabilities** | | | | | | | | | | | | |
| Bills payable | - | 1,815,836 | - | - | - | - | - | - | - | - | - | 1,815,836 |
| Borrowings | 1.00 % to 13.36% | 13,504,780 | 5,806,016 | 5,793,690 | 871,150 | - | 794 | 78,890 | 558,786 | 224,399 | - | 171,055 |
| Deposits and other accounts | 0% to 14.3% | 88,474,564 | 3,777,476 | 46,555,506 | 2,328,751 | 4,631,787 | 225,423 | 160,888 | 106,994 | 1,300 | - | 30,686,439 |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | - | - | - |
| Subordinated debt | 14.34% | 1,495,515 | - | - | - | 1,495,515 | - | - | - | - | - | - |
| Other liabilities | - | 4,803,568 | - | - | - | - | - | - | - | - | - | 4,803,568 |
| | | 110,094,263 | 9,583,492 | 52,349,196 | 3,199,901 | 6,127,302 | 226,217 | 239,778 | 665,780 | 225,699 | - | 37,476,898 |
| **On-balance sheet gap** | | (35,054,263) | (6,900,322) | (22,879,422) | 289,353 | 1,263,915 | 2,179,967 | 1,713,394 | 2,621,085 | 673,309 | 13,029,922 | (27,045,464) |
| **Off-balance sheet financial instruments** | | | | | | | | | | | | |
| Commitments in respect of: | | | | | | | | | | | | |
| - forward foreign exchange contracts | | 5,507,866 | 5,507,866 | - | - | - | - | - | - | - | - | - |
| **Off-balance sheet gap** | | 5,507,866 | 5,507,866 | - | - | - | - | - | - | - | - | - |
| **Total Yield / Interest Risk Sensitivity Gap** | | | (1,392,456) | (22,879,422) | 289,353 | 1,263,915 | 2,179,967 | 1,713,394 | 2,621,085 | 673,309 | 13,029,922 | (27,045,464) |
| **Cumulative Yield / Interest Risk Sensitivity Gap** | | | (1,392,456) | (24,271,878) | (23,982,525) | (22,718,610) | (20,538,643) | (18,825,249) | (16,204,164) | (15,530,855) | (2,500,933) | (29,546,397) |

**Reconciliation of assets and liabilities exposed to yield / interest rate risk with total assets and liabilities**

| | 2019 |
|---|---|
| | --- (Rupees in '000) --- |
| **Total financial assets** | 75,040,000 |
| **Add: Non financial assets** | |
| Fixed assets | 10,220,651 |
| Intangible assets | 153,027 |
| Deferred tax assets | 11,572,394 |
| Other assets | 8,821,773 |
| **Total assets as per statement of financial position** | 105,807,845 |
| **Total financial liabilities** | 110,094,263 |
| **Add: Non financial liabilities** | |
| Other liabilities | 1,379,464 |
| **Total liabilities as per statement of financial position** | 111,473,727 |



Summit Bank Committed to you

| On-balance sheet financial instruments | Effective Yield / Interest Rate | Total | Exposed to Yield / Interest risk: Up to 1 Month | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years | Non-interest bearing financial instruments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2018 | (Rupees in '000) | | | | | | | | | |
| **Assets** | | | | | | | | | | | | |
| Cash and balances with treasury banks | 0% to 1.35% | 5,043,105 | 125,904 | - | - | - | - | - | - | - | - | 4,917,201 |
| Balances with other banks | 0% to 8.10% | 1,008,279 | - | 439,520 | 113,172 | 55,545 | - | - | - | - | - | 400,042 |
| Lendings to financial institutions | - | - | - | - | - | - | - | - | - | - | - | - |
| Investments | 5.24% to 13.05% | 19,007,773 | - | 1,892,704 | 161,291 | 2,251,203 | 7,775,992 | 1,950,533 | 999,560 | 1,094,716 | 1,002,655 | 1,879,119 |
| Advances | 0% to 28% | 61,246,803 | 1,368,262 | 38,899,406 | 2,372,467 | 2,363,101 | 125,959 | 115,616 | 229,017 | 541,031 | 14,934,674 | 297,270 |
| Other assets | - | 3,103,207 | - | - | - | - | - | - | - | - | - | 3,103,207 |
| | | 89,409,167 | 1,494,166 | 41,231,630 | 2,646,930 | 4,669,849 | 7,901,951 | 2,066,149 | 1,228,577 | 1,635,747 | 15,937,329 | 10,596,839 |
| **Liabilities** | | | | | | | | | | | | |
| Bills payable | - | 1,881,107 | - | - | - | - | - | - | - | - | - | 1,881,107 |
| Borrowings | 1.00 % to 12.50% | 19,491,854 | 12,038,590 | 5,390,128 | 1,303,450 | - | - | 1,318 | 580,083 | 178,285 | - | - |
| Deposits and other accounts | 0% to 14.3% | 84,573,632 | 37,141 | 40,138,195 | 2,331,083 | 1,168,669 | 5,523,391 | 126,527 | 101,143 | 264,478 | - | 34,883,005 |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | - | - | - |
| Subordinated debt | 12.84% | 1,495,515 | - | - | - | 1,495,515 | - | - | - | - | - | - |
| Other liabilities | - | 3,638,896 | - | - | - | - | - | - | - | - | - | 3,638,896 |
| | | 111,081,004 | 12,075,731 | 45,528,323 | 3,634,533 | 2,664,184 | 5,523,391 | 127,845 | 681,226 | 442,763 | - | 40,403,008 |
| **On-balance sheet gap** | | (21,671,837) | (10,581,565) | (4,296,693) | (987,603) | 2,005,665 | 2,378,560 | 1,938,304 | 547,351 | 1,192,984 | 15,937,329 | (29,806,169) |
| **Off-balance sheet financial instruments** | | | | | | | | | | | | |
| Commitments in respect of: | | | | | | | | | | | | |
| - forward foreign exchange contracts | | 4,315,350 | 1,357,729 | 2,453,109 | 504,512 | - | - | - | - | - | - | - |
| **Off-balance sheet gap** | | 4,315,350 | 1,357,729 | 2,453,109 | 504,512 | - | - | - | - | - | - | - |
| **Total Yield / Interest Risk Sensitivity Gap** | | | (9,223,836) | (1,843,584) | (483,091) | 2,005,665 | 2,378,560 | 1,938,304 | 547,351 | 1,192,984 | 15,937,329 | (29,806,169) |
| **Cumulative Yield / Interest Risk Sensitivity Gap** | | | (9,223,836) | (11,067,420) | (11,550,511) | (9,544,846) | (7,166,286) | (5,227,982) | (4,680,631) | (3,487,647) | 12,449,682 | (17,356,487) |

**Reconciliation of assets and liabilities exposed to yield / interest rate risk with total assets and liabilities**

| | 2018 -- (Rupees in '000) -- |
|---|---|
| **Total financial assets** | 89,409,167 |
| **Add: Non financial assets** | |
| Fixed assets | 8,751,339 |
| Intangible assets | 209,418 |
| Deferred tax assets | 7,180,595 |
| Other assets | 9,047,332 |
| **Total assets as per statement of financial position** | 114,597,851 |
| **Total financial liabilities** | 111,081,004 |
| **Add: Non financial liabilities** | |
| Other liabilities | 795,354 |
| **Total liabilities as per statement of financial position** | 111,876,358 |

### 43.3 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Board Risk Management Committee oversees the implementation of operational risk management which is governed by the Operational Risk Management Policy and Procedures of the Group. In compliance with the regulatory guidelines, a separate unit is established within the Risk Management Division which is responsible for the implementation of the risk management framework across the Group.

In accordance with the Operational Risk policy and framework, various tools and techniques are being implemented to identify, assess, measure and control operational risk embedded in the exposures, products, systems and processes. These tools include collection of operational loss data, development and monitoring of Key Risk Indicators and Risk Control Self Assessment exercise.

The Group seeks to manage the operational risk from two perspectives, firstly by way of ensuring compliance of standard operating procedures including defined processes for prevention and detection of any fraud and forgery, and work place safety and security, secondly through contingency planning to ensure continuity of business. Policies and procedures covering all activities in Group are in place. Besides these, to ensure business continuity, the Group has implemented Business Continuity Plan (BCP) across the Group for which BCP and Disaster Recovery Tests are performed on a regular basis.

The Group maintains a system of internal controls designed to keep operational risk at appropriate levels, in view of the Group's financial strength and the characteristics of the activities and market in which it operates. These internal controls are periodically updated to conform to the industry best practices.

The Group implemented the Internal Control Guidelines issued by the State Bank of Pakistan and had successfully completed the road map issued with respect to internal controls over financial reporting. Moreover, a separate Internal Control Unit has been setup to continuously monitor the implementation of sound internal controls within the Group.

The Group has set up IT Security Division to manage IT security risk faced by the Group. The Group will continue to strengthen its cyber defence mechanism by utilising effective preventive and detective information security measure to counter evolving cyber challenges.

### 43.4 Liquidity Risk

Liquidity Risk is the risk that the Group may be unable to meet its payment obligations as they become due, or to fund assets, at a reasonable cost, because of an inability to liquidate assets, or to obtain adequate funding.

The liquidity risk policy of the Bank is formulated keeping in view State Bank guidelines on risk management and best market practice. The Bank's Asset and Liability Committee (ALCO) reviews the liquidity position on a periodic basis. Liquidity Management policy of the Bank aims to maintain adequate liquidity at all times and in all currencies under both normal and stress conditions, to meet the Bank's contractual and potential payment obligations without incurring additional and unacceptable cost to the business. Treasury is responsible for managing liquidity under the guidance of Asset and Liability Committee of the Bank.

The Bank maintains a portfolio of highly marketable assets i.e. Market Treasury Bills, Pakistan Investment Bonds and GoP Ijarah Sukuk, that can either be sold in the open market or funds can be arranged there against under repo arrangements. This is further supported by investments in short term securities. In line with its liquidity risk management policy, the Bank aims to maintain a cushion over and above the minimum statutory liquidity requirement prescribed by SBP for maintaining liquidity reserves to ensure continuity of cash flows.

The Bank uses liquidity gap ladder to assess the liquidity gaps and liquidity needs in different time buckets, under normal and stressed scenarios. Sources of liquidity are regularly reviewed / monitored by the Asset and Liability Committee (ALCO). The ALCO reviews the current economic situation, projected cash flows and asset / liability mix and approves strategy for managing appropriate liquidity. The liquidity risk management policy of the Bank encompasses liquidity contingency plan for actions to be taken in case of liquidity crises.

