

**FINANCIAL STATEMENTS
OF THE SILK BANK LIMITED**

**FOR THE YEAR ENDED
DECEMBER 31, 2020.**

CORPORATE INFORMATION
as of June 08, 2022

Board of Directors

Khalid Aziz Mirza	Chairman
Rashid Akhtar Chughtai	Director
Zubair Nawaz Chattha	Director
Masroor Ahmed Qureshi	Director
Tariq Iqbal Khan, FCA	Director
Samia Shahzad Murad	Director
Goharulayn Afzal	Director
Shahram Raza Bakhtiari	President & CEO

Company Secretary

Faiz Ul Hasan Hashmi

Chief Financial Officer

Khurram Khan

Audit Committee

Masroor Ahmed Qureshi	Chairman
Tariq Iqbal Khan, FCA	Member
Samia Shahzad Murad	Member
Head of Audit	Secretary

Nomination, Remuneration & Human Resource Committee

Khalid Aziz Mirza	Chairman
Rashid Akhtar Chughtai	Member
Samia Shahzad Murad	Member
Head of HR	Secretary

Risk Management Committee

Tariq Iqbal Khan, FCA	Chairman
Masroor Ahmed Qureshi	Member
Goharulayn Afzal	Member
Chief Risk Officer	Secretary

Information Technology Committee

Zubair Nawaz Chattha	Chairman
Masroor Ahmed Qureshi	Member
Goharulayn Afzal	Member
Head of IT	Secretary

Auditors

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

Legal Advisor

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

Registered Office

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

Share Registrar

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

CHAIRMAN'S MESSAGE

Dear Shareholders,

On behalf of the Directors of the Bank, I am pleased to present this report, together with the financial statements of the Bank for the year ended December 31, 2020.

During the year 2020, economic conditions were challenging. This was augmented by the outbreak of the COVID-19 pandemic and resultant frequent lockdowns, which adversely impacted economic activity in the country. In order to deal with this unfortunate situation, the government implemented a stimulus package of Rs. 1.13 trillion. The State Bank of Pakistan duly reduced the policy rate in steps from 13.25% to 7%. The COVID -19 pandemic brought a unique set of challenges for the Bank,—businesses across the country suffered owing to multiple lockdowns, shortage of imported raw materials and the narrowing of local as well as export markets. All this had a dampening effect on the business of Bank's corporate and commercial clientele. Proactive restructuring / rescheduling of corporate loans, conducted under the SBP COVID - 19 relief program, provided the much-needed prop to our customers.

With the unpropitious effect of COVID - 19 on the payments industry, the Consumer Banking division kept its focus on maintaining market share while at the same time also ensuring that the risk faced by the Bank this optimized during this uncertain period. The strategy revolved around being flexible enough to shift gears to in response to sudden changes in the market. Campaigns and offers were tailored to aid consumers both in terms of spending and repayments. Marketing initiatives included promotions and a steadfast focus on providing our customers an unparalleled customer facilitation across all touchpoints with an enhanced focus on digital channels. The Bank continued to invest in both, branches and digital technologies; as well as a sharpening of its organizational values and culture and building competencies that will enable us to lead the digital wave.

Despite the above, the Bank faced various economic and financial challenges, some of which were beyond its sphere of the control, consequently, leading to unattractive financial results for the year. However, the Bank has effectively dealt with the situation and managed to protect the interests of all stakeholders.

The Bank has been successful in eliciting a substantial equity investment by a prospective investor, who has indicated an intention to inject Rs. 12 billion in the equity of the Bank. The Board has granted its approval to the management to formally pursue the potential investment and to finalize appropriate terms and conditions with the prospective investor.

Silkbank Limited

Central Office:

Ground Floor, No. 13, COM-3 Mall,

Block-6, KDA Scheme # 5,

Clifton 75600, Karachi-Pakistan

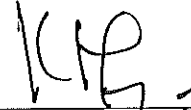
PABX: 021-111-00-7455

Website: www.silkbank.com.pk

I would like to add here that the Board continues to operate at a high level of effectiveness – it has a clear understanding of the strategic challenges the Bank faces in a highly regulated and uncertain economic environment. The Board seeks to ensure that the business of the Bank is conducted efficiently and in orderly fashion within an established framework of effective internal controls, robust risk management process and compliance with regulatory requirements.

With the successful implementation of the strategies approved by the Board, your Directors' are hopeful that much better performance of the Bank will be witnessed in the years to come.

I am grateful to all of you for your continued goodwill & trust and look forward to seeing you at our 27th Annual General Meeting.



Khalid Aziz Mirza
Chairman

Silkbank Limited
Director's Report for the Year ended December 31, 2020.

Dear Shareholders,

The Directors are pleased to present the 27th Annual Report and the Audited Financial Statements for the year ended December 31, 2020.

Economic Review:

Pakistan's economy after experiencing a GDP growth of 1.91% in FY-19, witnessed a massive decrease in GDP to negative 0.4% against a target of 2.1%, due to COVID -19 outbreak and highlighted level of fiscal deficit. In order to manage the crippling effect on the economy, the Government announced a stimulus package of Rs 1.13 tr (~ \$7 bn) and reduced the interest rate to 7%. As per SBP, GDP growth was expected to rebound to reach a level of around 4-5 % in FY-21.

Average inflation for first seven months of FY-21 stood at 8.62% against 10.76% in FY-20. Overall, inflation was expected to remain subdued in Q3FY-21, after which it was expected to pick up again in Q4FY-21 mainly due to the base effect. SBP expected average inflation to remain between 7-8% for FY-21, which ended at 8%.

Large scale manufacturing grew by 11.4 % Year on Year (YoY) during Dec-20 on the back of strong recovery in economic activity and a low base. Taking H1FY-21 growth to 8.2% YoY. Major Growth was seen in Automobile, Petroleum products, Food beverages and Tobacco which grew by 43.91%, 23.91% and 17.72% respectively. Whereas major declines were observed in Leather, Electronics and Wood which decreased by 40.6%, 35.6% and 30.2% respectively.

The current account deficit decreased substantially by 78% from \$13.58 billion in FY-19 to \$2.970 billion in FY-20, largely due to reduction of import bill and healthy growth in remittances from abroad. The current account posted a surplus of \$1.1 billion during H1FY-21 against a deficit of \$3.4 billion in the same period last year. PKR parity against USD while witnessing a high of 168 in June 2020 appreciated by 4.88% to 158 and remained range bound afterwards. This was due to rapid financing facility by IMF worth USD 1.3 billion and other bilateral / multilateral inflows aided by the introduction of Naya Pakistan Certificate and Roshan Pakistan account accumulating an additional USD 403 million by the end of year 2020. This has surpassed USD 4 billion now. The country's FX reserves strengthened by 14.56% YoY and stood at USD 20.54 billion in Dec-2020 as compared to USD 17.93 billion in Dec-2019. It continued improving for the first half of 2021 but reduced at a faster pace since then. Additionally, due to improvement in economic indicators in the second half of 2020, KSE 100 index witnessed a remarkable return of 25% to close at 43,775 points by December 2020.

Banking Sector:

As a result of an uptick in economic activity and SBP's focus on increasing digital payments, deposits of the banking sector clocked in at PKR 17.876 trillion in Dec-20 marking a 15-year peak growth of 22 % compared to Rs. 14.631 trillion in Dec-19. High deposit growth has been complemented by 31% increase in investments by Dec-2020 which took investments of scheduled banks to Rs. 11.552 trillion against Rs. 8.801 trillion in the same period last year. On the other hand, sector advances increased by a meagre 4.15% till Dec-20 growing from Rs. 8.157 trillion in Dec-19 to Rs. 8.496 trillion due to the banks being cautious towards lending.

The interest rate declined from 13.25% to 7% in the span of one year, enabling commercial banks to book one-off capital gains on government securities but at the cost of narrowing spreads, which put pressure on net interest income of the banks. On the positive side, the decrease in interest rate increased private sector credit which previously had been abridged due to higher financing cost.

After the outbreak of COVID-19, investors remained cautious due to mounting concerns over the asset quality of the sector. However, a sharp recovery in economic activity and increased general provisioning by the banks lately improved the overall asset quality

Capital Adequacy Ratio (CAR) for the industry was at concrete 19.1% against the requirement of 12.5%, whereas Common Equity Tier - 1 (CET1) ratio stood at a strong 14.8%. By virtue of prudent intervention by SBP, the banking sector has built sufficient capital reserves to absorb any potential pressures that may arise from increase in NPLs.

SILKBANK'S PERFORMANCE DURING 2020.

Financial Performance:

The deposits of the Bank substantially increased by Rs. 11 billion as compared to December 2019, taking the total deposit base to Rs. 160 billion. Current Account grew by 26% while overall CASA deposits improved from 58% in Dec 2019 to 61% in Dec 2020. The Bank's Consumer Division, with Credit Cards and Personal Loans products registered a growth of 41% profit before taxes from Rs 1.57 billion in 2019 to Rs 2.23 billion in 2020. The Bank's Net Revenue also increased by Rs 2.96 billion registering 61% growth while expenses declined by Rs 638m, decline of 8%.

Summarized financial performance of Silkbank Limited for the year ended December 31, 2020, is as follows:

	2020	2019
	Rs. In million	
Net mark-up / return / profit / interest income	1,721	1,616
Provisions and write offs – net	(9,899)	(2,433)
Non markup / interest income	6,096	3,236
Non markup / interest expense	(7,610)	(8,248)
Loss before Tax	(9,692)	(5,829)
Taxation	3,120	1,876
Loss after Tax	(6,572)	(3,953)
		Rupee
Basic and diluted Loss per share	(0.72)	(0.44)

The loss declared by the Bank is mainly attributable to provisioning over the Bank's non-performing loans classified under the applicable SBP Prudential Regulations. Provisions were taken against specific borrowers engaged primarily in the real estate businesses which were secured against mortgage of land. The non-performing loans of the Bank caused income suspension with regular provisioning over these loans being accounted for, under the applicable SBP's Prudential Regulations. The Bank is taking corrective actions to cure its capital levels

and to attain a stable financial outlook which includes fresh capital injection of at least Rs. 12 billion, for which an interest has already been received, recovery of real estate loans along with non-banking assets held by the Bank, through the Developmental Real Estate Investment Trust (REIT) schemes, expeditious recovery of other classified loans under continuing SBP support. The Directors are optimistic that the Bank's financial position would substantially improve as a result of the above initiatives.

The Bank aims to aggressively increase its revenues through Current Account growth at a faster pace. Additionally, the Bank's Consumer Business continues to increase consistently and is expected to post even higher profits in future. Post Capital Injection, the Bank plans on launching two new Secured Consumer products as well i.e. Car Financing and Home Loans.

As of December 31, 2020, the Minimum Capital Requirement (MCR) stood at Rs. 3.16 billion and Capital Adequacy Ratio (CAR) at -4.45% against the prescribed minimum limits of Rs. 10 billion and 11.50% respectively.

SECTORAL PERFORMANCE.

Branch Banking:

Branch Banking continues to remain one of the most integral businesses for the Bank, serving over 213,079 customers contributing more than 57% of the Bank's deposit base. Total deposit as of 31st December'20 stood at approximately Rs. 92 billion. The growth in deposits was realized through the addition of Rs 4.98 billion in core accounts while the current account portfolio grew by Rs 6 billion at the end of the year 2020.

New initiatives introduced by Branch Banking during the year 2020 are as follow:

- **Business Value Account Plus:**

A unique current account, launched in the 3rd Quarter, for businessmen that solicited a significant deposit amount during 2020. The enhancement in the existing BVA attracted a large pool of customers leading to a successful market storming activity of the product generating approximately Rs 1.5 billion deposit till December 2020. Business Value account Plus symbolizes Silkbank's vision and reflects what the Bank stands for.

- **Visa Debit Card Campaign**

The Bank launched a Debit Card campaign that led to Silkbank Visa Debit Card surpassing Rs. 200 million POS spend, an achievement unlocked for the first time. This campaign encouraged customers to use Bank's Debit Cards for POS transactions in order to be included in the lucky draw for Fuel and Grocery vouchers. This led to achieving a notable POS spend while simultaneously increasing the reach of Bank's Debit Cards.

- **Digital Banking**

On Digital front, Digital Change Agents guided customers about Silkbank Digital Channels along with informing them about new initiatives like Debit Card Activation through ATMs, Tabs and SilkMobile. IBFT and FT limits were increased from Rs. 250,000 to Rs. 500,000 on Silkmobile and Silkdirect, an enhancement that was appreciated by our customers. These digital initiatives immensely helped customers to

carry on with their banking activities amidst COVID-19 and led to an increase in the Digital Mix by 1.7 times (40% in December 2020 vs 24% in December 2019).

- **Branch Banking Outbound Unit**

Branch Banking successfully launched its Outbound Unit for up-selling of insurance coverage plans, up-selling and activation of ADC services and deposit mobilization. The unit has performed well since its inception and is determined to continue doing so in future as well.

Wholesale Banking:

- **Treasury & Financial Institutions.**

Treasury earned FX Income of Rs. 169.5 million during the year 2020. Due to timely and correct anticipation of cut in policy rates, Money Market posted an excellent gain of Rs. 3.68 billion, on a fixed income portfolio. The high rate PIB portfolio duly financed at lower rates from SBP, led the treasury department to earn Net Revenue from Funds of Rs. 1.671 billion. Additionally, FI department generated Non-Funded Income of Rs. 76.31 million.

Corporate Banking & Middle Market:

Fluctuating exchange rates kept the manufacturing / industrial sector subdued which has impacted economic activity. YTD-20, trade volumes maintained at Rs. 25 billion plus whereas NFI for YTD-20 increased to Rs. 167 million. Average advances remained constant at Rs. 40.02 billion. Average Deposits were maintained at Rs. 5.8 billion.

- **SME Business:**

Despite the pandemic, SME recorded margins before allocations of Rs. 67 million after provisioning. SME remained 63% self-financed with a total deposit of Rs. 6.2 billion. During the year, SME routed trade business of Rs. 26 billion generating NFI of Rs. 111 million.

Consumer Banking:

Despite a great number of challenges in the shape of low customer spending behavior and the probability of increase in NPLs during COVID, Silkbank flagship Consumer Banking Business continued its tradition of being amongst the top performing business in Consumer Industry. In 2020, we put greater focus on maximizing our revenue lines while also rationalizing our expenses to ensure that each business exceeds its respective budget in terms of profitability. The Consumer Division registered a growth of 41% profit before taxes from Rs 1.57 billion in 2019 to Rs 2.23 billion in 2020.

- **Credit Cards:**

The year 2020 proved to be a landmark year for Silkbank Credit Cards. The credit cards business implemented a number of strategic initiatives to see through its most profitable year. The business posted profit before tax of Rs. 828 million which was 77% higher as compared to 2019. Successful efforts were made towards reclaiming ENR (Ending Net Receivable) from the negative impacts COVID-19 had on the payments industry, closing off the year with Rs. 5.78 billion. With the acquisition of 30,273 new cards, the CIF (Cards in Force) increased to 172,035.

Retail spending on Credit Cards in 2020 amounted to Rs. 22.8 billion, with December 2020 producing the ever-highest spending in a single month of Rs. 2.3 billion. This was further supplemented by FIP (Flexible Instalment Plan) booking of Rs. 3.23 billion.

- **Ready Line:**

The Bank posted a profit of Rs. 981 million before tax just on Ready Line portfolio (increase of 29% as compared to 2019) with ENR of Rs. 7.58 billion. This was made possible due to various spend initiatives such as launching tactical as well as seasonal promotions such as 73 winners on 73rd independence, launching 2x or 3x cashback campaigns, promoting digital spending channels by incentivizing customers with a chance to win exciting prizes, etc. Similarly, many spend and cost rationalization initiatives were taken to improve the cost to revenue ratio in consumer asset products.

- **Personal Loans:**

Keeping in mind the return on capital employed of every product and economic outlook, the Bank took a decision to temporarily shift the focus from Personal Instalment Loan fresh acquisition to other products for the first half of the year. Despite the impact of COVID-19, a total of 4,700 accounts were booked in the year with a total disbursed amount of Rs. 1.2 billion. To help lessen the financial burden, SBP relief package was offered to customers with the options of principal deferment and rescheduling/restructuring of the loan. Apart from this multiple pay early and get rewarded promotions were launched where customers were incentivized to make monthly payments before the due date by offering 100% cashback. As a result, despite all challenges, Personal Loan has posted a profit of Rs. 423 million (increase of 20% over 2019) on a portfolio of Rs. 5.6 billion.

Emaan Islamic Banking (Emaan):

Emaan Islamic is geared towards providing Shariah compliant banking products along with high level of customer satisfaction. The year was fairly challenging for the banking industry as a whole but Emaan Islamic Banking maintained its position and performed well during the year 2020, Emaan Islamic deposit base grew by Rs. 4,240 million and closed its books at Rs. 37,515 million with CASA TD ratio at 80:20, reflecting growth of 12.74%. Advances book stands at Rs. 5,197 million.

Human Resource Division (HRD):

In 2020, HRD was actively involved in employee recruitment, engagement, and development. The team successfully supported the segments with their resourcing and hiring needs through both internal and external sources.

Learning and Development (L&D) activities resumed after a gap (due to COVID-19) from July 2020. With focus on mandatory trainings and functional skills, various internal programs were launched, including Shari'a Training, Daily Operational Activities for BSM in Islamic Bank, FTC & CAF Training, AML & CFT Training, Customer Service Excellence and ATM Processes, among other programs. In October 2020, the L&D Unit collaborated with the Pakistan Society of Training and Development (PSTD) to develop and impart a training on Root Cause Analysis (RCA) Skills and Problem-solving Techniques, a customized program focused on the service recovery process.

Corporate Social Responsibility & Impact of Business on Environment:

Being at the forefront of encouraging and implementing eco-friendly banking practices, the Bank has always made it a point to focus on environmental, social, and governance (ESG) concerns and integrate sustainability into its core businesses by incorporating ESG considerations into risk management processes, product design, purpose statements and long-term strategies.

We believe that demand for green/ sustainable banking products is expected to increase rapidly in the coming years, particularly as younger people become more active banking customers and therefore, we go the extra mile to reduce our carbon footprint in all our banking activities. Major initiatives for this purpose include encouraging online banking transactions, incorporating environmental due diligence as an inherent part of our credit approval process, fast moving towards paperless environment through e-statements and less paperwork, implementation of smart branches with focus on green energy including setup of solar-powered ATMs, computerization, automation, networking & conducting regular awareness program for employees etc. The above mentioned innovative and useful initiatives have not only enabled us to realize our 'Go Green' strategy but has also considerably improved our service standards, operational efficiencies, turnaround times, customer loyalty and have reduced costs & administrative burden.

The idea of having a profound effect on the environment was achieved by setting up solar panels in 36 branches to feed essential power requirements, which include ATM, IT systems, essential lighting and alarm systems. These branches use solar power during daytime and switch automatically to the national grid at night. During power outages, these branches rely on solar energy to provide back-up support. These hybrid systems also help the Bank to save electricity during weekends and public holidays as the branches switch to solar power to save fuel cost.

Board of Directors:

An election of Directors of the Bank was held on August 11, 2020, in which the shareholders elected 9 Directors. The SBP vide its letter dated January 05, 2021, has conveyed FPT clearance for the appointment of the following 6 Directors:

1. Mr. Khalid Aziz Mirza
2. Mr. Rashid Akhtar Chughtai
3. Mr. Masroor Ahmed Qureshi
4. Mr. Tariq Iqbal Khan
5. Mr. Zubair Nawaz Chattha
6. Mrs. Samia Shahzad Murad

Mr. Shahzad Enver Murad and Mr. Talha Ahmed Saeed retired from the Board of the Bank with effect from August 11, 2020.

Mr. Azmat Tarin, Mr. Jawad Majid Khan and Mr. Shaukat Train, were elected on the Board of the Bank through the election process, however, they subsequently resigned from the Board, with effect from December 15, 2020, March 08, 2021, and April 16, 2021, respectively.

The Board extends its deepest appreciation to the outgoing directors for their valuable and consistently high-quality contribution to the Board and Board Committees. At present, the composition of the Board is as follows:

Category	Names
Independent Director	Mr. Khalid Aziz Mirza Mr. Rashid Akhtar Chughtai Mr. Masroor Ahmed Qureshi
Non-Executive Director	Mr. Tariq Iqbal Khan, FCA Mr. Zubair Nawaz Chattha Mrs. Samia Shahzad Murad Mr. Goharulayn Afzal*
Executive Director	-

* The Board appointed Mr. Goharulayn Afzal as Non- Executive Director of the Bank on March 12, 2021. The SBP conveyed his FPT approval on September 29, 2021.

Names of the persons who, at any time during the financial year, were directors of the Bank:

1. Mr. Khalid Aziz Mirza
2. Mr. Rashid Akhtar Chughtai
3. Mr. Shahzad Enver Murad*
4. Mr. Tariq Iqbal Khan, FCA
5. Mr. Talha Ahmed Saeed*
6. Mr. Zubair Nawaz Chattha
7. Mr. Masroor Ahmed Qureshi
8. Mr. Azmat Tarin *

* As stated above, Mr. Shahzad Enver Murad and Mr. Talha Ahmed Saeed retired from the Board of the Bank with effect from August 11, 2020 and Mr. Azmat Tarin resigned from the Board of the Bank with effect from December 15, 2020.

Composition of Board Committees:

In accordance with the SBP guidelines, the Board has constituted its Committees, current composition of which are as follows:

Audit Committee

- Masroor Ahmed Qureshi Chairman
- Tariq Iqbal Khan, FCA Member
- Samia Shahzad Murad Member
- Head of Audit Secretary

Nomination, Remuneration & Human Resource Committee

- Khalid Aziz Mirza Chairman
- Rashid Akhtar Chughtai Member
- Samia Shahzad Murad Member

- Head of HR Secretary

Risk Management Committee

- Tariq Iqbal Khan, FCA Chairman
- Masroor Ahmed Qureshi Member
- Goharulayn Afzal Member
- Chief Risk Officer Secretary

Information Technology Committee

- Zubair Nawaz Chattha Chairman
- Masroor Ahmed Qureshi Member
- Goharulayn Afzal Member
- Head of IT Secretary

Performance Evaluation of Board of Directors:

In compliance with the guidelines on performance evaluation of Board of Directors, issued by the State Bank of Pakistan, a questionnaire formulated by the Pakistan Institute of Corporate Governance was placed before the Board. The questionnaire was divided into two parts: Board as a whole (which also includes the Board Committees) and individual director evaluation (undertaken by the Chairman). Apart from these, the Board members were also provided an opportunity to give their opinion on any emerging issue.

The questionnaire covered all aspects of Board structure, size, composition, responsibilities as well as the performance of individual directors and its committees. The results/feedbacks received from Directors on the basis of this questionnaire were compiled by means of quantitative techniques and have been considered by the Board to review its overall standards & performance.

Corporate and Financial Reporting Framework:

The Board is committed to fulfill its responsibilities under the Code of Corporate Governance of the SECP. In doing so, it wishes to make the following statements:

- a) The financial statements prepared by the management of the Bank, present fairly its state of affairs, the result of its operation, cash flow and changes in equity.
- b) Proper books of account of the Bank have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) International Financial Reporting Standards as applicable in Pakistan have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- e) The system of internal control is sound in design and has been effectively implemented and monitored. Management's statement on internal control is enclosed herewith which

is endorsed by the Board as required by the State Bank of Pakistan. The Board is ultimately responsible for the Bank's system of internal control and reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve objectives and by its nature can provide only reasonable and not absolute assurance against material misstatement or loss.

The process used by the Board to review the effectiveness of the system of internal control includes, inter alia, the following:

- i) An audit committee has been formed with approved terms of reference and reports to the Board. It reviews the approach adopted by the Bank's internal audit department, as well as the scope of and its relationship with the external auditors. It also receives reports from the internal audit, and any material control weakness that is identified is discussed and agreed actions are taken in areas of concern.
- ii) An organization structure has been established which supports clear lines of communication and tiered levels of authority with the delegation of appropriate responsibility and accountability.
- iii) Business strategies agreed at divisional level are approved by the Board. In addition there is an annual budgeting and strategic planning process. These strategies are reviewed during the year to reflect any significant changes in the business environment.
- iv) The principal features of control framework include:
 - Evaluation and approvals procedures for major capital expenditure and other transactions.
 - Regular reporting and monitoring of financial performance using operating statistics and monthly managements accounts which highlight key performance indicators and variance from budget and quarterly forecasts.
 - Review of the health, safety, environment and contingency management processes and other significant policies.
 - Further, reviews of the system of internal control are also carried out by the internal audit department and management conclusions on internal control are confirmed by divisional management to the Board.
 - There are no significant doubts upon the Bank's ability to continue as a going concern.
 - There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- f) The value of investments of Provident fund and Gratuity Fund is Rs. 1,035 million and Rs. 726 million, respectively, as per the audited financial statements of these funds for the year ended December 31, 2020.

Risk Management Framework:

Consistent efforts have been carried out over the years for improvement in the overall Risk Management function, resulting in better control & risk environment plus creating an overall "Risk Culture" within the Bank. With the growing shift towards Basel Implementation on a

successive basis and enhanced focus for management of risk on an integrated pattern, following are some important aspects of the Risk Management Function at Silk Bank Limited:-

A. Credit Risk

Managing of credit risk is considered one of the key functions at RMG. Independent Risk Management Units catering to the Corporate / Commercial / SME and Consumer segments are fully operational and clearly follow the laid-out procedures formulated in the form of policies / Manuals and Product Programs. Credit Risk is thus continuously monitored by the respective sanctioning units. Broad based Credit Approval Authorities have also been delegated to various approvers for credit sign off. Additionally, Credit Administration units are in place for all segments of the Bank, effectively taking care of all documentation and safe keeping. The Bank has developed in- house Obligor Risk Rating (ORR) models / systems for Corporate, Commercial and SMEs, which are regularly reviewed/ updated. Besides RMG also has a robust Early Warning System (EWS) in place. RMG had also put in place a facility risk rating (FRR) model which now stands fully implemented on a bank wide basis and effectively measures the risk in relation to each facility granted to all customers. These processes are capable of identifying problem loans at an early stage for timely remedial actions. Results for establishing these systems are now beginning to reflect in the management letter issued by the external auditors and the annual reports compiled by the SBP inspection teams through reduced instances of system and procedure failures.

With major emphasis on the implementation of IFRS -9, RMG is geared up for meeting the additional requirements under this accounting standard as prescribed by the SBP. Concerned departments are collecting and organizing data requirements in line with the IFRS-9 mandate. The bank has assigned preliminary work to a reputable firm of chartered accountants. In addition, adequate foreign resources have also been engaged to complete the task in a timely and accurate manner. Parallel Test Runs have successfully been performed on certain cut off dates. In order to ensure complete & accurate reporting, the bank is also in negotiation with various vendors for purchase of a fully automated solution. In addition, all business units have been issued clear instructions to comply with the remaining outstanding issues relating to SBP and the External auditors.

Under Consumer Banking, a separate collection unit operates for follow up and recovery of loans responsible for a strong recovery stream of written off consumer loans, thus ensuring a pivotal role in bolstering business growth for the bank during the year. A centralized Special Assets Management Unit is also in place and is primarily responsible for handling the NPL accounts and recovery process. The unit is performing its task in a professional and efficient manner. RMG has also kept a close watch on the accounts identified as having developed certain signs of "Potential Weaknesses". Business units are required to provide quarterly updates on such accounts which are then comprehensively reviewed by RMG and strategies going forward are debated upon with all stake holders. As per practice, this list is also shared with the Risk committee of the board during quarterly meeting and their input is invariably sought for future implementation.

Besides various management committees of the bank, Credit Risk is also overviewed by the Risk Committee of the Board on an ongoing basis. Regular guidance is sought from the Board on credit related matters and the findings are implemented in letter and spirit... During the year major emphasis was placed on Macro issues to ensure that the overall health of the credit portfolio remains intact.

In addition, RMG also kept a close watch on various industrial sectors to ensure that higher risk areas are avoided and prescribed limits are adhered to. Exceptions (If any) were duly reported to the Board.

B. Market Risk

A Middle Office function (independent of the Treasury) has been established within the Bank with the primary responsibility of monitoring the market risk function and onward reporting to the Head of Risk Management Group. Investment Committee (IC), Market Risk Policy Committee (MRPC) and Asset and Liabilities Committee (ALCO) are also functioning to supervise and approve Market Risk exposures. At Silk Bank, we have a well-defined Liquidity Policy, duly approved by the Board. Presently, various excel based tools are in use to generate MIS on Market Risk and reporting to the senior management and regulators. We have also successfully set up the “Web Tech system and T-Risk Module” which is capable of generating sophisticated modeling reports and independent monitoring of various treasury functions in a live environment.

C. Operational Risk

Globally, Operational Risk has emerged as the most important risk category for financial institutions, as operational risk can simultaneously trigger many other risk categories. Mitigating IT security threats and data-related risks with the increasing usage of digital Banking have assumed top priority. Under Operational Risk, appropriate Operational Policies and Procedures have been documented and disseminated for managing operational risk on a bank wide basis. Operational Risk Manual has since been prepared and approved by the Board. Risk Control self-assessment questionnaires have also been sent across to various segments of the bank and based on their feedback we plan to implement the process on a bank wide basis during the current year.

Operational Risk reporting under OLED has been initiated in the bank and a detailed procedural guideline has been duly approved by the Senior Management. All segments and departments of the bank have been instructed for regular reporting. Workshops for the benefit and understanding of reporting units are being held for all related staff, enabling them to report all incidents to RMG for reporting and capturing of loss data within the bank.

After successful implementation of the framework, we have now started collection of the required loss event data on a monthly basis and are now dealing with the issues, hands on. This data is the first step towards forming the historical pool which will help in improving our procedures further. The data collected on a quarterly basis is presented to the Board’s risk committee.

An Internal Control Unit is also operational with the primary task of over-viewing and ensuring implementation of various operational guidelines and monitoring tools and reconciliation across the Bank. Additionally, an independent Internal Audit function is also in place within the Bank, reporting to the Audit Committee of the Board. A Proper Compliance Department is also functional, inter alia to ensure that all legal and regulatory requirements are properly addressed in addition to the implementation of Anti Money Laundering and Know your Customer (AML/KYC) Policies.

In this respect, appropriate training to relevant staff has been imparted including training on strict monitoring of transactions and AML/KYC. Business Continuity Plan (BCP) is also in place to deal with any eventuality. Self-Assessment of Key Risk Indicators (KRI's) and compliance of standards, codes and guidelines is also regularly carried out and documented

Directors' Training:

All Directors on the Board are fully conversant with their duties and responsibilities as Directors of the Bank. Five Directors of the Bank have obtained the required certification whereas, two Directors of the Bank stand exempted from the requirement of the said certification.

Board of Director's & Committees' Meetings during 2020:

During the year 2020, following Board and its Committees meetings were held. Attendances by the Directors & President & CEO were as follows:

S. No.	Directors	Board Meetings		Audit Committee Meetings		Human Resource Committee Meetings		Risk Committee Meetings		IT Committee Meetings	
		Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
1	Mr. Khalid Aziz Mirza	6	6	-	-	5	5	-	-		
2	Mr. Rashid Akhtar Chughtai	6	6	-	-	5	5	-	-		
3	Mr. Shahzad Enver Murad	4	4	4	3	-	-	4	2		
4	Mr. Tariq Iqbal Khan, FCA	6	6	4	4	-	-	4	4		
5	Mr. Talha Saeed Ahmed	4	4	-	-	-	-				
6	Mr. Zubair Nawaz Chattha	6	6	-	-	-	-			1	1
7	Mr. Masroor Ahmed Qureshi	6	6	4	4	-	-	4	4	1	1
8	Mr. Azmat Shahzad Ahmed Tarin	4	3	-	-	-	-	-	-	-	-

Leave of absence was granted to the Directors who could not attend the meeting.

