

HABIBMETRO

ANNUAL REPORT

2019



[Subsidiary of Habib Bank AG Zurich]



هَذَا فَضْلُكَ

OUR VISION

To be the most respected financial institution
based on trust, service and commitment



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CORPORATE INFORMATION

BOARD OF DIRECTORS

CHAIRMAN

Mohamedali R. Habib

PRESIDENT & CHIEF EXECUTIVE OFFICER

Mohsin A. Nathani

DIRECTORS

Ali S. Habib

Anjum Z. Iqbal

Firasat Ali

Mohomed Bashir

Muhammad H. Habib

Sohail Hasan

Tariq Ikram

BOARD COMMITTEES

AUDIT

Ali S. Habib

Anjum Z. Iqbal

Sohail Hasan

CREDIT

Anjum Z. Iqbal

Mohamedali R. Habib

Mohsin A. Nathani

Muhammad H. Habib

INFORMATION TECHNOLOGY

Anjum Z. Iqbal

Firasat Ali

Mohsin A. Nathani

RISK & COMPLIANCE

Anjum Z. Iqbal

Firasat Ali

Mohsin A. Nathani

HUMAN RESOURCE & REMUNERATION

Firasat Ali

Mohsin A. Nathani

Tariq Ikram

COMPANY SECRETARY

Ather Ali Khan

REGISTERED OFFICE

Ground Floor, Spencer's Building,
I. I. Chundrigar Road,
Karachi – 74200, Pakistan.

SHARE REGISTRAR

CDC Share Registrar Services Limited
CDC House, 99-B, Block-B
S.M.C.H.S., Main Shahra-e-Faisal
Karachi - 74400.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Twenty Eighth Annual General Meeting of the shareholders of Habib Metropolitan Bank Limited will be held at the Jinnah Auditorium, The Institute of Bankers Pakistan, Moulvi Tamizuddin Khan (M. T. Khan) Road, Karachi on Tuesday, 31 March 2020 at 9.00 a.m. to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Accounts, standalone as well as consolidated, of the Bank for the year ended 31 December 2019 together with the Directors' and Auditors' reports thereon.
2. To approve, as recommended by the Board of Directors, final dividend @ 25% (Rs. 2.50 per share) in the form of cash for the year ended 31 December 2019.
3. To elect 8 (eight) Directors as fixed by the Board.
4. To appoint Auditors for the financial year ending 31 December 2020 and fix their remuneration. The present Auditors, Messrs. KPMG Taseer Hadi & Co., Chartered Accountants, being eligible, offer themselves for re-appointment.

SPECIAL BUSINESS

5. To approve remuneration paid to the directors during the year ended 31 December 2019.
6. To approve Directors' Remuneration Policy in terms of State Bank of Pakistan's BPRD Circular No. 03 dated 17 August 2019.
7. To approve alteration in Article 106 of the Articles of Association of the Bank.

ANY OTHER BUSINESS

8. To consider any other business with the permission of the Chair.

By Order of the Board

ATHER ALI KHAN
Company Secretary

Karachi: 10 March 2020

NOTES:

1. The number of directors to be elected pursuant to Section 159(1) of the Companies Act, 2017, has been fixed at 8 (eight). The following are the retiring directors:

Mr. Ali S. Habib, Mr. Anjum Z. Iqbal, Mr. Firasat Ali, Mr. Mohomed Bashir, Mr. Mohamedali R. Habib, Mr. Muhammad H. Habib, Mr. Sohail Hasan and Mr. Tariq Ikram.

-
2. Any shareholder desirous to contest the election of Directors shall file the following with the Company Secretary of the Bank at its Registered Office, Spencer's Building, I.I. Chundrigar Road, Karachi, not later than fourteen days before the day of the above said meeting:

- a) Intention to offer himself / herself for the election in terms of Section 159(3) of the Companies Act, 2017 together with a consent on Form 28.