**43.4.1 Maturities of Assets and Liabilities - based on contractual maturity of the assets and liabilities of the Group**

| | 2019 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Up to 1 Day | Over 1 to 7 days | Over 7 to 14 days | Over 14 days to 1 Month | Over 1 to 2 Months | Over 2 to 3 Months | Over 3 to 6 Months | Over 6 to 9 Months | Over 9 months to 1 year | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 5 Years | Over 5 Years |
| | (Rupees in '000) | | | | | | | | | | | | | |
| **Assets** | | | | | | | | | | | | | | |
| Cash and balances with treasury banks | 5,613,561 | 4,687,506 | 60,820 | 56,346 | 119,224 | 67,134 | 149,515 | 147,755 | 108,057 | 185,822 | 14,303 | 10,208 | 6,789 | 82 |
| Balances with other banks | 947,572 | 372,313 | - | - | 387,119 | - | - | 126,201 | - | 61,939 | - | - | - | - |
| Lendings to financial institutions | 991,272 | - | 991,272 | - | - | - | - | - | - | - | - | - | - | - |
| Investments | 21,709,150 | 1,789 | 77,485 | 79,274 | 158,546 | 317,094 | 5,958,716 | 1,423,241 | 4,188,623 | - | 2,443,093 | 1,990,080 | 3,357,179 | 1,714,030 |
| Advances | 43,242,951 | 48,686 | 28,319 | 35,880 | 2,714,137 | 2,356,519 | 2,057,247 | 5,959,754 | 5,135,121 | 1,970,174 | 7,426,845 | 1,521,210 | 1,830,457 | 12,158,602 |
| Fixed assets | 10,220,651 | 1,404 | 8,422 | 9,826 | 22,458 | 42,111 | 42,111 | 126,334 | 126,334 | 206,716 | 512,353 | 512,353 | 891,627 | 7,718,602 |
| Intangible assets | 153,027 | 59 | 352 | 410 | 935 | 1,758 | 1,758 | 5,273 | 5,273 | 52,752 | 21,383 | 21,383 | 23,132 | 18,559 |
| Deferred tax assets | 11,572,394 | (264) | (7,482) | (7,746) | (15,810) | (31,301) | 42,921 | (99,026) | (12,656) | (15,151) | 896,667 | 3,141,427 | 5,948,600 | 1,732,215 |
| Other assets | 11,357,267 | 58,843 | 937,778 | 208,194 | 455,542 | 573,819 | 415,080 | 392,234 | 375,552 | 375,552 | 3,354,808 | 3,354,808 | 855,057 | - |
| | 105,807,845 | 5,170,336 | 2,096,966 | 382,184 | 3,842,151 | 3,327,134 | 8,667,348 | 8,081,766 | 9,926,304 | 2,837,804 | 14,669,452 | 10,551,469 | 12,912,841 | 23,342,090 |
| **Liabilities** | | | | | | | | | | | | | | |
| Bills payable | 1,815,836 | 1,815,836 | - | - | - | - | - | - | - | - | - | - | - | - |
| Borrowings | 13,504,780 | 171,055 | 5,450,716 | 11,000 | 344,300 | 3,625,640 | 2,168,050 | 871,150 | - | - | 794 | 78,890 | 558,786 | 224,399 |
| Deposits and other accounts | 88,474,564 | 73,879,139 | 958,570 | 888,056 | 1,879,092 | 1,058,087 | 2,356,478 | 2,328,751 | 1,703,069 | 2,928,717 | 225,423 | 160,888 | 106,994 | 1,300 |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Subordinated debt | 1,495,515 | - | - | - | - | - | - | - | - | 1,495,515 | - | - | - | - |
| Deferred tax liabilities | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other liabilities | 6,183,032 | 56,057 | 645,450 | 86,563 | 328,840 | 338,057 | 271,280 | 549,606 | 88,699 | 249,404 | 881,924 | 789,369 | 837,797 | 1,059,986 |
| | 111,473,727 | 75,922,087 | 7,054,736 | 985,619 | 2,552,232 | 5,021,784 | 4,795,808 | 3,749,507 | 1,791,768 | 4,673,636 | 1,108,141 | 1,029,147 | 1,503,577 | 1,285,685 |
| **Net assets** | (5,665,882) | (70,751,751) | (4,957,770) | (603,435) | 1,289,919 | (1,694,650) | 3,871,540 | 4,332,259 | 8,134,536 | (1,835,832) | 13,561,311 | 9,522,322 | 11,409,264 | 22,056,405 |

| | |
|---|---|
| Share capital - net | 20,500,194 |
| Reserves | (425,043) |
| Accumulated losses | (29,286,726) |
| Surplus on revaluation of assets | 3,545,693 |
| | (5,665,882) |

| | 2018 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Up to 1 Day | Over 1 to 7 days | Over 7 to 14 days | Over 14 days to 1 Month | Over 1 to 2 Months | Over 2 to 3 Months | Over 3 to 6 Months | Over 6 to 9 Months | Over 9 months to 1 year | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 5 Years | Over 5 Years |
| | (Rupees in '000) | | | | | | | | | | | | | |
| **Assets** | | | | | | | | | | | | | | |
| Cash and balances with treasury banks | 5,043,105 | 4,386,921 | - | 2,200 | 14 | 84,482 | 2,094 | 139,002 | 68,003 | 1,684 | 329,358 | 7,545 | 6,031 | 15,771 |
| Balances with other banks | 1,008,279 | 492,407 | - | - | - | 347,155 | - | 113,172 | - | 55,545 | - | - | - | - |
| Lendings to financial institutions | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Investments | 19,007,773 | 10,103 | 98,001 | 77,735 | 155,470 | 310,941 | 1,688,041 | 1,128,583 | 1,778,155 | 535,441 | 7,914,591 | 1,987,441 | 1,073,378 | 2,249,893 |
| Advances | 61,246,803 | 2,746,402 | 116,748 | 333,163 | 5,134,817 | 4,450,902 | 3,585,311 | 7,928,017 | 7,175,062 | 3,476,250 | 3,237,243 | 2,571,701 | 3,057,142 | 17,434,045 |
| Fixed assets | 8,751,339 | 1,251 | 7,509 | 8,760 | 20,023 | 37,544 | 37,544 | 112,631 | 112,631 | 515,152 | 456,780 | 456,780 | 780,480 | 6,204,254 |
| Intangible assets | 209,418 | 242 | 334 | 576 | 1,316 | 2,468 | 2,468 | 7,403 | 7,403 | 61,303 | 30,024 | 30,024 | 60,048 | 5,809 |
| Deferred tax assets | 7,180,595 | (3) | 4,973 | 4,970 | 9,609 | 19,549 | 451,212 | 55,568 | (14,893) | (15,719) | 402,229 | 1,893,539 | 3,683,654 | 685,907 |
| Other assets | 12,150,539 | 239,480 | 1,599,684 | 72,687 | 264,371 | 559,309 | 319,701 | 313,297 | 234,290 | 369,275 | 3,559,399 | 3,559,399 | 1,059,647 | - |
| | 114,597,851 | 7,876,803 | 1,827,249 | 500,091 | 5,585,620 | 5,812,350 | 6,086,371 | 9,797,673 | 9,360,651 | 4,998,931 | 15,929,624 | 10,506,429 | 9,720,380 | 26,595,679 |
| **Liabilities** | | | | | | | | | | | | | | |
| Bills payable | 1,881,107 | 1,881,107 | - | - | - | - | - | - | - | - | - | - | - | - |
| Borrowings | 19,491,854 | 6,350 | 10,683,190 | 2,000 | 1,353,400 | 4,936,728 | 453,400 | 1,297,100 | - | - | - | 1,318 | 580,083 | 178,285 |
| Deposits and other accounts | 84,573,632 | 73,569,300 | - | 36,900 | 241 | 1,416,781 | 35,119 | 2,331,083 | 1,140,421 | 28,248 | 5,523,391 | 126,527 | 101,143 | 264,478 |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Subordinated debt | 1,495,515 | - | - | - | - | - | - | - | - | 1,495,515 | - | - | - | - |
| Deferred tax liabilities | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other liabilities | 4,434,250 | 233,314 | 596,794 | 82,587 | 256,247 | 589,693 | 214,436 | 211,636 | 28,233 | 251,050 | 854,206 | 660,768 | 448,869 | 6,417 |
| | 111,876,358 | 75,690,071 | 11,279,984 | 121,487 | 1,609,888 | 6,943,202 | 702,955 | 3,839,819 | 1,168,654 | 1,774,813 | 6,377,597 | 788,613 | 1,130,095 | 449,180 |
| **Net assets** | 2,721,493 | (67,813,268) | (9,452,735) | 378,604 | 3,975,732 | (1,130,852) | 5,383,416 | 5,957,854 | 8,191,997 | 3,224,118 | 9,552,027 | 9,717,816 | 8,590,285 | 26,146,499 |

| | |
|---|---|
| Share capital - net | 20,500,194 |
| Reserves | (425,043) |
| Accumulated losses | (19,947,568) |
| Surplus on revaluation of assets | 2,593,910 |
| | 2,721,493 |



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### 43.4.2 Maturities of assets and liabilities - based on expected maturities of the assets and liabilities of the Group

Maturity gaps of all assets and liabilities are based on contractual maturities. The maturity profile of certain non-contractual assets and liabilities is based on the behavioural study. The Bank has used VAR methodology which excludes 5% extreme volatilities thus leaving 95% confidence results.