Pattern of Shareholding:

The pattern of shareholding as required under the Companies Act, 2017 and the Companies (Code of Corporate Governance) Regulations, 2019 is as follows:

Combined pattern of CDC and Physical Share Holding as at December 31, 2020

S. No.	Categories of Shareholders	Number of Shareholders	Shares Held	Percentage %
01	Directors, Chief Executive Officer and their spouse(s) and minor children	07	419,344,497	4.62
02	Associated Companies, undertakings and related Parties	11	5,686,275,208	62.61
03	Executives*	12	39,268,471	0.43
04	Public Sector Companies and Corporations	5	99,421,996	1.09

05	Banks, Development Finance Institutions, Non-Banking Finance Companies, Insurance Companies, Takaful, Modarabas and Pension Funds	7	4,379,338	0.05
06	Mutual Funds	1	20,880,417	0.23
07	General Public – Foreign	31	107,197,662	1.18
08	General Public – Local	7929	2,232,363,381	24.58
09	Others	84	472,730,267	5.21
	Total:	8087	9,081,861,237	100.00

*In accordance with the Pakistan Stock Exchange (PSX) definition of the term “Executive” used in clause No. 5.6.1 (d) (Disclosure of Price-Sensitive Information To The Exchange:) of Chapter 5 of PSX Rule Book, the Board of Directors of the Bank has passed a resolution in its 154th meetings held on October 28, 2016 & set the threshold for the term “Executive” as the CEO, COO, CFO, Head of Internal Audit and Company Secretary by whatever name called, and covering employees of the Bank of Grade - 8 and above.

**The aggregate shares held by the Directors, Chief Executive and their spouse and minor children along with Associated Companies, Undertakings Related Parties and Mutual Funds
as at December 31, 2020**

S. No.	Categories of Shareholders	Number of Shares held	Category wise No. of Folios / CDC Acs.	Category wise Shares held	Percentage
	Directors, Chief Executive Officer and their Spouse and Minor Children		07	419,344,497	4.62
01	Mr. Tariq Iqbal Khan	16,997			0.00
02	Mr. Khalid Aziz Mirza	500			0.00
03	Mr. Masroor Ahmed Qureshi	500			0.00
04	Mr. Zubair Nawaz Chattha	415,626,000			4.58
05	Mr. Rashid Akhtar Chughtai	500			0.00
06	Mrs. Samia Shahzad Murad*	3,200,000			0.04
07	Mr. Shahzad Enver Murad (Husband of Mrs. Saima Shahzad Murad)	500,000			0.01
	Associated Companies, Undertakings and Related Parties. (5% & above shareholding).		11	5,686,275,208	62.61
01	Arif Habib Corporation Limited	2,563,901,924			28.23
02	Mr. Shaukat Tarin*	1,049,091,791			11.55
03	International Finance Corporation	702,689,067			7.74
04	Mr. Zulqarnain Nawaz Chattha	704,508,000			7.75
05	Nomura European Investment Limited	356,676,342			3.93

06	Bank Muscat S.A.O.G	315,776,969			3.48
07	Azmat Shahzad Ahmed Tarin	20,013,115			0.22
	Mutual Funds		1	20,880,417	0.23
01	CDC - Trustee National Investment (Unit) Trust	20,880,417			

** The total shareholding of Mr. Shaukat Tarin actually stands at 1,106,091,791 shares. i.e. 12.18% in the Bank, out of which, an amount of fifty-seven million (57,000,000) shares of Mr. Shaukat Tarin have been kept with Pearl Securities Limited.*

The following Executives of the Silkbank Limited carried out transactions in shares of the Bank in open market, details of which are as follow:

1. *Mr. Taifur Ahmed bought 204,500 shares.*
2. *Mr. Noman Iqbal bought and sold 300,000 shares.*
3. *Mr. Naeem Akhtar Sheikh spouse of Executive Mrs. Zareen Naeem Sheikh bought and sold 675,000 shares.*

The bank has reported the above transactions of shares to the Pakistan Stock Exchange in compliance of clause No. 5.6.1. (d) of PSX Regulations. Apart from this, there was no other trading in Silkbank shares carried out by any of the Directors and Executives or their spouses and minor children during the year.

External Auditors.

The retiring auditors, M/s. Grant Thornton Anjum Rahman (GTAR), Chartered Accountants, being eligible, offer themselves for re-appointment till the conclusion of the next Annual General Meeting of the Bank. The Audit Committee and Board has recommended their appointment as the statutory auditors of the Bank for the financial year 2021.

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

As at Dec 31, 2020, the equity of the Bank stood at Rs. 3.98 billion excluding surplus on revaluation of assets. This includes share capital (net of losses and discount on shares) of Rs. 3.16 billion. By virtue of this, the Capital Adequacy Ratio (CAR) of the Bank is -4.45%.

Credit Rating:

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

Future Outlook:

The Bank has informed its shareholders regarding a major development on the capitalization of the Bank through a very strong Real Estate Group, Park View Enclave (Pvt) Limited (part of Vision Group) who has made a Public Announcement of Intention to invest upto Rs. 12.00 billion for at least 51% shareholding in the Bank. The Board of Directors of the Bank have given its in principle approval to the management of the Bank to take the process forward. The proposed investment will make the Bank, capital compliant and entail opportunities for all stakeholders. Simultaneously, this will help in fueling the future growth of the Bank’s existing businesses along with allowing room for investment in Technology Infrastructure, Digital platforms and New Products.

The Bank is taking corrective actions to cure Bank's capital levels and to attain a stable financial outlook which also includes, recovery of real estate loans along with Bank held non-banking asset through Real Estate Investment Trust (REIT) schemes, expeditious recovery of other classified loans under continuous SBP support etc. The Directors are optimistic that the Bank's financial position would substantially improve as a result.

The future roadmap revolves around the key elements starting from Reduction of Non-Earning assets, Re-structuring / Cost Rationalization, Strengthening of Risk Management Function and re-structuring / re-sizing of balance sheet.

The Bank aims to re-align its growth towards Retail and SME business segments; targeting trade and self-liquidating lines, launch of SME lending through branches and SME Program-based products, keeping focus on building further momentum in Current Account growth by launching new current account products embedded with value-added features, Employee Banking & Cash Management.

The Bank plans to strengthen its flagship Consumer portfolio by launching two new Consumer Businesses i.e. Car Financing and Home Loans to generate additional revenues from secured lending products. The Bank will also continue to grow its highly profitable unsecured Consumer Products i.e. credit cards, personal instalment loans and Ready Line (running finance facility).

Acknowledgement:

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

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

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



**Shahram Raza Bakhtiari
President & CEO**



**Khalid Aziz Mirza
Chairman**

Karachi, June 08, 2022

**Independent Auditor's Review Report
to the Members of Silkbank Limited**

**Review Report on the Statement of Compliance contained in
Listed Companies (Code of Corporate Governance) Regulations, 2019**

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 Silkbank Limited (the Bank) for the year ended December 31, 2020 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 a part of our audit of the 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 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 requirements contained in the Regulations as applicable to the Bank for the year ended December 31, 2020.

Grant Thornton Anjum Rahman
Chartered Accountants

Karachi

Dated: June 08, 2022

UDIN:

**Statement of Compliance with Listed Companies
(Code of Corporate Governance) Regulations, 2020**

Silk Bank Limited
For the Year ended December 31, 2020

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

- An election of Directors of the Bank was held on August 11, 2020, in which the shareholders elected the following 9 Board members:

- 1- Mr. Khalid Aziz Mirza
- 2- Mr. Shaukat Tarin
- 3- Mr. Rashid Akhtar Chughtai
- 4- Mr. Zubair Nawaz Chattha
- 5- Mr. Masroor Ahmed Qureshi
- 6- Mr. Tariq Iqbal Khan, FCA
- 7- Mrs. Samia Shahzad Murad
- 8- Mr. Azmat Tarin*
- 9- Mr. Jawad Majid Khan

**Mr. Azmat Tarin resigned from the Board of the Bank with effect from December 15, 2020.*

- The SBP conveyed FPT clearance for the appointment of the following 6 Directors:

- Mr. Khalid Aziz Mirza
- Mr. Rashid Akhtar Chughtai
- Mr. Masroor Ahmed Qureshi
- Mr. Tariq Iqbal Khan
- Mr. Zubair Nawaz Chattha
- Mrs. Samia Shahzad Murad

1. The total number of SBP approved Directors were 6, as per the following manner:

- a. Male: 5
- b. Female: 1

2. The composition of the Board is as follows:

i.	Independent Directors	Mr. Khalid Aziz Mirza Mr. Rashid Akhtar Chughtai Mr. Masroor Ahmed Qureshi
ii.	Non-Executive Directors	Mr. Tariq Iqbal Khan, FCA Mr. Zubair Nawaz Chattha Mrs. Samia Shahzad Murad
iii.	Executive Directors	

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

Silkbank Limited

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4. The Bank has prepared a code of conduct and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
5. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the company. The Board has ensured that complete record of particulars of the significant policies along with their date of approval or updating is maintained by the Bank.
6. All the powers of the Board have been duly exercised and decisions on relevant matters have been taken by the Board / shareholders 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 frequency, recording and circulating minutes of meeting of the Board.
8. The Board have a formal policy and transparent procedures for remuneration of directors in accordance with the Act and these Regulations.
9. All the Directors on the Board are fully conversant with their duties and responsibilities as Directors of the Bank. The following two Directors have obtained certification from Institute of Chartered Accountants of Pakistan (ICAP)/ Lahore University of Management Sciences/ Pakistan Institute of Corporate Governance (PICG):
 - Mr. Tariq Iqbal Khan, FCA.
 - Mr. Zubair Nawaz Chattha.

Whereas, the following two Directors of the Bank stand exempted from the requirement of the said certification:

- Mr. Khalid Aziz Mirza.
- Mr. Rashid Akhtar Chughtai.

The remaining Directors will obtain required certification within the prescribed time.

10. The Board has approved appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, and complied with relevant requirements of the Regulations.
11. Chief Financial Officer and Chief Executive Officer duly endorsed the financial statements before approval of the Board.
12. The Board formed committees comprising of members given below:

a) **Audit Committee**

Masroor Ahmed Qureshi	Chairman
Tariq Iqbal Khan, FCA	Member
Samia Shahzad Murad	Member
Head of Audit	Secretary

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b) Nomination, Remuneration & Human Resource Committee

Khalid Aziz Mirza	Chairman
Rashid Akhtar Chughtai	Member
Samia Shahzad Murad	Member
Head of HR	Secretary

c) Risk Management Committee

Tariq Iqbal Khan, FCA	Chairman
Masroor Ahmed Qureshi	Member
Chief Risk Officer	Secretary

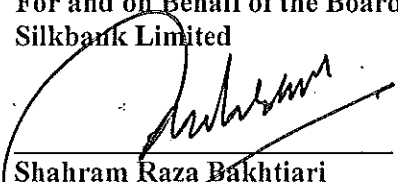
d) Information Technology Committee

Zubair Nawaz Chattha	Chairman
Masroor Ahmed Qureshi	Member
Head of IT	Secretary

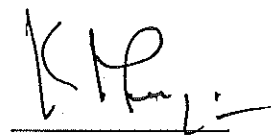
** The above stated Board Committees have been constituted on February 09, 2021.*

13. The terms of reference of the aforesaid committees have been formed, documented and advised to the committee for compliance.
14. The frequency of meetings of the committee were as per following:
- | | |
|--|-------------|
| a) Audit Committee | Quarterly |
| b) Nomination, Remuneration & Human Resource Committee | Quarterly |
| c) Risk Management Committee | Quarterly |
| d) Information Technology Committee | Half Yearly |
15. The Board has set up an effective internal audit function who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Bank.
16. The statutory auditors of the company 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 registered with Audit Oversight Board of Pakistan, that they and all their partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan and that they and the partners of the firm involved in the audit are not a close relative (spouse, parent, dependent and non-dependent children) of the Chief Executive Officer, Chief Financial Officer, Head of Internal Audit, Company Secretary or Director of the Bank.
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 requirements of regulations 3, 6, 7, 8, 27,32, 33 and 36 of the Regulations have been complied with.

For and on Behalf of the Board of
Silkbank Limited


Shahram Raza Bakhtiari
President & CEO

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Khalid Aziz Mirza
Chairman

Karachi, June 8, 2022

**MANAGEMENT'S STATEMENT ON INTERNAL CONTROLS
AS OF DECEMBER 31, 2020**

This statement is issued in compliance with the State Bank of Pakistan (SBP) BSD Circular No: 07 of 2004 on Internal Controls.

An internal control system is a set of process and procedures designed to identify and mitigate the risk of failure to meet the business objectives of the Bank. It is the responsibility of the Bank's management to establish an internal control system to maintain an adequate and effective internal control environment. Maintaining effective controls is an integral part of the management and accountability function in Silkbank. The focus of internal control both as a concept and a management tool has evolved over the years to a broad-based risk assessment and mitigation system covering all areas of operations in the Bank.

As part of the strategy to ensure effective monitoring and improvement of internal controls, the Bank has implemented the COSO framework of internal controls, in line with regulatory guidelines (ICFR) and COSO implementation (BSD-7). With regular monitoring and improvement of the defined controls, the overall control environment in the Bank is now geared to provide reasonable assurance to the Bank's management and other stakeholders.

The Bank's Internal Controls System has been designed to provide reasonable assurance to the shareholders and the Board of Directors. The Bank endeavors to proactively follow the State Bank of Pakistan's guidelines on Internal Controls. Compliance and Internal Control Division conducts reviews of processes in branches to identify gaps in execution with special emphasis on the implementation of regulatory instructions.

The management has established a Compliance Committee of Management and a Controls Committee to monitor review and provide oversight of compliance and control related matters across all units and locations of the Bank. Where known gaps exist, corrective action plans are in place to address them and are reviewed/monitored by the respective Committee. In addition, the committee acts as an oversight authority and supports the Board in embedding a compliance and control culture in the Bank. Compliance function tracks progress of all significant issues raised in regulatory examinations and the status is reported at the Compliance Committee of Management and Controls Committee.

The compliance function ensures Bank's compliance with all applicable laws, regulations and code of ethics. The Compliance role is to strengthen the control environment and minimize regulatory risk across the institution through effective adherence to applicable laws, regulations, guidelines and the Bank's internal policies and procedures.

An organizational structure has been established which supports clear lines of communication and tiered levels of authority and segregation of duties commensurate with accountability.

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The Bank has established an effective Internal Audit structure, reporting directly to the Audit Committee of the Board. Internal Audit conducts risk-based audits of activities and processes to evaluate the adequacy and effectiveness of the control environment of the Bank. All significant/material findings of Internal Audit and External Audit are reported to the Board Audit Committee (BAC) with agreed management actions and timelines. Internal Audit tracks closure of all findings through validation of agreed management actions and the status is regularly reported at the Management's Control Committee and at the BAC. BAC oversees implementation of internal controls to ensure that any identified risks are mitigated to safeguard the interest of the Bank.

The Bank has implemented various key policies and procedure guidelines/manuals covering all the areas of management and operations including those related to Branch Banking Operations, Centralized Operations, Trade Business, Treasury, Credit Risk, HR, Finance, Compliance and Administration.

Management gives due consideration to the recommendations made by the internal and external auditors for improvements in the internal control system and takes action to implement such recommendations.


The management has established evaluation and approval procedures for all major capital expenditure and other transactions.

The Bank has implemented various significant policies covering all the areas of operations including those relating to employee's welfare and contingency management processes.

Management also emphasizes on imparting of training to enhance knowledge and understanding of the Bank's internal policies and procedures and prudential regulations. This has greatly contributed towards strengthening of the control environment.

The Bank is continuously making efforts to ensure that an effective and efficient Internal Controls System remains active and implemented through consistent and periodic monitoring that would help further strengthening of the overall control environment.

Karachi, June 08, 2022



Shahram Raza Bakhtiari
President & CEO

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**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SILKBANK
LIMITED**

Report on the audit of the financial statements

Opinion

We have audited the annexed financial statements of Silkbank Limited (the Bank), which comprise the statement of financial position as at December 31, 2020, and the statement of profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, along with unaudited certified returns received from the branches except for 10 branches which have been audited by us and notes to the 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 statement of financial position, statement of profit and loss account, the statement of comprehensive income, statement of changes in equity and 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, 2020 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 Auditor's 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 1.3 and 1.4 to the financial statements which fully explains the Bank's capital deficiency in term of regulatory requirements as prescribed by the State Bank of Pakistan and thereby restrictions on the operations, erosion of net worth of the Bank and uncertainties stated therein. These events and conditions indicate the existence of a material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern. In order to revive the Bank, the management has prepared five year's business plan which has been approved by the Board. Therefore, the financial statement of the Bank as at December 31, 2020 have been prepared on a going concern basis. The status is dependent upon materialization of the business plan.

Our opinion is not modified in respect of this matter.

Emphasis of Matters

We draw attention to the following matters:

1. Note 15.1 to the financial statements which states that the deferred tax asset has been recognized in these financial statements on the basis of financial projections for the future years approved by the Board of Directors of the Bank. The preparation of financial projection involves management assumptions regarding future business and economic conditions and significant change in assumptions may have impact on recoverability of the deferred tax assets.
2. Note 16.3 to the financial statements that refers to the excess of prescribed limit by the Bank under Debt Property Swap Regulation.
3. Note 3 of Annexure II to the financial statements discloses transfer of Non-Performing Loans owned by Emaan Islamic Banking to conventional banking.

Our opinion is not modified in respect of the above matters.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Following are the key audit matters:

S.no	Key Audit Matters	How our audit addressed the key audit matters
1	<p>Provision against advances</p> <p>As described in note 12 to the financial statements, the Bank makes provision against advances on a time based criteria that involves ensuring all non-performing loans and advances are classified in accordance with the ageing criteria specified in the Prudential Regulations (PRs) issued by the State Bank of Pakistan (SBP).</p> <p>In addition to the above time based criteria the PRs require a subjective evaluation of the credit worthiness of borrowers to determine the classification of advances.</p> <p>The PRs also require the creation of general provision for certain categories of advances.</p> <p>The Bank has recognized a net provision against advances amounting to Rs. 9,075.23</p>	<p>Our audit procedures to verify provision against advances included, amongst others, the following:</p> <p>We obtained an understanding of the design and tested the operating effectiveness of key controls established by the Bank to identify loss events and for determining the extent of provisioning required against non-performing advances.</p> <p>We selected a sample of loan accounts and performed the following substantive procedures:</p> <ul style="list-style-type: none"> ◦ checked repayments of loan / mark-up installments and tested classification of non-performing loans based on the number of days overdue.

	<p>million in the profit and loss account in the current year. As at December 31, 2020, the Bank holds a provision of Rs. 14,693.57 million against advances.</p> <p>The determination of provision against advances based on the above criteria remains a significant area of judgement and estimation. Because of the significance of the impact of these judgements / estimations and the materiality of advances relative to the overall statement of financial position of the Bank, we considered the area of provision against advances as a key audit matter.</p>	<ul style="list-style-type: none"> ◦ evaluated the management's assessment for classification of customers' loan facilities as performing or non-performing based on review of repayment pattern, inspection of credit documentation and through discussions with the management. <p>We checked the accuracy of specific provision made against non-performing advances and of general provision by recomputing the provision amount in accordance with the criteria prescribed under the PRs.</p>
2	<p>Gratuity obligation valuation</p> <p>As described in note 6.1.5, note 16 and note 40.4 to the financial statements, the Bank operates an approved defined benefit plan. The Bank recorded a net defined benefit assets amounting to Rs. 34.526 million. The gratuity valuation is dependent on market conditions and assumptions made. The risk specifically relates to the following key assumptions; discount rate, inflation expectations and other assumptions. The setting of these assumptions is complex and requires the exercise of significant actuarial assumptions.</p>	<p>We obtained detailed understanding and evaluated the design and implementation of controls that the Bank has established in relation to the book keeping process.</p> <p>We reviewed the data provided to actuary and results derived to obtain sufficient and appropriate audit evidence over the assumptions and valuation.</p> <p>We evaluated qualification of actuary.</p> <p>In testing the gratuity valuation, we reviewed the key actuarial assumptions used, both financial and demographic, and considered the methodology utilized to derive these assumptions.</p>
3	<p>Presentation of legal risks in the financial statements</p> <p>The Bank has 123 branches in different locations in Pakistan and in the normal course of business, potential exposures may arise from general legal proceedings, guarantees, recovery suits, product liability, government and regulatory investigation e.t.c.</p> <p>The level of judgment required to establish the level of provisioning, increases the risk</p>	<p>On all significant legal cases, we reviewed the correspondence with Bank's external counsel accompanied by discussion and formal confirmation from that counsel. In addition, we read the summary of litigation matter provided by Bank's legal counsel team and discussed each of the material cases noted to determine the Bank's assessment of the likelihood and magnitude of any liability that may arise.</p>

<p>that provisions and contingent liabilities may not appropriately provided against or adequately disclosed.</p> <p>Accordingly, the matter is considered to be a key audit matter.</p> <p>Management's disclosures with regard to contingent liabilities are presented in note 25 of the financial statements.</p>	<p>In order to determine the facts and circumstances of the individual cases, we performed inspection of relevant documents and we inquired with the Bank's internal and external legal counsel. We assessed the material assumptions made and key judgments applied including the evaluation of disconfirming evidence. Specifically, for matters where potential obligations existed but the exposure was considered less than probable, we considered audit evidence regarding the lack of recognition and the disclosure thereof.</p> <p>We evaluated the recognition and valuation of material provisions and contingent liabilities of the Bank based on facts and circumstances available regarding compliance with the accounting standards.</p> <p>We read, where applicable, external legal or regulatory advice sought by the Bank and reviewed related correspondence and minutes of Board of Directors and Audit Committee.</p>
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Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 in the 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 auditor's report to the related disclosures in the 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 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.

Report on Other Legal and Regulatory Requirements

1. Based on our audit we further report that in our opinion:
 - a) proper books of account have been kept by the Bank/branches 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 statement of financial position, the statement of profit and loss account, the statement of comprehensive income, the statement of changes in equity and 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 / branches and the transactions of the Bank/ branches which have come to our notice have been within the powers of the Bank / branches; 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.
2. 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 Muhammad Shaikat Naseeb.

Grant Thornton Anjum Rahman
Chartered Accountants

Karachi
Date:


UDIN:

SILKBANK LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020

	Note	2020 Rupees in '000	2019
ASSETS			
Cash and balances with treasury banks	8	13,795,269	11,838,682
Balances with other banks	9	543,571	1,168,163
Lendings to financial institutions	10	6,759,921	18,101,837
Investments	11	115,449,492	36,245,350
Advances	12	91,961,645	105,374,947
Fixed assets	13	6,762,402	5,910,389
Intangible assets	14	283,831	217,077
Deferred tax assets	15	8,795,256	4,864,227
Other assets	16	23,326,620	19,737,679
Asset held for sale	17	-	2,229,729
		267,678,007	205,688,080
LIABILITIES			
Bills payable	18	3,088,780	2,483,658
Borrowings	19	89,347,953	31,973,231
Deposits and other accounts	20	160,237,608	148,853,513
Liabilities against assets subject to finance lease		-	-
Subordinated debt	21	2,439,066	2,125,418
Deferred tax liabilities		-	-
Other liabilities	22	7,695,019	9,480,373
		262,808,426	194,916,193
NET ASSETS		4,869,581	10,771,887
REPRESENTED BY			
Shareholders' equity			
Share capital - net	23	23,431,374	23,431,374
Statutory Reserves		820,890	820,890
Surplus on revaluation of assets - net of tax	24	893,462	256,510
Accumulated loss		(20,276,145)	(13,736,887)
		4,869,581	10,771,887

CONTINGENCIES AND COMMITMENTS 25


The annexed notes 1 to 51 and annexure I and II form an integral part of these financial statements. *1/12*



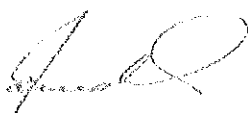
Chief Financial Officer



President & Chief Executive Officer



Director



Director



Director

SILKBANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2020

	Note	2020 Rupees in '000	2019 Rupees in '000
Mark-up / return / profit / interest earned	27	22,660,455	16,697,901
Mark-up / return / profit / interest expensed	28	(20,939,321)	(15,081,744)
Net mark-up / return / profit / interest income		1,721,134	1,616,157
NON MARK-UP / INTEREST INCOME			
Fee and commission income	29	2,233,451	2,284,214
Dividend income	30	10,673	4,824
Foreign exchange income		228,626	408,907
Income / (loss) from derivatives		98,162	(7,818)
Gain on securities	31	3,737,433	537,974
Other (loss) / income	32	(212,329)	8,133
Total non-markup / interest Income		6,096,016	3,236,234
Total income		7,817,150	4,852,391
NON MARK-UP / INTEREST EXPENSES			
Operating expenses	33	(7,574,453)	(8,051,497)
Workers Welfare Fund		-	-
Other charges	34	(35,561)	(197,007)
Total non-markup / interest expenses		(7,610,014)	(8,248,504)
Profit / (Loss) before provisions, extra ordinary / unusual item and taxation		207,136	(3,396,113)
Provisions and write offs - net	35	(9,898,597)	(2,432,830)
Extra ordinary / unusual items		-	-
LOSS BEFORE TAXATION		(9,691,461)	(5,828,943)
Taxation	36	3,119,609	1,875,940
LOSS AFTER TAXATION		(6,571,852)	(3,953,003)
		Rupee	
Basic and Diluted Loss Per Share	37	(0.72)	(0.44)

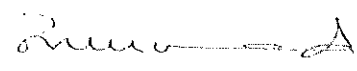
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 Chief Financial Officer


 President & Chief Executive Officer


 Director


 Director


 Director

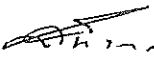
SILKBANK LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2020

	2020	2019
	Rupees in '000	
Loss after taxation for the year	(6,571,852)	(3,953,003)
Other comprehensive income / (loss)		
Items that may be reclassified to profit and loss account in subsequent periods:		
Movement in (deficit) / surplus on revaluation of investments - net of tax	(1,263,857)	327,636
Items that will not be reclassified to profit and loss account in subsequent periods:		
Remeasurement gain on defined benefit obligations - net of tax	27,481	8,936
Movement in surplus on revaluation of operating fixed assets - net of tax	(2,326)	(2,326)
Movement in surplus on revaluation of non-banking assets - net of tax	1,903,135	(593)
	1,928,290	6,017
Total comprehensive loss	(5,907,419)	(3,619,350)

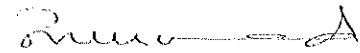
The annexed notes 1 to 51 and annexure I and II form an integral part of these financial statements.


Chief Financial Officer


President & Chief Executive Officer


Director


Director


Director

SILKBANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2020

	Note	2020 Rupees in '000	2019 Rupees in '000
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(9,691,461)	(5,828,943)
Less: Dividend income		(10,673)	(4,824)
		(9,702,134)	(5,833,767)
Adjustments:			
Depreciation on fixed assets	13.2 & 33	421,375	433,402
Depreciation on right-of-use assets	13.7 & 33	670,106	673,378
Depreciation on non-banking assets acquired in satisfaction of claims	16.2.1 & 33	63,894	67,153
Amortization of intangible assets	14.1 & 33	61,408	65,276
Amortization of premium on investments - net		(100,377)	(133,502)
Finance charges on lease liability against right-of-use assets	28	441,523	477,701
Provisions against loans & advances	12.3 & 35	9,075,230	2,635,216
Gain on sale of fixed assets	32	(1,577)	(1,720)
Impairment in the value of investments	35	-	-
Unrealized gain on revaluation of investments - held-for-trading	11.1 & 31	(30,036)	(1,266)
Share of profit from associate	32	(12,885)	(5,227)
Loss on sale of non-banking assets acquired in satisfaction of claims	32	360,178	190,881
Provision against other assets - net	16.5.1 & 35	667,949	(21,000)
Impairment against fixed assets	13.2 & 35	331,867	-
Write offs against fixed assets	13.2 & 35	9,929	2,080
		11,958,584	4,382,372
		2,256,450	-1,451,395
Decrease / (Increase) in operating assets			
Lendings to financial institutions		11,341,916	(5,489,681)
Net investments in held-for-trading securities		(20,440,777)	10,049,287
Advances		4,338,072	(9,656,161)
Other assets (excluding advance taxation)		(2,654,784)	439,320
		(7,415,573)	(4,657,235)
Increase / (decrease) in operating liabilities			
Bills payable		605,122	(382,910)
Borrowings from financial institution		57,374,722	13,921,377
Deposits		11,384,095	16,189,429
Other liabilities (excluding current taxation)		(1,358,098)	(1,402,638)
		68,005,841	28,325,258
		62,846,718	22,216,628
		(533,726)	(569,685)
Income tax paid		62,312,992	21,646,943
Net cash flow generated from operating activities		62,312,992	21,646,943
CASH FLOW FROM INVESTING ACTIVITIES			
Net investment in available-for-sale securities		(44,666,548)	(16,467,938)
Net investment in held-to-maturities securities		(15,897,915)	(257,658)
Dividend received		10,673	4,824
Net investment in fixed assets and intangible assets		(285,426)	(525,909)
Proceeds on disposal of non-banking assets acquired in satisfaction of claims		302,318	277,884
Proceeds on disposal of fixed assets		85,098	64,836
Net cash flow used in investing activities		(60,451,800)	(16,903,961)
CASH FLOW FROM FINANCING ACTIVITIES			
Receipts of subordinated debts - net		313,648	125,818
Payment of finance lease obligation		-	(2,663)
Payment of lease liability against right-of-use assets		(842,845)	(1,040,853)
Net cash flow used in financing activities		(529,197)	(917,698)
Increase in cash and cash equivalents		1,331,995	3,825,284
Cash and cash equivalents at the beginning of the year		13,006,845	9,181,561
Cash and cash equivalents at the end of the year	38	14,338,840	13,006,845

The annexed notes 1 to 51 and appendix I and II form an integral part of these financial statements.


Chief Financial
Officer


Acting President & Chief
Executive Officer


Director


Director


Director

SILKBANK Limited
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

1 STATUS AND NATURE OF BUSINESS

- 1.1 Silkbank Limited ("the Bank") was incorporated in Pakistan on April 04, 1994 as a public limited company under the Companies Act, 2017. The Bank commenced commercial operations on May 07, 1995. The Bank's shares are quoted on Pakistan Stock Exchange Limited. The Bank is engaged in banking services as described in the Banking Companies Ordinance, 1962. The Bank operates through 123 branches (December 31, 2019: 123 branches) including 30 (December 31, 2019: 30) Islamic banking branches in Pakistan. The Bank's registered office is located at Silkbank Building, 13-L, F-7 Markaz, Islamabad.

Major shareholders of the Bank as on December 31, 2020 are Sinthos Capital (comprising of Mr. Shaukat Tarin, Mr. Sadeq Sayeed and Mr. Azmat Tarin), Arif Habib Corporation Limited, International Finance Corporation (IFC), Nomura European Investment Limited, Bank Muscat S.A.O.G and Mr. Zulqamain Nawaz Chatta / Mr. Zubair Nawaz Chatta of Gourmet Group.