The candidate should also confirm that he / she is:

- (i) not ineligible to become a director of the Bank under any applicable laws, rules and regulations.
- (ii) or his/her spouse is engaged in the business of brokerage or is a sponsor or director or officer of a corporate brokerage house and / or exchange company.
- (iii) not serving as a director in more than seven listed companies.
- b) Independent Directors will be elected through the process of election of directors in terms of Section 159 of the Companies Act, 2017 and they shall also meet the criteria laid down under BPRD Circular No. 15 of 28 December 2016 issued by SBP and Section 166 of the Companies Act, 2017.
- c) Fit & Proper Test, affidavit and a completed questionnaire as required in terms of Prudential Regulations issued by the State Bank of Pakistan along with other documents customary and / or as communicated vide BPRD Circular No. 4 of 23 April 2007, BPRD Circular No. 5 of 12 March 2015 and BPRD Circular No. 9 of 18 October 2018.

As required under the Listed Companies (Code of Corporate Governance) Regulations, 2019, minority shareholders, will be facilitated to contest the election.

3. A shareholder entitled to attend and vote at this meeting may appoint another shareholder as his / her proxy to attend the meeting and vote for him / her, in terms of Section 137 of the Companies Act, 2017. Proxy form is enclosed with the Annual report. A proxy must be a shareholder of the Bank. In order to be effective, proxies must be received at the Registered Office of the Bank, duly stamped, signed and witnessed, not less than 48 (forty-eight) hours before the meeting.
4. CDC account holders and sub-account holders are required to bring with them their original National Identity Card or Passport along with the Participants ID Numbers and their account numbers in order to facilitate identification. In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee is also required.
5. Shareholders are requested to notify the change of addresses, if any.
6. The share transfer book of the Bank will remain closed from 20 March 2020 to 31 March 2020 (both days inclusive).

Bank Account Details for Payment of Cash Dividend

In accordance with the Section 242 of the Companies Act, 2017, any cash dividend shall only be paid through electronic mode directly into the bank account designated by the entitled shareholder. Therefore, please provide the following information to the Bank's Share Registrar along with a copy of your valid CNIC:

Details of shareholder	
Name of shareholder	
Folio / CDS account no.	
CNIC no.	
Cell number of shareholder	
Landline number of shareholder, if any	
Email address (Mandatory)	
Details of bank account	
Title of Bank Account	
International Bank Account Number (IBAN) "Mandatory"	PK _____ (24 digits)
Bank's name	
Branch name	
Branch address	
It is stated that the above-mentioned information is correct and in case of any change therein, I / we will immediately intimate Participant / Share Registrar accordingly.	
<div style="border-top: 1px solid black; width: 150px; margin-left: 0;"></div> Signature of shareholder	

Mandatory Submission of CNIC

Pursuant to the directives of the Securities & Exchange Commission of Pakistan (SECP), shareholders having shares in physical form are requested to submit a copy of their valid CNIC (if not already provided) to the Bank's Share Registrar without any delay.

Deduction of Withholding Tax from Dividend

The Government of Pakistan through Finance Act, 2019 has made certain amendments in section 150 of the Income Tax Ordinance, 2001 whereby different rates prescribed for deduction of withholding tax on the amount of dividend paid by the companies. These tax rates are as under:

- (a) For filers of income tax returns: 15%
- (b) For non-filers of income tax returns: 30%

To enable the Bank to make tax deduction on the amount of cash dividend @ 15% instead of 30%, all shareholders whose names are not entered in the Active Tax-Payers List (ATL) provided on the website of Federal Board of Revenue (FBR), despite the fact that they are filers, are advised to make sure that their names are entered into ATL at the earliest possible (as and when declared) otherwise tax on their cash dividend will be deducted @ 30%.

For shareholders holding their shares jointly as per the clarification issued by the FBR withholding tax will be determined separately on 'Filer/Non-Filer' status of principal shareholder as well as joint-holder(s) based on their shareholding proportions. Therefore, all shareholders who hold shares jointly are required to provide shareholding proportions of principal shareholder and joint-holder(s) in respect of shares held by them as follows:

Folio / CDC account no.	Total shares	Principal shareholder		Joint shareholder(s)	
		Name and CNIC no.	Shareholding proportion (no. of shares)	Name and CNIC no.	Shareholding proportion (no. of shares)

In case of non-receipt above information, the shareholding will be divided among the joint-holders equally.