| | 2019 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Up to 1 Month | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years |
| | (Rupees in '000) | | | | | | | | | |
| **Assets** | | | | | | | | | | |
| Cash and balances with treasury banks | 5,613,561 | 542,112 | 339,317 | 185,761 | 339,186 | 61,664 | 19,909 | 700,605 | 1,715,837 | 1,709,170 |
| Balances with other banks | 947,572 | 759,432 | - | 126,201 | 61,939 | - | - | - | - | - |
| Lendings to financial institutions | 991,272 | 991,272 | - | - | - | - | - | - | - | - |
| Investments | 21,709,150 | 317,094 | 6,275,810 | 1,423,241 | 4,188,623 | 2,443,093 | 1,990,080 | 3,357,179 | 1,714,030 | - |
| Advances | 43,242,951 | 2,827,022 | 4,413,766 | 5,959,754 | 7,105,295 | 7,426,845 | 1,521,210 | 1,830,457 | (2,410,443) | 14,569,045 |
| Fixed assets | 10,220,651 | 42,110 | 84,222 | 126,334 | 333,050 | 512,353 | 512,353 | 891,627 | 2,415,004 | 5,303,598 |
| Intangible assets | 153,027 | 1,757 | 3,515 | 5,273 | 58,025 | 21,383 | 21,383 | 23,132 | 18,559 | - |
| Deferred tax assets | 11,572,394 | (31,302) | 11,620 | (99,026) | (27,807) | 896,667 | 3,141,427 | 5,948,600 | 2,679,197 | (946,982) |
| Other assets | 11,357,267 | 1,660,358 | 988,899 | 392,234 | 751,103 | 3,354,808 | 3,354,808 | 855,057 | - | - |
| | 105,807,845 | 7,109,855 | 12,117,149 | 8,119,772 | 12,809,414 | 14,716,813 | 10,561,170 | 13,606,657 | 6,132,184 | 20,634,831 |
| **Liabilities** | | | | | | | | | | |
| Bills payable | 1,815,836 | 1,815,836 | - | - | - | - | - | - | - | - |
| Borrowings | 13,504,780 | 5,977,071 | 5,793,690 | 871,150 | - | 794 | 78,890 | 558,786 | 224,399 | - |
| Deposits and other accounts | 88,474,564 | 8,544,076 | 5,347,932 | 2,927,759 | 5,345,869 | 971,886 | 313,783 | 11,042,144 | 27,043,098 | 26,938,017 |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | - |
| Subordinated debt | 1,495,515 | - | - | - | 1,495,515 | - | - | - | - | - |
| Deferred tax liabilities | - | - | - | - | - | - | - | - | - | - |
| Other liabilities | 6,183,032 | 1,116,910 | 609,337 | 549,606 | 338,103 | 881,924 | 789,369 | 837,797 | 1,059,986 | - |
| | 111,473,727 | 17,453,893 | 11,750,959 | 4,348,515 | 7,179,487 | 1,854,604 | 1,182,042 | 12,438,727 | 28,327,483 | 26,938,017 |
| **Net assets** | (5,665,882) | (10,344,038) | 366,190 | 3,771,257 | 5,629,927 | 12,862,209 | 9,379,128 | 1,167,930 | (22,195,299) | (6,303,186) |
| Share capital - net | 20,500,194 | | | | | | | | | |
| Reserves | (425,043) | | | | | | | | | |
| Accumulated losses | (29,286,729) | | | | | | | | | |
| Surplus on revaluation of assets | 3,545,693 | | | | | | | | | |
| | (5,665,882) | | | | | | | | | |

| | 2018 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Up to 1 Month | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years |
| | (Rupees in '000) | | | | | | | | | |
| **Assets** | | | | | | | | | | |
| Cash and balances with treasury banks | 5,043,105 | 133,916 | 175,831 | 213,291 | 216,085 | 390,512 | 64,973 | 657,786 | 1,607,221 | 1,583,490 |
| Balances with other banks | 1,008,279 | 492,407 | 347,155 | 113,172 | 55,545 | - | - | - | - | - |
| Lendings to financial institutions | - | - | - | - | - | - | - | - | - | - |
| Investments | 19,007,773 | 341,308 | 1,998,982 | 1,128,583 | 2,313,597 | 7,914,591 | 1,987,441 | 1,073,378 | 2,249,893 | - |
| Advances | 61,246,803 | 8,331,130 | 8,036,213 | 7,928,017 | 10,651,312 | 3,237,243 | 2,571,701 | 3,057,142 | 2,865,000 | 14,569,045 |
| Fixed assets | 8,751,339 | 37,543 | 75,087 | 112,631 | 627,783 | 456,780 | 456,780 | 780,480 | 900,657 | 5,303,598 |
| Intangible assets | 209,418 | 2,468 | 4,935 | 7,403 | 68,706 | 30,024 | 30,024 | 60,048 | 5,809 | - |
| Deferred tax assets | 7,180,595 | 19,548 | 470,761 | 55,568 | (30,612) | 402,229 | 1,893,539 | 3,683,654 | 1,632,890 | (946,982) |
| Other assets | 12,150,539 | 2,176,221 | 879,010 | 313,297 | 603,565 | 3,559,399 | 3,559,399 | 1,059,648 | - | - |
| | 114,597,851 | 11,534,541 | 11,987,974 | 9,871,962 | 14,505,981 | 15,990,778 | 10,563,857 | 10,372,136 | 9,261,470 | 20,509,151 |
| **Liabilities** | | | | | | | | | | |
| Bills payable | 1,881,107 | 1,881,107 | - | - | - | - | - | - | - | - |
| Borrowings | 19,491,854 | 12,044,940 | 5,390,128 | 1,297,100 | - | - | 1,318 | 580,083 | 178,285 | - |
| Deposits and other accounts | 84,573,632 | 2,245,791 | 2,948,709 | 3,576,924 | 3,623,780 | 6,548,945 | 1,089,610 | 11,031,169 | 26,953,340 | 26,555,364 |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | - |
| Subordinated debt | 1,495,515 | - | - | - | 1,495,515 | - | - | - | - | - |
| Deferred tax liabilities | - | - | - | - | - | - | - | - | - | - |
| Other liabilities | 4,434,250 | 1,168,942 | 804,129 | 211,636 | 279,283 | 854,206 | 660,768 | 448,869 | 6,417 | - |
| | 111,876,358 | 17,340,780 | 9,142,966 | 5,085,660 | 5,398,578 | 7,403,151 | 1,751,696 | 12,060,121 | 27,138,042 | 26,555,364 |
| **Net assets** | 2,721,493 | (5,806,239) | 2,845,008 | 4,786,302 | 9,107,403 | 8,587,627 | 8,812,161 | (1,687,985) | (17,876,572) | (6,046,213) |
| Share capital - net | 20,500,194 | | | | | | | | | |
| Reserves | (425,043) | | | | | | | | | |
| Accumulated losses | (19,947,568) | | | | | | | | | |
| Surplus on revaluation of assets | 2,593,910 | | | | | | | | | |
| | 2,721,493 | | | | | | | | | |



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### 43.5 Derivative Risk

The policy guidelines for taking derivative exposures are approved by the Board of Directors (BOD). Group's Asset and Liability Committee (ALCO) is responsible for reviewing and managing associated risks of the transactions.

The overall responsibility for managing derivatives and sustaining profitability lies with the treasury front office / Head of Treasury. Treasury Middle Office (TMO) / market risk management function of the Group is responsible for monitoring the risk exposure and for analysis of present and potential risk factors arising from the same. The TMO also monitors associated risks in line with the Board of Directors' approved limits / policies and coordinates with the business for necessary approvals of the derivatives risk limits and also produces necessary reports / analysis as may be required.

## 44. CORRESPONDING FIGURES

Corresponding figures have been re-classified, wherever necessary for the purposes of comparison.

## 45. DATE OF AUTHORISATION FOR ISSUE

These consolidated financial statements were authorised for issue on October 08, 2021 by the Board of Directors of the Group.

| President / Chief Executive | Chief Financial Officer | Director | Director | Director |
|---|---|---|---|---|

Annexure - I

## STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF RUPEES FIVE HUNDRED THOUSAND OR ABOVE PROVIDED DURING THE YEAR ENDED DECEMEBR 31, 2019

| S.No. | Name and address of the borrower | Name of individuals / partners / directors (with CNIC No.) | Father's / Husband's name | Outstanding Liabilities as at January 01, 2019 | | | | Principal written-off | Interest / Mark-up written-off / waived | Other financial relief provided | Total (9+10+11) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Principal | Interest / Mark-up | Other than Interest / | Total | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| | | | | ---------- (Rupees in '000) ---------- | | | | | | | |
| 1 | Muhammad Younas Chaudry St#2 Mehar Bagoo Wali Muhallah Bakhtay Wala Grw | 34101-2722258-9 | Muhammad Amin | 2,594 | 466 | - | 3,060 | 573 | 465 | - | 1,038 |
| 2 | Mujahid Hussain 235/6 Haji Mehar Din Rd Misri Shah Lahore | 35202-7866193-7 | Muhammad Yaqoob | 1,198 | 335 | - | 1,533 | 336 | 335 | - | 671 |
| 3 | Shahzad Rafique House No 05 Raza Shaheed Road Cantt Peshawar | 17301-0525852-9 | Muhammad Rafique | 945 | 308 | - | 1,253 | 284 | 308 | - | 592 |
| 4 | Chaudhary Rashid Sana H# 08 St# 23 Sector F-7/2 Islamabad | 61101-2014691-7 | Chaudhary Sana Ullah | 1,492 | 486 | - | 1,978 | 448 | 486 | - | 934 |
| | | | **Total** | **6,229** | **1,595** | **-** | **7,824** | **1,641** | **1,594** | **-** | **3,235** |



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**Annexure - II**

## ISLAMIC BANKING BUSINESS

The Bank commenced its Islamic Banking Operations in Pakistan on March 07, 2014 and is operating with 14 (2018: 14) Islamic banking branches and 35 (2018: 35) Islamic banking windows at the end of the year.

## STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2019

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | -------- (Rupees in '000) -------- | |
| **ASSETS** | | | |
| Cash and balances with treasury banks | | **451,368** | 269,475 |
| Balances with other banks | | **10,907** | 78,061 |
| Due from financial institutions | *1* | **14,201,113** | 10,722,364 |
| Investments | | **-** | - |
| Islamic financing and related assets - net | *2* | **3,831,205** | 6,662,890 |
| Fixed assets | | **320,842** | 121,507 |
| Intangible assets | | **4,638** | 6,861 |
| Due from Head Office | | **-** | - |
| Other assets | | **409,944** | 463,969 |
| **Total Assets** | | **19,230,017** | 18,325,127 |
| **LIABILITIES** | | | |
| Bills payable | | **194,231** | 125,319 |
| Due to financial institutions | *3* | **250,000** | 950,000 |
| Deposits and other accounts | *4* | **15,448,224** | 15,212,719 |
| Due to Head Office | | **-** | - |
| Subordinated debt | | **-** | - |
| Deferred tax liabilities - net | | **-** | - |
| Other liabilities | | **1,794,811** | 411,894 |
| | | **17,687,266** | 16,699,932 |
| **NET ASSETS** | | **1,542,751** | 1,625,195 |
| **REPRESENTED BY** | | | |
| Islamic Banking Fund | | **1,000,000** | 1,000,000 |
| Reserves | | **-** | - |
| Surplus on revaluation of assets | | **-** | - |
| Unappropriated / unremitted profit | *6* | **542,751** | 625,195 |
| | | **1,542,751** | 1,625,195 |
| **CONTINGENCIES AND COMMITMENTS** | *7* | | |