- 1.2 In October 2020, the short-term and long-term credit ratings of 'A-2' and 'A-' respectively was assigned to the Bank by VIS Credit Rating Company Limited ("VIS") based on the Bank's financial statements for the year ended June 30, 2020. Thereafter, no credit ratings have been issued and the VIS shall review the ratings once these financial statements are issued.
- 1.3 As at December 31 2020, the equity of the Bank is Rs. 3.98 billion excluding surplus on revaluation of assets. This includes share capital (net of losses and discount on shares) of Rs. 3.16 billion against the Minimum Capital Requirement (MCR) of Rs. 10 billion as prescribed by State Bank of Pakistan (SBP). Further, the Capital Adequacy Ratio (CAR) of the Bank is negative 4.45% (2019: positive 5.81%) as against the minimum CAR requirement of SBP of 11.50% (2019: 12.50%). Consequently, the Bank is non-compliant with MCR and CAR at December 31, 2020 which resulted various reduced prudential limits and may expose the Bank to regulatory actions under the Banking laws. As per the available management accounts of March 31, 2022, the equity and CAR of the Bank has been further deteriorated. These material uncertainties and conditions may cast significant doubts on the Bank's ability to continue as a going concern.
- 1.4 The Bank is committed to improve its capital levels which are adequate to meet applicable capital requirements and to attain a stable financial outlook. The Board of Directors (the Board) of the Bank are taking following measures to cure capital and to improve overall financial position of the Bank.
- 1.4.1 On May 31, 2022, the Bank has received a letter of intent from M/s. Park View Enclave (Private) Limited (PVEL), a Vision Group company, whereby an offer has been made by PVEL to directly or indirectly inject upto Rs.12 billion in the Bank through issuance of Ordinary Shares via 'Other than Right Issue' for atleast 51% shareholding in the Bank, keeping the minority shareholders' interest intact. The Proposed Transaction is subject to approval by the Board and Shareholders' approval (via Special Resolution) of the Bank and will also require PVEL to enter into a Share Subscription Agreement. Further, as a result of this equity injection, expeditious repayment of all outstanding loans of M/s. Vision Group is also expected.

The Board of the Bank has in principle approved the intent/offer of PVEL and has instructed the management of the Bank to engage with PVEL for negotiation and finalisation of a binding Share Subscription Agreement. The consummation of capital injection arrangement shall be subject to, inter-alia, all the applicable regulatory approvals including but not limited to approvals from the SBP, Securities Exchange Commission of Pakistan (SECP) and Competition Commission of Pakistan as well as requisite corporate approvals of the Bank. Disclosures of material information and public announcement detailing about the intent/offer of PVEL have duly been made in compliance with the requirements of the Securities Act, 2015 and Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2017.

- 1.4.2 Recovering the non-performing advances (NPLs) that are secured through mortgage over land (Note 12.3.2) and disposal of certain land held as Non-banking assets (Note 16.4) through financial restructuring under Real Estate Investment Trust (REIT) schemes under which the respective land shall be developed with commercial and residential constructions thereon for ultimate sale in the market.
- 1.4.3 Reducing other remaining NPLs through concerted recovery efforts and restructurings in accordance with the requirements of the PR and subject to the approval of the regulator aligned with customer business improvement plans.
- 1.4.4 Overall cost rationalization through processes reengineering, restructuring IT and technical infrastructure, relocation of bank offices/branches, outsourcing, vendor management etc. Therefore, Subsequent to the year end December 2020, Bank has taken the decision to close 9 conventional branches and 3 Islamic branches.

Based on the above material uncertainties and further capital deficiency as at March 31, 2022 together with its mitigating factors, the management has prepared five years' business plan which has been approved by the Board and are satisfied that the Bank has adequate resources to continue its business in the foreseeable future and therefore, have prepared these financial statements on a going concern basis.

- 1.5 The SECP has granted extension for finalization of accounts for the year ended December 31, 2020 and to hold its Annual General Meeting by June 30, 2022.

2 BASIS OF PRESENTATION

- 2.1 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the SBP has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by the banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.
- 2.2 The Islamic banking branches of the Bank have complied with the requirements set out under the Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP) and notified under the provisions of the Companies Act, 2017 except for the adoption of IFAS-3 'Profit & Loss Sharing on Deposits' as disclosed in note 3.4.
- 2.3 The financial results of the Islamic banking branches have been included in these financial statements for reporting purposes, after eliminating material inter-branch transactions / balances. Key financial figures of the Islamic banking branches are disclosed in Annexure II to these financial statements.

3 STATEMENT OF COMPLIANCE

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

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act, 2017;
- Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accounts of Pakistan (ICAP), as are notified under the Companies Act, 2017;
- Provisions of and directives issued under the Banking Companies Ordinance, 1962 and the Companies Act, 2017;
- Directives issued by the SBP and the Securities and Exchange Commission of Pakistan ("SECP") from time to time.

Whenever the requirements of the Banking Companies Ordinance, 1962, the Companies Act, 2017 or the directives issued by the SBP and the SECP differ with the requirements of IFRS or IFAS, the requirements of the Banking Companies Ordinance, 1962, the Companies Act, 2017 and the said directives shall prevail.

3.2 The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. Further, the SECP has deferred the applicability of IFRS 7 'Financial Instruments: Disclosures' on banks through S.R.O. 411(1) / 2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

3.3 IFRS 8, 'Operating Segments' is effective for the Bank's accounting periods beginning on or after January 1, 2009. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD circular letter No. 02 of 2018 dated January 25, 2018, 'Revised Forms of Annual Financial Statements' (as updated from time to time), effective from the accounting year ended December 31, 2018. The management of the Bank believes that as the SBP has defined the segment categorization in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these financial statements is based on the requirements laid down by the SBP.

3.4 The State Bank of Pakistan through BPRD Circular No. 04 of 2015 dated February 25, 2015 has deferred applicability of IFAS-3 for Profit & Loss Sharing on Deposits Issued by the ICAP and notified by the SECP, vide their SRO No. 571 of 2013 dated June 12, 2013 for institutions offering Islamic Financial Services (IFIS). The standard will result in certain new disclosures in the financial statements of the Bank.

4 STANDARDS, AMENDMENTS AND INTERPRETATIONS TO ACCOUNTING AND REPORTING STANDARDS

4.1 Standards, amendments and interpretations to the published standards that are relevant to the Bank and adopted in the current year

There are certain amendments to existing accounting and reporting standards that have become applicable to the Bank for accounting periods beginning on or after January 1, 2020. These are considered either to not be relevant or to not have any significant impact on these financial statements.

4.2 Standards, amendments to published standards and interpretations that are effective but not relevant

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 01, 2020 are considered not to be relevant or to have any significant effect on the Bank's financial reporting and operations and are therefore not presented here.

4.3 Standards, amendments and interpretations to the published standards that are relevant but not yet effective and not early adopted by the Bank

The following new standards, amendments to published standards and interpretations would be effective from the dates mentioned below against the respective standard or interpretation.

Standard or Interpretation	Effective Date (Annual periods beginning on or after)
- IFRS 9 'Financial Instruments'	January 01, 2021
- Covid-19-Related Rent Concessions - Amendments to IFRS 16	June 01, 2020
- Interest Rate Benchmark Reform - Phase 2 - Amendment to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16	January 01, 2021
- Classification of Liabilities as Current or Non-current - Amendments to IAS 1	January 01, 2023
- References to Conceptual Framework - Amendments to IFRS 3	January 01, 2022
- Property, Plant and Equipment - Proceeds before Intended use - Amendments to IAS 16	January 01, 2022
- Onerous Contracts- Cost of Fulfilling a contract - Amendments to IAS 37	January 01, 2022
- Annual improvement process IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter	January 01, 2022
- Annual improvement process IFRS 9 Financial Instruments - Fees in the '10 percent' test for derecognition of financial liabilities	January 01, 2022
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28	Not yet finalized

The Bank is in the process of assessing the impact of these standards, amendments and interpretations to the published standards on the financial statements of the Bank.

- IFRS 9 'Financial Instruments'

The SBP through BPRD Circular Letter no. 4 dated October 23, 2019, the applicability of IFRS 9 to banks in Pakistan has been deferred to accounting periods beginning on or after January 1, 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 impact of the application of IFRS 9 on the Bank's financial statements is being assessed and implementation guidelines are awaited.

4.4 Standards, amendments and Interpretations to the published standards that are not yet notified by SECP

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

Standard or Interpretation	Effective Date (Annual periods beginning on or after)
- IFRS 17 - Insurance Contracts	July 01, 2023

5 IMPACT OF COVID-19 ON THE FINANCIAL STATEMENTS

During the year, the COVID-19 pandemic had an impact on banks in Pakistan on a number of fronts resulting in increased overall credit risk pertaining to the loans and advances portfolio, reduced fee income due to overall slowdown in economic activity, continuity of business operations, slow down of the real estate sector thus resulting in delays in disposal of non banking assets, associated activities and managing cyber security threat as a significant number of the Bank staff worked from home and a number of customers were encouraged to use digital banking channels.

The State Bank of Pakistan (SBP) responded to the ongoing crisis by cutting the policy rate by 625 basis points since beginning of the year, to 7 percent and decided to maintain it even in the face of rising inflationary pressures. They also introduced certain regulatory measures to maintain the overall soundness of banking systems and sustain economic activity. These measures included (i) reduction in capital conservation buffer by 100 basis points to 1.5 percent; (ii) The regulatory retail portfolio limit of Rs. 125 million being enhanced to Rs. 180 million; (iii) relaxed debt burden ratio for consumer loans from 50 percent to 60 percent; (iv) allowing banks to defer borrowers' principal loan repayments by one year or restructure / reschedule loans for borrowers requiring relief on principal repayment exceeding one year and / or mark-up with no reflection on credit history; and (v) relaxed regulatory criteria for restructured/rescheduled loans for borrowers who required relief beyond the extension of principal repayment for one year or more.

The Bank has accordingly strengthened its credit review procedures in the light of the pandemic and is continuously reviewing the portfolio to identify accounts susceptible to higher risk, resulting from the Covid-19 outbreak

The Bank has also conducted regular assessments of portfolios and operations to ensure that risks are curtailed to a minimum.

6 BASIS OF MEASUREMENT

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

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

6.1 Use of critical accounting estimates and judgments

The preparation of these financial statements in conformity with accounting and reporting standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. It also requires management to exercise judgment in the application of its accounting policies. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions 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 future periods if the revision affects both current and future periods.

The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in application of accounting policies are as follows:

6.1.1 Provision against non-performing loans and advances and debt securities (note 11.3.2 and note 12.3)

The Bank reviews its loan portfolio and debt securities (classified as investments) to assess the amount of non-performing loans and advances and debt securities and determine provision required there-against on regular basis. While assessing this requirement, various factors including the past dues, delinquency in the account, financial position of the borrower, the forced sale value of collateral held and requirements of the Prudential Regulations issued by the SBP are considered, except for loans and advances where relaxation has been allowed by SBP. For portfolio impairment provision on consumer advances and small enterprise finance, the Bank follows the general provision requirements set out in Prudential Regulation.

6.1.2 Fair value of derivatives (note 26)

The fair value of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest rates in effect at the reporting date and the rates contracted.

6.1.3 Classification of investments (note 11.1)

In classifying investments, the Bank follows the guidance provided in SBP circulars:

- Investments classified as 'held-for-trading' are securities which are acquired with an intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days of acquisition.
- Investments classified as 'held-to-maturity' are non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.
- The investments which are not classified as 'held-for-trading' or 'held-to-maturity' are classified as 'available-for-sale'.

6.1.4 Impairment of 'available-for-sale' equity investments

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

6.1.5 Defined benefit plan (note 40)

The liability of the defined benefit plan (gratuity) is determined using actuarial advice using the Projected Unit Credit Method. The actuarial valuation involves making certain actuarial assumptions as disclosed in note 40. Actuarial assumptions are Bank's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Changes in these assumptions in future years may affect the liability / asset under the plan in those years.

6.1.6 Income taxes (note 36)

In making the estimates for income taxes currently payable by the Bank, the management looks at the current income tax laws and the decisions of Appellate Authorities on certain issues in the past. For recovery of deferred tax asset recognized on unused tax losses, management projects and determines future taxable profits that are probable and will be available against which these unused tax losses can be utilized.

6.1.7 Depreciation, amortization and revaluation of fixed assets (note 13 and note 14)

In making estimates of the depreciation / amortization method, management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year-end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method is changed to reflect the change in pattern. Such change is accounted for as change in accounting estimate in accordance with IAS - 8, "Accounting Policies, Changes in Accounting Estimates and Errors". Further, the Bank estimates the revalued amount of land and buildings on a regular basis. The estimates are based on valuations carried out by independent professional valuers listed on the panel of Pakistan Banks' Association (PBA), under the market conditions.

6.1.8 Fair value hierarchy of assets and liabilities (note 43)

The fair value of the assets and liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Bank categorizes fair value measurements within the following fair value hierarchy,

a) Level 1:

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

b) Level 2:

These are inputs other than quoted prices included within Level 1 inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

c) Level 3:

These are unobservable inputs for the asset or liability.

6.1.9 Depreciation, amortization and revaluation of non-banking assets acquired under satisfaction of claims (note 16.1)

In making estimates of the depreciation method for non-banking assets acquired under satisfaction of claims, management uses the method which is consistent with depreciation method of fixed assets. Further, the Bank estimates the revalued amount of land and buildings on a regular basis. The estimates are based on valuations carried out by independent professional valuers listed on the panel of PBA, under the market conditions.

6.1.10 Right-of-use assets and their related lease liability (note 13 and note 22)

The Bank applies judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Bank is reasonably certain to exercise such options impacts the lease term which significantly affects the amount of lease liabilities and right-of-use assets recognized.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are consistent with those of the previous financial year, except for changes in note 7.1:

7.1 Change in accounting policies

Disposal of Non Banking Assets (NBA)

During the year ended December 31, 2020, the Bank changed its accounting policy to derecognize Non-Banking Assets (NBA) from the basis of recovery of 50% of total sale consideration to "at least 40% to 50% of total sale consideration", to apply the more realistic approach related to sale of NBAs.

During the year ended December 31, 2020, management commissioned a detailed survey on previous sale transactions of NBAs which provide detailed information and the behavior of the payment made by the buyers for sale of NBAs on the basis of which management conclude that the limit of 50% should be replaced by at least 40% to 50%.

After assessing the impacts of the change in accounting policy, the Bank's management concluded that there is no impact on prior year amounts because the said change in accounting policy does not negate to derecognize NBAs previously recorded. Therefore, management concluded that it should apply new policy prospectively from the start of 2020.

7.2 Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with treasury banks, balances with other banks in current and deposit accounts.

7.3 Lendings to / borrowings from financial institutions

The Bank enters into transactions of borrowings (re-purchase) from and lendings (reverse re-purchase) to financial institutions at contracted rates for a specified period of time. These are recorded as under:

7.3.1 Sale under repurchase agreements (repo)

Securities sold subject to a re-purchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. The differential in sale and re-purchase value is accrued over the period of the agreement and recorded as markup expense.

7.3.2 Purchase under resale agreements (reverse repo)

Securities purchased under agreement to resale (reverse repo) are included in lendings to financial institutions. The differential between the contracted price and resale price is amortised over the period of the agreement and recorded as income.

Securities held as collateral are not recognised in the 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.

7.3.3 Other lendings

Other lendings include term lendings and unsecured lendings to financial institutions.

All lendings are stated net of provision, if any. Mark-up / interest income on such lendings is recorded on time proportion basis using effective interest rate method except mark-up on impaired / delinquent lendings, which are recognised on receipt basis.

7.3.4 Other borrowings

Other borrowings including borrowings from SBP are recorded at proceeds received. Mark-up expense on such borrowings is recognised on accrual basis and is charged to the profit and loss account on time proportion basis using effective interest method.

7.4 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Bank commits to purchase or sell the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

7.5 Investments

The Bank classifies its investments as follows:

a) Held-for-trading

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

b) Held-to-maturity

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

c) Available-for-sale

These are investments, other than investment in associate, which do not fall under the "held-for-trading" or "held-to-maturity" categories.

7.5.1 Initial measurement

Investments are initially recognised at acquisition cost, which in case of investments other than "held-for-trading" includes transaction costs associated with the investments.

7.5.2 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 profit and loss account.

Held-to-maturity

These are measured at amortised cost using the effective interest rate method, less any impairment loss recognised 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 other comprehensive income and taken to the profit and loss account when actually realised 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 equity 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 profit and loss account. A subsequent increase in the carrying value, upto the cost of investment, is credited to the profit and loss account. Investments in other unquoted securities are valued at cost less impairment losses, if any.

7.5.3 Investment in associates

Investment in associates in which the Bank has significant influence, but not control, over the financial and operating policies are accounted for using the equity method.

Companies where there are common directors but the Bank does not have significant influence are accounted for as ordinary investments.

7.5.4 Gains or losses on disposal of investments are included in the profit and loss account.

7.5.5 Impairment

Provision for diminution in the value of securities (except Debentures, Participation Term Certificates and Term Finance Certificates) is made after considering impairment, if any, in their value. Impairment is recognised when there is an objective evidence of significant and prolonged decline in the value of such securities. Provisions for diminution in the value of debentures, Participation Term Certificates and Term Finance Certificates are made as per the requirements of the Prudential Regulations issued by the SBP.

7.6 Advances

Advances including Islamic financing are stated net of specific and general provisions. Specific and general provisions against advances are determined on the basis of Prudential Regulations and other directives issued by the SBP and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Advances are written off when there are no realistic prospects of recovery.

7.6.1 Murabaha

Murabaha financings are reflected as receivables at the invoiced amount. The profit on that sale revenue not due for payment is deferred by recording a credit to the "Deferred Murabaha Income" account. Profit is taken to the profit and loss account over the period of the Murabaha. Goods purchased but remaining unsold at the reporting date are recorded as inventories.

7.6.2 Diminishing Musharaka

In Diminishing Musharaka financing, the Bank enters into Musharaka based on Shirkat-ul-milk for financing an agreed share of fixed asset (for example; house, land, plant or machinery) with its customers and enters into periodic profit / rental payment agreement for the utilisation of the Bank's Musharaka share by the customer.

7.6.3 Musawammah

Musawammah financings are reflected as receivables at the invoiced amount. The profit on that sale revenue not due for payment is deferred by recording a credit to the "Deferred Musawammah Income" account. Profit is taken to the profit and loss account over the period of the Musawammah.

7.7 Fixed assets

7.7.1 Property and equipment

a) Owned assets

An item of property and equipment is initially recognised at cost which is equal to the fair value of consideration paid at the time of acquisition or construction of the asset.

Measurement subsequent to initial recognition

Property and equipment other than land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of property and equipment.

Land is stated at its revalued amount whereas buildings are stated at revalued amount less accumulated depreciation and accumulated impairment losses, if any.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Maintenance and normal repairs are charged to the profit and loss account as and when incurred. Major renewals and improvements are capitalised and the assets so replaced, if any, are retired.

Surplus arising on revaluation is credited to the "Surplus on Revaluation of Fixed Assets" account. A deficit arising on revaluation of a particular asset is now to be accounted for in accordance with IFRS, which requires that such deficit can not be adjusted against surplus for any other asset, but is to be taken to the profit and loss account as an impairment. The surplus on revaluation of fixed assets to the extent of incremental depreciation charged on the related assets is transferred to equity.

Gains or losses on disposal of assets are taken to income currently, except that the related surplus on revaluation of fixed assets (net of deferred tax) is transferred directly to unappropriated profit / accumulated loss.

Depreciation

Depreciation is computed over the useful lives of the related assets using straight line method so as to write down the cost of assets to their residual values over their estimated useful lives at the rates given in note 13.2 to these financial statements. Depreciation on additions during the year is charged from the month of acquisition i.e no depreciation is provided in the month of disposal. Same basis and estimates for depreciation are applied to owned assets and assets subject to finance lease.

Useful lives and residual values of assets are reviewed at each reporting date and adjusted if impact on depreciation is significant.

b) Lease liability and right to use assets

The bank enters into leasing arrangements for its branches, ATMs and warehouses. Rental contracts are typically for a period of 1 year to 10 years and may have extension options as described below. At inception of a contract, the Bank assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not be terminated).

The lease liability is initially measured at the present value of the lease payments over the period of lease term and that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Bank's incremental borrowing rate.

Lease payments include fixed payments less any lease incentive receivable, variable lease payment that are based on an index or a rate which are initially measured using the index or rate as at the commencement date, amounts expected to be payable by the Bank under residual value guarantees, the exercise price of a purchase option if the Bank is reasonably certain to exercise that option and payments of penalties for terminating the lease if the lease term reflects the lessee exercising that option. The extension and termination options are incorporated in determination of lease term only when the Bank is reasonably certain to exercise these options.

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 lease modification, or to reflect revised in-substance fixed lease payment.

The lease liability is remeasured when the Bank reassesses the reasonable certainty of exercise of extension or termination option upon occurrence of either a significant event or a significant change in circumstance, or when there is a change in assessment of an option to purchase underlying asset, or when there is a change in amount expected to be payable under a residual value guarantee, or when there is a change in future lease payments resulting from a change in an index or rate used to determine those payments. The corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit and loss if the carrying amount of right-of-use asset has been reduced to zero.

When there is a change in scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease is accounted for as a lease modification. The lease modification is accounted for as a separate lease if modification increases the scope of lease by adding the right to use one or more underlying assets and the consideration for lease increases by an amount that is commensurate with the stand-alone price for the increase in scope adjusted to reflect the circumstances of the particular contracts, if any. When the lease modification is not accounted for as a separate lease, the lease liability is remeasured and corresponding adjustment is made to right-of-use asset.

The right-of-use asset is initially measured based at the initial amount of initial measurement of 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 right-of-use asset is subsequently measured at cost model. The right of use asset is depreciated on a straight line method over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits. The right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The Bank has elected to apply the practical expedient not to recognise right-of-use assets and lease liabilities for short term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognised as an expense on a straight line basis over the lease term.

7.7.2 Capital work-in-progress

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. These are transferred to relevant category of property and equipment as and when the assets become available for use.

7.8 Intangible assets

These include computer software and are recorded initially at cost and subsequently stated at cost less any accumulated amortisation and accumulated impairment losses, if any.

These are amortised over their finite useful lives and amortisation is charged to the profit and loss account using the straight line method so as to write down the cost of the assets to their residual values over their estimated useful lives at the rates given in note 14.1 to these financial statements. Amortisation is charged from the month of acquisition. The useful lives and amortisation method are reviewed and adjusted, if appropriate, at each reporting date.

Costs associated with maintenance of computer software are recognised as an expense as and when incurred.

7.9 Income taxes

Income tax expense comprises of current and deferred tax. Income tax expense is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

7.9.1 Current

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

7.9.2 Prior

The charge for prior years represents adjustments to the tax charge for prior years, arising from assessments, changes in estimates, and retrospectively applied changes to law, made during the current year.

7.9.3 Deferred

Deferred tax is recognised on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. In addition, the Bank also records deferred tax assets on available tax losses. Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted at the reporting date.

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

The Bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of fixed assets and securities which is adjusted against the related deficit / surplus in accordance with the requirements of IAS 12 "Income Taxes".

7.10 Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets other than deferred tax assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of assets is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the greater of net selling price and value in use. Whenever the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is taken to the profit and loss account except for impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation.

7.11 Provision from claims under guarantees

A provision for claims under guarantees is recognised when intimated and reasonable certainty exists that the Bank will settle the obligation. The charge to the profit and loss is stated net of expected recoveries and the obligation is recognised in other liabilities.

7.12 Other provisions

Other provisions are recognised when the Bank has a legal or constructive obligation 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 reporting date and are adjusted to reflect the current best estimates.

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

7.13 Staff retirement benefits

7.13.1 Defined contribution plan

The Bank operates an approved funded provident fund scheme (the Fund) for all its permanent employees. Equal monthly contributions are made, both by the Bank and its employees, to the fund at the rate of 8.33 percent of basic salaries of employees.

7.13.2 Defined benefit plan

The Bank operates an approved gratuity scheme for all its regular employees. Beginning from January 01, 2005, the entitlement of the employees commences on the completion of five years of service with the Bank. Projected Unit Credit Actuarial Cost Method has been used for actuarial valuation.

Re-measurement component, which is the net of actuarial gains and losses, is immediately recognised in other comprehensive income, whereas, service costs and net interest income / (expense) are charged to the profit and loss account.

7.13.3 Benefits for contractual staff

The entitlement of contractual employees is based on number of years of service. Upon completion of 1 year of service, gratuity expense equivalent to a month's salary (withdrawn) is accrued. After the first year, expense equivalent to a month's salary is further accrued in each year if the employee remains in service for major part of the year (181 days or more). Payments against liability are made when eligible employee leaves service. Unpaid expense is included in "other liabilities".

7.14 Revenue recognition

Revenue is recognised to the extent that the economic benefits associated with a transaction will flow to the Bank and the revenue can be reliably measured. The following recognition criteria must be met before revenue is recognised. Revenue is recognised:

- Mark-up / return / interest on advances, investments, lending to financial institutions and balances with other banks is recognised on accrual basis that takes into account effective yield on the assets except in case of advances classified under the Prudential Regulations issued by the SBP (as amended from time to time) on which mark-up / return / interest is recognised on receipt basis. Mark-up / return / interest on rescheduled / restructured advances and investments is recognised in accordance with the directives of the SBP.
- Profit on Diminishing Musharaka financings is recognised on accrual basis.
- Profit on Sukuk is recognised on accrual basis.
- Fees, brokerage and commission on letters of credit / guarantee and other services are amortised over the tenure of the respective facility, whereas account maintenance and service charges are recognised when realised.
- Dividend income is recognised when the right to receive the dividend is established.
- Rent on property and non-banking assets is recognised on the accrual basis.
- Gain and loss on sale of investments is credited / charged to the profit and loss account currently.

7.15 Non-current assets held for sale and associated liabilities

The Bank classifies an asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. An asset held for sale is carried at the lower of its carrying amount and the fair value less costs to sell. Impairment losses are recognised in the profit and loss account for any initial or subsequent write down of the asset to fair value less costs to sell. Subsequent gains in fair value less costs to sell are recognised to the extent these do not exceed the cumulative impairment losses previously recorded. An asset is not depreciated while classified as held for sale.

The Bank shall measure a non-current asset that ceases to be classified as held for sale at the lower of:

- its carrying amount before the asset was classified as held for sale, adjusted for any depreciation or revaluations that would have been recognised had the asset not been classified as held for sale; and
- its recoverable amount at the date of the subsequent decision not to sell on immediate basis.

7.16 Non-banking assets acquired in satisfaction of claims / Other Real Estate Owned (OREO)

At the time of acquisition of non-banking asset, it is recognized on the basis of value determined by independent evaluators on the panel of PBA. At the time of settlement, The Bank carries out valuation as per following criteria;

- For outstanding loans exceeding Rs. 2 million, only self-assessment is carried out.
- At least one valuation reports for transaction amount up to Rs. 20 million,
- At least two valuation reports for transaction amount up to Rs. 50 million,
- At least three valuation reports for transaction amount of more than Rs. 50 million.

Settlement value used for acquisition of non-banking assets is based on market value as per valuation report, however, settlement value is restricted to average of lowest two valuation reports obtained as per above criteria. Land acquired as non-banking assets is recorded in statement of financial position only when it is transferred in the name of the Bank and recorded in revenue records.

Provision against non-performing advances and suspended mark-up / return / interest is reversed on acquisition of non-banking assets, however, suspended mark-up is taken into profit and loss account only when it is realized in cash through sale of non-banking asset or otherwise.

Subsequent to initial recognition, these are stated at fair value less accumulated depreciation and impairment loss, if any.

Depreciation on non-banking assets is calculated in line with the depreciation method used for same class of assets in property and equipment.

Gains and losses on disposal of non-banking assets are recognised in the profit and loss account when the risks and rewards are transferred to the buyer.

During the year 2020, the Bank changed its accounting policy to derecognize Non-Banking Assets (NBA) from the basis of recovery of 50% of total sale consideration to "at least 40% to 50% of total sale consideration", to apply the more realistic approach related to sale of NBAs.

During the year 2020, management commissioned a detailed survey on previous sale transactions of NBAs which provide detailed information and the behavior of the payment made by the buyers for sale of NBAs on the basis of which management conclude that the limit of 50% should be replaced by at least 40% to 50%.

After assessing the impacts of the change in accounting policy, the Bank's management concluded that there is no impact on prior year amounts because the said change in accounting policy does not negate to derecognize NBAs previously recorded. Therefore, management concluded that it should apply new policy prospectively from the start of 2020.

7.17 Foreign currencies

7.17.1 Foreign currency transactions

Transactions in foreign currencies are translated into Pakistani rupees at the foreign exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in Pakistani Rupee terms at the rates of exchange prevailing on the reporting date. Non-monetary assets and liabilities are translated using exchange rates that prevailed when the values were determined. Translation gains and losses are included in profit and loss account.

Forward contracts other than contracts with the SBP relating to foreign currency deposits are valued at forward rates applicable to the respective maturities of the relevant foreign exchange contract.

Forward purchase contracts with the SBP relating to foreign currency deposits are valued at the spot rate prevailing on the reporting date. The forward cover fee payable on such contracts is amortised over the term of the contracts.

7.17.2 Contingencies and commitments

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

7.18 Financial instruments

7.18.1 Financial assets and liabilities

Financial assets and financial liabilities carried on the statement of financial position include cash and balances with treasury banks, balances with other banks, lendings to financial institutions, investments (excluding investment in associate), advances, certain other assets, borrowings from financial institutions, deposits, bills payable, liabilities against assets subject to finance lease and other liabilities. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

7.18.2 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value using 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 profit and loss account.

7.19 Off-setting

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

7.20 Segment reporting

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

7.20.1 Business segments

Wholesale Banking

Deposits, trade and other lending activities for corporates and financial institutions.

Treasury

This segment undertakes the Bank's treasury, money market and capital market activities. Treasury manages the asset and liability mix of the Bank and provides customers with products that meet their demand for management of liquidity, cash flow, interest rate fluctuations and foreign exchange risks.

Consumer / SME Banking

Wealth management, deposits, mortgages, auto finance, unsecured lending and SME lending (including SME trade).

All assets, liabilities, off balance sheet items and items of income and expenses are distributed in primary segments in accordance with the core functions performed by the business groups.

7.20.2 Geographical segment

The Bank conducts all its operations in Pakistan.

7.21 Deposits

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

7.22 Share capital

Ordinary shares are classified as equity and recognized at their face value less discount on issue of shares. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

7.23 Earnings per share

The Bank presents basic and diluted earnings per share (EPS). 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.

7.24 Fiduciary assets

Assets held in fiduciary capacity are not treated as assets of the Bank in the statement of financial position.

7.25 Subordinated debts

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

7.26 Acceptances

Acceptances comprise of undertakings by the Bank to pay bills of exchange drawn on customers. Acceptances are recognised as financial liability in the statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

	Note	2020 Rupees In '000	2019
8 CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		2,578,287	1,677,165
Foreign currencies		2,278,531	1,094,328
		4,856,818	2,771,493
With State Bank of Pakistan In			
Local currency current account	8.1	7,074,718	6,784,412
Foreign currency current account		637,477	685,106
Foreign currency deposit account	8.2	853,872	1,276,607
		8,566,067	8,746,125
With National Bank of Pakistan In			
Local currency current account		250,363	198,679
National Prize Bonds		122,021	122,385
		<u>13,795,269</u>	<u>11,838,682</u>

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

8.2 This represents account maintained with SBP to comply with Special Cash Reserve requirement (FE-25 scheme, as prescribed by SBP). It carries interest rates of 0% to 0.76% (2019: 0.70% to 1.51%).