Unclaimed Shares and Dividends

A list of unclaimed shares and dividends is available on the Bank's website. The shareholders who could not collect their dividend / physical shares are advised to contact the Bank's Share Registrar to collect their unclaimed dividend or shares at the below address:

CDC Share Registrar Services Limited

CDC House, 99-B, Block-B, S.M.C.H.S., Main Shahra-e-Faisal, Karachi-74400 (Pakistan)

Tel: 0800-23275, Fax No. (92-21) 34326053

Email: info@cdcsrsl.com, URL: www.cdcsrsl.com

Availability of Annual Audited Accounts on website

The audited accounts of the Bank for the year ended 31 December 2019 have been made available on the Company's website www.habibmetro.com, additionally the annual and quarterly accounts for the prior years and periods are also available.

Further, this is to inform that in accordance with SRO # 470(I)/2016 dated 31 May 2016, the Shareholders of Habib Metropolitan Bank Limited in AGM held on 30 March 2017 had accorded their consent for transmission of annual reports including annual audited accounts and other information contained therein of the Bank through CD/DVD/USB instead of transmitting the same in hard copies. The shareholders who wish to receive hard copies of the aforesaid documents may send to the Company Secretary / Share registrar, the standard request form available on the Bank's website and the Bank will provide the aforesaid documents to the shareholders on demand, free of cost, within one week of such demand.

Transmission of Annual Audited Accounts & Notice through email

The shareholders who are interested in receiving the annual reports and notice of annual general meeting electronically through email in future are requested to send their email addresses on the consent form placed on the Bank's website.

The shareholders, in general, are encouraged to have their email addresses and cell numbers registered with the Bank through its Share Registrar.

Video Conference Facility

In terms of the Companies Act, 2017, shareholders residing in a city other than Karachi holding at least 10% of the total paid up share capital may demand the facility of video-link for participating in the annual general meeting. The request for video-link facility shall be received by the Share Registrar at the address given hereinabove at least 7 days prior to the date of the meeting on the Standard Form available on the website of the Bank.

Postal Ballot

Shareholders can exercise their right to poll subject to meeting the requirements of Sections 143 to 145 of the Companies Act, 2017 and applicable clause of Companies (Postal Ballot) Regulations, 2018. The right of vote can be exercised through postal or any electronic mode, in accordance with the requirements and procedure contained in the aforesaid regulations.

Conversion of Physical Shares into Book-entry Form

The shareholders having physical shareholding are advised to open CDC sub-account with any of the Stock Brokers or CDC Investor Account Services to place their physical shares into book-entry form. This will facilitate them in number of ways including safe custody and easy sale of shares at the time of need, as the trading of physical shares is not permitted under existing regulations of the Pakistan Stock Exchange Limited. Further, Section 72 of the Companies Act, 2017 states that every existing company shall be required to replace its physical shares with book-entry form in a manner as may be specified and from the date notified by the Commission, within a period not exceeding four years from the commencement of this Act.

STATEMENT UNDER SECTION 134(3) OF THE COMPANIES ACT, 2017

The statements set out the material facts pertaining to the special business to be transacted at the 28th Annual General Meeting of the Bank:

Approval of the shareholders will be sought for the following:

Agenda Item 5

The following resolution is proposed to be adopted as ordinary resolution to approve the remuneration paid to the directors during the year ended 31 December 2019:

“Resolved that the remuneration paid to the directors during the year ended 31 December 2019, as disclosed in the Note. 37 to the Annual Audited Accounts, be and is hereby approved”.

Directors have no direct or indirect interest, except to the extent of their respective shareholding and payment of remuneration, if any.

Agenda Item 6

The State Bank of Pakistan (SBP), vide BPRD Circular No. 03 of 2019 dated 17 August 2019 has amended the Prudential Regulation G-1 wherein all Banks / DFIs are required to formulate remuneration mechanism for the directors. The policy has been prepared and recommended by the Board of Directors for approval of the shareholders.

The policy document will therefore, be laid before the shareholders in the Annual General Meeting scheduled on 31 March 2020. Those shareholders, who wish to review/inspect the proposed policy document, are requested to visit the registered office at Spencer's Building, I.I. Chundrigar Road, Karachi along with CNIC and details of Folio or CDC Account Number.