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**Annexure - II**

## ISLAMIC BANKING BUSINESS
## PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED DECEMBER 31, 2019

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | -------- (Rupees in '000) -------- | |
| Profit / return earned | 8 | **2,101,420** | 1,548,534 |
| Profit / return expensed | 9 | **821,890** | 679,940 |
| **Net Profit / return** | | **1,279,530** | 868,594 |
| **Other income** | | | |
| Fee and commission income | | **66,229** | 90,200 |
| Dividend income | | **-** | - |
| Foreign exchange loss | | **(105,624)** | (73,178) |
| Income / (loss) from derivatives | | **-** | - |
| Loss on sale of securities | | **(3,170)** | (14,638) |
| Other income | | **10,480** | 10,987 |
| **Total other income** | | **(32,085)** | 13,371 |
| **Total income** | | **1,247,445** | 881,965 |
| **Other expenses** | | | |
| Operating expenses | | **678,975** | 708,394 |
| Workers' welfare fund | | **-** | - |
| Other charges | | **702** | 1,235 |
| **Total other expenses** | | **679,677** | 709,629 |
| **Profit before provisions** | | **567,768** | 172,336 |
| Provisions and write offs - net | | **650,212** | 88,913 |
| **(Loss) / profit before taxation** | | **(82,444)** | 83,423 |
| Taxation | | **-** | - |
| **(Loss) / profit after taxation** | | **(82,444)** | 83,423 |

## ISLAMIC BANKING BUSINESS
## NOTES TO THE ANNEXURE II
## FOR THE YEAR ENDED DECEMBER 31, 2019

| | Note | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | | In Local Currency | In Foreign currencies | Total | In Local Currency | In Foreign currencies | Total |
| | | (Rupees in '000) | | | | | |
| **1 Due from Financial Institutions** | | | | | | | |
| ***Unsecured*** | | | | | | | |
| Bai Muajjal Receivable from other Financial Institutions | *1.1* | **14,001,113** | **-** | **14,001,113** | 10,722,364 | - | 10,722,364 |
| Musharakah | *1.2* | **200,000** | **-** | **200,000** | - | - | - |
| | | **14,201,113** | **-** | **14,201,113** | 10,722,364 | - | 10,722,364 |

**1.1** This represents Bai Muajjal agreements with conventional operations of Summit Bank Limited.

**1.2** This represents Musharakah placement to a financial institution at mark-up rate of 9.00% (2018: Nil) per annum and is due to mature by January 2020.

| **2 Islamic financing and related assets** | **Note** | **2019** | **2018** |
|---|---|---|---|
| | | **(Rupees in '000)** | |
| Ijarah | **2.1** | **636,161** | 919,439 |
| Murabaha | **2.2** | **8,945** | 16,444 |
| Running Musharakah | | **698,301** | 1,007,981 |
| Term Musharakah | | **-** | - |
| Diminishing Musharakah | | **2,516,321** | 3,721,717 |
| Istisna | | **-** | 31,403 |
| Tijarah | | **717,068** | 1,056,823 |
| Advance against Murabaha | | **-** | 4,042 |
| Advance against Diminishing Musharakah | | **-** | 500 |
| Qarz-e-Hasna | | **80** | - |
| Gross Islamic financing and related assets | | **4,576,876** | 6,758,349 |
| Less: provision against Islamic financings | | | |
| - Specific | | **(734,190)** | (82,573) |
| - General | | **(11,481)** | (12,886) |
| | | **(745,671)** | (95,459) |
| Islamic financing and related assets - net of provision | | **3,831,205** | 6,662,890 |

## 2.1 Ijarah

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cost | | | Accumulated Depreciation | | | Book Value as at December 31, 2019 |
| | As at January 01, 2019 | Additions / (deletions) | As at December 31, 2019 | As at January 01, 2019 | Charge for the year | As at December 31, 2019 | |
| | (Rupees in '000) | | | | | | |
| Plant and machinery | - | - | - | - | - | - | - |
| Vehicles consumer | 771,595 | (76,528) | 695,067 | 138,321 | 86,726 | 225,047 | 470,020 |
| Vehicles corporate | 590,237 | (37,792) | 552,445 | 304,072 | 82,232 | 386,304 | 166,141 |
| Equipment | - | | - | - | | - | - |
| Total | 1,361,832 | (114,320) | 1,247,512 | 442,393 | 168,958 | 611,351 | 636,161 |

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cost | | | Accumulated Depreciation | | | Book Value as at December 31, 2018 |
| | As at January 01, 2018 | Additions / (deletions) | As at December 31, 2018 | As at January 01, 2018 | Charge for the year | As at December 31, 2018 | |
| | (Rupees in '000) | | | | | | |
| Plant and machinery | - | - | - | - | - | - | - |
| Vehicles consumer | 537,613 | 233,982 | 771,595 | 40,230 | 98,091 | 138,321 | 633,274 |
| Vehicles corporate | 576,495 | 13,742 | 590,237 | 217,715 | 86,357 | 304,072 | 286,165 |
| Equipment | - | | - | - | | - | - |
| Total | 1,114,108 | 247,724 | 1,361,832 | 257,945 | 184,448 | 442,393 | 919,439 |

**Future Ijarah payments receivable**

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Not later than 1 year | Later than 1 year& less than 5 years | Over Five years | Total | Not later than 1 year | Later than 1 year& less than 5 years | Over Five years | Total |
| | (Rupees in 000) | | | | | | | |
| Ijarah rental receivables | 240,528 | 395,633 | - | 636,161 | 98,824 | 818,665 | 1,950 | 919,439 |

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **2.2 Murabaha** | | | |
| Murabaha financing | 2.2.1 | 8,945 | 16,444 |
| Advances for Murabaha | | - | 4,042 |
| | | 8,945 | 20,486 |
| **2.2.1** Murabaha receivable - gross | 2.2.2 | 9,594 | 52,168 |
| Less: Deferred murabaha income | 2.2.4 | (649) | (35,724) |
| Murabaha financings | | 8,945 | 16,444 |

| | | Note | 2019 | 2018 |
|---|---|---|---|---|
| | | | ------- (Rupees in '000) ------- | |
| 2.2.2 | The movement in Murabaha financing during the year is as follows: | | | |
| | Opening balance | | **52,168** | 720,848 |
| | Sales during the year | | **22,423** | 2,300,048 |
| | Adjusted during the year | | **(64,997)** | (2,968,728) |
| | Closing balance | | **9,594** | 52,168 |
| 2.2.3 | Murabaha sale price | | **22,423** | 2,300,048 |
| | Murabaha purchase price | | **(20,899)** | (2,239,451) |
| | | | **1,524** | 60,597 |
| 2.2.4 | Deferred murabaha income | | | |
| | Opening balance | | **35,724** | 23,525 |
| | Arising during the year | | **1,524** | 60,597 |
| | Less: Recognised during the year | | **(36,599)** | (48,398) |
| | Closing balance | | **649** | 35,724 |
| 3 | **Due to financial institutions** | | | |
| | ***Secured*** | | | |
| | Acceptances from the SBP under Islamic Export Refinance Scheme | *3.1* | **250,000** | 250,000 |
| | ***Total secured*** | | **250,000** | 250,000 |
| | ***Unsecured*** | | | |
| | Musharakah | *3.2* | **-** | 700,000 |
| | ***Total unsecured*** | | **-** | 700,000 |
| | | | **250,000** | 950,000 |

**3.1** The Bank has entered into an agreement with SBP for extending export finance to its islamic customers. Borrowing under the export refinance scheme of SBP carry profit rate of 2.00% per annum (2018: 2.00% per annum). These are secured against demand promissory notes and are due to mature by March 2020 (2018: February 2019).

**3.2** This represented Musharaka acceptance with conventional operations of Summit Bank Limited.

**4 Deposits**

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | In local currency | In foreign currencies | Total | In local currency | In foreign currencies | Total |
| | ---------- (Rupees in '000) ---------- | | | | | |
| **Customers** | | | | | | |
| Current deposits | **4,794,164** | **487,731** | **5,281,895** | 4,865,906 | 541,588 | 5,407,494 |
| Savings deposits | **8,248,534** | **86,186** | **8,334,720** | 7,700,010 | 127,458 | 7,827,468 |
| Term deposits | **1,152,052** | **293,686** | **1,445,738** | 1,038,665 | 95,320 | 1,133,985 |
| Margin accounts | **230,383** | **-** | **230,383** | 581,337 | - | 581,337 |
| | **14,425,133** | **867,603** | **15,292,736** | 14,185,918 | 764,366 | 14,950,284 |
| **Financial Institutions** | | | | | | |
| Current deposits | **77,812** | **121** | **77,933** | 96,313 | 107 | 96,420 |
| Savings deposits | **77,555** | **-** | **77,555** | 156,015 | - | 156,015 |
| Term deposits | **-** | **-** | **-** | 10,000 | - | 10,000 |
| | **155,367** | **121** | **155,488** | 262,328 | 107 | 262,435 |
| | **14,580,500** | **867,724** | **15,448,224** | 14,448,246 | 764,473 | 15,212,719 |

| | | 2019 | 2018 |
|---|---|---|---|
| | | ------ (Rupees in '000) ------ | |
| **4.1** | **Composition of deposits** | | |
| | - Individuals | **10,851,572** | 9,250,813 |
| | - Government (Federal and Provincial) | **557,777** | 1,153,904 |
| | - Public Sector Entities | **5,494** | 10,098 |
| | - Banking Companies | **22,856** | 4 |
| | - Non-Banking Financial Institutions | **430,836** | 262,486 |
| | - Private Sector | **3,579,689** | 4,535,414 |
| | | **15,448,224** | 15,212,719 |

**4.2** This includes deposits eligible to be covered under insurance arrangements amounting to Rs. 9,033.794 million (2018: Rs. 8,885.304 million).

| | | 2019 | 2018 |
|---|---|---|---|
| | | ------ (Rupees in '000) ------ | |
| **5** | **Charity Fund** | | |
| | Opening balance | **1,032** | 63 |
| | **Additions during the year** | | |
| | - Received from customers on account of delayed payment | **504** | 969 |
| | - Dividend purification amount | **-** | - |
| | - Profit on charity saving account | **-** | - |
| | - Other Non-Shariah compliant income | **-** | - |
| | | **504** | 969 |
| | **Payments / utilization during the year** | | |
| | - Education | **-** | - |
| | - Health | **(1,032)** | - |
| | - Others | **-** | - |
| | | **(1,032)** | - |
| | Closing balance | **504** | 1,032 |
| **6** | **Islamic Banking Business Unappropriated Profit** | | |
| | Opening balance | **625,195** | 541,772 |
| | (Less) / add: Islamic Banking (loss) / profit for the year | **(82,444)** | 83,423 |
| | Closing balance | **542,751** | 625,195 |

| | | 2019 | 2018 |
|---|---|---|---|
| | | ------ (Rupees in '000) ------ | |
| **7** | **CONTINGENCIES AND COMMITMENTS** | | |
| | -Guarantees | **3,962,232** | 4,478,490 |
| | -Commitments | **1,178,059** | 1,646,920 |
| | -Other contingent liabilities | **-** | - |
| | | **5,140,291** | 6,125,410 |
| **8** | **Profit / Return Earned of Financing, Investments and Placement** | | |
| | Profit earned on: | | |
| | Financing | **733,045** | 779,243 |
| | Investments | **-** | 639,159 |
| | Placements | **1,367,791** | 130,132 |
| | Balances with banks | **584** | - |
| | | **2,101,420** | 1,548,534 |
| **9** | **Profit on Deposits and other Dues Expensed** | | |
| | Deposits and other accounts | **762,134** | 665,026 |
| | Due to Financial Institutions | **29,111** | 14,914 |
| | Finance cost of lease liability | **30,645** | - |
| | | **821,890** | 679,940 |

## 10 Pool Management

Summit Bank Limited - Islamic Banking Division (SMBL-IBD) operates General & Specific Pools for deposits and interbank funds accepted under Modaraba and Musharkah modes.