		2020 Rupees in '000	2019
9 BALANCES WITH OTHER BANKS			
In Pakistan			
In current account		62,732	105,487
In deposit account		74	68
		62,806	105,555
Outside Pakistan			
In current account		480,765	1,062,608
		<u>543,571</u>	<u>1,168,163</u>

		2020	2019
10 LENDINGS TO FINANCIAL INSTITUTIONS			
Repurchase agreement lendings (Reverse repo)	10.2	2,664,165	13,751,114
Foreign placement	10.3	1,301,113	900,748
Bai Muajjal receivable from State Bank of Pakistan	10.4	2,794,643	3,449,975
		<u>6,759,921</u>	<u>18,101,837</u>

10.1 Particulars of lending		2020	2019
In local currency		5,458,808	17,201,089
In foreign currencies		1,301,113	900,748
		<u>6,759,921</u>	<u>18,101,837</u>

10.2 Securities held as collateral against lending to financial institutions

	Note	2020			2019		
		Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
		Rupees in '000					
Market Treasury Bills	10.2.1 & 10.2.2	2,664,165	-	2,664,165	1,873,965	791,272	2,665,237
Pakistan Investment Bonds	10.2.1 & 10.2.2	-	-	-	5,496,997	5,588,880	11,085,877
Total		<u>2,664,165</u>	<u>-</u>	<u>2,664,165</u>	<u>7,370,962</u>	<u>6,380,152</u>	<u>13,751,114</u>

10.2.1 These have been purchased under the reverse repurchase agreement at the mark-up rates ranging from 6.70% to 7.65% (2019: 13.10% to 13.75%) per annum with maturities upto January-2021

10.2.2 The market value of securities held as collateral against reverse repurchase agreement lendings as of December 31, 2020 is Rs. 2,665 million (2019: Rs. 13,699 million).

10.3 These have been placed with foreign banks as pledge against issuance of Standby Letter of Credit (SBLC) favouring Master card, VISA and guarantee to Government Department at the interest rate 0.01% (2019: 0.75%) per annum with maturities upto May-2022.

10.4 Bai Muajjal receivables from State Bank of Pakistan (SBP) carry profit at 10% per annum (2019: 10.33%) and are due to mature on February 21, 2021.

11 INVESTMENTS

	2020				2019			
	Cost / Amortised cost	Provision for diminution	Surplus / (Deficit)	Carrying Value	Cost / Amortised cost	Provision for diminution	Surplus / (Deficit)	Carrying Value
11.1 Investments by type:	Rupees In '000							
Held-for-trading securities								
Federal Government Securities								
Market Treasury Bills	13,653,249	-	150	13,653,399	-	-	-	-
Pakistan Investment Bonds	6,790,944	-	29,886	6,820,830	-	-	-	-
GOP Ijarah Sukuks	-	-	-	-	-	-	-	-
Shares								
Listed	-	-	-	-	2,150	-	1,266	3,416
	20,444,193	-	30,036	20,474,229	2,150	-	1,266	3,416
Available-for-sale securities								
Federal Government Securities								
Market Treasury Bills	-	-	-	-	3,536,303	-	(597)	3,535,706
Pakistan Investment Bonds	74,824,514	-	(1,575,735)	73,248,779	29,007,986	-	76,368	29,084,354
GOP Ijarah Sukuks	5,011,889	-	(68,078)	4,943,811	2,272,265	-	4,735	2,277,000
Shares								
Listed	438,801	-	(18,814)	419,987	487,528	-	202,955	690,481
Unlisted	5,680	(5,680)	-	-	5,680	(5,680)	-	-
Non Government Debt Securities								
Sukuks - Listed	-	-	-	-	229,699	-	(2,345)	227,354
Term Finance Certificates - Listed	63,000	-	(653)	62,347	37,500	-	-	37,500
Term Finance Certificates - Unlisted	8,780	(8,780)	-	-	8,780	(8,780)	-	-
	80,352,664	(14,460)	(1,663,280)	78,674,924	35,585,739	(14,460)	281,116	35,852,395
Held-to-maturity securities								
Federal Government Securities								
Pakistan Investment Bonds	15,897,915	-	-	15,897,915	-	-	-	-
Bai Muajjal	257,658	-	-	257,658	257,658	-	-	257,658
Non Government Debt Securities								
Shares repurchase (fully provided)	74,910	(74,910)	-	-	74,910	(74,910)	-	-
	16,230,483	(74,910)	-	16,155,573	332,568	(74,910)	-	257,658
Associates								
SPI Insurance Company Limited	144,766	-	-	144,766	131,881	-	-	131,881
Total investments	117,172,106	(89,370)	(1,633,244)	115,449,492	36,052,338	(89,370)	282,382	36,245,350

11.2 Investments by Segments:

Federal Government Securities								
Market Treasury Bills	13,653,249	-	150	13,653,399	3,536,303	-	(597)	3,535,706
Pakistan Investment Bonds	97,513,373	-	(1,545,849)	95,967,524	29,007,986	-	76,368	29,084,354
GOP Ijarah Sukuks	5,011,889	-	(68,078)	4,943,811	2,272,265	-	4,735	2,277,000
Bai Muajjal	257,658	-	-	257,658	257,658	-	-	257,658
	116,436,169	-	(1,613,777)	114,822,392	35,074,212	-	80,506	35,154,718
Shares								
Listed companies	438,801	-	(18,814)	419,987	489,676	-	204,221	693,897
Unlisted companies	5,680	(5,680)	-	-	5,680	(5,680)	-	-
	444,481	(5,680)	(18,814)	419,987	495,356	(5,680)	204,221	693,897
Non Government Debt Securities								
Sukuks - listed	-	-	-	-	229,699	-	(2,345)	227,354
Term Finance Certificates - listed	63,000	-	(653)	62,347	37,500	-	-	37,500
Term Finance Certificates - unlisted	8,780	(8,780)	-	-	8,780	(8,780)	-	-
	71,780	(8,780)	(653)	62,347	275,979	(8,780)	(2,345)	264,854
Shares repurchase (fully provided)	74,910	(74,910)	-	-	74,910	(74,910)	-	-
Associates								
SPI Insurance Company Limited	144,766	-	-	144,766	131,881	-	-	131,881
Total investments	117,172,106	(89,370)	(1,633,244)	115,449,492	36,052,338	(89,370)	282,382	36,245,350

	2020	2019
	Rupees in '000	
11.2.1 Investments given as collateral		
Market Treasury Bills	10,940,440	-
Pakistan Investment Bonds	76,767,023	21,753,482
	87,707,463	21,753,482

11.3 Provision for diminution in value of Investments

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

11.3.2 Particulars of provision against debt securities

Category of classification	2020		2019	
	Non Performing Investments	Provision	Non Performing Investments	Provision
	Rupees in '000			
Domestic:				
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	83,690	83,690	83,690	83,690
Total	83,690	83,690	83,690	83,690

11.4 Quality of Available for Sale Securities

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

	Note	Cost	
		2020	2019
Rupees in '000			
Federal Government Securities - Government guaranteed			
Market Treasury Bills		-	3,538,303
Pakistan Investment Bonds	11.4.1	74,824,514	29,007,886
Ijarah Sukuks		5,011,889	2,272,265
		79,836,403	34,818,554

Shares

Listed Companies

	2020	2019
Chemical and pharmaceuticals	5	5
Services	25,604	25,604
Oil	-	47,845
Real Estate	113,673	113,673
Financial	299,519	300,399
	438,801	487,526

Unlisted Companies

Pakistan Export Finance Guarantee Limited (fully provided)

	2020		2019	
	Cost	Breakup value	Cost	Breakup value
Rupees in '000				
Pakistan Export Finance Guarantee Limited (fully provided)	5,680	-	5,680	-
	5,680	-	5,680	-

Non Government Debt Securities

Listed

	2020	2019
- AAA	-	150,000
- AA+	12,500	37,500
- AA	-	79,699
- AA+	50,500	-
	63,000	267,199

Unlisted

- Unrated (fully provided)	11.4.2	8,780	8,780
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11.4.1 These include securities having face value of Rs. 662 million (2019: Rs. 72 million) pledged with United Bank Limited for Global Industrial and Defence Solutions, Pakistan and LESCO as Guarantor. Further, securities having face value of Rs. 35 million (2019 : Rs. 35 million) pledged with SBP as security to facilitate Telegraphic Transfer discounting facilities sanctioned to branches of the Bank.

11.4.2 These represent zero coupon privately placed TFCs of Azgard Nina Limited (related party) acquired against mark-up settlement of Rs. 8.78 million on the credit facilities provided to Azgard Nina Limited.

11.5 Particulars relating to Held to Maturity securities are as follows:

	2020	2019
	Rupees in '000	
Federal Government Securities		
Pakistan Investment Bonds	15,897,915	-
Bai Muajjal	257,658	257,658
Others		
Shares repurchase (fully provided)	74,910	74,910
	16,230,483	332,568

11.5.1 The market value of securities classified as held-to-maturity is Rs. 16,156 million (2019: Rs. 259 million).

11.6 Investment in associate

<u>Name of company</u>	<u>Proportion of ownership interest</u>	<u>Country of Incorporation</u>	
SPI Insurance Company Limited	23.07% (2019: 23.07%)	Pakistan	
		September 30, 2020	September 30, 2019
		Rupees In '000	
Total assets		<u>1,369,000</u>	<u>1,351,117</u>
Total liabilities		<u>649,547</u>	<u>654,823</u>
Revenue		<u>391,697</u>	<u>447,194</u>
Profit after taxation		<u>22,361</u>	<u>23,428</u>
Total comprehensive (loss) / income		<u>(1,747)</u>	<u>130,407</u>
		2020	2019
		Rupees In '000	

11.6.1 Movement in Investment in associate

Investment at the beginning of the year	131,881	126,654
Share of profit	12,885	5,227
Investment at the end of the year	<u>144,766</u>	<u>131,881</u>

11.6.2 Summarized financial information of the associate is based on financial information for nine months ended September 30, 2020. There is no difference between the proportionate share of net assets of associate and its carrying value accounted on equity method therefore no reconciliation is required.

11.6.3 There is no share of contingencies and commitments from associate as at September 30, 2020 and 2019.

12 ADVANCES - NET

	Performing		Non Performing		Total	
	2020	2019	2020	2019	2020	2019
	Rupees in '000					
Loans, cash credits, running finances, etc.	60,407,983	71,248,276	40,703,634	11,976,290	101,111,617	83,224,566
Islamic financing and related assets	3,089,668	5,252,194	2,108,100	22,749,660	5,197,768	28,001,854
Bills discounted and purchased	342,712	1,007,349	3,113	3,113	345,825	1,010,462
Advances - gross	63,840,363	77,507,819	42,814,847	34,729,063	106,655,210	112,236,882
Provision against advances						
- Specific	-	-	13,951,531	6,077,627	13,951,531	6,077,627
- General	742,034	784,308	-	-	742,034	784,308
	742,034	784,308	13,951,531	6,077,627	14,693,565	6,861,935
Advances - net of provision	63,098,329	76,723,511	28,863,316	28,651,436	91,961,645	105,374,947

	2020	2019
	Rupees in '000	
12.1 Particulars of advances (gross)		
In local currency	106,655,210	112,236,882
In foreign currencies	-	-
	<u>106,655,210</u>	<u>112,236,882</u>

12.2 Advances include Rs. 42,815 million (2019: Rs. 34,729 million) which have been placed under non-performing status as detailed below.

Category of classification - specific	2020		2019	
	Non Performing Loans	Provision	Non Performing Loans	Provision
	Rupees in '000			
Domestic				
Substandard	2,844,340	448,526	1,543,094	196,928
Doubtful	5,493,237	683,828	4,911,888	516,582
Loss	34,477,270	12,819,177	28,274,081	5,364,119
Total	42,814,847	13,951,531	34,729,063	6,077,627

12.3 Particulars of provision against advances

	2020			2019		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Opening balance	6,077,627	784,308	6,861,935	4,524,443	687,723	5,212,166
Charge for the year	9,424,399	-	9,424,399	2,728,584	96,585	2,825,169
Reversals	(306,895)	(42,274)	(349,169)	(189,953)	-	(189,953)
35	9,117,504	(42,274)	9,075,230	2,538,631	96,585	2,635,216
12.4.1	(1,243,600)	-	(1,243,600)	(985,447)	-	(985,447)
Closing balance	13,951,531	742,034	14,693,565	6,077,627	784,308	6,861,935

12.3.1 Particulars of provision against advances

	2020			2019		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
In local currency	13,951,531	742,034	14,693,565	6,077,627	784,308	6,861,935
In foreign currencies	-	-	-	-	-	-
	<u>13,951,531</u>	<u>742,034</u>	<u>14,693,565</u>	<u>6,077,627</u>	<u>784,308</u>	<u>6,861,935</u>

12.3.2 It includes non-performing advances amounting to Rs. 20,160.95 million (2019 : Rs. 20,160.95 million) extended to certain borrowers who are engaged primarily in trading and real estate businesses which are mainly secured against mortgage of land. These exposures are classified under 'Loss' category. In December 2020, the Bank in order to cure these non-performing exposures and for disposal of land held by the Bank as non-banking assets (Note 16 & 16.3) has entered a Memorandum of Understanding (MoU) with M/s Arif Habb Dolmen REIT Management Company ("REIT Management Company") and the holding company of respective borrowers ("Borrowers' Holding Company") owing the NPL involved. The arrangement has been entered into with the approval of SBP, with certain conditions precedent. Under the MoU, two REIT schemes shall be formed and managed by the REIT Management Company under the applicable REIT laws to which the borrowers along with the Bank shall transfer their certain owned land (include land that are encumbered with the Bank as well as land held by the respective borrower's as unencumbered) to the REIT scheme. The REIT scheme shall develop the transferred land for commercial and residential projects which are expected to be completed within a tentative period of eight years. The projects to be built upon would be offered for sale in the market. Under the agreed arrangement, the REIT schemes shall settle the consideration against the transferred land to the Bank for the settlement of its NPL and non-banking assets over eight years from the cashflows generated by REIT. All sale proceeds, receivables, dividends, REIT units and cashflows attributable to the land owned by the respective borrowers would remain assigned in favour of the Bank leading to direct realizability to the Bank (Note 1.4). Beside the transfer of land held by the Bank as collateral to the REIT scheme, the Bank will continue to hold other land of the respective borrowers as collateral having market value of around Rs. 24 billion.

12.3.2.1 At the time of approval of these financial statements, both REIT schemes have been established, land as contemplated in the MoU have been transferred to the REIT scheme and an initial sale proceed of Rs. 878 million have been realised to the Bank against these respective non-performing exposures.

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

12.3.5 As of December 31, 2020, the Bank has availed FSV benefits against all non performing advances. Had the benefit not been taken by the Bank, loss after tax would have been higher by Rs. 15,508 million (2019 : Rs. 5,738 million), which shall not be available for payment of cash or stock dividend / bonus to employees.

12.3.6 As per Prudential Regulation for consumer financing issued by the SBP, percentage of reserve is linked to non-performing loans to gross loans ratio. Consequently, the general provisioning on consumer financing is maintained at 4% (December 31, 2019: 4%) of unsecured portfolio of the Bank.

	Note	2020	2019
		Rupees In '000	
12.4 Particulars of write offs:			
12.4.1 Against Provisions	12.3	1,243,600	985,447
Directly charged to profit & loss account		-	-
		<u>1,243,600</u>	<u>985,447</u>
12.4.2 Domestic			
Write Offs of Rs. 500,000 and above	12.4.3	327,272	579,674
Write Offs of Below Rs. 500,000		916,328	405,773
		<u>1,243,600</u>	<u>985,447</u>
12.4.3 Detail 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 is given in Annexure I.

12.6 Information related to Islamic financing and related assets is given in Annexure II and is an integral part of the financial statements.

		2020	2019
		Rupees In '000	
13 FIXED ASSETS			
Capital work-in-progress	13.1	7,333	38,078
Property and equipment	13.2	3,256,308	1,685,262
Right-of-use assets	13.7	3,498,761	4,187,049
		<u>6,762,402</u>	<u>5,910,389</u>
13.1 Capital work-in-progress			
Civil works		521	808
Advances to suppliers and contractors		6,812	37,270
		<u>7,333</u>	<u>38,078</u>

13.2 Property and equipment

Note	Owned								Leased	Total
	Freehold land	Leasehold land	Building on Freehold land	Building on Leasehold land	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Leasehold Improvements	Solar Panel System	
	Rupees in '000									
2020										
At January 1, 2020										
Cost / revalued amount	-	40,571	15,425	218,555	418,425	2,031,099	838,982	1,268,746	-	4,831,803
Accumulated depreciation	-	-	(6,639)	(81,766)	(269,232)	(1,587,431)	(350,521)	(850,952)	-	(3,146,541)
Net book value	-	40,571	8,786	136,789	149,193	443,668	488,461	417,794	-	1,685,262
Year ended December 2020										
Opening net book value	-	40,571	8,786	136,789	149,193	443,668	488,461	417,794	-	1,685,262
Additions	-	-	-	-	6,357	50,591	104,008	27,053	-	188,009
Transferred from Asset held for sale	13.3	1,866,750	-	362,979	-	-	-	-	-	2,229,729
Disposals - WDV	-	-	-	-	-	(2,926)	(80,595)	-	-	(83,521)
Write offs - WDV	-	-	-	-	-	(8)	-	(9,921)	-	(9,929)
Depreciation charge	-	-	(771)	(42,041)	(26,012)	(132,390)	(143,436)	(76,725)	-	(421,375)
Impairment loss	13.3	-	-	(331,867)	-	-	-	-	-	(331,867)
Closing net book value	13.2.1	1,907,321	8,015	125,860	129,538	358,935	368,438	358,201	-	3,256,308
At December 31, 2020										
Cost / revalued amount	-	1,907,321	15,425	581,534	423,833	2,075,338	710,685	1,271,085	-	6,985,221
Accumulated depreciation	-	-	(7,410)	(123,807)	(294,295)	(1,716,403)	(342,247)	(912,884)	-	(3,397,046)
Accumulated impairment	-	-	-	(331,867)	-	-	-	-	-	(331,867)
Net book value	-	1,907,321	8,015	125,860	129,538	358,935	368,438	358,201	-	3,256,308
Rate of depreciation	-	-	5%	5%	10%	14.29%-33.33%	20%	10%-20%	20%	
2019										
At January 1, 2019										
Cost / revalued amount	-	1,907,321	15,425	840,805	404,085	1,841,700	758,526	1,243,543	20,215	7,031,620
Accumulated depreciation	-	-	(5,867)	(298,997)	(239,079)	(1,454,004)	(322,178)	(777,078)	(16,787)	(3,113,990)
Net book value	-	1,907,321	9,558	541,808	165,006	387,696	436,348	466,465	3,428	3,917,630
Year ended December 2019										
Opening net book value	-	1,907,321	9,558	541,808	165,006	387,696	436,348	466,465	3,428	3,917,630
Additions	-	-	-	-	15,674	173,490	261,768	45,029	-	495,959
Disposals	-	-	-	-	(221)	(133)	(62,762)	-	-	(63,116)
Transfer	-	-	-	-	-	438	-	-	(438)	-
Write offs	-	-	-	-	(59)	-	-	(2,021)	-	(2,080)
Transferred to Asset held for sale	13.3	(1,866,750)	-	(362,979)	-	-	-	-	-	(2,229,729)
Depreciation charge	-	-	(772)	(42,040)	(31,207)	(117,823)	(146,891)	(91,679)	(2,990)	(433,402)
Closing net book value	-	40,571	8,786	136,789	149,193	443,668	488,461	417,794	-	1,685,262
At December 31, 2019										
Cost / revalued amount	-	40,571	15,425	218,555	418,425	2,031,099	838,982	1,268,746	-	4,831,803
Accumulated depreciation	-	-	(6,639)	(81,766)	(269,232)	(1,587,431)	(350,521)	(850,952)	-	(3,146,541)
Net book value	-	40,571	8,786	136,789	149,193	443,668	488,461	417,794	-	1,685,262
Rate of depreciation	-	-	5%	5%	10%	14.29%-33.33%	20%	10%-20%	20%	

13.2.1 These include land and buildings revalued in 2008 by Habib Associates, an independent valuer. The revaluation resulted in a surplus of Rs. 118.67 million. Had there been no revaluation, the carrying value of the revalued land and buildings would have been lower by Rs. 51.91 million (2019: Rs. 55.49 million). The Bank's land and buildings were again revalued in financial year 2022 on the basis of December-2020, however, no revaluation surplus or deficit was recorded as the revalued amounts were not materially different from carrying values.

13.3 On September 10, 2015, the Bank entered into an Agreement to Sell (the Agreement) with respect to its previous Head Office Land and Building (the Property) against safe consideration of Rs. 2,370 million. Pursuant to the terms of the Agreement, the Bank received a down payment of Rs. 118.50 million, which is currently reported in 'other liabilities' (note 22). The remaining balance was required to be paid by the buyer within 5 years from the date of the Agreement. Under the agreement, the counter-party is permitted for new construction at the Property site while keeping the building facade intact being the heritage and required to be protected under Heritage regulations. In the financial statements for year 2020, the Property was classified under 'Assets held for sale' (Note 17) on meeting relevant criteria (Note 7.15).

13.3.1 Further, due to construction activities at the Property certain parts of the building are affected and therefore, the building is currently not usable. Accordingly, on prudent basis, the written down value of the building is fully provided for impairment in these financial statements. Once, the sale is completed under the Agreement, such provision will be reversed.

13.3.2 Due to certain litigation and restrictions against the proposed construction along with severe economic slowdown occurred due to COVID-19, the construction activities at the Property site were badly hampered at various time-intervals due to which the counter-party was not able to culminate the sale agreement at its contemplated timeline. As a consequence, the counter-party has requested the Bank to make revision in the agreement. During the year, the agreement was initially extended for one year i.e. till September 30, 2021. Subsequent to the year-end, the agreement is further amended and the term is now extended till September 2024 and related accrued rent has been settled. As the sale is now expected to be consummated after the next financial year ending December 2021, therefore, the Property is reclassified as Property and Equipment (Note 12.2) at the Balance sheet date.

	2020	2019
	Rupees in '000	
13.4 The cost of fully depreciated property and equipment that are still in use is as follows:		
Furniture, electrical, office, computer equipment and others	1,525,375	1,359,080
Leasehold improvements	651,375	475,184
Vehicles	67,049	69,167
	<u>2,243,799</u>	<u>1,903,431</u>

13.5 Details of disposal of fixed assets - By negotiations / Bank policy

Particulars of assets	Date of capitalization	Date of disposal	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain / (Loss)	Mode of disposal	Particulars of purchaser
Rupees in '000									
Items having Book value in aggregate more than Rs. 250,000 or Cost more than Rs.1,000,000									
Suzuki Swift Dix Model 2015	31-Jan-15	7-Jan-20	1,039	1,039	-	-	-	As per Company Policy	Sheikh Ahmed Mumtaz
Suzuki Wagon R AT Model 2015	13-Feb-18	9-Jan-20	1,250	479	771	771	-	As per Company Policy	Saad Ashraf
Suzuki Swift Dix MT Model 2017	6-Nov-17	20-Jan-20	1,375	596	779	802	23	Insurance Claim	Ussama Salman Anwar
Toyota Corolla XII Model 2014	15-Aug-16	20-Jan-20	1,099	751	348	348	-	As per Company Policy	Abdul Rauf Bhatti
Toyota Corolla Altis A/T 1.6 Model 2017	17-Feb-17	20-Jan-20	1,129	640	489	489	-	As per Company Policy	Ali Iftikhar Cherna
Suzuki Swift Dix Model 2013	4-Mar-15	21-Jan-20	1,039	987	52	52	-	As per Company Policy	Mujib Ur Rehman
Toyota Axió Hybrid Color 2013	13-Nov-19	22-Jan-20	1,745	29	1,716	1,716	-	As per Company Policy	Imran Jamshed
Honda Civic I-Vtec Model 2019	14-Dec-18	31-Jan-20	2,824	612	2,212	2,212	-	As per Company Policy	Syed Kaleem Ahmed Riaz
Suzuki Cultus Vxri Model 2018	21-May-18	5-Mar-20	1,250	458	792	792	-	As per Company Policy	Mariam Hussain
Toyota Vitz Up Grade Car Model 2013	26-May-15	5-Mar-20	1,039	1,004	35	35	-	As per Company Policy	Mudasser Raza
Honda City M/T Model 2017	12-Dec-17	16-Mar-20	1,250	500	750	750	-	As per Company Policy	Famukh Zafar
Honda Vezel Model 2015	8-Sep-15	16-Mar-20	2,378	2,140	238	238	-	As per Company Policy	Saqib Pal
Toyota Corolla Altis A/T 2016	1-Dec-16	16-Mar-20	1,806	873	933	1,204	271	As per Company Policy	Muhammad Ali Chughtai
Toyota Corolla Altis A/T 1.6 Model 2015	15-Apr-15	9-Apr-20	1,771	1,771	-	-	-	As per Company Policy	Taufur Hamid
Honda City P/T 1.3 Model 2015	28-Apr-15	28-Apr-20	1,039	1,039	-	-	-	As per Company Policy	Mansoor Khawaja
Toyota Corolla Altis Grande Model 2014	17-May-18	4-May-20	1,375	504	871	871	-	As per Company Policy	Aqeel Mirza
Honda Civic Vti I-Vtec 2016	1-Dec-16	4-May-20	2,353	1,569	784	784	-	As per Company Policy	Noshad Khalid
Honda Vezel Model 2014	25-Jul-17	5-May-20	2,513	1,424	1,089	1,089	-	As per Company Policy	Rashid Pervaiz
Toyota Corolla Gli A/T 2015	18-May-15	5-May-20	1,771	1,771	-	-	-	As per Company Policy	Waseem Ahmed Sheikh
Toyota Corolla Altis Cvt Grande 2015	26-May-15	3-Jun-20	1,772	1,772	-	-	-	As per Company Policy	Khurram Ali Malik
Toyota Prius Hybrid 2011	18-Jun-15	3-Jun-20	1,282	1,282	-	-	-	As per Company Policy	Shahid Manzoor
Honda Civic I-Vtec 1.8Cc Model 2017	21-Mar-19	9-Jun-20	2,331	350	1,981	1,981	-	As per Company Policy	Muhammad Zia Ul Haq
Suzuki Swift Dix Model 2015	17-Jun-15	9-Jun-20	1,282	1,282	-	-	-	As per Company Policy	Rizwanullah Khan
Suzuki Cultus VxLi Model 2017	6-Jul-17	11-Jun-20	1,250	708	542	542	-	As per Company Policy	Sheeraz Ghani
Honda City M/T Model 2015	17-Jun-15	11-Jun-20	1,039	1,039	-	-	-	As per Company Policy	Shakeel Ahmed
Toyota Corolla Gli A/T Model 2016	29-Apr-19	15-Jun-20	1,555	363	1,192	1,192	-	Insurance Claim	Spi Insurance
Toyota Corolla Gli 1.3Cc Model 2014	3-Oct-17	25-Jun-20	1,327	686	641	641	-	As per Company Policy	Sawera Adnan
Porsche Cayenne Hybrid Model 2014	16-Jun-15	25-Jun-20	15,500	15,500	-	-	-	As per Company Policy	Talha Saeed
Toyota Land Cruiser 4.6 Model 2010	10-Apr-15	25-Jun-20	11,940	11,940	-	-	-	As per Company Policy	Goharulayn Afzal
Suzuki Cultus Vxri Model 2015	22-May-15	3-Jul-20	1,039	1,039	-	-	-	As per Company Policy	Laiq Haider
Suzuki Cultus Vxri Model 2015	13-Jul-15	7-Jul-20	1,039	1,039	-	-	-	As per Company Policy	Imtiaz Ahmed
Honda City MT With Navigation Model 2015	1-Jul-15	10-Jul-20	1,039	1,039	-	-	-	As per Company Policy	Farooq Rasheed
Suzuki Cultus Vxri Model 2015	10-Jul-15	10-Jul-20	1,039	1,039	-	-	-	As per Company Policy	Syed Muhammad Imran Mojid
Suzuki Cultus Vxri Model 2015	11-Jun-15	14-Jul-20	1,039	1,022	17	17	-	As per Company Policy	Raja Shahzad Liaquat
Honda City Aspire P/T Model 2017	17-Feb-17	16-Jul-20	1,129	734	395	395	-	As per Company Policy	Omer Imtiaz
Toyota Corolla Altis Grande Model 2016	11-May-16	17-Jul-20	2,198	1,832	366	366	-	As per Company Policy	Haider Raza
Toyota Altis Grande A/T 1.8 Model 2018	22-Jul-19	21-Jul-20	3,505	701	2,804	2,804	-	As per Company Policy	Muhammad Kashif Malik
Toyota Corolla Altis A/T Model 2015	14-Jul-15	21-Jul-20	1,753	1,753	-	-	-	As per Company Policy	Naveed Mushtaq Usman Ata