The following resolution is proposed to be adopted as ordinary resolution to approve the directors' remuneration policy:

“Resolved that the Directors Remuneration Policy, formulated in compliance of the State Bank of Pakistan's BPRD Circular No. 03 of 2019 dated 17 August 2019 be and is hereby approved”.

Directors have no direct or indirect interest, except to the extent of their respective shareholding and payment of remuneration, if any.

Agenda Item 7

In order to keep the Articles of Association in line with the regulatory changes, the Board has recommended to amend the articles as given below:

Article	Existing article	Proposed article
106	<p>Remuneration payable to Directors for attending Board Meeting shall not exceed Rs. 75,000 and a Director who performs extra services or a full time Director shall receive such remuneration (whether by way of salary, commission, participation in profits, allowances, perquisites, etc., or partly in one way and partly in another) as the members may fix, subject to the Federal Government, Finance Division Notification SRO No. 572(i)-82 dated 16 June 1982 or any modification in that behalf for the time being in force. The Directors may also pay to any Director all such reasonable expenses as he may incur in attending and returning from meetings of Directors or committee of Directors or which he may otherwise incur in or about the business of the Company.</p> <p>The Board of Directors are authorized to pay annual remuneration of Rs. 6,000,000 (Rupees six million only) to the Chairman of the Board of Directors for attending meetings of the Board and its Sub-committees and Rs. 150,000 (Rupees one hundred fifty thousand only) per meeting to the Chairmen of the Board's Sub-committees for carrying out their duties as Chairmen.</p>	<p>The remuneration to be paid to any director for attending the meeting of the directors or a committee of directors or meeting of the shareholders, shall from time to time, be determined by the Board of Directors in accordance with the regulatory requirements.</p>

The following special resolution is proposed to be adopted, with or without modifications, for amendment in the Articles of Association of the Bank:

"Resolved that Article 106 of the Articles of Association be and hereby replaced as follows:

106. The remuneration to be paid to any director for attending the meeting of the directors or a committee of directors or meeting of the shareholders, shall from time to time, be determined by the Board of Directors in accordance with the regulatory requirements.

Further resolved that the Chief Executive Officer and / or the Company Secretary of the Bank be and are hereby authorized, singly, to carry out all steps and actions necessary, ancillary and incidental for altering the Articles of Association of the Bank including filing and submitting all requisite statutory forms/documents as may be required to be filed with the Registrar of the Companies and complying with all other regulatory requirements so as to effectuate the alterations in the Articles of Association and implementing the aforesaid resolution".

CHAIRMAN'S REVIEW



Dear Shareholders,

On behalf of the directors of Habib Metropolitan Bank, it gives me immense pleasure to present this report, together with the financial statements of the Bank for the year ended 31 December 2019. The operating financial results and appropriations, as recommended by the Board of Directors, are summarized below:

	Rupees in '000
Profit before provisions and tax	11,644,040
Provisions and write offs - net	(406,169)
Profit before tax	11,237,871
Taxation	(4,654,390)
Profit after tax	6,583,481
Un-appropriated profit brought forward	15,829,504
Transfer from surplus on revaluation of non-banking assets - net of tax	2,870
Other comprehensive income	56,262
Profit available for appropriation	22,472,117
Appropriations:	
Transfer to Statutory Reserve	(1,316,696)
Cash dividend (Rs. 2.00 per share) - 2018	(2,095,663)
	(3,412,359)
Un-appropriated profit carried forward	19,059,758

The Directors are pleased to propose a final cash dividend of Rs. 2.50 per share (25%) for the year under review.

By Allah's Grace, your Bank continued to make steady progress. Bank's deposits increased to Rs. 611.9 billion as compared to Rs. 543.6 billion at the end of previous year, whereas gross advances increased to Rs. 280.9 billion at year-end and total assets increased to Rs. 859.6 billion.

HabibMetro's profit before taxation is Rs. 11.238 billion for the year 2019. The performance translates into after tax earnings of Rs. 6.28 per share.