Features, risks and rewards of the pools are given below:

### (i) Specific pool

Specific pools are operated for funds acquired / accepted from customers in foreign currencies (FCY) in addition to Pakistani Rupees (PKR) for customers willing to invest in specific sectors / industry / exposures for want of higher returns. These pools operate in accordance with the rules as specified under general pool disclosure, however, varies in degree of risks associated with the investments / assets. Similarly, for interbank acceptances specific pool(s) based on Musharkah are also maintained by the Bank to meet liquidity requirement of the Bank. SMBL-IBD maintains 10 (Ten) Local Currency (LCY) and 01 (one) Foreign Currency (FCY) specific pools.

### (ii) General pool

General pool is the basket in which all the deposits from depositors are placed along with the Bank's own equity as well as funds from other financial institutions. The general pool is based on the principle of unrestricted Modaraba. An unrestricted Modaraba contract is a contract in which the depositor permits the Bank to administer the funds without any restrictions. In this case, the Bank has a wide range of trade or business freedom on the basis of trust and the business expertise the Bank has acquired.

However, such unrestricted business freedom in an unrestricted Modaraba must be exercised only in accordance with the interests of the parties and the objectives of the Modaraba contract, which is making profit. Therefore, the actions of the Bank must be in accordance with the business customs relating to the Banking operations. SMBL-IBD maintains 01 LCY and 01 FCY General pool.

**(a) Priority of utilization of funds in the general pool shall be:**

- Depositor Funds.
- Equity Funds.
- Placement / Investments of Other IBI.
- Modaraba Placement of Summit Bank Limited (Counterparty).

**(b) Weightages for distribution of profit in general pool**

The weightages are calculated and declared monthly as the pool is constructively liquidated at end of each month and created simultaneously. The Bank declares such weightages at least 3 days before the beginning of the month, after the approval of the Shariah Advisor / RSBM of the Bank. The maximum weightage to the Modaraba based deposit of any nature, tenor and amount does not exceed 3 times of the weightages assigned to normal saving deposits (minimum balance category).

The weightages assigned to all categories of pool deposits are assigned uniformly on a consistent basis, based on the following parameters / criteria (but not limited to):

- contracted period of deposits;
- frequency of profit distribution, monthly, quarterly or on maturity;
- volume of the deposit;
- product structure; and
- management discretion.

**(c) Identification and allocation of pool related income and expenditure**

The allocation of income and expenses to different pools is based on pre-defined basis and accounting principles / standards. According to Shariah rules and principles, all direct expenses are expensed out of the total profit i.e. always charged to the pool.

The direct expenses to be charged to the pool shall include all the direct cost of transaction including the following:

- depreciation of Ijarah assets;
- cost of sales of inventories;
- Takaful expenses of pool assets;
- taxes (sales tax and service tax levied by the provincial government);
- stamp fee or documentation charges;
- other costs / foreign exchange losses (if ascertainable);
- brokerage fee for purchase of securities / commodities etc.; and
- impairment / losses due to physical damages to specific assets in pools etc.

Indirect expenses can be categorized as those which are agreed with the saving and deposit account holders to be borne by the Mudarib.

All income pertaining to specific assets for specific periods should be allocated to the pool to which the assets are tagged during the period. Due care should be taken while recognizing revenue from assets. Revenue recognition for each type / class of assets should be in-line with the respective Shariah principles. Further, the financing will be diversified across different sectors and in compliance with the prudential regulation for exposure of individual and corporate clients. Income generated from non-financing activities (fee / commission / service charges) that were not relevant to the general pool were not credited to the pool and relevant expenses were also not charged to the pool.

**(d) Parameters associated with risk and rewards**

**(i)** The risks related to any pool depend upon the nature of the pool and the purpose for which the pool has been created. Considering the low risk tolerance of the investors of the profit and loss distribution pool, the key objective remained to earn competitive returns while containing the risk (volatility) of the returns to a minimum.

**(ii) Risks to which the financing assets of the Bank may be exposed to are:**

- Credit risk which is generally defined as the potential that a counter party fails to meet its obligations in accordance with agreed terms. Therefore, the Bank has sound credit risk management policies to protect the depositors' / Investment Account Holders (IAH) from loss due to credit risk;

- Market risk is generally defined as defined as the risk of losses in on- and off-balance sheet positions arising from movements in market prices i.e. fluctuations in values in tradable or marketable assets (including Sukuks) and in off-balance sheet individual portfolios (for example restricted investment accounts). The risks relate to the current and future volatility of market values of specific assets and of foreign exchange rates; and

- Equity Investment Risk is generally defined as risk associated with holding equity investments during unfavourable situations, where decline in investment caused by market conditions in turn gives volatility of earnings of Musharakah and Modaraba investments.

**(iii) Risks to which the profit and loss distribution pool may be exposed to are:**

- Liquidity risk which is the potential loss to the Bank arising from their inability either to meet their obligations or to fund increases in assets as they fall due without incurring unacceptable costs or losses. In order to mitigate the liquidity risk the Bank should invest in a combination of liquid and illiquid assets to be able to meet their obligations towards the depositors' / investment account holder; and

- Rate of return risk to which the Bank may be exposed to in the context of its overall balance sheet exposures. An increase in benchmark rates may result in savings account holders having expectations of a higher rate of return. A consequence of rate of return risk may be displaced commercial risk. Therefore, the Bank employ a gapping method for allocating positions into time bands with remaining maturities or re-pricing dates, whichever is earlier.

| Avenues / sectors of economy / business where deposits have been deployed* | 2019 | 2018 |
|---|---|---|
| | ------ (Rupees in '000) ------ | |
| Cement | **254,967** | 378,330 |
| Chemical and pharmaceuticals | **218,052** | 61,167 |
| Construction | **47,275** | 205,970 |
| Education | **11,998** | 23,996 |
| Electronics and electrical appliances | **991,624** | 1,403,041 |
| Exports / imports | **80,505** | 106,608 |
| Food, tobacco and beverages | **263,541** | 282,802 |
| Health care | **11,781** | 14,867 |
| Individuals | **634,738** | 859,033 |
| Miscellaneous manufacturing | **265,978** | 360,970 |
| Paper and allied products | **1,109** | 2,126 |
| Power (electricity), gas, water, sanitary | **17,070** | 67,840 |
| Services | **538,940** | 672,078 |
| Sugar | **699,998** | 699,998 |
| Textile | **2,442** | 25,581 |
| Transport, storage and communication | **181,053** | 286,084 |
| Wholesale and retail trade | **165,437** | 698,614 |
| Others | **49,733** | 415,472 |
| | **4,436,241** | 6,564,577 |

* Staff financing amounting Rs. 140.635 million (2018: Rs. 193.772 million) is not included as it is financed through Islamic Banking Fund.

**Basis of profit allocation**

Profit of the general pool has been distributed between Modarib and Rabbul Maal by using pre-agreed profit sharing ratio. The profit was distributed between Mudarib and Rabbul Maal on the under mentioned profit sharing ratios based upon Gross Income Level less Direct Expenses.

| | Profit sharing ratio | |
|---|---|---|
| | LCY Deposits | FCY Deposits |
| | 2019 | |
| | ----------%---------- | |
| Rabbul Maal | 50% | 50% |
| Mudarib | 50% | 50% |

**Mudarib share (in amount and percentage of distributable income)**

| | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|
| | ------ (Rupees in '000) ------ | | % | |
| Rabbul Maal | **720,143** | 608,884 | **68%** | 66% |
| Mudarib | **346,196** | 310,854 | **32%** | 34% |
| | **1,066,339** | 919,738 | | |

**Amount and percentage of Mudarib share transferred to depositors through Hiba**

| | 2019 | 2018 |
|---|---|---|
| | ------ (Rupees in '000) ------ | |
| Mudarib share | **306,313** | 268,316 |
| Hiba | **39,883** | 42,537 |
| | ----------%---------- | |
| Hiba percentage of Mudarib share | **12** | 14 |

**Profit rate earned vs profit rate distributed to the depositors during the year ended December 31, 2019**

| | 2019 | 2018 |
|---|---|---|
| | ----------%---------- | |
| Profit rate earned | **12.61%** | 7.58% |
| Profit rate distributed to depositors | **8.01%** | 5.00% |

Summit Bank
Committed to you

# CATEGORIES OF SHAREHOLDERS

*AS OF DECEMBER 31, 2019*

| | NUMBER OF SHAREHOLDERS | SHARE HELD | PERCENTAGE % |
|---|---|---|---|
| **ASSOCIATED COMPANIES, UNDERTAKING AND RELATED PARTIES** | | | |
| SUROOR INVESTMENTS LIMITED | 1 | 1,761,412,119 | 66.77 |
| RUPALI BANK LIMITED | 1 | 32,777,450 | 1.24 |
| **SUB TOTAL** | **2** | **1,794,189,569** | **68.01** |
| | | | |
| **SHAREHOLDERS HOLDING FIVE PERCENT** | | | |
| **OR MORE (EXCLUDING SIL)** | | | |
| NIL | - | - | **0.00** |
| | | | |
| **DIRECTORS** | | | |
| AHSAN RAZA DURRANI | | 7 | |
| **SUB TOTAL** | **1** | **7** | **0.00** |
| | | | |
| **BANKS, DEVELOPMENT FINANCIAL INSTITUTIONS, NON-BANKING FINANCIAL INSTITUTIONS, INSURANCE COMPANIES, MODARABAS AND MUTUAL FUNDS** | **12** | **158,124,999** | **5.99** |
| | | | |
| **NATIONAL INVESTMENT TRUST & INVESTMENT CORPORATON OF PAKISTAN** | **-** | **-** | **-** |
| | | | |
| **FOREIGN SHAREHOLDERS** | **211** | **70,858,409** | **2.69** |
| | | | |
| **INDIVIDUAL** | **43,076** | **387,460,775** | **14.69** |
| | | | |
| **OTHERS** | **97** | **227,517,301** | **8.62** |
| | | | |
| **TOTAL** | **43,399** | **2,638,151,060** | **100.00** |