Particulars of assets	Date of capitalization	Date of disposal	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain / (Loss)	Mode of disposal	Particulars of purchaser
Toyota Fortuner Color White Model 2014	1-Oct-18	5-Aug-20	2,172	796	1,376	1,376	-	As per Company Policy	Zeeshan Pervaiz
Toyota Corolla Gili A/T Model 2019	5-Nov-19	5-Aug-20	1,745	145	1,600	1,600	-	As per Company Policy	Aqeel Ur Rehman
Suzuki Swift Dlx Model 2015	11-Aug-15	5-Aug-20	1,282	1,282	-	-	-	As per Company Policy	Syed Kazim Raza
Honda Civic 1.8 Model 2018	26-Nov-18	10-Aug-20	3,003	1,001	2,002	2,100	98	External	Dhoom Cars
Toyota Fortuner 591B4X4 A/T Model 2019	9-Jul-19	10-Aug-20	3,829	830	2,999	2,999	-	As per Company Policy	Anwar Ul Haq Majeed
Daihatsu Terios 4X2 Lwb A/T, Pool Car	21-Nov-11	10-Aug-20	2,849	2,849	-	705	705	External	Ajwa Motors
Toyota Corolla Gili A/T Model 2015	1-Aug-15	10-Aug-20	1,771	1,771	-	-	-	As per Company Policy	Muhammad Iftikhar
Honda City Manual Model 2015	24-Aug-15	10-Aug-20	1,282	1,282	-	-	-	As per Company Policy	Mahmood Ahmed Sheikh
Suzuki Swift Dlx Model 2018	6-Jul-18	11-Aug-20	1,435	239	1,196	1,339	143	As per Company Policy	Hina Abbas
Honda City M/T Model 2015	6-Aug-15	11-Aug-20	1,282	1,282	-	-	-	As per Company Policy	Waqar Ul Islam
Honda Civic Vti Oriol Model 2017	29-Aug-17	12-Aug-20	2,363	1,378	985	985	-	As per Company Policy	Ahmad Adeel Ibrahim
Toyota Corolla Allis A/T Model 2015	11-Aug-15	12-Aug-20	1,828	1,828	-	-	-	As per Company Policy	Javed Yousuf Edhi
Toyota Corolla Allis Grande Model 2015	24-Aug-15	12-Aug-20	2,303	2,265	38	38	-	As per Company Policy	Mansoor Mukhtar
Suzuki Cultus Vxri Model 2015	1-Aug-15	19-Aug-20	1,039	1,039	-	-	-	As per Company Policy	Abdul Rauf
Suzuki Cultus Vxri Model 2015	24-Aug-15	19-Aug-20	1,039	1,039	-	-	-	As per Company Policy	Chaudhry Liaquat Ali
Apple Macbook 19 Serial# Sco2218Nfvcg	22-Oct-19	27-Aug-20	445	124	321	321	-	As per Company Policy	Azmat Tarin
Mercedes Benz S400 Model 2015	6-Sep-17	27-Aug-20	14,000	8,167	5,833	5,833	-	As per Company Policy	Azmat Tarin
Honda City M/T Model 2017	12-Dec-17	27-Aug-20	1,250	667	583	583	-	As per Company Policy	Syed Abbas Raza
Toyota Lexus 570 Color Black Model 2017	20-Feb-18	27-Aug-20	36,000	18,000	18,000	18,000	-	As per Company Policy	Azmat Tarin
Toyota Passo Color White Model 2014	13-Mar-18	27-Aug-20	1,413	589	824	824	-	As per Company Policy	Qamar Shah
Suzuki Swift Dlx Model 2015	4-Aug-15	27-Aug-20	1,282	1,282	-	-	-	As per Company Policy	Muhammad Khalid Hussain
Apple Iphone 11 Pro Max 256Gb	22-Dec-19	27-Aug-20	290	39	251	251	-	As per Company Policy	Azmat Tarin
20 Kva Generator Set	26-Dec-16	27-Aug-20	1,274	467	807	807	-	As per Company Policy	Azmat Tarin
80 Kva Generator Set	26-Dec-16	27-Aug-20	2,266	831	1,435	1,435	-	As per Company Policy	Azmat Tarin
Suzuki Cultus Vxri Model 2018	5-Sep-18	2-Sep-20	1,340	491	849	849	-	As per Company Policy	Arshad Mahmood
Honda Civic 1.8 Model 2019	2-May-19	2-Sep-20	3,404	908	2,496	2,496	-	As per Company Policy	Syed Fahim Hassan
Honda Civic 1.8 Model 2015	14-Sep-15	2-Sep-20	1,771	1,771	-	-	-	As per Company Policy	Osama Sobail
Toyota Corolla Gili M/T Model 2015	11-Sep-15	2-Sep-20	1,771	1,771	-	-	-	As per Company Policy	Ifikhar Hussain
Suzuki Cultus Vxri Model 2015	2-Sep-15	3-Sep-20	1,039	1,039	-	-	-	As per Company Policy	Adeel Manzoor
Toyota Corolla Gili M/T Model 2015	4-Sep-15	3-Sep-20	1,753	1,753	-	-	-	As per Company Policy	Waseem Milan
Toyota Corolla Gili M/T Model 2015	9-Sep-15	3-Sep-20	1,753	1,753	-	-	-	As per Company Policy	Norman Iqbal
Toyota Corolla Allis A/T 2016	21-Oct-19	14-Sep-20	1,905	349	1,556	1,556	-	As per Company Policy	Al Naseer Karim
Aqua Hybrid A/T Model 2014 Sky Blue	14-Feb-20	14-Sep-20	1,745	204	1,541	1,541	-	As per Company Policy	Shahid Mahmood
Honda City M/T Model 2015	31-Aug-15	17-Sep-20	1,282	1,282	-	-	-	As per Company Policy	Sohail Zafar Joya
Toyota Corolla Gili A/T 1.6Cc Model 2016	20-Sep-16	5-Oct-20	1,788	1,252	536	536	-	As per Company Policy	Meinboob Afridi
Toyota Corolla Xli M/T Model 2015	12-Oct-15	7-Oct-20	1,039	1,039	-	-	-	As per Company Policy	Kamran Shaikat
Honda Vezel Hybrid Model 2015	20-Oct-15	9-Oct-20	2,156	2,156	-	-	-	As per Company Policy	Mohsin Abbas
Honda City Aspire Color Red Model 2013	7-Jul-17	12-Oct-20	1,250	771	479	479	-	As per Company Policy	Ahmed Mobin Malik
Toyota Corolla Gili M/T 1.3 Model 2018	9-Feb-18	12-Oct-20	1,327	708	619	619	-	As per Company Policy	Sajid Hassan Khan
Honda Civic 1.8 Model 2019	24-Jan-19	14-Oct-20	2,406	842	1,564	1,564	-	As per Company Policy	Muhammad Saqib Pal
Honda City Aspire M/T Model 2016	18-Aug-17	20-Oct-20	1,250	792	458	458	-	As per Company Policy	Mazhar Iqbal
Toyota Pius Hybrid Model 2012	9-Oct-17	22-Oct-20	1,250	667	583	583	-	As per Company Policy	Mir Adnan Jalil Brohi
Audi A4 Color Scuba Blue	17-Jul-17	29-Oct-20	4,500	2,925	1,575	1,575	-	As per Company Policy	Talha Saeed
Suzuki Swift Dlx Model 2015	24-Nov-15	4-Nov-20	1,282	1,282	-	-	-	As per Company Policy	Muhammad Noshad

Particulars of assets	Date of capitalization	Date of disposal	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain / (Loss)	Mode of disposal	Particulars of purchaser
Suzuki Cultus Vxr Model 2015	19-Oct-15	11-Nov-20	1,039	1,039	-	-	-	As per Company Policy	Nahsed Irtiaz
Honda Civic I-Vtec Oriet Model 2018	24-Apr-18	16-Nov-20	2,561	1,280	1,281	1,281	-	As per Company Policy	Kausar Iqbal Malik
Suzuki Swift Dix M/T Model 2017	1-Nov-17	17-Nov-20	1,375	802	573	573	-	As per Company Policy	Naveed Anjum Syal
Honda Brv I Vtec S 1497 Cc	29-Nov-19	28-Nov-20	1,745	349	1,396	1,396	-	As per Company Policy	Halima Ahmed
Nissan Wingroad A/T 4Wd Grey Model 2007	6-Jan-17	30-Nov-20	1,129	527	602	884	282	As per Company Policy	Ammar Ahmed
Toyota Corolla GII Model 2015	18-Dec-15	2-Dec-20	1,753	1,753	-	-	-	As per Company Policy	Muhammad Raees Khan
Toyota Corolla GII Model 2011	1-Dec-15	2-Dec-20	1,039	1,039	-	-	-	As per Company Policy	Qazi Basharat Ul Haq
Suzuki Swift Dix Model 2015	1-Dec-15	2-Dec-20	1,282	1,282	-	-	-	As per Company Policy	Zeeshan Javed Salimi
Toyota Corolla Altis A/T Model 2019	26-Apr-19	3-Dec-20	1,555	492	1,063	1,063	-	As per Company Policy	Ahmed Kamal Akhtar
Honda Civic I-Vtec P/T 1.8Cc Model 2014	3-Oct-17	7-Dec-20	1,375	802	573	573	-	As per Company Policy	Syed Imran Kazmi
Honda Civic I-Vtec Oriet 1.8 Model 2018	12-Sep-19	11-Dec-20	1,905	413	1,492	1,492	-	As per Company Policy	Abdul Haseeb Jan
Toyota Passo Color Purple Model 2015	2-Dec-19	17-Dec-20	1,380	506	874	874	-	Insurance Claim	Alfalah Insurance - Tariq Aziz
Toyota Corolla Altis 1.6Cc Super White	2-Dec-19	17-Dec-20	2,755	551	2,204	2,204	-	Insurance Claim	Spi Insurance - Junaid Shabbir
Toyota Corolla GII M/T White Model 2015	3-Dec-15	18-Dec-20	1,771	1,771	-	-	-	As per Company Policy	Abid Hussain
Toyota Corolla XII Model 2012	13-Jun-17	30-Dec-20	1,250	854	396	396	-	As per Company Policy	Syed Mustafa Haider Zaidi
Suzuki Cultus Vxr Model 2019	18-Sep-19	30-Dec-20	1,476	344	1,132	1,132	-	As per Company Policy	Hassan Haroon
Honda Civic I-Vtec Model 2018	5-Nov-18	31-Dec-20	2,603	1,085	1,518	1,518	-	As per Company Policy	Ahmed Qureshi
Total			235,588	152,181	83,407	84,929	1,522		
Items having Book value in aggregate less than Rs. 250,000 or Cost less than Rs.1,000,000									
Others			2,827	2,713	114	169	55		
Grand Total			238,415	154,894	83,521	85,098	1,577		

13.6 Disposals to Bank's employees are made as per their terms of employment. These include both resigned and active staff of the Bank.

	Note	2020	2019
		Rupees in '000	
13.7 Right-of-use assets			
At January 1			
Cost		4,860,427	4,860,427
Accumulated depreciation		(673,378)	-
Net book value		<u>4,187,049</u>	<u>4,860,427</u>
Year ended December			
Opening net book value		4,187,049	4,860,427
Depreciation charge		(670,106)	(673,378)
Other Adjustment		(18,182)	-
Closing net book value		<u>3,498,761</u>	<u>4,187,049</u>
At December 31			
Cost		4,842,245	4,860,427
Accumulated depreciation		(1,343,484)	(673,378)
Net book value		<u>3,498,761</u>	<u>4,187,049</u>
Rate of depreciation		<u>7.2%-48%</u>	<u>7.2%-48%</u>
14 INTANGIBLE ASSETS			
Capital work-in-progress		66,586	63,919
Software	14.1	217,245	153,158
		<u>283,831</u>	<u>217,077</u>
14.1 Software			
At January 1			
Cost		957,694	900,933
Accumulated amortisation		(804,536)	(739,260)
Net book value		<u>153,158</u>	<u>161,673</u>
Year ended December			
Opening net book value		153,158	161,673
Additions		126,697	56,761
Amortisation charge		(61,408)	(65,276)
Others		(1,202)	-
Closing net book value		<u>217,245</u>	<u>153,158</u>
At December 31			
Cost		1,083,189	957,694
Accumulated amortisation		(865,944)	(804,536)
Net book value		<u>217,245</u>	<u>153,158</u>
Rate of amortisation		<u>10%-20%</u>	<u>10%-20%</u>
Useful life (in years)		<u>5-10</u>	<u>5-10</u>
14.1.1 The cost of fully amortised software still in use		<u>759,277</u>	<u>253,772</u>

15	DEFERRED TAX ASSETS	At Jan 1	Recognised In P&L A/c	Recognised In OCI	At Dec 31
	Note	Rupees in '000			
2020					
Deductible Temporary Differences on					
- Tax losses carried forward		1,498,167	270,299	-	1,768,466
- Post retirement employee benefits		2,713	-	(2,713)	-
- Provision for diminution in value of investments		3,073	-	-	3,073
- Provision against non-performing advances		2,658,631	2,501,882	-	5,160,513
- Provision against Workers' Welfare Fund (WWF)		47,094	-	-	47,094
- Provision against other assets		218,018	233,782	-	449,800
- Depreciation on non-banking assets		86,113	16,182	-	102,295
- Deficit on revaluation of investments	24	-	-	582,149	582,149
- Unabsorbed tax depreciation		566,867	97,903	-	664,770
- Impairment in value of fixed assets		-	116,153	-	116,153
		5,078,676	3,236,201	579,436	8,894,313
Taxable Temporary Differences on					
- Surplus on revaluation of investments	24	(98,390)	-	98,390	-
- Surplus on revaluation of non-banking assets	24.2	(2,216)	-	(12,907)	(15,123)
- Surplus on revaluation of fixed assets	24.1	(11,274)	-	1,253	(10,021)
- Post retirement employee benefits		-	-	(12,083)	(12,083)
- Accelerated tax depreciation		(102,569)	40,739	-	(61,830)
		(214,449)	40,739	74,653	(99,057)
		4,864,227	3,276,940	654,089	8,795,256
2019					
Deductible Temporary Differences on					
- Tax losses carried forward		-	1,498,167	-	1,498,167
- Post retirement employee benefits		7,525	-	(4,812)	2,713
- Provision for diminution in value of investments		3,073	-	-	3,073
- Provision against non-performing advances		2,327,362	331,269	-	2,658,631
- Provision against Workers' Welfare Fund (WWF)		47,094	-	-	47,094
- Provision against other assets		223,368	(7,350)	-	216,018
- Depreciation on non-banking assets		65,855	20,258	-	86,113
- Unabsorbed tax depreciation		439,636	127,231	-	566,867
		3,113,913	1,969,575	(4,812)	5,078,676
Taxable Temporary Differences on					
- Surplus on revaluation of Investments		78,027	-	(176,417)	(98,390)
- Surplus on revaluation of non banking assets		(2,534)	-	318	(2,216)
- Surplus on revaluation of fixed assets		(12,527)	-	1,253	(11,274)
- Accelerated tax depreciation		(118,232)	15,663	-	(102,569)
		(55,266)	15,663	(174,846)	(214,449)
		3,058,647	1,985,238	(179,658)	4,864,227

15.1 The Bank has an aggregate amount of deferred tax assets of Rs. 8,795 million (2019: Rs. 4,864 million) out of which an amount of Rs. 5,160 million (2019: 2,658 million) has been recorded in accordance with the provision of the Seventh Schedule to the Income Tax Ordinance, 2001, which require that Provisions for advances and off balance sheet items shall be allowed upto a maximum of 1% of total advances and provisions for advances and off-balance sheet items shall be allowed at 5% of total advances for consumers and small and medium enterprises. Deferred tax asset has been recorded based on management's best estimate of the probable benefits expected to be realised in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in those years against the deferred tax asset. In this regard, the Bank has prepared five years financial projections for future taxable profits, which have been approved by the Board of the Bank, to assess the recoverability of deferred tax assets. The projections involve certain key management assumptions underlying the estimation of future taxable profits. The determination of future taxable profits is most sensitive to certain key assumptions such as growth of low cost deposits, growth in high yield consumer advances, investment returns, potential provision against assets, interest rates, cost of funds and expected recoveries of classified loans. Any significant change in such assumptions may have an effect on the recoverability of the deferred tax assets. Management believes that it is probable that the Bank will be able to achieve the profits and consequently, the deferred tax asset will be fully realised in future.

15.2 Status of tax and other details are disclosed in note 36 to these financial statements.

	Note	2020 Rupees In '000	2019
16 OTHER ASSETS			
Income / mark-up accrued in local currency - net of provision		9,345,868	5,823,652
Income / mark-up accrued in foreign currency - net of provision		468	555
Accrued rent		96,618	354,618
Advances, deposits, advance rent and other prepayments		250,722	416,787
Profit paid in advance on fixed deposits		39,635	241,151
Advance taxation (payments less provisions)		1,804,089	1,427,694
Net defined benefit assets - permanent staff	40.4	34,526	-
Non-banking assets	16.1 & 16.2	9,674,889	10,001,190
Branch adjustment account		158,474	-
Mark to market gain on forward contracts		111,778	82,843
Acceptances		545,553	1,268,440
Receivable from sale of non-banking assets acquired in satisfaction of claims		88,650	291,050
Fee receivable from Credit Card members		243,586	158,323
Others		254,156	241,861
		<u>22,649,012</u>	<u>20,308,164</u>
Less: Provision held against other assets	16.5	<u>(1,270,223)</u>	<u>(602,274)</u>
Other assets - net of provisions		21,378,789	19,705,890
Surplus on revaluation of non-banking assets acquired in satisfaction of claims	24.2	<u>1,947,831</u>	<u>31,789</u>
Other assets - total		<u>23,326,620</u>	<u>19,737,679</u>
16.1 Market value of Non-banking assets acquired in satisfaction of claims	16.2.1	<u>10,360,497</u>	<u>9,438,705</u>

16.1.1 The valuation of non-banking assets acquired in satisfaction of the claims were carried out by Oceanic Surveyors (Private) Limited and Oriental Engineering Services from among the approved list of valuer of Pakistan Banker's Association.

	Note	2020 Rupees In '000	2019
16.2 Non-banking assets			
- acquired in satisfaction of claims		3,335,059	6,190,224
- under agreement to sale third parties		6,290,453	3,760,949
- with buy back option with customers		49,377	50,017
	16.4	<u>9,674,889</u>	<u>10,001,190</u>

16.2.1 Market value of Non-banking assets acquired in satisfaction of claims

Opening balance		9,438,705	9,233,733
Additions		73,306	540,890
Revaluation		1,917,576	-
Disposals	16.2.2	(335,802)	(268,765)
Impairment / provision		(669,394)	-
Depreciation		(83,894)	(67,153)
Closing balance		<u>10,360,497</u>	<u>9,438,705</u>

16.2.2 Gain on disposal of Non-banking assets acquired in satisfaction of claims

Disposal proceeds		302,318	277,884
less			
- Cost		351,927	277,123
- Impairment / Depreciation		(17,659)	(9,269)
- Surplus on revaluation		1,534	911
		<u>335,802</u>	<u>268,765</u>
- Loss on reversal of sale		(326,694)	(200,000)
Loss		<u>(360,178)</u>	<u>(190,881)</u>

16.3 The non-banking assets acquired in satisfaction of claims (NBAs) aggregating to Rs. 9,401 million are currently un-developed and have been evaluated based on the valuation reports from the valuers on Pakistan Bank' Association list of approved valuers. The Bank exposure exceeds the prescribed limit of 2.5% of aggregate advances and investments (excluding investment in Government securities) as prescribed by SBP under regulation Debt Property Swap.

16.4 Subsequent to the year-end till approval of these financial statements, non-banking land as contemplated in the MoU (Note 12.3.2) have been transferred to the REIT schemes and an initial sale proceeds amounting to Rs. 1,560 million have been realised to the Bank.

	Note	2020	2019
		Rupees in '000	
16.5 Provision held against other assets			
Non-banking assets acquired in satisfaction of claims		1,262,223	594,274
Others		8,000	8,000
		<u>1,270,223</u>	<u>602,274</u>
16.5.1 Movement in provision held against other assets			
Opening balance		602,274	623,274
Charge for the year		876,007	-
Reversals		(208,058)	(21,000)
Net charge / (reversals) for the year	35	667,949	(21,000)
Write off		-	-
Closing balance		<u>1,270,223</u>	<u>602,274</u>

17 ASSET HELD FOR SALE

17.1 Further, to Note 13.3, the Property that was classified as held for Sale has been reclassified under Fixed Assets on extension in the term of the agreement to Sale.

	Note	2020	2019
		Rupees in '000	
18 BILLS PAYABLE			
In Pakistan		3,088,780	2,483,658
Outside Pakistan		-	-
		<u>3,088,780</u>	<u>2,483,658</u>

19 BORROWINGS

19.1 Details of borrowings

Secured

Borrowings from State Bank of Pakistan

Under export refinance scheme	19.1.1	1,862,925	1,712,901
Repurchase agreement borrowings	19.1.2	87,331,738	21,597,750
Total secured		<u>89,194,663</u>	<u>23,310,651</u>

Unsecured

Call borrowings		-	1,289,553
Trading liability	19.1.2	-	6,380,152
Overdrawn nostro accounts		153,290	992,875
Overdrawn local bank accounts		-	-
Total unsecured		<u>153,290</u>	<u>8,662,580</u>
		<u>89,347,953</u>	<u>31,973,231</u>

19.1.1 The Bank has entered into agreements for financing with the SBP for extending export finance to customers. As per the agreements, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP. These borrowings are repayable within six months. These carry mark-up rates ranging from 1% to 2% (2019: 1% to 2%) per annum.

19.1.2 These represent funds borrowed from the local interbank money market against government securities carrying interest rate ranging from 6.05% to 7.11% (2019: 13% to 13.37%) per annum with maturity upto January 2021.

19.1.3 The market value of securities given as collateral against the repurchase agreement borrowings is Rs. 87,709 million (2019 : 28,099 million)

		2020	2019
		Rupees in '000	
19.2 Particulars of borrowings with respect to Currencies			
In local currency		89,194,663	30,980,356
In foreign currencies		153,290	992,875
		<u>89,347,953</u>	<u>31,973,231</u>

20 DEPOSITS AND OTHER ACCOUNTS

	2020			2019		
	In Local Currency	In Foreign currencies	Total	In Local Currency	In Foreign currencies	Total
Rupees in '000						
Customers						
Current deposits	28,460,310	4,239,277	32,699,587	21,547,734	4,788,979	26,336,713
Savings deposits	59,844,993	3,454,791	63,299,784	45,049,599	2,569,948	47,619,547
Term deposits	52,342,596	2,200,683	54,543,279	48,458,516	2,433,754	50,892,270
Margin deposits	926,612	-	926,612	1,680,068	-	1,680,068
Call deposits	1,226,588	-	1,226,588	1,035,119	-	1,035,119
	142,801,099	9,894,751	152,695,850	117,771,036	9,792,681	127,563,717
Financial Institutions						
Current deposits	153,679	24,248	177,927	97,822	39,173	136,995
Savings deposits	6,736,426	20,949	6,757,375	17,442,933	20,229	17,463,162
Term deposits	514,390	92,066	606,456	3,600,447	89,192	3,689,639
	7,404,495	137,263	7,541,758	21,141,202	148,594	21,289,796
	150,205,594	10,032,014	160,237,608	138,912,238	9,941,275	148,853,513

	2020	2019
	Rupees in '000	
20.1 Composition of deposits		
- Individuals	72,465,825	63,524,136
- Government (Federal and Provincial)	40,893,147	25,631,370
- Public Sector Entities	3,284,213	5,953,813
- Banking Companies	1,367,589	7,488,195
- Non-Banking Financial Institutions	6,174,169	13,801,601
- Private Sector	36,052,665	32,454,398
	160,237,608	148,853,513

20.2 This includes deposits eligible to be covered under insurance arrangements amounting to Rs. 95.72 billion (2019 : Rs. 78.77 billion).

	Note	2020	2019
		Rupees in '000	
21 SUBORDINATED DEBT			
Subordinated Term Finance Certificates	21.1	1,998,800	1,999,200
Subordinated loan from Sponsors	21.2	440,266	126,218
		2,439,066	2,125,418

21.1 The Bank has issued privately placed, unsecured and subordinated Term Finance Certificates (TFCs) as instruments of redeemable capital under section 66 of the Companies Act, 2017 and the Basel III guidelines issued by the SBP. The key features of the issue are as follows:

Issue amount	Rs. 2,000 million
Issue date	August 10, 2017
Maturity date	Up to 8 years from date of issue
Rating	(BBB+) by VIS Credit Rating Company Limited (Triple B Plus) was announced on October 12, 2020, based on financial statements of Silk Bank Limited as of June 30, 2020. Upon finalization of these financial statements, VIS will review the ratings.
Security	The instrument is unsecured and subordinated as to payment of principal and profit to all other indebtedness of the Bank, including deposits.
Profit payment frequency	Profit will be payable semi-annually in arrears on the outstanding principal amount and will be calculated on a 365 day year basis.
Redemption	0.14% of the issue amount during the first 7 years and remaining 99.86% in last two equal semi-annual installments of 49.93% each.

Mark-up	6 months KIBOR plus 1.85% per annum
Call option	The Bank may call TFCs in part or in full, after 5 years from date of issue on any profit payment date, subject to SBP approval and with not less than 30 days prior notice to the Trustee and Investors. The call option once announced will be irrevocable.
Lock-in-clause	As per the lock-in requirement for Tier II issues, neither profit nor principal will be payable (even at maturity) in respect of the TFC, if such payment will result in a shortfall in the Bank's Minimum Capital Requirement (MCR) or Capital Adequacy Ratio (CAR) or results in an increase in any existing shortfall in MCR or CAR.
Loss absorbency clause	The instrument will be subject to loss absorbency and / or any other requirements under SBP's Basel III Capital Rules. Upon the occurrence of a point of non-viability event as defined by SBP's Basel III Capital Rule, the SBP may at its option, fully and permanently convert the TFCs into common shares of the Bank and / or have them immediately written off (either partially or in full). Number of shares to be issued to TFC holders at the time of conversion will be equal to the 'Outstanding Face Value of the TFCs' divided by fair value per share of the Bank's common equity on the date of trigger of the non-viability event as declared by the SBP, subject to a cap of 1,238,390,093 shares.

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

	Note	2020 Rupees in '000	2019 Rupees in '000
22 OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		894,554	1,041,287
Mark-up / return / interest payable in foreign currencies		6,367	24,035
Unearned commission and income on bills discounted		52,959	54,912
Accrued expenses		553,317	377,682
Acceptances		545,553	1,268,440
Mark to market loss on forward contracts		158,312	422,803
Branch adjustment account		-	12,582
Payable to defined benefit plan - permanent staff	40.4	-	7,752
Payable to defined benefit plan - contractual staff		70,185	50,060
Provision against off-balance sheet obligations	22.1	116,012	116,012
Workers' Welfare Fund (WWF)		134,504	134,504
Advance received against future sale of non banking assets		95,917	121,239
Advance received against future sale of operating fixed assets	13.3	118,500	118,500
Deferred income against non-banking assets		135,743	153,657
Islamic pool management reserve		7,729	5,024
Lease liability against right-of-use assets	22.2	3,877,771	4,297,275
Non checking account		243,463	382,292
PRI remitting account		45,931	58,945
Funds received against application of Housing Scheme		66,224	149,570
Others		571,978	683,802
		<u>7,695,019</u>	<u>9,480,373</u>
22.1 Provision against off-balance sheet obligations			
Opening balance		116,012	116,012
Charge for the year		-	-
Reversals		-	-
Amount written off		-	-
Closing balance	22.1.1	<u>116,012</u>	<u>116,012</u>
22.1.1 This includes provisions made against letters of guarantee issued by the Bank.			
22.2 Maturity analysis of lease liability			
Not later than one year		456,149	395,749
Later than one year and not later than five years		2,410,161	2,330,264
Later than five years		1,011,461	1,571,262
		<u>3,877,771</u>	<u>4,297,275</u>

23 SHARE CAPITAL- NET

23.1 Authorised capital

2020	2019		2020	2019
Number of shares In '000			Rupees In '000	
10,500,000	10,500,000	Ordinary shares of Rs.10 each	105,000,000	105,000,000

23.2 Issued, subscribed and paid up capital

2020	2019		2020	2019
Number of shares In '000			Rupees In '000	
		<u>Ordinary shares of Rs. 10 each</u>		
9,081,861	9,081,861	Fully paid in cash	90,818,612	90,818,612
-	-	Less: Discount on issue of shares	(67,387,238)	(67,387,238)
9,081,861	9,081,861		23,431,374	23,431,374

23.3 Arif Habib Corporation Limited i.e. associated company held 2,563,901,924 (2019: 2,563,901,924) shares which represents 28.23% (2019: 28.23%) of the equity stake of the Bank.

Note 2020 2019
Rupees In '000

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

Surplus / (deficit) on revaluation of

- Available for sale securities	11.1	(1,663,280)	281,116
- Fixed assets	24.1	51,906	55,485
- Non-banking assets acquired in satisfaction of claims	24.2	1,947,831	31,789
		336,457	368,390

Deferred tax on (surplus) / deficit on revaluation of

- Available for sale securities	15	582,149	(98,390)
- Fixed assets	24.1	(10,021)	(11,274)
- Non-banking assets acquired in satisfaction of claims	24.2	(15,123)	(2,216)
		557,005	(111,880)
		893,462	256,510

24.1 Surplus on revaluation of fixed assets

Surplus on revaluation of fixed assets as at January 1	55,485	59,064
Recognised during the year	-	-
Realised on disposal during the year - net of deferred tax	-	-
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax	(2,326)	(2,326)
Related deferred tax liability on incremental depreciation charged during the year	(1,253)	(1,253)
Related deferred tax liability on surplus realised on disposal	-	-
Surplus on revaluation of fixed assets as at December 31	51,906	55,485

Less: related deferred tax liability on:

- revaluation as at January 1	(11,274)	(12,527)
- revaluation recognised during the year	-	-
- surplus realised on disposal during the year	-	-
- incremental depreciation charged during the year	1,253	1,253
	(10,021)	(11,274)
	41,885	44,211

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

Surplus on revaluation as at January 1	31,789	32,700
Recognised during the year	1,917,576	-
Realised on disposal / impairment during the year - net of deferred tax	(1,534)	(593)
Realised on transferred to fixed assets during the year - net of deferred tax	-	-
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax	-	-
Related deferred tax liability on incremental depreciation charged during the year	-	-
Related deferred tax liability on surplus realised on disposal / impairment	-	(318)
Related deferred tax liability on surplus realised on transferred to fixed assets	-	-
Surplus on revaluation of non-banking assets acquired in satisfaction of claims as at December 31	1,947,831	31,789

Less: related deferred tax liability on:

- revaluation as at January 1	(2,216)	(2,534)
- revaluation recognised during the year	(12,907)	-
- surplus realised on disposal during the year	-	318
- surplus realised on transferred to fixed assets during the year	-	-
- incremental depreciation charged during the year	-	-
	(15,123)	(2,216)
	1,932,708	29,573

	Note	2020	2019
		Rupees in '000	
25	CONTINGENCIES AND COMMITMENTS		
Guarantees	25.1	12,649,548	11,110,063
Commitments	25.2	27,295,663	27,332,813
Contingent liabilities	25.3	1,258,480	1,256,952
		<u>41,203,691</u>	<u>39,699,828</u>
25.1	Guarantees:		
Financial guarantees		59,940	59,940
Performance guarantees		7,892,158	7,811,701
Other guarantees		4,697,450	3,238,422
		<u>12,649,548</u>	<u>11,110,063</u>
25.2	Commitments:		
Documentary credits and short-term trade-related transactions			
- letters of credit		3,309,778	2,458,714
Commitments in respect of:			
- forward foreign exchange contracts	25.2.1	10,148,208	23,463,537
- forward government securities transactions	25.2.2	13,609,696	1,351,959
Commitments for acquisition of:			
- operating fixed assets		187	633
- intangible assets		227,794	57,970
	25.2.3	<u>27,295,663</u>	<u>27,332,813</u>
25.2.1	Commitments in respect of forward foreign exchange contracts		
Purchase		7,462,132	14,799,455
Sale		2,696,076	8,664,082
		<u>10,148,208</u>	<u>23,463,537</u>
25.2.2	Commitments in respect of forward government securities transactions		
Purchase		-	929,110
Sale		13,609,696	422,849
		<u>13,609,696</u>	<u>1,351,959</u>
25.2.3	The Bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.		
25.3	Contingent liabilities:		
Claims against the Bank not acknowledged as debt		1,222,840	1,221,312
Claims against the Bank by Competition Commission of Pakistan & others		35,640	35,640
		<u>1,258,480</u>	<u>1,256,952</u>
25.3.1	Suits for damages of Rs. 24.38 billion (2019: Rs. 24.4 billion) have been filed against the Bank by various borrowers / employees in respect of certain disputes relating to loans and advances. The management of the Bank and its legal counsel consider that the suits are a counterblast in response to the recovery suits filed by the Bank. The Bank and its legal counsel are confident that the cases will be dismissed as actual damages have to be proven in such suits.		
25.4	For contingencies relating to taxation refer note 36.2-36.4.		