At year-end, HabibMetro's equity stands at Rs. 44.2 billion, with a capital adequacy level of 14.59% against the required 12.50%.

The primary role of the Board is to set the overall strategy for the Bank and to protect and enhance its long-term strategic value. The Board is aligned with the overall governance structure required for the effective oversight of the business, risk & control framework; operational, regulatory and compliance; and financial performance of the Bank. The composition of the Board has been established to ensure the availability of a pool of resource with relevant knowledge and experience to manage the strategic objectives of the Bank. It comprises of three independent directors and five non-executive directors.

The Board ensures that the business of the Bank is conducted in an efficient and effective manner to promote the success of the Bank within an established framework of effective system of internal control, robust risk management process and compliance with regulatory requirements. The Board also ensures that good corporate governance policies and practices are implemented within the Bank. In the course of discharging its responsibilities, the Board acts in good faith, with due diligence and care, and in the best interests of the Bank and its shareholders.

A formal board performance evaluation process is in place to enhance the overall effectiveness of the Board, its sub-committees and individual directors including the Chief Executive Officer. The evaluation is based on questionnaire on Board effectiveness which includes areas covering various aspects like Board composition, its responsibilities & duties, strategic plan & performance review, quality of information received & its timeliness, among others.

During the year, an external independent consultant was hired to conduct performance evaluation of Board, its committees, and individual directors including Chief Executive Officer.

This review forms an integral part of the Directors' Report to the Shareholders.

I would like to take this opportunity to place on record our sincere gratitude to the Ministry of Finance, the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan for their support and continued guidance and to our valued customers for their trust and support. I thank the staff members for their devotion and diligence.

We bow our heads to Allah and pray for His blessings and continued guidance.

On behalf of the Board

MOHAMEDALI R. HABIB

Chairman

Karachi: 27 February 2020

DIRECTORS' REPORT TO THE SHAREHOLDERS

Dear Shareholders,

It gives me great pleasure to present to you the annual accounts of Habib Metropolitan Bank (HabibMetro), for the financial year ended 31 December, 2019.

ECONOMIC AND BANKING REVIEW

The economic highlights of 2019 included increased inflationary pressures, stability of market-based exchange rate, fiscal consolidation and reduction in current account deficit through reduction of imports. In Jul-Jan FY20, inflation marked at 11.6 percent (compared to 5.9 percent in Jul-Jan FY19). CPI inflation had risen to 12.7 percent in November 2019, largely reflecting sharp increases in selected food items on account of temporary supply disruptions and upward adjustments in administered prices.

Fiscal discipline improved during the year under review and remained on track as per IMF requirements. During the first half of FY20, tax revenue collections showed a healthy increase of 16 percent over the same period last year. Meanwhile, on the expenditure side, non-interest current expenditures were controlled and Public Sector Development Programs increased to Rs. 300 billion (compared to Rs. 187 billion in first half of FY19).

The current account deficit contracted by 75 percent to USD 2.15 billion during the first half of FY20 due to a notable reduction in imports and modest growth in both exports and workers' remittances. Export volumes of rice, value-added textiles, leather products, and fish and meat, exhibited a notable increase during Jul-Dec FY20, as a reflection of a more competitive exchange rate and incentive credit schemes for export-oriented sectors. The capital account also continued to strengthen, with continued inflows of foreign portfolio investments and foreign direct investments.

The current account improvement contributed to a buildup of the SBP's foreign exchange reserves which increased to USD 11.73 billion in mid-Jan 2020 (from USD 7.28 billion at end-June 2019), despite a USD 1.0 billion international Sukuk repayment in early December 2019.

Private sector credit grew by 2.2 percent during Jul till mid-Jan FY20 (compared to 8.5 percent in the same period last year). This deceleration reflects slow economic activity. On the other hand, loans under the SBP's export finance scheme and long-term financing facility for exporters increased by 20.6 percent and 13.2 percent, respectively, during the same period, in line with the growth in exports.