# PATTERN OF SHAREHOLDING

*AS OF DECEMBER 31, 2019*

| No. of Shareholders | Shareholdings | | Total Shares Held |
|---|---|---|---|
| | From | To | |
| 8159 | 1 | 100 | 353502 |
| 3783 | 101 | 500 | 1044521 |
| 22553 | 501 | 1000 | 12834663 |
| 6370 | 1001 | 5000 | 12999615 |
| 946 | 5001 | 10000 | 7075184 |
| 353 | 10001 | 15000 | 4411956 |
| 243 | 15001 | 20000 | 4384032 |
| 143 | 20001 | 25000 | 3372179 |
| 88 | 25001 | 30000 | 2452142 |
| 53 | 30001 | 35000 | 1740658 |
| 50 | 35001 | 40000 | 1909339 |
| 30 | 40001 | 45000 | 1296131 |
| 83 | 45001 | 50000 | 4113612 |
| 30 | 50001 | 55000 | 1567677 |
| 22 | 55001 | 60000 | 1272552 |
| 13 | 60001 | 65000 | 811573 |
| 15 | 65001 | 70000 | 1024287 |
| 24 | 70001 | 75000 | 1759727 |
| 16 | 75001 | 80000 | 1265626 |
| 7 | 80001 | 85000 | 582832 |
| 5 | 85001 | 90000 | 442225 |
| 7 | 90001 | 95000 | 646115 |
| 51 | 95001 | 100000 | 5099500 |
| 12 | 100001 | 105000 | 1224224 |
| 10 | 105001 | 110000 | 1093831 |
| 9 | 110001 | 115000 | 1015364 |
| 9 | 115001 | 120000 | 1067494 |
| 10 | 120001 | 125000 | 1230815 |
| 8 | 125001 | 130000 | 1023897 |
| 3 | 130001 | 135000 | 393500 |
| 2 | 135001 | 140000 | 275149 |
| 3 | 140001 | 145000 | 428357 |
| 10 | 145001 | 150000 | 1491888 |
| 4 | 150001 | 155000 | 616262 |
| 2 | 155001 | 160000 | 317000 |
| 8 | 160001 | 165000 | 1302559 |
| 3 | 165001 | 170000 | 505172 |
| 3 | 170001 | 175000 | 519206 |
| 8 | 175001 | 180000 | 1428300 |
| 1 | 180001 | 185000 | 181000 |
| 3 | 185001 | 190000 | 569800 |
| 1 | 190001 | 195000 | 190500 |
| 23 | 195001 | 200000 | 4597444 |
| 4 | 200001 | 205000 | 811000 |
| 12 | 205001 | 210000 | 2500163 |
| 2 | 210001 | 215000 | 429000 |

| No. of Shareholders | Shareholdings | | Total Shares Held |
|---|---|---|---|
| | From | To | |
| 3 | 215001 | 220000 | 656222 |
| 4 | 220001 | 225000 | 895220 |
| 3 | 225001 | 230000 | 690000 |
| 1 | 230001 | 235000 | 234000 |
| 2 | 235001 | 240000 | 480000 |
| 3 | 240001 | 245000 | 732500 |
| 4 | 245001 | 250000 | 1000000 |
| 2 | 250001 | 255000 | 507000 |
| 2 | 255001 | 260000 | 514178 |
| 3 | 260001 | 265000 | 785455 |
| 1 | 265001 | 270000 | 270000 |
| 3 | 270001 | 275000 | 814500 |
| 1 | 275001 | 280000 | 277595 |
| 2 | 280001 | 285000 | 569000 |
| 1 | 285001 | 290000 | 288903 |
| 9 | 295001 | 300000 | 2700000 |
| 1 | 300001 | 305000 | 304000 |
| 2 | 305001 | 310000 | 614000 |
| 1 | 310001 | 315000 | 313500 |
| 1 | 325001 | 330000 | 329000 |
| 1 | 330001 | 335000 | 334800 |
| 2 | 335001 | 340000 | 678385 |
| 2 | 345001 | 350000 | 699913 |
| 2 | 355001 | 360000 | 714978 |
| 2 | 360001 | 365000 | 724000 |
| 2 | 365001 | 370000 | 734080 |
| 2 | 375001 | 380000 | 756000 |
| 1 | 385001 | 390000 | 389000 |
| 1 | 390001 | 395000 | 392500 |
| 1 | 400001 | 405000 | 405000 |
| 1 | 405001 | 410000 | 410000 |
| 10 | 415001 | 420000 | 4169139 |
| 1 | 420001 | 425000 | 423500 |
| 1 | 430001 | 435000 | 432000 |
| 1 | 440001 | 445000 | 442166 |
| 1 | 445001 | 450000 | 448062 |
| 2 | 455001 | 460000 | 914091 |
| 1 | 460001 | 465000 | 463500 |
| 1 | 475001 | 480000 | 480000 |
| 9 | 495001 | 500000 | 4499000 |
| 2 | 500001 | 505000 | 1002331 |
| 1 | 505001 | 510000 | 506978 |
| 2 | 510001 | 515000 | 1026500 |
| 1 | 515001 | 520000 | 518400 |
| 1 | 520001 | 525000 | 525000 |
| 2 | 525001 | 530000 | 1058212 |

| No. of Shareholders | Shareholdings | | Total Shares Held |
|---|---|---|---|
| | From | To | |
| 1 | 530001 | 535000 | 535000 |
| 1 | 535001 | 540000 | 538000 |
| 1 | 540001 | 545000 | 540500 |
| 1 | 550001 | 555000 | 552000 |
| 1 | 585001 | 590000 | 587777 |
| 1 | 600001 | 605000 | 600757 |
| 2 | 610001 | 615000 | 1223000 |
| 1 | 625001 | 630000 | 625710 |
| 2 | 645001 | 650000 | 1300000 |
| 1 | 675001 | 680000 | 677000 |
| 2 | 695001 | 700000 | 1400000 |
| 1 | 700001 | 705000 | 703980 |
| 2 | 715001 | 720000 | 1439000 |
| 1 | 725001 | 730000 | 727500 |
| 1 | 735001 | 740000 | 740000 |
| 1 | 740001 | 745000 | 745000 |
| 1 | 745001 | 750000 | 749500 |
| 2 | 755001 | 760000 | 1515555 |
| 1 | 770001 | 775000 | 772000 |
| 1 | 790001 | 795000 | 790500 |
| 1 | 800001 | 805000 | 800500 |
| 2 | 845001 | 850000 | 1698526 |
| 1 | 855001 | 860000 | 856500 |
| 1 | 870001 | 875000 | 875000 |
| 1 | 875001 | 880000 | 875500 |
| 1 | 925001 | 930000 | 929000 |
| 1 | 955001 | 960000 | 957000 |
| 4 | 995001 | 1000000 | 4000000 |
| 1 | 1000001 | 1005000 | 1003000 |
| 2 | 1025001 | 1030000 | 2056000 |
| 1 | 1075001 | 1080000 | 1078500 |
| 1 | 1085001 | 1090000 | 1090000 |
| 2 | 1095001 | 1100000 | 2200000 |
| 1 | 1110001 | 1115000 | 1115000 |
| 1 | 1140001 | 1145000 | 1140500 |
| 1 | 1145001 | 1150000 | 1147443 |
| 1 | 1185001 | 1190000 | 1188500 |
| 1 | 1195001 | 1200000 | 1200000 |
| 1 | 1215001 | 1220000 | 1219500 |
| 1 | 1250001 | 1255000 | 1254555 |
| 1 | 1260001 | 1265000 | 1261500 |
| 1 | 1270001 | 1275000 | 1270500 |
| 1 | 1305001 | 1310000 | 1306000 |
| 1 | 1345001 | 1350000 | 1347500 |
| 1 | 1375001 | 1380000 | 1380000 |
| 1 | 1480001 | 1485000 | 1481000 |

| No. of Shareholders | Shareholdings | | Total Shares Held |
|---|---|---|---|
| | From | To | |
| 2 | 1495001 | 1500000 | 3000000 |
| 1 | 1565001 | 1570000 | 1567000 |
| 1 | 1595001 | 1600000 | 1600000 |
| 1 | 1620001 | 1625000 | 1622717 |
| 1 | 1995001 | 2000000 | 2000000 |
| 1 | 2100001 | 2105000 | 2102000 |
| 1 | 2125001 | 2130000 | 2125500 |
| 1 | 2180001 | 2185000 | 2185000 |
| 1 | 2235001 | 2240000 | 2237500 |
| 1 | 2255001 | 2260000 | 2255350 |
| 1 | 2310001 | 2315000 | 2312000 |
| 1 | 2340001 | 2345000 | 2341500 |
| 1 | 2600001 | 2605000 | 2600500 |
| 1 | 2820001 | 2825000 | 2820500 |
| 1 | 2875001 | 2880000 | 2876500 |
| 1 | 2915001 | 2920000 | 2916000 |
| 1 | 2995001 | 3000000 | 3000000 |
| 1 | 3345001 | 3350000 | 3350000 |
| 1 | 3680001 | 3685000 | 3685000 |
| 1 | 3770001 | 3775000 | 3773600 |
| 2 | 3995001 | 4000000 | 8000000 |
| 1 | 4465001 | 4470000 | 4465500 |
| 1 | 4570001 | 4575000 | 4572500 |
| 1 | 5095001 | 5100000 | 5100000 |
| 1 | 5840001 | 5845000 | 5841389 |
| 1 | 5855001 | 5860000 | 5857429 |
| 1 | 5995001 | 6000000 | 6000000 |
| 1 | 7995001 | 8000000 | 8000000 |
| 1 | 9235001 | 9240000 | 9239500 |
| 1 | 11220001 | 11225000 | 11223500 |
| 2 | 13550001 | 13555000 | 27106122 |
| 1 | 15195001 | 15200000 | 15200000 |
| 1 | 24670001 | 24675000 | 24675000 |
| 1 | 27110001 | 27115000 | 27113393 |
| 1 | 32775001 | 32780000 | 32777450 |
| 2 | 49995001 | 50000000 | 100000000 |
| 1 | 54215001 | 54220000 | 54216512 |
| 1 | 66820001 | 66825000 | 66822946 |
| 1 | 68225001 | 68230000 | 68228986 |
| 1 | 69695001 | 69700000 | 69700000 |
| 1 | 88935001 | 88940000 | 88939563 |
| 1 | 1761410001 | 1761415000 | 1761412119 |
| **43,399** | | | **2,638,151,060** |

# NOTICE OF THE FOURTEENTH ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF SUMMIT BANK LIMITED

NOTICE is hereby given that the Fourteenth Annual General Meeting of the Shareholders (the "**Shareholders**") of Summit Bank Limited (the "**Bank**") will be held on November 04, 2021 at 11:00 a.m. at Serena Hotel, Islamabad to transact the following business:

**AGENDA**

**Ordinary Business:**

1. To confirm the minutes of the Annual General Meeting of the Bank held on October 26, 2020.

2. To receive, consider and adopt the audited financial statements of the Bank together with the Directors' and Auditors' Reports for the year ended December 31, 2019.