26 DERIVATIVE INSTRUMENTS

26.1 Product Analysis
Counterparties

		2020	
		Forward Contracts	
		Notional Principal	Mark to Market gain / (loss)
		Rupees in '000	
	Note		
Hedging			
- Banks		13,666,992	90,304
- Other entities		-	-
Total	26.2	13,666,992	90,304

Counterparties

		2019	
		Forward Contracts	
		Notional Principal	Mark to Market gain / (loss)
		Rupees in '000	
	Note		
Hedging			
- Banks		1,359,556	(7,818)
- Other entities		-	-
Total	26.2	1,359,556	(7,818)

26.2 Maturity Analysis

2020					
Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
Rupees in '000					
Upto 1 month	-	-	-	-	-
1 to 3 months	-	-	-	-	-
3 to 6 months	6	13,666,992	-	90,304	90,304
6 month to 1 year	-	-	-	-	-
1 year to 2 years	-	-	-	-	-
	6	13,666,992	-	90,304	90,304

2019					
Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
Rupees in '000					
Upto 1 month	-	-	-	-	-
1 to 3 months	-	-	-	-	-
3 to 6 months	4	422,738	110	-	(110)
6 month to 1 year	1	936,818	7,708	-	(7,708)
1 year to 2 years	-	-	-	-	-
	5	1,359,556	7,818	-	(7,818)

26.3 Risk management related to derivatives is discussed in note 48.5.

		2020	2019
	Note	Rupees in '000	
27	MARK-UP / RETURN / PROFIT / INTEREST EARNED		
	On:		
	Loans and advances	10,364,832	12,277,263
	Investments	10,586,800	2,567,760
	Lendings to financial institutions	1,707,469	1,846,652
	Balances with banks	1,354	6,226
		<u>22,660,455</u>	<u>16,697,901</u>
28	MARK-UP / RETURN / PROFIT / INTEREST EXPENSED		
	Deposits	11,693,436	11,956,988
	Borrowings	8,189,134	1,987,379
	Subordinated debt	258,978	273,025
	Cost of foreign currency swaps against foreign currency deposits / borrowings	335,340	374,367
	Lease liability against right-of-use assets	441,523	477,701
	Others	20,910	12,284
		<u>20,939,321</u>	<u>15,081,744</u>
29	FEE & COMMISSION INCOME		
	Branch banking customer fees	193,868	189,138
	Consumer finance related fees	-	-
	Card related fees (debit and credit cards)	1,395,636	1,378,704
	Credit related fees	346,472	353,819
	Investment banking fees	-	-
	Commission on trade	144,977	165,119
	Commission on guarantees	70,392	76,549
	Commission on remittances including home remittances	17,787	20,687
	Commission on bancassurance	53,199	89,379
	Others	11,121	10,819
		<u>2,233,451</u>	<u>2,284,214</u>
30	DIVIDEND INCOME		
	Arif Habib Corporation Limited - related party	10,673	-
	Oil & Gas Development Company Limited	-	1,925
	Pakistan State Oil Company Limited	-	2,899
		<u>10,673</u>	<u>4,824</u>
31	GAIN ON SECURITIES		
	Realised	31.1 3,707,397	536,708
	Unrealised - held for trading	11.1 30,036	1,266
		<u>3,737,433</u>	<u>537,974</u>
31.1	Realised gain / (loss) on:		
	Federal Government Securities	3,665,602	563,261
	Shares	41,154	(26,553)
	Non Government Debt Securities	641	-
		<u>3,707,397</u>	<u>536,708</u>

		2020	2019
	Note	Rupees in '000	
32 OTHER (LOSS) / INCOME			
Rent on property and non-banking assets		151	52,870
Gain on sale of fixed assets - net		1,577	1,720
(Loss) / gain on sale of non-banking assets - net	16.2.2	(360,178)	(190,881)
Rent on lockers		22,265	19,969
Postage, telex and other service charges recovered		53,275	41,630
Share of profit from associate		12,885	5,227
Early loan termination charges		57,696	77,598
		<u>(212,329)</u>	<u>8,133</u>
33 OPERATING EXPENSES			
Total compensation expense	33.1	3,840,867	3,714,935
Property expense			
Rent & taxes		28,358	38,053
Insurance on non banking assets acquired in satisfaction of claims		1,145	1,071
Utilities cost		211,071	225,435
Security (including guards)		144,448	169,320
Repair & maintenance (including janitorial charges)		96,440	82,572
Depreciation on buildings		119,539	134,490
Depreciation on right-of-use assets		670,106	673,378
Depreciation on non-banking assets acquired in satisfaction of claims		63,894	67,153
Professional charges		7,533	30,424
		<u>1,342,534</u>	<u>1,421,896</u>
Information technology expenses			
Software maintenance		224,640	207,359
Hardware maintenance		86,148	94,392
Depreciation		74,078	56,556
Amortisation		61,408	65,276
Website development charges		695	371
		<u>446,869</u>	<u>423,954</u>
Other operating expenses			
Directors' fees and allowances		29,330	21,850
Fees and allowances to Shariah Board		15,024	15,088
Legal & professional charges		137,850	482,258
Outsourced services costs	33.2	48,739	53,160
Traveling & conveyance		97,981	120,609
NIFT clearing charges		12,398	15,882
Depreciation		227,758	242,356
Training & development		8,568	24,738
Postage & courier charges		28,133	53,960
Communication		424,348	371,959
Stationery & printing		83,120	81,909
Marketing, advertisement & publicity		262,487	425,441
Auditors Remuneration	33.3	25,354	17,396
Insurance (including deposit protection)		189,519	143,188
Repairs & maintenance		89,751	100,391
Financial charges on leased assets		-	159
Brokerage and commission		9,911	10,158
Subscriptions and news papers		19,759	24,283
Entertainment		45,617	54,768
Vehicle running & maintenance		23,203	31,297
Card related expenses (debit and credit cards)		126,001	147,695
Security		36,580	36,029
Others		2,772	16,138
		<u>1,944,183</u>	<u>2,490,712</u>
		<u>7,574,453</u>	<u>8,051,497</u>

	2020	2019
	Rupees in '000	
33.1 Total compensation expense		
Fees and allowances etc	16,048	16,636
Managerial remuneration		
i) Fixed	1,661,902	1,554,915
ii) Cash bonus / awards etc.	574,791	650,249
Charge for defined benefit plan	120,198	113,417
Contribution to defined contribution plan	99,479	93,112
Rent and house maintenance	801,478	756,636
Utilities	6,320	4,187
Medical	165,667	161,069
Conveyance	340,771	317,560
Insurance	46,790	45,211
Others	7,423	1,943
Total	3,840,667	3,714,935

33.2 Total cost for the year included in other operating expenses relating to outsourced activities is Rs. 48.74 million (2019 : Rs. 53.16 million) pertains to the payment to companies incorporated in Pakistan. The material outsourcing arrangements along with their nature of services are as follows:

Name of company	Nature of service	Note	2020	2019
			Rupees in '000	
M & P	Printing and Dispatch of Statement of Accounts		2,326	3,554
OS First Solutions (Private) Limited	Book Keeping/Record Management service		6,558	8,981
Printlink	Cheque Books Printing services		5,421	6,263
TCS (Private) Limited	Printing and Dispatch of Statement of Accounts		18,774	12,941
ASC First Solution	Providing Book Keeping/Record Management service for all Bank Contract staff		6,062	-
Vitech Solutions	Outsource Development Resources		2,586	-
Leopard Courier	Dispatch of documents		2,543	-
Deltex Courier & Cargo Service DCCS	Courier & Cargo Service		2,781	-
Oberthur Technologies Pakistan (Private) Limited	Printing of Visa Debit and Credit Cards		-	16,570
			47,051	48,309

33.3 Auditors' remuneration		
Audit fee	6,427	5,589
Review fee	2,464	2,142
Fee for other statutory certifications	7,386	6,413
Special certifications and sundry advisory services	3,700	-
Out-of-pocket and Other expenses	5,377	3,252
	25,354	17,396

34 OTHER CHARGES		
Penalties imposed by State Bank of Pakistan	2,083	162,453
Operational loss	33,478	34,554
	35,561	197,007

35 PROVISIONS & WRITE OFFS - NET			
Provisions against loans & advances	12.3	9,075,230	2,635,216
Provision on revaluation of non banking assets	16.5.1	667,949	(21,000)
Impairment in the value of Non-banking assets		-	-
Impairment in the value of fixed assets		331,867	-
Write offs against fixed assets	13.3	9,929	2,080
Bad debts written off directly		-	-
Recovery of written off / charged off bad debts		(186,378)	(183,466)
		9,898,597	2,432,830

	2020	2019
	Rupees in '000	
36 TAXATION		
Current	-	-
Prior years	157,331	109,298
Deferred	(3,276,940)	(1,985,238)
	<u>(3,119,609)</u>	<u>(1,875,940)</u>
36.1 Relationship between tax expense and accounting profit		
(Loss) / Profit before tax	<u>(9,691,461)</u>	<u>(5,828,943)</u>
Tax rate	<u>35%</u>	<u>35%</u>
Tax at applicable rate	(3,392,011)	(2,040,130)
Permanent difference	115,071	54,892
Deferred tax asset / minimum tax credit written off / adjusted	157,331	109,298
	<u>(3,119,609)</u>	<u>(1,875,940)</u>

36.2 The income tax returns of the Bank have been submitted up to Tax Year 2020. The Bank has filed appeals before Appellate Tribunal Inland Revenue (ATIR) against certain disallowances amounting to Rs.1,996 million (2019: Rs.1,996 million) made by Tax officer for Assessment / Tax Year(s) 2000-2001, 2001-2002, 2002-2003 and 2004. The disallowances amounting to Rs. 1,712 million (December 31, 2019: Rs.1,421 million) in respect of Tax Years 2003, 2006 and 2015 to 2019 are pending at Commissioner Inland Revenue (Appeals) (CIR (A)). Management is confident that the outcome of these appeals would be in favor of the Bank.

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

The proceedings u/s 161 / 205 of the Income Tax Ordinance, 2001 regarding monitoring of withholding taxes pertaining to the Tax Years 2011 to 2019 were completed. Orders were issued by the Assessing Officer creating total tax demand of Rs. 159 million (already paid by the bank) including default surcharge of Rs. 25 million. The Bank has filed appeals against orders u/s 161 / 205 before CIR (A). The Bank's appeals for Tax Years 2013 and 2014 before the CIR (A) were rejected after which appeals before the ATIR, Karachi have been filed, which are pending hearing. Management is confident that the outcome of these appeals would be in favor of the Bank.

36.4 The Bank's return in respect of AJK operations have been submitted up to and including Tax Year 2020. Certain appeals were filed before the various Appellate and other forums which are either pending for adjudication or the proceedings initiated against the Bank have been dropped / withdrawn. Management is confident that the outcome of pending appeals would be in favor of the Bank.

	2020	2019
	Note	
37 BASIC AND DILUTED LOSS PER SHARE		
Loss for the year (Rupees in '000)	<u>(6,571,852)</u>	<u>(3,953,003)</u>
Weighted average number of ordinary shares (Number of shares)	<u>9,081,861</u>	<u>9,081,861</u>
Basic and Diluted Loss per Share (Rupee)	<u>(0.72)</u>	<u>(0.44)</u>
38 CASH AND CASH EQUIVALENTS		
Cash and balance with treasury banks	8 13,795,269	11,838,682
Balance with other banks	9 543,571	1,168,163
	<u>14,338,840</u>	<u>13,006,845</u>

	Number of persons	
39 STAFF STRENGTH		
Permanent	1,465	1,482
On Bank contract	2,613	2,941
Bank's own staff strength at the end of the year	4,078	4,423
Outsourced	-	-
Total staff strength	<u>4,078</u>	<u>4,423</u>

40 DEFINED BENEFIT PLAN

40.1 General description

As disclosed in note 7.13.2, the Bank operates an approved funded gratuity scheme for all its regular employees. The entitlement of the employees commences on completion of five years with the Bank beginning from January 01, 2005. Projected Unit Credit Actuarial Cost Method has been used for actuarial valuation dated December 31, 2020. The financial statements of the fund are separately prepared and audited and are not included as part of these financial statements. Contributed funds are placed in separate bank accounts maintained with the Bank in fixed deposit and super saver scheme at the rates ranging from 4.05% to 14% (2019: 8% to 15%).

40.2 Number of employees under the scheme

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

	2020	2019
	Number of employees	
Gratuity fund	<u>1,465</u>	<u>1,482</u>

40.3 Principal actuarial assumptions

The actuarial valuations have been carried out as at December 31, 2020 using the following significant assumptions:

	Note	2020	2019
Financial assumptions			
Discount rate	40.3.1	9.75%	11.25%
Expected rate of return on plan assets		12.12%	10.44%
Expected rate of salary increase		8.75%	10.25%
Demographic assumptions			
Mortality rates (for death in service)		SLIC (2001-05)-1	SLIC (2001-05)-1
Rates of employee turnover		Ultra Heavy Rates	Ultra Heavy Rates
Normal retirement age (years)		60 years	60 years

* Salary increments were assumed to be given on 1st January each year.

40.3.1 The discount rate of 9.75% (2019 : 11.25%) (per annum compound) is representative of yields on Pakistan Investment Bonds and high quality Term Deposit Receipts.

	Note	2020	2019
		Rupees in '000	
40.4 Reconciliation of payable to / (receivable from) defined benefit plans			
Present value of obligations	40.5	720,915	708,615
Fair value of plan assets	40.6	(755,441)	(700,863)
(Receivable) / Payable		<u>(34,526)</u>	<u>7,752</u>

40.5 Movement in defined benefit obligations

Obligations at the beginning of the year		708,615	607,536
Current service cost		88,799	82,675
Interest cost		77,764	80,971
Benefits paid by the Bank		(120,976)	(34,931)
Re-measurement gain	40.8.2	(33,287)	(27,636)
Obligations at the end of the year		<u>720,915</u>	<u>708,615</u>

	Note	2020	2019			
		Rupees in '000				
40.6 Movement in fair value of plan assets						
Fair value at the beginning of the year		700,863	586,037			
Interest income on plan assets		76,937	78,294			
Contribution by the Bank - net		89,627	85,353			
Benefits paid by the Bank		(120,976)	(34,931)			
Re-measurements: Net return on plan assets over interest loss	40.8.2	8,990	(13,890)			
Fair value at the end of the year		755,441	700,863			
40.7 Movement in (receivable) / payable under defined benefit schemes						
Opening balance		7,752	21,499			
Charge for the year	40.8.1	89,626	85,352			
Contribution by the Bank - net		(89,627)	(85,353)			
Re-measurement gain recognised in OCI during the year	40.8.2	(42,277)	(13,746)			
Closing balance	40.4	(34,526)	7,752			
40.8 Charge for defined benefit plans						
40.8.1 Cost recognised in profit and loss						
Current service cost		88,799	82,675			
Net interest on defined benefit asset / liability		827	2,677			
		89,626	85,352			
40.8.2 Re-measurements recognised in OCI during the year						
Gain on obligation						
- Financial assumptions		(12,831)	(7,079)			
- Experience adjustment		(20,456)	(20,557)			
		(33,287)	(27,636)			
Return on plan assets over interest loss		(8,990)	13,890			
Total re-measurements recognised in OCI		(42,277)	(13,746)			
40.9 Components of plan assets						
Cash and cash equivalents - net		14,561	37,265			
Government Securities		421,317	259,345			
Term Deposit Receipt		250,899	379,000			
Sukuk		9,910	-			
Mutual Funds		58,754	25,253			
		755,441	700,863			
		2020	2019	2018	2017	2016
Present value of defined benefit obligation		720,915	708,615	607,536	523,307	433,989
Fair value of plan assets		(755,441)	(700,863)	(586,037)	(533,514)	(482,666)
		(34,526)	7,752	21,499	(10,207)	(48,677)

40.9.1 The significant risk associated with the plan assets are disclosed in note 40.15.

40.10 Sensitivity analysis

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the Projected Unit Credit Actuarial Cost Method at the end of the reporting period) has been applied as when calculating net defined benefit asset recognised within the statement of financial position. The increase / (decrease) in the present value of defined benefit obligations as a result of change in each assumption is summarised as illustrated below:

	2020 Rupees in '000	
1% increase in discount rate		(39,534)
1% decrease in discount rate		44,006
1 % increase in expected rate of salary increase		47,514
1 % decrease in expected rate of salary increase		(43,366)
40.11 Expected contributions to be paid to the fund in the next financial year		<u>84,230</u>
40.12 Expected charge for the next financial year		<u>84,230</u>
	2020	2019
40.13 Maturity profile		
The weighted average duration of the obligation (in years)	<u>5.78</u>	<u>5.33</u>

40.14 Funding policy

An implicit, though not formally expressed objective is that the liabilities under the scheme in respect of members in service on the valuation date on a going concern basis and having regard to projected future salary increases, should be covered by the fund on the valuation date, the total book reserve as of the valuation date, future contributions to the fund, future additions to the book reserve and future projected investment income of the fund.

As far as possible, there is an implicit objective that the contribution to the fund should remain reasonably stable as a percentage of salaries, under the Actuarial Cost Method employed.

40.15 The significant risk associated with the staff retirement benefit schemes may be:

Asset volatility

The Defined Benefit Gratuity Fund is invested heavily in cash or cash like investments which carry minute volatility risk. Around fifty six percent is invested in PIB's which will be maturing next year which is giving rise to reinvestment risk. Only eight percent is invested in mutual funds giving rise. The asset class is volatile with reference to the yield on this class. This risk should be viewed together with change in the bond yield risk to market volatility risk for this asset class. There is no corporate bond exposure. Thus, no settlement risk.

Changes in bond yields

There are two dimensions to the changes in bond yields: first, as described above; second, the valuation of the gratuity liability is discounted with reference to these bond yields. So any increase in bond yields will lower the gratuity liability and vice versa, but, it will also lower the asset values.

Inflation risk	The salary inflation is the major risk that the gratuity fund liability carries. In a general economic sense and in a longer view, there is a case that if bond yields increase, the change in salary inflation generally offsets the gains from the decrease in discounted gratuity liability. But viewed with the fact that asset values will also decrease, the salary inflation does, as an overall affect, increases the net liability of the Bank.
Life expectancy / withdrawal rate	The gratuity is paid off at the maximum of age 60. The Life expectancy is in almost minimal range and is quite predictable in the ages when the employee is in the accredited employment of the Bank for the purpose of the gratuity. Thus, the risk of life expectancy is almost negligible. However, had a post- retirement benefit been given by the Bank like monthly pension, post-retirement medical etc., this would have been a significant risk which would have been quite difficult to value even by using advance mortality improvement models. The withdrawal risk is dependent upon the: benefit structure; age and retention profile of the staff; the valuation methodology; and long-term valuation assumptions. In this case, it is not a significant risk.
Retention risk	The risk that employee will not be motivated to continue the service or start working with the Bank if no market comparable retirement benefit is provided.
Final salary risk	The risk, for defined benefit gratuity, that any disproportionate salary merit increases in later service years will give rise to multiplicative increase in the gratuity liability as such increase is applicable to all the past years of service.
Model risk	The defined benefit gratuity liability is usually actuarially valued each year. Further, the assets in the Gratuity Fund are also marked to market. This two-tier valuation gives rise to the model risk.
Operational Risk related to a separate entity	Retirement benefits are funded through a separate trust fund which is a different legal entity than the Bank. Generally, the protocols, processes and conventions used throughout the Bank are not applicable or are not actively applied to the retirement benefit funds. This gives rise to some specific operational risks.
Compliance risk	The risk that retirement benefits offered by the Bank does not comply with minimum statutory requirements.
Legal / political risk	The risk that the legal/political environment changes and the Bank is required to offer additional or different retirement benefits than what the Bank projected.
Concentration risk of investment itself	Though the gratuity fund is a separate entity, 35% of the Fund is invested or placed with the Bank itself giving rise to a concentration risk that gratuity fund may not be able to payoff its liability if Bank defaults.

41 DEFINED CONTRIBUTION PLAN

The Bank operates an approved funded contributory provident fund for all its permanent employees to which equal monthly contributions are made both by the Bank and the employees at the rate of 8.33% of basic salary. The financial statements of the fund are separately prepared and audited and are not included as part of these financial statements. Contribution funds are placed with separate bank accounts maintained with the Bank in fixed deposit and super saver scheme at the rates ranging from 4.05% to 14% (2019: 8% to 14%).

42 COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

42.1 Total Compensation Expense

2020						
Items	Directors			Members Sharlah Board	** President / CEO	Key Management Personnel
	Chairman	Executives (other than CEO)	* Non- Executives			
Rupees in '000						
Fees and allowances	-	-	29,330	12,180	-	-
Managerial remuneration						
i) Fixed	-	15,228	-	1,428	38,499	663,721
ii) Cash bonus / awards etc.	-	-	-	155	-	177
Contribution to defined contribution plan	-	1,268	-	119	2,870	47,342
Rent & house maintenance	-	7,614	-	714	19,250	331,851
Utilities	-	270	-	-	5,693	-
Medical	-	1,523	-	143	3,850	66,545
Conveyance	-	3,046	-	285	7,700	132,737
Car	-	1,033	-	-	-	17,818
Bonus and Others	-	-	-	-	-	31,640
Total	-	29,982	29,330	15,024	77,862	1,291,831
Number of Persons	-	1	5	3	2	268
2019						
Fees and allowances	-	-	21,850	12,180	-	-
Managerial remuneration						
i) Fixed	-	19,456	-	1,286	46,545	618,766
ii) Cash bonus / awards etc.	-	-	-	385	-	30,405
Contribution to defined contribution plan	-	1,621	-	107	3,877	44,111
Rent & house maintenance	-	9,728	-	642	23,273	309,383
Utilities	-	-	-	-	4,517	-
Medical	-	1,946	-	129	4,655	61,877
Conveyance	-	3,891	-	257	9,309	123,753
Car	-	-	-	102	-	9,537
Bonus and Others	-	-	-	-	-	10,050
Total	-	36,642	21,850	15,088	92,176	1,207,882
Number of Persons	-	1	5	3	1	228

42.1.1 * This includes the remuneration of Mr. Khalid Aziz Mirza who has been chairing the Board meetings in the capacity of the Chairman for the meetings.

42.1.2 ** This includes remuneration of Mr. Azmat Tarin who was President and CEO till August 2020 and remuneration of Mr. Nabeel Anjum Malik who is appointed as Acting President and CEO from August 2020.

42.2 Remuneration paid to Directors for participation in Board and Committee Meetings

		2020					
Sr. No.	Name of Director	Meeting fees and allowances paid					Total Amount Paid
		Board meetings	Board Committees				
	Human Resource Committee		Risk Committee	Audit Committee	IT Committee		
Rupees in '000							
1	Mr. Khalid Aziz Mirza *	3,680	2,375	-	-	-	6,055
2	Mr. Shehzad Enver Murad	1,900	-	950	950	-	3,800
3	Mr. Tariq Iqbal Khan	2,850	-	1,900	1,900	-	6,650
4	Mr. Rashid Akhtar Chughtai	2,850	2,375	-	-	-	5,225
5	Mr Masroor Ahmed Qureshi	2,850	-	1,900	1,900	950	7,600
Total		14,130	4,750	4,750	4,750	950	29,330

		2019					
Sr. No.	Name of Director	Meeting fees and allowances paid					Total Amount Paid
		Board meetings	Board Committees				
	Human Resource Committee		Risk Committee	Audit Committee	IT Committee		
Rupees in '000							
1	Mr. Khalid Aziz Mirza	1,900	1,900	-	-	-	3,800
2	Mr. Shehzad Enver Murad	1,900	-	1,900	1,900	-	5,700
3	Mr. Nasim Beg	1,425	-	-	1,425	-	2,850
4	Mr. Tariq Iqbal Khan	1,900	-	1,900	1,900	-	5,700
5	Mr. Rashid Akhtar Chughtai	1,900	1,900	-	-	-	3,800
Total		9,025	3,800	3,800	5,225	-	21,850

42.3 Remuneration paid to Shariah Board Members

Items	2020			2019		
	Chairman	Resident Members	Non-Resident Member(s)	Chairman	Resident Members	Non-Resident Member(s)
Rupees In '000						
Fees and Allowances	9,600	2,580	-	9,600	2,580	-
Managerial Remuneration						
i) Fixed	-	1,428	-	-	1,286	-
ii) Cash Bonus / Awards	-	155	-	-	385	-
Contribution to defined contribution plan	-	119	-	-	107	-
Rent & house maintenance	-	714	-	-	642	-
Medical	-	143	-	-	129	-
Conveyance	-	285	-	-	257	-
Car	-	-	-	-	102	-
Total Amount	9,600	5,424	-	9,600	5,488	-
Total Number of Persons	1	2	-	1	2	-

43 FAIR VALUE MEASUREMENTS

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

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

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

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

43.1 Fair value of financial assets

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

- Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Fair value measurements using input for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

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

	2020				Total
	Carrying Value	Level 1	Level 2	Level 3	
Rupees in '000					
On balance sheet financial instruments					
Financial assets - measured at fair value					
Investments:					
Federal Government Securities					
Market Treasury Bills	13,653,399	-	13,653,399	-	13,653,399
Pakistan Investment Bonds	95,967,524	-	95,967,524	-	95,967,524
GOP Ijarah Sukuks	4,943,811	-	4,943,811	-	4,943,811
Bai Muajjal	257,658	-	257,658	-	257,658
Shares					
Listed companies	419,987	419,987	-	-	419,987
Non-Government Debt Securities					
Sukuks - listed	-	-	-	-	-
Term Finance Certificates - listed	62,347	-	62,347	-	62,347
	115,304,726	419,987	114,884,739	-	115,304,726
Financial assets - disclosed but not measured at fair value					
Cash and balances with treasury banks	13,795,269	-	-	-	-
Balances with other banks	543,571	-	-	-	-
Lendings to financial institutions	6,759,921	-	-	-	-
Advances	91,961,645	-	-	-	-
Other assets	9,886,968	-	-	-	-
	122,947,374	-	-	-	-
	238,252,100	419,987	114,884,739	-	115,304,726
Off-balance sheet financial instruments - measured at fair value					
Forward purchase of foreign exchange	7,452,132	-	7,452,132	-	7,452,132
Forward sale of foreign exchange	2,696,076	-	2,696,076	-	2,696,076
Forward purchase of government securities transactions	-	-	-	-	-
Forward sale of government securities transactions	13,609,696	-	13,609,696	-	13,609,696

	2019				Total
	Carrying Value	Level 1	Level 2	Level 3	
Rupees in '000					
On balance sheet financial instruments					
Financial assets - measured at fair value					
Investments:					
Federal Government Securities					
Market Treasury Bills	3,535,706	-	3,535,706	-	3,535,706
Pakistan Investment Bonds	29,084,354	-	29,084,354	-	29,084,354
GOP Ijarah Sukuks	2,277,000	-	2,277,000	-	2,277,000
Bai Muajjal	257,658	-	257,658	-	257,658
Shares					
Listed companies	693,897	693,897	-	-	693,897
Non-Government Debt Securities					
Sukuks - listed	227,354	-	227,354	-	227,354
Term Finance Certificates - listed	37,500	-	37,500	-	37,500
	36,113,469	693,897	35,419,572	-	36,113,469

Financial assets - disclosed but not measured at fair value

Cash and balances with treasury banks	11,838,682	-	-	-	-
Balances with other banks	1,168,163	-	-	-	-
Lendings to financial institutions	18,101,837	-	-	-	-
Advances	105,374,947	-	-	-	-
Other assets	6,711,041	-	-	-	-
	143,194,670	-	-	-	-
	179,308,139	693,897	35,419,572	-	36,113,469

Off-balance sheet financial instruments - measured at fair value

Forward purchase of foreign exchange	14,799,455	-	14,799,455	-	14,799,455
Forward sale of foreign exchange	8,664,082	-	8,664,082	-	8,664,082
Forward purchase of government securities transactions	929,110	-	929,110	-	929,110
Forward sale of government securities transactions	422,849	-	422,849	-	422,849

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

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

43.2 Fair value of non-financial assets

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

2020				
Carrying Value	Level 1	Level 2	Level 3	Total
Rupees in '000				
Operating fixed assets - land and buildings	-	-	2,041,196	2,041,196
Non-banking assets acquired in satisfaction of claims	-	-	10,360,497	10,360,497
Assets held for sale	-	-	-	-
12,401,693	-	-	12,401,693	12,401,693

2019				
Carrying Value	Level 1	Level 2	Level 3	Total
Rupees in '000				
Operating fixed assets - land and buildings	-	-	186,146	186,146
Non-banking assets acquired in satisfaction of claims	-	-	9,438,705	9,438,705
Assets held for sale	-	-	2,229,729	2,229,729
11,854,580	-	-	11,854,580	11,854,580

43.2.1 Certain categories of fixed assets (land and buildings) and non-banking assets acquired in satisfactions of claims are carried at revalued amounts (level 3 measurement) determined by professional valuers based on their assessment of the market values as disclosed in note 13.2.1 and note 16.1.1

44 SEGMENT INFORMATION

Segment Details with respect to Business Activities

2020				
Consumer / SME	Whole Sale Banking	Treasury	Total	
Rupees '000				
Profit and Loss Account				
Net mark-up / return / profit	5,434,037	(5,384,232)	1,671,329	1,721,134
Inter segment revenue - net	-	-	-	-
Non-markup / interest Income	2,120,139	3,345	3,972,532	6,096,016
Total Income	7,554,176	(5,380,887)	5,643,861	7,817,150
Segment direct expenses	(3,866,384)	(3,661,114)	(82,516)	(7,610,014)
Inter segment expense allocation	(1,494,842)	1,590,646	(95,804)	-
Total expenses	(5,361,226)	(2,070,468)	(178,320)	(7,610,014)
Provisions	(996,141)	(8,902,456)	-	(9,898,597)
Profit before tax	1,196,809	(16,353,811)	5,465,541	(9,691,461)
Statement of Financial Position				
Cash & Bank balances	-	5,056,591	9,282,249	14,338,840
Investments	-	-	115,449,492	115,449,492
Net inter segment lending	94,681,076	(207,299,852)	112,618,776	-
Lendings to financial institutions	1,105,946	195,167	5,458,808	6,759,921
Advances - performing	26,914,000	36,184,329	-	63,098,329
Advances - non-performing	1,732,091	27,131,225	-	28,863,316
Others	784,581	38,253,216	130,312	39,168,109
Total Assets	125,217,694	(100,479,324)	242,939,637	267,678,007
Borrowings	726,225	1,136,700	87,485,028	89,347,953
Subordinated debt	-	2,439,066	-	2,439,066
Deposits & other accounts	98,338,154	61,899,454	-	160,237,608
Net inter segment borrowing	22,064,057	(178,169,222)	156,105,165	-
Others	4,089,258	6,263,962	430,579	10,783,799
Total Liabilities	125,217,694	(106,430,040)	244,020,772	262,808,426
Equity	-	5,950,715	(1,081,134)	4,869,581
Total Equity & Liabilities	125,217,694	(100,479,325)	242,939,638	267,678,007
Contingencies & Commitments	1,222,840	16,222,947	23,757,904	41,203,691
2019				
Consumer / SME	Whole Sale Banking	Treasury	Total	
Rupees '000				
Profit and Loss Account				
Net mark-up / return / profit	7,043,550	(5,438,705)	11,312	1,616,157
Inter segment revenue - net	-	-	-	-
Non-markup / interest Income	2,222,695	207,072	806,467	3,236,234
Total Income	9,266,245	(5,231,633)	817,779	4,852,391
Segment direct expenses	(3,916,631)	(4,251,892)	(79,981)	(8,248,504)
Inter segment expense allocation	(1,425,185)	1,530,796	(105,611)	-
Total expenses	(5,341,816)	(2,721,096)	(185,592)	(8,248,504)
Provisions	(956,072)	(1,476,758)	-	(2,432,830)
Profit before tax	2,968,357	(9,429,487)	632,187	(5,828,943)
Statement of Financial Position				
Cash & Bank balances	-	3,435,857	9,570,988	13,006,845
Investments	-	275,692	35,969,658	36,245,350
Net inter segment lending	86,565,401	19,779,983	78,082,280	184,427,664
Lendings to financial institutions	765,636	135,112	17,201,089	18,101,837
Advances - performing - net	31,071,521	45,651,990	-	76,723,511
Advances - non-performing - net	1,649,619	27,001,817	-	28,651,436
Others	929,772	32,151,609	(122,280)	32,959,101
Total Assets	120,981,949	128,432,060	140,701,735	390,115,744
Borrowings	574,507	1,138,394	30,260,330	31,973,231
Subordinated debt	-	2,125,418	-	2,125,418
Deposits & other accounts	93,990,095	54,863,418	-	148,853,513
Net inter segment borrowing	24,192,373	47,086,257	113,149,034	184,427,664
Others	2,224,974	9,615,168	123,889	11,964,031
Total Liabilities	120,981,949	114,828,655	143,533,253	379,343,857
Equity	-	13,603,406	(2,831,519)	10,771,887
Total Equity & Liabilities	120,981,949	128,432,061	140,701,734	390,115,744
Contingencies & Commitments	1,221,312	13,663,020	24,815,496	39,699,828

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

45 TRUST ACTIVITIES

The Bank is not engaged in any significant trust activities. However, the Bank acts as security agent of investment portfolio services as custodian on behalf of its customers

46 RELATED PARTY TRANSACTIONS

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

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

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

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

	2020				2019			
	Directors	Key management personnel	Associates	Other related parties	Directors	Key management personnel	Associates	Other related parties
Rupees in '000								
Investments								
Opening balance	-	-	131,881	416,226	-	-	126,654	112,246
Investment made / share profit during the year	-	-	12,885	602,706	-	-	5,227	604,099
Investment redeemed / disposed off during the year	-	-	-	(605,735)	-	-	-	(300,119)
Closing balance	-	-	144,766	413,197	-	-	131,881	416,226
Advances								
Opening balance	22,342	9,925	-	2,312,557	9,085	7,456	-	1,122,873
Addition during the year	48,865	126,373	-	116,960	79,858	205,357	-	4,595,664
Repaid during the year	(70,581)	(118,048)	-	(266,596)	(66,601)	(202,888)	-	(3,405,980)
Closing balance	626	18,250	-	2,162,921	22,342	9,925	-	2,312,557
Provision held against advances	-	-	-	130,608	-	-	-	130,608
Other Assets								
Interest / mark-up accrued	-	311	-	165,994	872	200	-	123,213
Insurance claim receivable	-	-	21,787	-	-	-	9,778	-
Prepaid insurance	-	-	661	-	-	-	604	-
Subordinated debt								
Opening balance	-	-	-	126,218	-	-	-	-
Issued / purchased during the year	-	-	-	314,048	-	-	-	126,218
Redemption during the year	-	-	-	-	-	-	-	-
Closing balance	-	-	-	440,266	-	-	-	126,218
Deposits and other accounts								
Opening balance	7,076	85,006	41,608	1,488,688	5,620	64,292	18,256	2,023,685
Received during the year	393,096	584,149	186,749	3,352,869	267,826	1,159,796	262,582	10,895,222
Withdrawn during the year	(388,869)	(529,450)	(187,401)	(3,509,512)	(266,370)	(1,139,082)	(239,230)	(11,430,219)
Closing balance	11,303	139,705	40,956	1,332,045	7,076	85,006	41,608	1,488,688
Other Liabilities								
Interest / mark-up payable	-	-	783	4,079	-	-	743	9,152
Contingencies and Commitments								
Other contingencies	-	-	-	17,389	-	-	-	-
Income								
Mark-up / return / interest earned	992	2,712	-	258,620	2,450	1,834	-	254,717
Dividend income	-	-	-	10,673	-	-	-	-
Net gain on sale of securities	-	-	-	31,359	-	-	-	482
Share of profit from associate	-	-	12,885	-	-	-	5,227	-
Expense								
Mark-up / return / interest paid	291	3,252	2,929	124,313	349	10,648	2,299	134,321
Services rendered	-	-	-	-	-	-	-	266,469
Short term employment benefits	97,706	426,597	-	-	122,881	350,437	-	-
Contribution to Defined Benefit Plan	3,860	14,641	-	-	5,498	11,816	-	-
Meeting fee	29,330	-	-	-	21,850	-	-	-
Insurance premium paid	-	-	61,165	-	-	-	13,044	-
Insurance claims settled	-	-	2,896	-	-	-	5,616	-

47 CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

2020 2019
Rupees in '000

Minimum Capital Requirement (MCR):

Paid-up capital (net of losses)	3,155,229	9,694,487
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Capital Adequacy Ratio (CAR):

Eligible Common Equity Tier 1 (CET 1) Capital	(6,286,981)	6,331,077
Eligible Additional Tier 1 (ADT 1) Capital	-	-
Total Eligible Tier 1 Capital	(6,286,981)	6,331,077
Eligible Tier 2 Capital	-	2,637,949
Total Eligible Capital (Tier 1 + Tier 2)	(6,286,981)	8,969,026

Risk Weighted Assets (RWAs):

Credit Risk	126,719,475	138,592,235
Market Risk	2,775,895	1,673,780
Operational Risk	11,864,897	14,214,926
Total	141,360,267	154,480,941

Common Equity Tier 1 Capital Adequacy ratio

-4.45%

4.10%

Tier 1 Capital Adequacy Ratio

-4.45%

4.10%

Total Capital Adequacy Ratio

-4.45%

5.81%

The State Bank of Pakistan (SBP) vide BSD Circular No. 07 dated April 15, 2009 set the Minimum Capital Requirement (MCR) for Banks of Rs. 10 billion (net of losses) for all locally incorporated banks to be achieved upto December 31, 2013. The capital of the Bank (net of losses and discount on shares) as of December 31, 2019 amounting to Rs. 3.16 billion excluding general reserve of Rs. 821 million.

The Banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 10.0% plus capital conservation buffer of 1.5% of the risk weighted exposures of the Bank. Further, under Basel III instructions, Banks are also required to maintain a Common Equity Tier 1 (CET 1) ratio and Tier 1 ratio of 6% and 7.5%, respectively, as at December 31, 2020.

The Basel-III Framework is applicable to the Bank on a stand alone basis and the Bank has adopted the Standardised approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk while using the simple approach for Credit Risk Mitigation as per SBP guidelines. SPI Insurance Company Limited is an associate of the Bank which has not been considered for consolidation both under account and regulatory scope of consolidation. The Bank owns 23.08% investment in shares of SPI Insurance Company Limited due to which the Bank has acquired significant influence, but not control, over financial and operating policies of SPI Insurance Company Limited.

2020 2019
Rupees in '000

Leverage Ratio (LR):

Tier-1 Capital	(6,286,981)	6,331,077
Total Exposures	283,240,383	219,608,606
Leverage Ratio	-2.22%	2.88%

Liquidity Coverage Ratio (LCR):

Total High Quality Liquid Assets	45,709,875	36,648,252
Total Net Cash Outflow	39,459,649	41,719,855
Liquidity Coverage Ratio	115.84%	87.84%

Net Stable Funding Ratio (NSFR):

Total Available Stable Funding	170,804,491	133,214,604
Total Required Stable Funding	125,032,907	132,679,684
Net Stable Funding Ratio	136.61%	100.40%

47.1 The full disclosures on the CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS as per SBP instructions issued from time to time are placed on the website. The link to the full disclosure is available at <https://www.silkbank.com.pk/page/annual-reports-and-interim-accounts/>.

48 RISK MANAGEMENT

The principal risks associated with the banking business are credit risk, market risk, liquidity risk and operational risk. The business of banking is dependent upon acceptance and management of financial risk. It involves identification, measurement, monitoring and controlling of risks with a view to ensure that:

- Adequate capital is available as a buffer;
- Exposures remain within the limits as prescribed by the Board of Directors; and
- Risk taking decisions are in line with business strategy and objectives set by the Board.

48.1.2 Investment In debt securities

Credit risk by Industry sector	Gross Investments		Non-performing Investments		Provision held	
	2020	2019	2020	2019	2020	2019
	Rupees in '000					
Textile	8,780	8,780	8,780	8,780	8,780	8,780
Financial	125,410	74,910	74,910	74,910	74,910	74,910
Energy	-	150,000	-	-	-	-
Service	12,500	37,500	-	-	-	-
Government	116,436,169	35,074,212	-	-	-	-
Others	-	79,699	-	-	-	-
	116,582,859	35,425,101	83,690	83,690	83,690	83,690
Credit risk by public / private sector	Gross Investments		Non-performing Investments		Provision held	
	2020	2019	2020	2019	2020	2019
	Rupees in '000					
Public / Government	116,436,169	35,074,212	-	-	-	-
Private	146,990	350,889	83,690	83,690	83,690	83,690
	116,582,859	35,425,101	83,690	83,690	83,690	83,690

48.1.3 Advances

Credit risk by Industry sector	Gross advances		Non-performing advances		Provision held	
	2020	2019	2020	2019	2020	2019
	Rupees in '000					
Agriculture, Forestry, Hunting and Fishing	622,728	585,801	217,612	82,987	21,814	2,811
Mining and Quarrying	22,803	19,997	-	-	-	-
Textile	4,462,150	4,201,261	1,990,683	1,564,005	1,643,103	1,455,187
Chemical and Pharmaceuticals	1,070,953	1,258,226	232,525	77,612	160,167	23,750
Cement	127,592	128,488	59,786	59,786	58,122	57,291
Sugar	6,231,414	6,141,701	3,803,852	1,977,247	1,961,211	550,546
Footwear and Leather garments	176,291	238,710	77,762	12,207	77,762	8,817
Automobile and transportation equipment	567,168	833,460	511,848	513,471	511,848	513,470
Electronics and electrical appliances	3,023,166	2,597,451	1,922,410	674,745	841,741	517,199
Real Estate and Construction	16,843,292	26,096,303	11,846,970	8,160,897	3,169,446	278,479
Power (electricity), Gas, Water, Sanitary	513,477	563,685	417,937	-	417,937	-
Wholesale and Retail Trade	18,096,774	17,673,589	13,927,100	16,214,289	2,906,916	825,444
Exports / Imports	-	-	-	-	-	-
Transport, communication and travelling	1,192,648	1,145,480	479,492	626,869	253,543	413,376
Financial	2,550,829	2,713,461	87,076	87,076	87,076	87,076
Services	15,527,478	13,465,080	1,039,181	2,193,093	374,974	171,796
Individuals	22,118,054	23,438,299	1,220,958	1,423,261	723,910	872,467
Hotel & Resorts	993,532	716,149	-	-	-	-
Telecommunications	1,909,599	1,984,314	3,012	-	3,012	-
Printing and Publishing	160,677	85,304	-	-	-	-
Hospital and medical	71,850	149,417	-	-	-	-
Food and beverages	1,829,979	2,221,275	810,439	303,410	571,178	42,611
Rubber and plastics	143,362	63,733	-	-	-	-
Iron, steel & engineering	5,317,752	2,618,549	2,346,620	-	154,434	-
Education	839,763	1,142,608	-	-	-	-
Others	2,241,879	2,154,541	1,819,684	758,108	13,337	257,307
	106,655,210	112,236,882	42,814,847	34,729,063	13,951,531	6,077,627
Credit risk by public / private sector	Gross advances		Non-performing advances		Provision held	
	2020	2019	2020	2019	2020	2019
	Rupees in '000					
Public / Government	-	-	-	-	-	-
Private	106,655,210	112,236,882	42,814,847	34,729,063	13,951,531	6,077,627
	106,655,210	112,236,882	42,814,847	34,729,063	13,951,531	6,077,627

48.1.4 Contingencies and Commitments

	2020	2019
	Rupees in '000	
Credit risk by Industry sector		
Agriculture, Forestry, Hunting and Fishing	8,334	8,334
Textile	735,698	596,064
Chemical and Pharmaceuticals	350,188	305,194
Cement	134,758	116,612
Footwear and Leather garments	220	2,156
Automobile and transportation equipment	39,090	152,067
Electronics and electrical appliances	1,082,452	935,400
Real Estate and Construction	1,795,295	757,618
Power (electricity), Gas, Water, Sanitary	88,154	82,737
Wholesale and Retail Trade	714,751	673,485
Financial	25,889,073	26,832,483
Services	6,302,835	5,961,581
Hotel & Resorts	53,376	53,950
Telecommunications	200,986	258,246
Printing and Publishing	3,500	3,500
Transport, communication and travelling	106,849	153,685
Hospital and medical	208,241	231,634
Food and beverages	120,830	109,807
Rubber and plastics	178,137	177,599
Others	3,190,924	2,287,676
	<u>41,203,691</u>	<u>39,699,828</u>
Credit risk by public / private sector		
	2020	2019
	Rupees in '000	
Public / Government	9,063,871	7,260,506
Private	32,139,820	32,439,322
	<u>41,203,691</u>	<u>39,699,828</u>

48.1.5 Concentration of Advances

The bank top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs. 24,066 million (2019: Rs. 24,406 million) are as following:

	2020	2019
	Rupees in '000	
Funded	24,066,249	24,406,194
Non Funded	-	-
Total Exposure	<u>24,066,249</u>	<u>24,406,194</u>

The sanctioned limits against these top 10 exposures aggregated to Rs. 24,067 (2019: Rs. 24,407 million)

	2020		2019	
	Non Performing Loans	Provision held	Non Performing Loans	Provision held
	Rupees in '000			
Total funded classified therein				
Substandard	2,844,340	448,526	1,543,094	196,926
Doubtful	5,493,237	683,828	4,911,888	516,582
Loss	34,477,270	12,819,177	28,274,081	5,384,119
Total	<u>42,814,847</u>	<u>13,951,531</u>	<u>34,729,063</u>	<u>6,077,627</u>

48.1.6 Advances - Province / Region-wise Disbursement & Utilization

Province / Region	2020					
	Disbursement	Utilization				
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad
	Rupees '000					
Punjab	32,638,769	32,638,769	-	-	-	-
Sindh	32,226,725	-	32,226,725	-	-	-
KPK including FATA	6,816	-	-	6,816	-	-
Balochistan	-	-	-	-	-	-
Islamabad	5,111,479	-	-	-	5,111,479	-
AJK including Gilgit-Baltistan	2,287	-	-	-	-	2,287
Total	69,986,076	32,638,769	32,226,725	6,816	5,111,479	2,287

Province / Region	2019					
	Disbursement	Utilization				
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad
	Rupees '000					
Punjab	66,223,962	66,223,962	-	-	-	-
Sindh	55,107,284	-	55,107,284	-	-	-
KPK including FATA	58,752	-	-	58,752	-	-
Balochistan	-	-	-	-	-	-
Islamabad	6,686,319	-	-	-	6,686,319	-
AJK including Gilgit-Baltistan	200,911	-	-	-	-	200,911
Total	128,277,228	66,223,962	55,107,284	58,752	6,686,319	200,911

48.2 Market Risk

Market Risk is the risk of loss in earnings and capital due to adverse changes in interest rates, foreign exchange rates, equity prices and market conditions. Thus market risk can be further described into Interest Rate Risk, Foreign Exchange Risk and Equity Position Risk.

The Bank is exposed to market risk in its trading investment portfolio because the values of its trading positions are sensitive to changes in market prices and

The Bank has a well established framework for market risk management with the Treasury Investment Policy, Liquidity Policy and Market Risk Management Policy. The Bank has major objective of protecting and increasing net interest income in the short run and market value of the equity in the long run for enhancing the shareholders wealth. Further, it defines the contours of the way the Bank's market risk is managed within defined parameters and with prescriptive guidelines on the tools, techniques and processes.

The Asset Liability Committee (ALCO), Market Risk Policy Committee (MRPC) and Investment Committee is entrusted with key decision making in establishing market risk related strategies and monitoring there-against. The Committee decides on product pricing, mix of assets, liabilities, stipulates liquidity and interest rate risk limits, monitors them, articulates the Bank's interest rate view and determines the business strategy of the Bank.

Management of interest rate risk of the Banking Book is primarily focused on interest and fair value through Re-pricing Gap Analysis, Analysis of the Net Interest Income Sensitivity, Duration, Value-at-Risk (VaR) and Fair Value Sensitivity. The management of interest rate risk of the trading book is achieved through mark-to-market practice and exposure analysis. On a periodic basis, risk monitoring reports are prepared for senior management to gain an accurate understanding of Bank's risk position. Mathematical model like Stress-Testing is carried out at least biannually.

The Middle Office in Risk Management Group has an independent reporting structure on risk aspects and helps management in determining compliance in terms of exposure analysis, tracking of limits, funding and various other risk sensitive market parameters.

48.2.1 Balance sheet split by trading and banking books

	2020			2019		
	Banking book	Trading book	Total	Banking book	Trading book	Total
	Rupees in '000					
Cash and balances with treasury banks	13,795,269	-	13,795,269	11,838,682	-	11,838,682
Balances with other banks	543,571	-	543,571	1,168,163	-	1,168,163
Lendings to financial institutions	6,759,921	-	6,759,921	18,101,837	-	18,101,837
Investments	94,975,263	20,474,229	115,449,492	36,241,934	3,416	36,245,350
Advances	91,961,645	-	91,961,645	105,374,947	-	105,374,947
Fixed assets	6,762,402	-	6,762,402	5,910,389	-	5,910,389
Intangible assets	283,831	-	283,831	217,077	-	217,077
Deferred tax assets	8,795,266	-	8,795,266	4,864,227	-	4,864,227
Other assets	23,326,620	-	23,326,620	19,737,679	-	19,737,679
Asset held for sale	-	-	-	2,229,729	-	2,229,729
Total	247,203,778	20,474,229	267,678,007	205,684,664	3,416	205,688,080

48.2.2 Foreign Exchange Risk

Currency risk is the risk of loss arising from the fluctuation of exchange rates. Bank's currency risk is first controlled through a substantially matched funding policy. The Bank utilises appropriate hedging instruments, such as forward foreign exchange (FX) contracts, currency swaps to effectively hedge and manage currency risks.

The majority of foreign currency exposure is in the US dollar. Bank is carefully monitoring the net foreign currency exposure and the effect of exchange rate fluctuation by conducting mark to market sensitivity and stress testing on a regular basis as well as utilizing the FX contracts to control the risk. Besides, the Bank has Foreign Exchange Stop Loss Limit based on Daily Value-at-Risk (VaR) to manage the loss absorption capacity of the Bank.

	2020				2019			
	Foreign Currency Assets	Foreign Currency Liabilities	Off-balance sheet items	Net foreign currency exposure	Foreign Currency Assets	Foreign Currency Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000							
Pakistan Rupee	261,996,383	262,469,692	(4,734,196)	4,792,496	200,111,063	183,346,798	(6,038,669)	10,725,596
United States Dollar	3,529,688	8,683,962	5,140,747	(13,527)	3,317,710	8,685,567	5,365,847	(2,010)
Great Britain Pound Sterling	774,877	764,620	1,092	11,349	741,817	1,192,199	450,634	252
Euro	1,296,997	889,826	(407,644)	(473)	1,413,631	1,689,714	222,188	(63,895)
Japanese Yen	4,086	-	-	4,086	4,834	-	-	4,834
Other currencies	76,976	326	-	75,650	99,025	1,915	-	97,110
	5,681,624	10,338,734	4,734,196	77,086	5,577,017	11,569,395	6,038,669	46,291
	267,678,007	262,808,426	-	4,869,581	205,688,080	194,916,193	-	10,771,887

	2020		2019	
	Banking book	Trading book	Banking book	Trading book
	Rupees in '000			
Impact of 1% change in foreign exchange rates on Profit and loss account				
+1% change	772	-	478	-
-1% change	(772)	-	(478)	-

48.2.3 Equity position Risk

The risk arising from taking long or short positions, in the trading book, in the equities and all instruments that exhibit market behavior similar to equities. The Bank is exposed to equity price changes on its investments in Trading Book. These equity exposures are primarily related to market price movements in local equity market index. Changes in the overall value of equity trading book are recorded through profit and loss account. Bank's Investment Committee approves the investment stocks and their limits. It also reviews the portfolio with mark to market position on regular basis. Stop loss limits have been approved and are monitored on a regular basis.

	2020		2019	
	Banking book	Trading book	Banking book	Trading book
	Rupees in '000			
Impact of 5% change in equity prices on Other comprehensive income				
+5% change	21,000	-	34,695	-
-5% change	(21,000)	-	(34,695)	-

48.2.4 Yield / Interest Rate Risk in the Banking Book (IRRBB)-Basel II Specific

The effects of interest rate changes on both earnings and economic value in ways that are consistent with the scope of its activities. The Bank should highlight explanation of its current and anticipated levels of interest rate risk exposure. The key assumptions for interest rate risk management are:

- Determine the range of potential interest rate movements over which the bank will measure its exposure i.e. from simple parallel movement assumption to more complex rate scenarios
- Ensure that risk is measured over a reasonable range of potential rate changes including meaningful stress scenarios.
- Consider a variety of factors such as the shape and level of the current term structure of interest rate, historical and implied volatilities of interest rates.
- Estimate time to reduce or unwind unfavorable risk positions.
- Select scenarios that provide wide range of risk estimates.

	2020		2019	
	Banking book	Trading book	Banking book	Trading book
	Rupees in '000			
Impact of 1% change in interest rates on Profit and loss account				
+1% change	-	-	-	-
-1% change	-	-	-	-
Other comprehensive income				
+1% change	317,042	-	352,269	-
-1% change	(317,042)	-	(352,269)	-

48.2.5 Mismatch of interest rate sensitive assets and liabilities

2020

Effective Yield / Interest rate	Total	Exposed to Yield/ Interest risk										Not 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		

Rupees in '000

On-balance sheet financial instruments

Assets

Cash and balances with treasury banks	13,795,269	-	-	-	-	-	-	-	-	-	-	-	-	-	13,795,269
Balances with other banks	643,571	-	-	-	-	-	-	-	-	-	-	-	-	-	643,571
Lending to financial institutions	6,759,921	2,664,165	2,794,643	94,302	835,454	-	-	-	-	-	-	-	-	-	-
Investments	115,449,492	75,706	13,833,879	468,922	-	-	-	-	38,039,871	-	52,131,338	-	135,980	-	-
Advances - net	91,961,645	1,394,666	4,686,127	4,261,028	5,402,110	-	-	-	12,082,132	13,338,674	7,938,661	-	6,995,915	-	742,054
Other assets	23,326,620	-	-	-	-	-	-	-	-	-	-	-	-	-	23,326,620
	251,836,518	4,134,537	21,314,849	4,924,252	6,237,564	23,217,285	13,338,674	73,162,169	60,069,999	7,129,695	38,407,494	-	-	-	-

Liabilities

Billis payable	3,088,780	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,088,780
Borrowings	89,347,953	87,491,535	1,680,602	175,816	-	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	160,237,608	8,651,345	4,967,235	14,138,475	10,968,924	10,796,191	5,602,803	17,478,991	20,765,097	31,866,197	35,012,550	-	-	-	-	
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Sub-ordinated debt	2,439,066	-	200	-	200	400	400	2,437,866	-	-	-	-	-	-	-	
Other liabilities	7,695,019	-	-	-	-	-	-	-	-	-	-	-	-	-	7,695,019	
	262,808,425	96,142,880	6,648,037	14,314,291	10,969,124	10,796,691	5,603,003	19,916,857	20,765,097	31,866,197	45,796,349	-	-	-	-	
On-balance sheet gap	(10,971,907)	(92,008,343)	14,666,812	(9,490,039)	(4,731,560)	12,420,694	7,735,671	53,245,312	39,306,902	(24,728,302)	(7,388,855)	-	-	-	-	

Off-balance sheet financial instruments

Commitments in respect of forward exchange contracts - Purchase	7,452,132	5,335,541	1,984,841	131,750	-	-	-	-	-	-	-	-	-	-	-
Commitments in respect of forward exchange contracts - Sale	(2,696,076)	(2,153,848)	(542,228)	-	-	-	-	-	-	-	-	-	-	-	-
Commitments in respect of forward government securities transactions - Purchase	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Commitments in respect of forward government securities transactions - Sale	13,609,696	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap	18,365,752	3,181,693	1,442,613	13,741,446	-	-	-	-	-	-	-	-	-	-	-

Total Yield / Interest Risk Sensitivity Gap

	(88,825,650)	16,109,225	4,251,407	(4,731,560)	12,420,694	7,735,671	53,245,312	39,306,902	(24,728,302)	(7,388,855)	-	-	-	-	-
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Cumulative Yield / Interest Risk Sensitivity gap

	(88,825,650)	(72,717,425)	(68,466,018)	(73,197,578)	(60,776,884)	(53,041,213)	204,099	39,511,001	14,782,699	7,393,844	-	-	-	-	-
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2019

Effective Yield / Interest rate	Total	Exposed to Yield/ Interest risk										Not exposed to Yield / Interest Risk
		Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years		

Rupees in '000

On-balance sheet financial instruments

Assets

Cash and balances with treasury banks	11,888,682	-	-	-	-	-	1,276,606	-	-	-	-	-	10,562,076
Balances with other banks	1,168,163	-	-	-	-	-	-	-	-	-	-	-	1,168,163
Lendings to financial institutions	18,101,937	11,761,313	3,924,167	-	-	-	-	91,360	-	-	-	-	-
Investments - net	36,245,350	-	257,638	3,416	976,636	6,507,146	18,014,948	6,410,808	18,257,206	-	-	-	-
Advances - net	105,374,947	4,272,691	1,051,091	8,557,927	3,721,301	6,256,231	27,033,578	-	-	-	-	-	-
Other assets	19,737,679	-	-	-	-	-	-	-	-	-	-	-	19,737,679
	192,466,658	16,034,004	2,944,373	5,232,916	8,561,343	8,353,169	41,449,224	24,613,454	45,300,784	41,449,224	45,300,784	45,300,784	31,467,918

Liabilities

Bills payable	2,483,658	-	-	-	-	-	-	-	-	-	-	-	-	2,483,658
Borrowings	31,973,231	29,277,455	350,926	1,351,975	-	-	-	-	-	-	-	-	-	992,875
Deposits and other accounts	148,853,513	6,037,516	39,237,548	2,893,655	41,627,410	9,068,570	4,552,690	16,129,196	67,349	53,881	29,195,698	53,881	29,195,698	
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans	2,125,418	400	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	9,480,373	-	-	-	-	-	-	-	-	-	-	-	-	9,480,373
	194,916,193	35,315,371	39,568,474	4,235,630	41,627,610	9,068,570	4,552,690	16,129,596	67,749	2,177,899	42,152,604	42,152,604	42,152,604	
On-balance sheet gap	(2,449,535)	(19,281,367)	(36,644,101)	997,286	(33,066,267)	(715,401)	3,956,783	8,463,858	41,381,475	43,122,885	(10,684,666)	(10,684,666)	(10,684,666)	

Off-balance sheet financial instruments

Commitments in respect of forward exchange contracts - Purchase	14,799,455	7,445,731	6,457,622	670,027	226,075	-	-	-	-	-	-	-	-	-
Commitments in respect of forward exchange contracts - Sale	(8,664,082)	(6,532,811)	(2,131,271)	-	-	-	-	-	-	-	-	-	-	-
Commitments in respect of forward government securities transactions - Purchase	929,110	929,110	-	-	-	-	-	-	-	-	-	-	-	-
Commitments in respect of forward government securities transactions - Sale	1,351,959	-	-	-	422,849	929,110	-	-	-	-	-	-	-	-
Off-balance sheet gap	8,416,442	1,842,030	4,326,351	670,027	648,924	929,110	-	-	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap	(17,439,337)	(49,757,087)	(46,089,774)	(80,507,117)	(80,293,408)	(60,293,408)	(76,336,625)	(67,852,767)	(26,471,292)	16,651,593	5,966,907	5,966,907	5,966,907	

	2020	2019	2020	2019
	Rupees in '000		Rupees in '000	
Reconciliation of total assets				
Balance as per statement of financial position	267,678,007	205,688,080	262,808,426	194,916,193
Less: Non-financial assets				
Fixed assets	6,762,402	5,910,369		
Intangible assets	283,831	217,077		
Deferred tax assets	8,795,256	4,864,227		
Asset held for sale	-	2,229,729		
	15,841,489	13,221,422		
Total financial assets	251,836,518	192,466,658	262,808,426	194,916,193
Reconciliation of total liabilities				
Balance as per statement of financial position				
Less: Non-financial liabilities				
Other liabilities				
Total financial liabilities				

Yield Risk is the risk of decline in earnings due to adverse movement of the yield curve. Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

The objective of interest rate risk management is to formalise risk decision-making and risk management processes, which includes identification, measurement, monitoring and control of interest rate risk across the bank and establishing governance roles around interest rate risk management.

48.3

Operational Risk

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

The Bank has in place robust, duly approved various policies, procedures and a Business Continuity Plan. These are continuously reviewed to strengthen operational controls. Risk policy sets minimum standards and requires all business units to identify and assess risks. The business units are responsible for day-to-day monitoring of operational risks and for limiting losses as a result thereof. They also report operational risk events in the management reporting system.

Operational risk tolerance levels, however, have not been established but a broad strategic operational risk direction is in place. This process will move further with the implementation of Internal Control Systems (COSO compliant in process) and Operational Risk Management. Presently, this risk is effectively managed through robust operational policies and procedures.

As detailed in Note 5, after the outbreak of Covid-19, the management has taken a number of measures for Business Continuity Planning (BCP) which includes a fully functional Disaster Recovery (DR) site. Further, considering the best practices, skeleton staff was maintained to curb the spread of COVID-19, and work from home option was put in place. Further, SBP had also been approached for the relaxation in certain clauses of the Code of Conduct for Treasuries of Banks, DFIs and PDBs to allow the Bank to perform/execute Capital and Money Market deals/transactions from Off-Premises other than Primary and DR site as well as usage of Wireless Communication devices. Moreover, various management committees had been set up online and discussing proposals through teleconferencing at relevant forums. A local person was appointed to deal with the regulator on continuous basis.

48.3.1

Operational Risk-Disclosures Basel II Specific

There are various methods for calculating Operational Risk capital charge, however as envisaged in the roadmap issued by regulator. The bank is using Basic Indicator Approach. Under BIA the capital charge for operational risk is fixed percentage of average positive annual gross income of the bank over the past three years.

2019

Total	Upto 1 Day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 month	Over 1 to 2 month	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

Assets

Cash and balances with treasury banks	11,838,682	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	1,168,163	11,078,824	682,489	1,513,809	3,924,167	899,268	-	-	91,360	-	-	-	-
Lendings to financial institutions	18,101,837	-	-	-	257,659	3,822,460	1,704,070	1,704,070	2,009,539	13,472,646	6,410,809	17,866,592	300,613
Investments	36,245,350	-	-	-	2,579,884	6,230,731	3,838,444	3,846,829	2,009,539	10,472,646	17,512,242	36,395,879	17,023,571
Advances	105,374,947	381,668	240,248	1,628,382	2,579,884	3,838,444	3,838,444	3,846,829	2,009,539	10,472,646	17,512,242	36,395,879	17,023,571
Fixed assets	5,810,389	3,241	19,444	49,296	98,572	295,715	295,715	295,715	295,715	1,192,861	1,182,861	2,365,722	-
Intangible assets	217,077	118	714	1,809	3,618	10,854	10,854	10,854	10,854	43,415	43,415	86,831	144
Deferred tax assets	4,864,227	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	19,737,679	374	1,897	1,454,149	2,906,413	52,400	596,523	596,523	269,207	3,378,750	3,968,008	1,638,196	3,686,813
Asset held for sale	2,229,729	-	-	-	-	-	-	-	-	-	-	-	1,745,655
Liabilities	13,221,162	11,482,587	950,244	4,650,235	8,770,313	7,666,130	11,221,588	7,998,298	4,380,745	22,881,047	29,701,040	59,036,927	22,786,796

Bills payable	2,483,658	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	31,873,231	28,368,049	299,408	1,092,275	1,351,975	251,526	-	-	-	-	-	-	-
Deposits and other accounts	148,853,513	4,083,251	2,517,404	7,107,430	3,745,331	10,012,745	11,922,206	7,780,305	18,983,076	13,273,629	13,865,032	29,351,047	27,149,020
Liabilities against assets subject to finance lease	-	400	-	-	-	200	-	-	-	400	400	800	2,123,218
Subordinated debts	9,480,373	1,181	13,980	29,236	88,059	68,458	241,700	276,282	195,250	1,039,427	1,139,301	2,874,107	3,403,630
Other liabilities	1,181	9,752	13,980	29,236	88,059	68,458	241,700	276,282	195,250	1,039,427	1,139,301	2,874,107	3,403,630
Net assets	194,815,193	33,061,452	2,830,800	8,228,941	5,185,365	10,332,828	12,163,906	8,056,587	19,158,326	14,313,466	15,005,733	31,925,954	32,675,868
	10,771,887	(21,578,865)	(1,886,556)	(3,278,766)	4,584,948	(2,686,799)	(842,338)	(67,301)	(18,777,961)	8,967,591	14,695,307	27,710,973	(9,909,072)

Share capital - net	23,431,374
Reserves	820,890
Accumulated loss	(13,706,887)
Surplus on revaluation of asset - net of tax	256,510
10,771,887	

48.5 Derivative Risk

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. The principal derivatives used by the Bank are forward foreign exchange contracts, foreign exchange swaps and equity futures. The Bank at present does not engage in structured derivative products such as Interest Rate Swaps, Forward Rate Agreements and Foreign Exchange Options.