3. To appoint External Auditors of the Bank for the financial year ended December 31, 2020 till the conclusion of the next Annual General Meeting and fix their remuneration (present Auditors', M/s. Baker Tilly Mehmood Idrees Qamar, Chartered Accountants being eligible, have offered themselves for re-appointment).

**Special Business:**

4. To consider and approve the increase in the Authorized Share Capital of the Bank together with the necessary changes in the relevant clauses of the Memorandum and Articles of Association of the Bank by passing the following resolutions, with or without modification, as a Special Resolution:

   'RESOLVED THAT in compliance with section 85 of the Companies Act, 2017 read with other applicable provisions, the Authorized Capital of the Bank be and is hereby increased from PKR 28,000,000,000/- (Rupees Twenty-Eight Billion Only) divided into 2,800,000,000 shares of PKR 10/- (Rupees Ten) to PKR 90,000,000,000/- (Rupees Ninety Billion Only) divided into 9,000,000,000 shares of PKR 10/- (Rupees Ten) each and the Memorandum and Articles of Association be amended and read as under:

   **Clause V of the Memorandum of Association:**

   The Share Capital of the Bank is PKR 90,000,000,000/- (Rupees Ninety Billion Only) divided into 9,000,000,000 shares of PKR 10/- (Rupees Ten) each with power to the Bank from time to time increase, reduce or reorganize its capital or to sub-divide the shares in the capital for the time being into several classes. The share capital shall comprise of one or more kinds of shares and different classes of shares under each kind as permitted by the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000 as amended from time to time, with such rights and privileges attached thereto as may be approved by the members from time to time by a Special Resolution.

   **Article 6 of the Articles of Association:**

   The Capital of the Bank is PKR 90,000,000,000/- (Rupees Ninety Billion Only) divided into 9,000,000,000 shares of PKR 10/- (Rupees Ten) each with power to increase or reduce the capital and to divide the share in the capital and to divide the share in the capital for the time being into several classes provided however, that rights as between various classes of ordinary shares (if any) as to profits, votes and other benefits shall be strictly proportionate to the paid-up value of the shares.

5. To consider and if thought fit, to pass with or without modification, addition or deletion, the following resolution as special resolution:

'RESOLVED THAT subject to acquiring requisite regulatory approvals and ensuring compliance with Section 82 of the Companies Act, 2017 read with applicable requirements of Companies (Further Issue of Shares), Regulations, 2020 (Regulations) and the Guidelines issued by the Securities and Exchange Commission of Pakistan for Issue of Shares at a Discount (Guidelines), the Bank be and is hereby authorized to issue 5,976,095,618 new ordinary shares (Five Billion Nine Hundred Seventy-Six Million Ninety-Five Thousand Six Hundred Eighteen) by way of without rights offer to His Excellency Nasser Abdulla Hussain Lootah (the Acquirer) and the minority shareholders at a discounted price of PKR 2.51 (Rupees Two and Fifty-One Paisas Only) per share for fresh equity injection in the Bank (the Transaction).

'FURTHER RESOLVED THAT the President and CEO and/or the Company Secretary of the Bank, be and are hereby jointly and / or severally authorized, to take all steps necessary, ancillary and incidental for the issuance of new ordinary shares of the Bank at a Discount, including but not limited to obtaining all requisite regulatory approvals; filing of all the requisite statutory forms and all other documents as may be required to be filed with the Companies Registration Office of the Securities and Exchange Commission of Pakistan, submitting all such documents as may be required with the State Bank of Pakistan, executing all such certificates, applications, notices, reports, letters and any other document or instrument including any amendments or substitutions to any of the foregoing as may be required in respect of the issue of shares at Discount under Section 82 of the Companies Act, 2017, the related Regulations and Guidelines and all other matters incidental or ancillary thereto for the Transaction.

6. To consider and if thought fit, to pass with or without modification, addition or deletion, the following resolution as special resolution:

'RESOLVED THAT subject to applicable regulatory approvals and in accordance with the provisions of Section 83 of the Companies Act, 2017, the Bank be and is hereby authorized (acting through the authorized representative) to issue further share capital of the Bank, to the extent of PKR 59,760,956,180 (Rupees Fifty-Nine Billion Seven Hundred Sixty Million Nine Hundred Fifty-Six Thousand One Hundred Eighty only) by the issuance of 5,976,095,618 new ordinary shares (Five Billion Nine Hundred Seventy-Six Million Ninety-Five Thousand Six Hundred Eighteen) by way of other than Rights Issue at the discounted price of PKR 2.51 (Rupees Two and Fifty-One Paisas Only) per share in favour of the Acquirer and the minority shareholders pursuant to the share subscription agreement entered into between the Acquirer and the Bank (the Subscription Agreement) and that such new shares shall rank pari passu with the existing shares of the Bank for fresh equity injection in the Bank (the Transaction).

'FURTHER RESOLVED THAT the President and CEO and/or the Company Secretary of the Bank, be and are hereby jointly and / or severally authorized, to take all steps necessary, ancillary and incidental for the issuance of further shares of the Bank, including but not limited to obtaining all requisite regulatory approvals; filing of all the requisite statutory forms and all other documents as may be required to be filed with the Companies Registration Office of the Securities and Exchange Commission of Pakistan, submitting all such documents as may be required with the State Bank of Pakistan, executing all such certificates, applications, notices, reports, letters and any other document or instrument including any amendments or substitutions to any of the foregoing as may be required in respect of the issue of shares by way of other than Rights under Section 83 of the Companies Act, 2017 and all other matters incidental or ancillary thereto for the Transaction.

**Other Business:**

7. To transact any other business with the permission of the chair.

**By order of the Board**

Place: Karachi
Date: October 14, 2021

**Syed Muhammad Talib Raza**
**Company Secretary**

**Notes:**

1. The share transfer books of the Bank will be closed from October 29, 2021 to November 04, 2021 (both days inclusive). Transfers received by our Shares Registrar, M/s. THK Associates (Private) Limited, 32-C, Jami Commercial Street No.11, D.H.A, Phase 7, Karachi at the close of business i.e. October 28, 2021 shall be treated in time for the purpose of entitlement to attend the said AGM.

2. A member entitled to attend and vote at this meeting may appoint another member as his / her proxy to attend, speak and vote on his / her behalf. A corporation being a member may appoint as its proxy any of its official or any other person whether a member of the Bank or otherwise.

3. An instrument of proxy and Power of Attorney or other authority (if any) under which it is signed or notarized, copy of such Power of Attorney must be valid and deposited with the Share Registrar of the Bank, M/s. THK Associate (Pvt.) Limited 32-C, Jami Commercial Street No.11, D.H.A, Phase 7, Karachi duly stamped, signed and witnessed not less than 48 hours before the time of the meeting.

4. Members are requested to notify any change in their addresses immediately.

5. In accordance with SECP's directives, it is mandatory for all the shareholders to have their valid CNIC number recorded with the Bank. Members who have not yet submitted photocopies of their CNICs to the Registrar are requested once again to submit a valid attested copy of their CNICs with our Share Registrar, M/s. THK Associates (Pvt.) Ltd.

6. Those shareholders whose shares ae deposited with Central Depository Company of Pakistan Limited (CDC) are requested to bring their original Computerized National Identity Card (CNIC) along with the participant ID number and their account/sub-account numbers in CDC to facilitate identification at the time of AGM. In case of proxy, attested copies of proxy CNIC or passport, Account and Participant ID number must be deposited along with the Form of Proxy with our Share Registrar. In case of proxy for corporate members, the Board of Directors' Resolution / Power of Attorney with specimen signature of the nominee shall be produced at the time of the meeting unless it has been provided earlier to the Share Registrar.

7. Shareholders having physical scrip of shares are requested to promptly notify change in their postal address and / or email address if any, to our Share Registrar, in wiring, whereas CDC account holders are requested to contact their CDC Participant / CDC Account Services.

8. Pursuant to SECP S.R.O No. 43(I)/2016 dated January 22, 2016, members can also exercise their right to vote through e-voting by giving their consent in writing at least 10 days before the date of the meeting to the Bank on the appointment by the Intermediary as a Proxy.

**For Attending the Meeting:**

i. In case of individuals, the accountholder or sub-accountholder and/or the person whose securities are in group account and their registration details are uploaded as per the CDC Regulations, shall submit the proxy form as per the above requirement.

ii. The proxy form shall be witnessed by the two persons whose names, addresses and CNIC numbers shall be mentioned on the form.

iii. Attested copy of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.

iv. The proxy shall produce his/her original CNIC or passport at the time of the meeting.

v. In case of corporate entity, the Board of Directors Resolution / Power of Attorney with specimen signature shall be submitted along with proxy form of the Bank.

9. A Proxy Form, both in English and Urdu language, is being separately sent to the members, along with the Notice of AGM.

10. In accordance with SECP Circular No. 10 of 2014 dated May 21, 2014 (the Circular), member holding in an aggregate of 10% or more shareholding in the paid-up capital of the Bank residing in a city, may avail video conference facility to attend the meeting.

Requirement and procedure for availing video conference facility as stipulated in the Circular are detailed here as under:

The member should provide their consent as per the following format and submit to the registered address of the Bank 10 days before holding of general meeting.

**Consent Form for Video Conference Facility**

I/We _____ of _____

being a member of Summit Bank Limited, holder of _____ ordinary shares as per Register Folio / CDC Account No_____

hereby opt for video conference facility at _____

(geographical location).

11. As per Section 72 of the Companies Act, 2017, every existing listed company shall be required to replace its physical shares with book-entry form in a manner as may be specified and from the date notified by the Commission, within a period not exceeding four years from the commencement of this Act, i.e., May 30, 2017.

The Shareholders having physical shareholding are encouraged to open CDC sub-account with any of the brokers or Investor Account directly with CDC to place their physical shares into scrip less form, this will facilitate them in many ways, including safe custody and sale of shares, any time they want, as the trading of physical shares is not permitted as per existing regulations of the Pakistan Stock Exchange.

12. Shareholders who could not collect their dividend / physical shares are advised to contact our Share Registrar to collect/enquire about their unclaimed dividend or shares, if any. In compliance with Section 244 of the Companies Act, 2017, after having completed the stipulated procedure, all such dividend and shares outstanding for a period of three (3) years or more from the date due and payable shall be deposited to the credit of the Federal Government in case of unclaimed dividend and in case of shares, shall be delivered to the SECP.

13. Copies of the Notice of AGM and the latest annual audited/quarterly financial statements of the Bank have been kept at the Registered Office of the Bank which can be obtained and/or inspected during the business hours on any working day from the date of publication of this Notice till the conclusion of the AGM by the members and other persons entitled to attend the Meeting. Notice of the Fourteenth (14th) AGM and the latest annual audited/quarterly financial statements have further been placed on the website of the Bank: www.summitbank.com.pk.

14. The Securities & Exchange Commission of Pakistan (SECP) through its SRO 470(1)/2016 dated May 31, 2016 has allowed the companies to circulate its Annual Audited Financial Statements to its members through CD/DVD/USB or any electronic media at their registered addresses.

    However, shareholders who wish to receive the hard copy of the Financial Statements shall have to fill out the 'Standard Request Form' available on the Bank's website and send to us at the given addresses.

**Statement of Material Fact under Section 134 (3) of the Companies Act, 2017 relating to Special Business**

**Agenda item No. 4**

The increase in authorized capital of the Bank is necessitated to absorb the increase in the paid up capital and to have sufficient cushion available for new ordinary shares accruing out of issue of shares by way of other than rights and at discount to His Excellency Nasser Abdulla Hussain Lootah (the Acquirer) and the minority shareholders for fresh equity injection in the Bank (the Transaction) pursuant to the share subscription agreement entered into between the Acquirer and the Bank (the Subscription Agreement) subject to the approval of the competent authorities and the shareholders of the Bank.

The Board of Directors of the Bank in their meeting held on October 08, 2021 have recommended for the increase in the authorized capital from PKR 28 BN to PKR 90 BN subject to the approval of the regulatory authorities and the shareholders of the Bank in their general meeting.

The proposed increase in the authorized capital of the Bank shall be followed with the changes in the relevant capital clauses of the Memorandum and Articles of Association of the Bank which shall accordingly be amended.

**Agenda item No. 5**

In order to facilitate the Bank in increasing its paid-up capital, His Excellency Nasser Abdulla Hussain Lootah, as the Acquirer, conveyed his Offer for fresh equity injection in the Bank through subscribing new ordinary shares by way of other than rights and at a discount together with acquiring at least 51% voting shares and controlling interest of the Bank in accordance with the provisions of the Companies Act, 2017, Securities Act, 2015, the PSX Rule Book and the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2017.

The justification for the issuance of shares at a discount is as follows:

(a) the strategic value of the proposed Transaction by the Acquirer is for achieving financial viability of the Bank;

(b) to give a positive signal to the banking sector / market from such investment;

(c) to inject the substantial equity aiming to assist the Bank in achieving its growth plans.

The Board of Directors of the Bank in their meeting held on October 08, 2021 have recommended for the issue of shares at discount subject to the approval of the regulatory authorities and the shareholders of the Bank in their general meeting.

**Agenda item No. 6**

The Board of Directors approved the Offer and the subscription of new ordinary shares for fresh equity injection in the Bank (the Transaction) by issue of shares other than rights and at a discount price pursuant to the share subscription agreement entered into between the Acquirer and the Bank (the Subscription Agreement).

The details of issue of shares by way of other than rights are as follows:

(a) the quantum of the issue of shares is to the extent of 5,976,095,618 new ordinary shares (Five Billion Nine Hundred Seventy-Six Million Ninety-Five Thousand Six Hundred Eighteen) by way of other than Rights Issue.

(b) the new shares shall be issued at the discounted price of PKR 2.51 (Rupees Two and Fifty-One Paisas Only) per share.

(c) the consideration for the issue of new shares shall be cash.

(d) the new ordinary shares shall be issued to the Acquirer and the minority shareholders.

**Interest of Directors**

The Directors of the Bank have no direct or indirect interest in the Special Resolution, except and to the extent of their shareholding in the Bank.

**Inspection of Documents**

The copies of the Memorandum and Articles of Association of the Bank and the minutes of the last AGM may be inspected / procured free of cost during the business hours on any working day from the Registered Office / Head Office of the Bank from the date of publication of the accompanying notice till the conclusion of the Annual General Meeting of the Bank.

Summit Bank
Committed to you

# FORM OF PROXY

14th Annual General Meeting

The Company Secretary
Summit Bank Limited
Summit Tower Head Office
Level-11, Plot No. G-2,
Block-2, Clifton, Karachi

I /We_____ of _____being a member(s) of Summit Bank Limited holding _____ ordinary shares as per Register Folio No/ CDC A/c. No_____hereby appoint **Mr./Mrs./Miss** _____of (full address) _____or failing him/her_____Mr./Mrs./Miss_____ Of (full address) _____(being member of the Bank) as my / our Proxy to attend, act and vote for me/us and on my/our behalf at the 14th Annual General Meeting of the Bank to be held on November 04, 2021 and /or any adjournment thereof.

Signed this _____day of _____2021.

**Witnesses:**

1. Name : :_____
   Address :_____
   CNIC No. :_____
   Signature :_____
2. Name : _____
   Address : _____
   CNIC No. : _____
   Signature : _____

Signature on
Rs. 5/-
Revenue Stamp

**NOTICE:**

(i) A member entitled to attend and vote at the meeting may appoint another member as his / her proxy who shall have such rights as respects attending, speaking and voting at the meeting as are available to a member.

(ii) The account holders, sub-account holders, proxy or nominee shall authenticate his/her identity by showing his/her original national identity card (NIC) or original passport and bring his/her folio number at the time of attending the meeting.

(iii) In the case of corporate entity Board of Directors' resolution/power of attorney with specimen signature of the nominee shall also be produced (unless provided earlier) at the time of meeting.

(iv) In order to be effective, the proxy forms must be received at the office of our registrar M/s. THK Associates (Private) Limited, Plot No. 32-C, Jami Commercial Street No. 2, D.H.A., Phase VII, Karachi not later than 48 hours before the meeting duly signed and stamped and witnessed by two persons with their names, addresses and NIC numbers mentioned on the form.

(v) In the case of individuals attested copies of NIC or passport of the beneficial owners and the proxy shall be furnished with the proxy form.

(vi) In the case of proxy by a corporate entity, Board of Directors resolution/power of attorney with specimen signature and attested copies of the NIC or passport of the proxy shall be submitted along with proxy form.

Summit Bank
Committed to you

# پروکسی فارم

چودھواں سالانہ اجلاسِ عام

جناب کمپنی سیکرٹری
گیارھویں منزل
سمٹ ٹاور (ہیڈ آفس)
پلاٹ نمبر 2 - G، بلاک ۔۲،
کلفٹن، کراچی، پاکستان۔

میں/ہم ..... از ..... سمٹ بینک لمیٹڈ کا ممبر(ز) ہونے کے ناطے
..... اعزازی شیئرز کا حامل بمطابق رجسٹر سی ڈی سی اکاؤنٹ نمبر .....
بذریعہ ہٰذا محترم/محترمہ ..... کا تقرر کرتا ہوں جس کا مکمل پتہ .....
..... ہے یا اس کی عدم موجودگی میں
محترم/محترمہ ..... جس کا مکمل پتہ .....
..... ہے، میں (بینک کا ممبر ہونے کے ناطے) بطور پروکسی تقرر کرتا ہوں جسے میرے/ہمارے جانب سے ۰۴ نومبر ۲۰۲۱ کو منعقد ہونے والے چودھواں سالانہ اجلاس عام یا کسی التواء میں شرکت کرنے، عمل کرنے اور میرے/ہمارے جانب سے ووٹ ڈالنے کی اجازت دی جائے۔

دستخط از ..... مورخہ ..... 2021 ء

**گواہان:**

1. نام: .....
پتہ: .....
کمپیوٹرائزڈ قومی شناختی کارڈ نمبر: .....
دستخط: .....

2. نام: .....
پتہ: .....
کمپیوٹرائزڈ قومی شناختی کارڈ نمبر: .....
دستخط: .....

پانچ روپے کی مالیت کے
ڈاک ٹکٹ پر دستخط

**اطلاع:**

(i) ایک ممبر جو اجلاس میں شرکت اور ووٹ دینے کا اہل ہو وہ کسی اور ممبر کو اپنا/اپنی پروکسی مقرر کرسکتا/سکتی ہے جسے اجلاس میں شرکت، بولنے اور ووٹ ڈالنے کے اُتنے ہی اختیار حاصل ہوں گے جتنے ایک ممبر کو حاصل ہوتے ہیں۔

(ii) اکاؤنٹ ہولڈرز، سب اکاؤنٹ ہولڈرز، پروکسی یا نامزد کو اپنا اصل قومی شناختی کارڈ (CNIC) یا پاسپورٹ دکھا کر اپنے/اپنی شناخت کی تصدیق کروانی ہوگی اور اجلاس میں شرکت کے وقت اپنا فولیو نمبر ہمراہ لانا ہوگا۔

(iii) کاروباری ادارے کی صورت میں بورڈ آف ڈائریکٹرز کی قرارداد/مختارنامہ نامزد شخص کے دستخط کے نمونے کے ساتھ (اگر پہلے فراہم نہ کیے گئے ہوں) بھی اجلاس کے وقت پیش کرنے ہوں گے۔

(iv) پروکسی فارم کے مؤثر ہونے کیلئے ضروری ہے کہ وہ ہمارے رجسٹرار کے دفتر میسرز ٹی ایچ کے ایسوسی ایٹس (پرائیویٹ) لمیٹڈ، پلاٹ نمبر ۳۲۔سی، جامی کمرشل اسٹریٹ نمبر ۲، ڈی۔ایچ۔اے۔، فیز VII، کراچی۔ مناسب طور پر مہر لگی ہوئی، دستخط شدہ اور دو افراد کی گواہی کے ساتھ اجلاس سے زیادہ سے زیادہ 48 گھنٹے قبل وصول ہو جائیں۔

(v) انفرادی صورت میں بینیفشل آنرز اور پروکسی کے قومی شناختی کارڈ یا پاسپورٹ کی مصدّقہ نقول بھی پروکسی فارم کے ساتھ فراہم کرنا ہوں گی۔

(vi) کاروباری ادارے کی صورت میں پروکسی فارم کے ساتھ بورڈ آف ڈائریکٹرز کی قرارداد/مختارنامہ، نامزد شخص کے دستخط کے نمونے کے ساتھ اور پروکسی کے قومی شناختی کارڈ یا پاسپورٹ کی مصدّقہ نقل بھی جمع کروانی ہوگی۔