A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. Equity futures are exchange traded contractual agreements to either buy or sell a specified security at a specific price and date in the future. A foreign exchange swap is used by the Bank if it has a need to exchange one currency for another currency on one day and then re-exchange those currencies at a later date.

The Bank enters into these contracts for the purpose of squaring currency / equity positions.

All derivatives are recognized at their fair value. Fair values are obtained from quoted market prices in active markets. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations. The principal amount of the derivative contract does not represent real exposure to credit risk, which is limited to the positive fair value of instrument.

The details of commitments under forward foreign exchange contracts outstanding at year-end has been given in notes 25.2.1 and 25.2.2.

The accounting policies used to recognise and disclose derivative instruments are given in note 7.18.2.

49 ISLAMIC BANKING BUSINESS (IBB)

- 49.1 In order to meet the guidelines for Sharia compliance in Islamic Banking Institutions (IBIs), statement of financial position and profit and loss account of IBB are given in Annexure - II. Further detailed disclosures are also given in the said annexure to comply with instructions issued by SBP to improve transparency and standardisation in IBIs' profit and loss distribution, policies and practices. Instructions in this regard were issued by the SBP vide IBD Circular No. 3 dated November 19, 2012 and BSD Circular No.3 dated January 22, 2013.


50 DATE OF AUTHORIZATION FOR ISSUE

- 50.1 The financial statements were authorized for issue on _____ by the Board of Directors of the Bank.

51 GENERAL

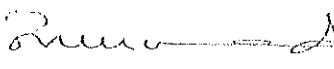
- 51.1 Corresponding figures have been rearranged / reclassified to reflect more appropriate presentation.
- 51.2 These financial statements have been prepared in accordance with the revised format for financial statements of banks issued by the SBP through BPRD circular letter No.02 of 2018 dated January 25, 2018.
- 51.3 Captions in respect of which no amounts exist may not be reproduced in these financial statements except in case of statement of financial position and profit and loss account. *LM*


Chief Financial
Officer


President & Chief
Executive Officer


Director


Director


Director

SILKBANK LIMITED
ISLAMIC BANKING BUSINESS

Annexure - II

The Bank is operating with 30 Islamic Banking branches at the end of 2020 (2019: 30).

The statement of financial position of these branches as at December 31, 2020 are as follows:

	Note	2020	2019
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks		2,449,222	2,142,308
Balances with other banks		77,341	540,286
Due from financial institutions	1	28,273,097	5,478,118
Investments	2	5,201,469	257,658
Islamic financing and related assets - net	3	5,127,314	27,448,800
Fixed assets		1,207,205	1,414,903
Intangible assets		4,623	2,972
Due from Head Office		2,880,092	-
Other assets		1,298,517	985,608
Total Assets		46,518,880	38,270,653
LIABILITIES			
Bills payable		563,474	133,503
Due to financial institutions		-	-
Deposits and other accounts	4	37,515,414	33,274,825
Due to Head Office		-	154,880
Other liabilities		1,630,406	1,572,884
		39,709,294	35,136,092
NET ASSETS		6,809,586	3,134,561
REPRESENTED BY			
Islamic banking fund		6,625,000	6,625,000
Reserves		-	-
Deficit on revaluation of assets		(68,078)	-
Un-appropriated profits / (Accumulated loss)	6	252,664	(3,490,439)
		6,809,586	3,134,561
CONTINGENCIES AND COMMITMENTS			
	7		

The profit and loss account of the Bank's Islamic banking branches for the year ended December 31, 2020 is as follows:

	Note	2020	2019
		Rupees in '000	
Profit / return earned	8	6,871,971	282,977
Profit / return expensed	9	(2,749,214)	(3,546,098)
Net profit / return / (loss)		4,122,757	(3,263,121)
Other Income			
Fee and commission income		24,680	16,654
Foreign exchange loss		(81,784)	(101,382)
Income from derivatives		109,081	123,673
Gain / (loss) on securities		12,512	(1,128)
Other income		16,080	13,708
Total other Income		80,569	51,547
Total Income / (loss)		4,203,326	(3,211,574)
Other expenses			
Operating expenses		(865,708)	(823,228)
Workers Welfare Fund		(76,390)	-
Other charges		(725)	(862)
Total other expenses		(942,823)	(824,090)
Profit / (Loss) before provisions		3,260,503	(4,035,664)
Provisions and write offs / (reversals) - net		482,600	(553,054)
Profit / (Loss) for the year		3,743,103	(4,588,718)

	2020			2019		
	In Local Currency	In Foreign currencies	Total	In Local Currency	In Foreign currencies	Total
1 Due from Financial Institutions	Rupees in '000					
Bai Muajjal receivable from State Bank of Pakistan	2,794,643	-	2,794,643	3,449,975	-	3,449,975
Bai Muajjal receivable from other financial institution	25,478,454	-	25,478,454	2,028,143	-	2,028,143
	28,273,097	-	28,273,097	5,478,118	-	5,478,118

	2020				2019			
	Cost / Amortised cost	Provision for diminution	Surplus / (Deficit)	Carrying Value	Cost / Amortised cost	Provision for diminution	Surplus / (Deficit)	Carrying Value
2 Investments by segments:	Rupees In '000							
Federal Government Securities:								
- Ijarah Sukuks	5,011,889	-	(68,078)	4,943,811	-	-	-	-
- Bai Muajjal	267,658	-	-	267,658	257,658	-	-	257,658
Total Investments	5,269,547	-	(68,078)	5,201,469	257,658	-	-	257,658

	Note	2020		2019	
		Rupees In '000			
3 Islamic financing and related assets - net					
Murabaha	3.1	401,852	2,876,403		
Musawammah		-	127,343		
Diminishing Musharaka		4,785,916	24,998,108		
Gross Islamic financing and related assets	12	5,197,768	28,001,854		
Less: provision against Islamic financings					
- Specific		(70,454)	(553,054)		
- General		-	-		
		(70,454)	(553,054)		
Islamic financing and related assets - net of provision		5,127,314	27,448,800		
3.1 Murabaha					
Murabaha financing	3.1.1	369,031	2,812,382		
Advances for Murabaha		42,821	64,021		
		401,852	2,876,403		
3.1.1 Murabaha receivable - gross	3.1.2	426,089	3,210,586		
Less: Deferred murabaha income	3.1.4	(3,954)	(25,141)		
Less: Profit receivable shown in other assets	3.1.3	(63,104)	(373,063)		
		369,031	2,812,382		
3.1.2 The movement in Murabaha financing during the year is as follows:					
Opening balance		3,210,586	2,333,482		
Sales during the year		52,988	1,467,918		
Adjusted during the year		(2,837,485)	(590,814)		
Closing balance		426,089	3,210,586		
3.1.3 Murabaha sale price		422,136	3,185,446		
Murabaha purchase price		(369,032)	(2,812,383)		
		63,104	373,063		
3.1.4 Deferred murabaha income					
Opening balance		25,141	159,048		
Arising during the year		2,620	139,976		
Less: Recognised during the year		(23,807)	(273,883)		
Closing balance		3,954	25,141		

3.2 Advances include Rs. 2,108 million (2019: Rs. 22,750 million) which have been placed under non-performing status as detailed below.

Category of classification - specific	2020		2019	
	Non Performing Loans	Provision	Non Performing Loans	Provision
	Rupees in '000			
Substandard	116,500	800	42,875	-
Doubtful	1,612,857	27,427	462,500	-
Loss	378,743	42,227	22,244,285	553,054
Total	2,108,100	70,454	22,749,660	553,054

3.3 During the year Non Performing Loans (NPL) owned by Emaan Islamic Banking transferred to Conventional Banking at a sale consideration of Rs. 22,561 million.

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

3.5 As of December 31, 2020, the Bank has availed FSV benefits against all non performing advances. Had the benefit not been taken by the Bank, profit would have been lower by Rs.1,144 million (December 2019 : loss would have been higher by Rs.5,804 million, which shall not be available for payment of cash or stock dividend / bonus to employees.

4 Deposits

	2020			2019		
	In Local Currency	In Foreign currencies	Total	In Local Currency	In Foreign currencies	Total
	Rupees in '000					
Customers						
Current deposits	3,070,149	527,791	3,597,940	2,232,798	613,408	2,846,204
Savings deposits	19,933,850	674,152	20,608,002	13,564,144	368,203	13,932,347
Term deposits	6,993,727	374,348	7,368,075	5,217,006	881,603	6,098,609
Margin deposits	32,560	-	32,560	30,700	-	30,700
Call deposits	63,459	-	63,459	76,557	-	76,557
	30,093,745	1,576,291	31,670,036	21,121,203	1,863,214	22,984,417
Financial Institutions						
Current deposits	59,562	9,962	69,524	29,206	6,667	35,873
Savings deposits	5,474,764	-	5,474,764	10,053,435	-	10,053,435
Term deposits	301,100	-	301,100	201,100	-	201,100
	5,835,416	9,962	5,845,378	10,283,741	6,667	10,290,408
	35,929,161	1,586,253	37,515,414	31,404,944	1,869,881	33,274,825

	2020	2019
	Rupees in '000	
4.1 Composition of deposits		
- Individuals	10,034,695	7,849,395
- Government / Public Sector Entities	19,729,445	11,307,313
- Banking Companies	1,367,436	705,931
- Non-Banking Financial Institutions	4,477,942	9,584,477
- Private Sector	1,905,896	3,827,709
	<u>37,515,414</u>	<u>33,274,825</u>
4.2 This includes deposits eligible to be covered under insurance arrangements amounting to Rs. 11.21 million (2019: Rs. 8.66 million)		
	2020	2019
	Rupees in '000	
5 Charity Fund		
Opening Balance	100	1,000
Received from customers on account of delayed payment	-	-
Payments / utilisation during the year	-	(900)
	-	(900)
Closing Balance	<u>100</u>	<u>100</u>
6 Islamic Banking Business Unappropriated Profit / Accumulated (loss)		
Opening Balance	(3,490,439)	1,098,279
Add: Islamic Banking (loss) / profit for the year	3,743,103	(4,588,718)
Closing Balance	<u>252,664</u>	<u>(3,490,439)</u>
7 CONTINGENCIES AND COMMITMENTS		
Guarantees	956,667	563,350
Commitments	1,311,866	2,046,818
	<u>2,268,523</u>	<u>2,610,168</u>
8 Profit / return earned of financing, investments and placement		
Profit earned on:		
Financing	5,428,936	(272,769)
Investments	164,491	89,318
Placements	1,278,544	466,428
	<u>6,871,971</u>	<u>282,977</u>
9 Profit on Deposits and other Dues Expensed		
Deposits and other accounts	2,551,281	3,245,895
Due to Financial Institutions	(296)	29,189
Cost of foreign currency swaps against foreign currency deposits / borrowings	104,029	142,543
Lease liability against right-of-use assets	94,200	128,471
	<u>2,749,214</u>	<u>3,546,098</u>

10 Pool Management

The number and nature of pools maintained by the IBD along with their key features and risk and reward characteristics are as follows:

Emaan Islamic Banking, the Islamic Banking Division (IBD) of Silkbank Limited, has a well-defined profit and loss distribution and pool management framework for creation of one or more pools of assets to be financed by different types of deposits. Currently, the IBD has the policy of maintaining a single Mudaraba Pool. All funds obtained through Islamic Banking operations are being invested in this Common Mudaraba Pool. The key features and risk / reward features of the same are given below.

Key Features

The Account Holder, in his capacity as the fund provider (called Rabbul Mal in Fiqh terminology) authorises the IBD acting as the investment manager (called Mudarib in Fiqh terminology) to invest the Account Holder's funds on the basis of an unrestricted Mudaraba agreement in line with rules and principles of Shari'a.

Under the unrestricted Mudaraba agreement, the IBD in its capacity as the fund manager invests the funds accepted from Account Holders in Shari'a compliant financing and investments. The IBD receives a pre-agreed percentage (Mudarib Share) of the profit generated from these activities.

In line with the principles of commingling Mudaraba, where the Mudarib is permitted to commingle its own funds with the funds received on the basis of the Mudaraba, and to comply with the regulations of the SBP on creation of an Islamic Banking Fund (the "IBF"), Silkbank has created an Islamic Banking Fund of Rs. 6,625 million and deposited the same in its common Mudaraba pool.

Risk & Rewards Characteristics

The profit is shared between the Rabbul Mal and the Mudarib as per the agreed ratio, while the loss, if any, is borne by the Rabbul Mal in proportion to his invested amount unless the Mudarib is found to be negligent or in breach of the terms and conditions of the Mudaraba Agreement.

In case of commingling of the Mudarib's own funds with the funds of the Account Holders, the Mudarib shall get the full profit of its own funds and bear the entire loss thereof.

Profit for the Account Holder is calculated on the basis of a weightage system which takes into consideration the size of funds, its period and profit payment frequency (details of the weightages are available in all the branches and Silkbank's website). The bigger the size of the fund and the longer the tenor, the higher would be the weightage allocated to the fund for profit distribution.

Profit Rate and Weightages announcement period

The profit sharing ratio, profit rate and weightages are announced when change is required. Although SBP allows to revise the profit sharing ratio & weightages for the period concerned, EIB has revised the Profit Sharing Ratio (PSR) during the year 2020 and announces the same on website and notice boards of branches.

Avenues / sectors of economy / business where Mudaraba based deposits have been deployed

Mudaraba based funds have been deployed to diversified sectors and avenues of the economy / business mainly to Government, Financial Institutions, Construction, Manufacturing and Services sectors.

Parameters used for allocation of profit, charging expenses and provisions etc. along with a brief description of their major components

The profit of deposit pool is calculated on the earning assets booked by utilising the funds from the pool. No general or administrative nature of expense is charged to the pool. The profit of the pool is shared among the members of the pool on pre-defined mechanism based on the weightages announced before the profit calculation period.

Profit and Loss distribution in Common Mudaraba Pool

2020

General Depositors Pool	Mudarib share - net of Hiba and including the Mudarib fee ('000)	Mudarib share - net of Hiba and including the Mudarib Fee (%)	Amount of Mudarib share transferred to depositors through Hiba ('000)	Profit rate and weightages announcement period	Mudarib share transferred to depositors through Hiba (%)	Profit rate earned (%)	Profit rate distributed (%)
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Common Mudaraba Pool	854,031	25.12%	241,369	Monthly	28.26%	12.57%	7.73%
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2019

General Depositors Pool	Mudarib share - net of Hiba and including the Mudarib fee ('000)	Mudarib share - net of Hiba and including the Mudarib Fee (%)	Amount of Mudarib share transferred to depositors through Hiba ('000)	Profit rate and weightages announcement period	Mudarib share transferred to depositors through Hiba (%)	Profit rate earned (%)	Profit rate distributed (%)
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Common Mudaraba Pool	324,851	8.62%	133,798	Monthly	41.19%	12.71%	10.47%
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SILKBANK LIMITED

COMBINED PATTERN OF CDC & PHYSICAL SHARE HOLDINGS AS AT DECEMBER 31, 2020

S. No.	Categories/Sub-Categories of Shareholders	Number of Shares held	Category wise No. of Folios / CDC Accounts.	Category wise Shares held	Percentage
	Directors, Chief Executive Officer and their Spouse and Minor Children		07	419,344,497	4.62
01	Mr. Tariq Iqbal Khan	16,997			0.00
	Mr. Khalid Aziz Mirza	500			0.00
	Mr. Masroor Ahmed Qureshi	500			0.00
	Mr. Zubair Nawaz Chattha	415,626,000			4.58
	Mr. Rashid Akhtar Chughtai	500			0.00
	Mrs. Samia Shahzad Murad	3,200,000			0.04
	Mr. Shahzad Enver Murad (Husband of Mrs. Saima Shahzad Murad)	500,000			0.01
02	Associated Companies, Undertakings and Related Parties. (5% & above shareholding).		11	5,686,275,208	62.61
	Arif Habib Corporation Limited	2,563,901,924			28.23
	Mr. Shaukat Tarin	1,049,091,791			11.55
	International Finance Corporation	702,689,067			7.74
	Mr. Zulqarnain Nawaz Chattha	704,508,000			7.75
	Nomura European Investment Limited	356,676,342			3.93
	Bank Muscat S.A.O.G	315,776,969			3.48
	Azmat Shahzad Ahmed Tarin	20,013,115			0.22
03	Executives	39,268,471	12		0.43
04	Public Sector Companies and Corporations	99,421,996	5		1.09
05	Banks, Development Finance Institutions, Non-Banking Finance Companies, Insurance Companies, Takaful, Modarabas and Pension Funds	4,379,338	7		0.05

06	Mutual Funds	20,880,417	1		0.23
07	General Public – Foreign	107,197,662	31		1.18
08	General Public – Local	2,232,363,381	7929		24.58
09	Others	472,730,267	84		5.21
	Total	9,081,861,237	8087		100.00
	SHAREHOLDERS HOLDING FIVE PERCENT OR MORE VOTING INTEREST IN THE BANK				
	TOTAL PAID-UP CAPITAL OF BANK	9,081,861,237 Shares			
	5% OF PAID-UP CAPITAL (SHARES)	454,093,062 Shares			
	NAME OF SHAREHOLDERS	NO OF SHARES HELD		PERCENTAGE	
	Arif Habib Corporation Limited	2,563,901,924		28.23	
	Mr. Shaukat Tarin*	1,049,091,791		11.55	
	International Finance Corporation	702,689,067		7.74	
	Mr. Zulqarnain Nawaz Chattha	678,126,000		7.47	
	Nomura European Investment Limited	356,676,342		3.93	
	Bank Muscat S.A.O.G	315,776,969		3.48	
	Azmat Shahzad Ahmed Tarin	20,013,115		0.22	

* The total shareholding of Mr. Shaukat Tarin actually stands at 1,106,091,791 shares. i.e. 12.18% in the Bank, out of which, an amount of fifty-seven million (57,000,000) shares of Mr. Shaukat Tarin have been kept with Pearl Securities Limited.

The following Executives of the Silkbank Limited carried out transactions in shares of the Bank in open market, details of which are as follow:

1. Mr. Taifur Ahmed bought 204,500 shares.
2. Mr. Noman Iqbal bought and sold 300,000 shares.
3. Mr. Naeem Akhtar Sheikh spouse of Executive Mrs. Zareen Naeem Sheikh bought and sold 675,000 shares.

The bank has reported the above transactions of shares to the Pakistan Stock Exchange in compliance of clause No. 5.6.1. (d) of PSX Regulations. Apart from this, there was no other trading in Silkbank shares carried out by any of the Directors and Executives or their spouses and minor children during the year.

**PATTERN OF SHAREHOLDING
AS AT DECEMBER 31, 2020**

SILKBANK LIMITED

COMBINED PATTERN OF CDC & PHYSICAL SHARE HOLDINGS AS AT DECEMBER 31, 2020

No of Shareholders	Shareholdings 'Slab			Total Shares Held
461	1	to	100	11,634
670	101	to	500	276,846
690	501	to	1000	651,587
1858	1001	to	5000	5,873,652
1018	5001	to	10000	8,583,661
447	10001	to	15000	5,829,469
349	15001	to	20000	6,530,151
279	20001	to	25000	6,598,009
166	25001	to	30000	4,752,810
139	30001	to	35000	4,681,500
106	35001	to	40000	4,079,534
69	40001	to	45000	2,976,888
240	45001	to	50000	11,886,510
66	50001	to	55000	3,456,165
56	55001	to	60000	3,275,180
47	60001	to	65000	2,959,614
49	65001	to	70000	3,365,303
39	70001	to	75000	2,876,092
24	75001	to	80000	1,894,872
32	80001	to	85000	2,684,585
18	85001	to	90000	1,589,777
16	90001	to	95000	1,495,587
222	95001	to	100000	22,157,666
35	100001	to	105000	3,571,231
28	105001	to	110000	3,047,208
24	110001	to	115000	2,712,416
28	115001	to	120000	3,328,356
18	120001	to	125000	2,218,243
20	125001	to	130000	2,566,988
18	130001	to	135000	2,394,990
24	135001	to	140000	3,307,299
5	140001	to	145000	715,727
41	145001	to	150000	6,134,084
11	150001	to	155000	1,683,665
12	155001	to	160000	1,904,888
8	160001	to	165000	1,306,613
18	165001	to	170000	3,044,149
8	170001	to	175000	1,394,148

8	175001	to	180000	1,424,647
9	180001	to	185000	1,659,274
6	185001	to	190000	1,130,100
6	190001	to	195000	1,151,258
62	195001	to	200000	12,394,500
18	200001	to	205000	3,638,162
12	205001	to	210000	2,498,166
5	210001	to	215000	1,066,500
6	215001	to	220000	1,303,363
4	220001	to	225000	895,297
7	225001	to	230000	1,605,204
3	230001	to	235000	699,490
7	235001	to	240000	1,679,940
5	240001	to	245000	1,218,000
14	245001	to	250000	3,497,993
6	250001	to	255000	1,520,229
2	255001	to	260000	514,000
5	260001	to	265000	1,319,500
1	265001	to	270000	266,496
9	270001	to	275000	2,462,101
4	275001	to	280000	1,116,544
3	285001	to	290000	863,460
2	290001	to	295000	588,000
32	295001	to	300000	9,591,961
8	300001	to	305000	2,429,249
4	305001	to	310000	1,235,446
4	310001	to	315000	1,255,301
3	315001	to	320000	958,000
2	320001	to	325000	650,000
4	325001	to	330000	1,310,434
2	330001	to	335000	666,500
11	335001	to	340000	3,733,440
1	340001	to	345000	342,319
9	345001	to	350000	3,137,919
2	350001	to	355000	701,049
3	355001	to	360000	1,077,685
2	360001	to	365000	725,000
1	365001	to	370000	366,013
3	370001	to	375000	1,123,332
6	375001	to	380000	2,278,670
4	380001	to	385000	1,531,301
5	385001	to	390000	1,949,411
2	390001	to	395000	785,450
16	395001	to	400000	6,400,000
2	400001	to	405000	806,960
4	405001	to	410000	1,633,172

1	410001	to	415000	411,000
5	420001	to	425000	2,117,882
1	430001	to	435000	432,000
3	435001	to	440000	1,314,500
1	440001	to	445000	444,000
8	445001	to	450000	3,600,000
4	450001	to	455000	1,810,500
1	455001	to	460000	459,910
1	460001	to	465000	462,377
2	465001	to	470000	938,000
1	470001	to	475000	470,534
2	475001	to	480000	956,151
1	480001	to	485000	482,928
3	485001	to	490000	1,462,499
2	490001	to	495000	987,000
35	495001	to	500000	17,493,980
3	500001	to	505000	1,510,064
6	505001	to	510000	3,059,820
1	510001	to	515000	515,000
1	515001	to	520000	516,000
5	520001	to	525000	2,621,717
3	525001	to	530000	1,585,000
2	530001	to	535000	1,065,261
3	535001	to	540000	1,618,500
1	555001	to	560000	556,248
1	560001	to	565000	565,000
2	565001	to	570000	1,136,500
2	570001	to	575000	1,145,992
1	575001	to	580000	578,136
4	585001	to	590000	2,356,610
1	590001	to	595000	591,500
10	595001	to	600000	5,997,000
1	600001	to	605000	604,102
1	610001	to	615000	613,500
1	625001	to	630000	630,000
1	635001	to	640000	640,000
2	640001	to	645000	1,281,287
4	645001	to	650000	2,593,500
2	650001	to	655000	1,308,823
1	665001	to	670000	670,000
2	670001	to	675000	1,343,486
4	675001	to	680000	2,719,880
1	680001	to	685000	682,000
2	690001	to	695000	1,388,233
9	695001	to	700000	6,298,000
4	700001	to	705000	2,811,157

2	705001	to	710000	1,415,500
1	725001	to	730000	725,970
1	745001	to	750000	750,000
1	755001	to	760000	760,000
2	760001	to	765000	1,525,500
1	765001	to	770000	765,744
5	795001	to	800000	4,000,000
1	805001	to	810000	807,501
1	820001	to	825000	825,000
1	825001	to	830000	826,000
1	830001	to	835000	832,000
2	835001	to	840000	1,679,000
1	845001	to	850000	850,000
1	855001	to	860000	857,000
2	870001	to	875000	1,747,000
1	875001	to	880000	880,000
1	885001	to	890000	887,500
5	895001	to	900000	4,499,500
2	900001	to	905000	1,806,500
2	905001	to	910000	1,820,000
1	910001	to	915000	914,000
1	920001	to	925000	924,229
1	925001	to	930000	930,000
3	930001	to	935000	2,799,835
1	935001	to	940000	935,346
1	945001	to	950000	950,000
1	955001	to	960000	959,820
1	960001	to	965000	965,000
2	990001	to	995000	1,987,500
18	995001	to	1000000	17,997,781
2	1000001	to	1005000	2,002,329
2	1005001	to	1010000	2,016,600
2	1015001	to	1020000	2,038,000
2	1020001	to	1025000	2,050,000
1	1025001	to	1030000	1,026,000
1	1040001	to	1045000	1,043,000
1	1045001	to	1050000	1,049,297
2	1065001	to	1070000	2,132,500
1	1070001	to	1075000	1,074,000
1	1075001	to	1080000	1,079,000
1	1080001	to	1085000	1,080,500
1	1110001	to	1115000	1,111,041
1	1140001	to	1145000	1,144,500
1	1165001	to	1170000	1,165,500
1	1170001	to	1175000	1,172,500
1	1185001	to	1190000	1,186,336

5	1195001	to	1200000	6,000,000
3	1200001	to	1205000	3,610,475
1	1210001	to	1215000	1,210,259
1	1220001	to	1225000	1,225,000
1	1230001	to	1235000	1,234,500
2	1255001	to	1260000	2,515,070
1	1300001	to	1305000	1,301,500
1	1325001	to	1330000	1,329,000
1	1335001	to	1340000	1,340,000
1	1340001	to	1345000	1,345,000
3	1345001	to	1350000	4,046,905
1	1355001	to	1360000	1,359,764
1	1395001	to	1400000	1,397,161
1	1400001	to	1405000	1,400,440
1	1415001	to	1420000	1,417,000
1	1420001	to	1425000	1,425,000
1	1435001	to	1440000	1,439,641
1	1485001	to	1490000	1,490,000
6	1495001	to	1500000	9,000,000
1	1500001	to	1505000	1,500,100
1	1540001	to	1545000	1,543,529
1	1545001	to	1550000	1,550,000
1	1570001	to	1575000	1,572,920
1	1575001	to	1580000	1,576,789
1	1595001	to	1600000	1,600,000
1	1615001	to	1620000	1,619,500
2	1655001	to	1660000	3,317,000
2	1675001	to	1680000	3,356,500
1	1680001	to	1685000	1,683,494
3	1695001	to	1700000	5,099,701
1	1735001	to	1740000	1,737,500
2	1745001	to	1750000	3,496,116
1	1785001	to	1790000	1,788,500
1	1795001	to	1800000	1,800,000
1	1850001	to	1855000	1,852,000
1	1870001	to	1875000	1,870,900
1	1875001	to	1880000	1,877,599
1	1895001	to	1900000	1,899,500
1	1910001	to	1915000	1,911,500
1	1920001	to	1925000	1,925,000
1	1950001	to	1955000	1,954,657
1	1965001	to	1970000	1,965,500
4	1995001	to	2000000	8,000,000
1	2005001	to	2010000	2,007,500
1	2010001	to	2015000	2,015,000
1	2070001	to	2075000	2,075,000

1	2095001	to	2100000	2,100,000
1	2150001	to	2155000	2,155,000
1	2280001	to	2285000	2,282,046
1	2295001	to	2300000	2,300,000
1	2345001	to	2350000	2,350,000
1	2395001	to	2400000	2,400,000
2	2400001	to	2405000	4,803,681
1	2495001	to	2500000	2,500,000
1	2600001	to	2605000	2,601,000
1	2740001	to	2745000	2,743,000
1	2745001	to	2750000	2,750,000
1	2750001	to	2755000	2,751,788
1	2765001	to	2770000	2,768,000
1	2860001	to	2865000	2,863,153
1	2875001	to	2880000	2,876,500
1	2920001	to	2925000	2,925,000
1	2990001	to	2995000	2,991,000
1	2995001	to	3000000	3,000,000
1	3050001	to	3055000	3,051,000
1	3185001	to	3190000	3,189,000
1	3195001	to	3200000	3,200,000
3	3295001	to	3300000	9,899,500
1	3395001	to	3400000	3,399,603
1	3560001	to	3565000	3,565,000
1	3715001	to	3720000	3,716,000
1	3740001	to	3745000	3,740,492
1	3940001	to	3945000	3,940,500
1	4275001	to	4280000	4,276,176
1	4285001	to	4290000	4,287,056
1	4455001	to	4460000	4,457,500
1	4500001	to	4505000	4,501,000
1	4740001	to	4745000	4,743,500
1	4995001	to	5000000	5,000,000
1	5015001	to	5020000	5,016,419
1	5045001	to	5050000	5,050,000
1	5620001	to	5625000	5,621,089
2	5995001	to	6000000	12,000,000
1	6175001	to	6180000	6,176,082
1	6835001	to	6840000	6,839,054
1	7260001	to	7265000	7,261,124
1	7495001	to	7500000	7,500,000
1	7615001	to	7620000	7,618,500
1	7695001	to	7700000	7,700,000
1	9085001	to	9090000	9,087,460
2	9995001	to	10000000	20,000,000
1	10195001	to	10200000	10,200,000

1	10685001	to	10690000	10,687,500
1	11080001	to	11085000	11,084,500
1	12540001	to	12545000	12,543,796
1	12975001	to	12980000	12,977,000
1	13170001	to	13175000	13,174,061
1	14095001	to	14100000	14,100,000
1	16465001	to	16470000	16,467,577
1	17395001	to	17400000	17,400,000
1	20880001	to	20885000	20,880,417
1	21050001	to	21055000	21,052,500
1	23195001	to	23200000	23,200,000
1	23795001	to	23800000	23,797,288
1	23815001	to	23820000	23,818,500
1	24750001	to	24755000	24,750,529
1	24995001	to	25000000	25,000,000
1	28675001	to	28680000	28,676,471
1	36225001	to	36230000	36,228,668
1	37495001	to	37500000	37,500,000
1	55880001	to	55885000	55,882,353
1	56995001	to	57000000	57,000,000
1	57995001	to	58000000	58,000,000
1	77335001	to	77340000	77,335,346
1	86345001	to	86350000	86,349,442
1	86645001	to	86650000	86,647,500
1	172995001	to	173000000	173,000,000
1	228860001	to	228865000	228,860,500
1	315775001	to	315780000	315,776,969
4	320510001	to	320515000	1,282,051,282
1	356675001	to	356680000	356,676,342
1	415555001	to	415560000	415,559,626
1	415625001	to	415630000	415,626,000
1	424300001	to	424305000	424,303,497
1	678125001	to	678130000	678,126,000
1	702685001	to	702690000	702,689,067
1	2563900001	to	2563905000	2,563,901,924

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9,081,861,237