The banking sector's deposit base managed growth of 9.6 percent to Rs. 14.63 trillion at the end December 2019; meanwhile, advances grew by 3.42 percent and stood at Rs. 8.16 trillion and investments increased by 16 percent to be recorded at Rs. 8.8 trillion. The stock of NPLs of all commercial banks increased to Rs. 706.76 billion (Dec 2018: Rs. 624.16 billion), and the infection ratio stood at 8.66 percent (Dec 2018: 7.9 percent).

The State Bank of Pakistan raised the policy rate by cumulative 3.25 percent during 2019. In its Monetary Policy Statement of 28th January 2020, the SBP decided to keep the policy rate unchanged at 13.25 percent.

BANK'S PERFORMANCE DURING THE YEAR

By Allah's grace, the Bank's profit-before-tax increased by 11.5% to Rs. 11.238 billion at the end of year 2019. The profit-after-tax for the year was Rs. 6.583 billion, an increase of 6.9%, which translates into earnings per share of Rs. 6.28 as against Rs 5.88 of previous year.

During the year under review, the Bank's deposits, advances and investments increased to Rs. 611.869 billion, Rs. 263.948 billion and Rs. 448.910 billion, an increase of 12.6 percent, 16.4 percent and 29.5 percent respectively. Net Equity stood at Rs. 44.238 billion with Capital Adequacy at 14.6 percent.

COMMITMENTS

No material changes in commitments affecting the financial position of the Bank have occurred between the end of financial year of the Bank and the date of the report.

CREDIT RATING

By the Grace of Allah, for the nineteenth consecutive year, the credit rating of the Bank has been maintained at AA+ (double A plus) for long term and A1+ (A one plus) for short term by the Pakistan Credit Rating Agency Limited. These ratings denote a high credit quality with a low expectation of credit risk, and a strong capacity for timely payment of financial commitments.

ENHANCED REACH TO OUR CUSTOMERS

HabibMetro enhanced its outreach by 40 new branches in 2019. 21 new cities were added as the Bank increased its footprint to 392 branches in 133 cities across Pakistan.

Your Bank enjoys correspondent relationships with banks of repute in more than 100 countries, with a large number of banks having formal credit lines for the Bank. HabibMetro provides comprehensive banking services and products. These include specialized trade finance products, besides an array of products and services like secured SMS and Web & Mobile Banking services, globally accepted Visa Debit Cards and nationwide ATM network.

Your Bank's subsidiary company Habib Metropolitan Financial Services, provides convenient and trusted equity brokerage and custody services. Furthermore, Habib Metropolitan Modaraba Management through First Habib Modaraba and HabibMetro Modaraba provides range of Islamic financing solutions.

ALTERNATIVE DELIVERY CHANNELS

Maintaining exemplary service quality remains fundamental to your Bank's strategy. During the year, the Bank installed 36 new Automated Teller Machines (ATMs), including 6 offsite ATMs, taking the total number of ATMs to 417 across the country. The Bank's Visa Debit Cards and SMS & Web Banking subscriptions also witnessed an increase during this period.

HUMAN RESOURCES

The total strength of the HabibMetro family has grown to 5,192 during the year. The Bank continued to cater to the training needs of its human resource by conducting in-house courses as well as sending staff for external trainings.

Your Bank remains an equal opportunity employer providing exciting careers and growth to prospective bankers.

CORPORATE SOCIAL RESPONSIBILITY

Being a conscientious corporate citizen, your Bank acknowledges its corporate social responsibilities and continues to make regular contributions to a host of non-profit / social organizations. The Bank, during the year, extended assistance in three major areas i.e. education, health care and welfare spending for the under-privileged. These voluntary contributions amounted to Rs. 94.117 million.

There was increased focus on CSR and staff engagement activities during the year. The Bank's Pakistan Day digital campaign featured celebration with underprivileged and orphaned children. The Independence Day campaign also featured the Bank's CSR beneficiaries with a powerful message asking the audience to use their freedom to be better citizens all-year-around.

The Bank received a CSR Award in the category of Health & Education at the 9th CSR Summit held by the Professional Network. The Bank has also won the Community, Government Relations, and Social Responsibility Award in 2020 Global Diversity and Inclusion Benchmarks Awards.

The Citizens Foundation remains one of the larger recipients and through them the Bank is running six schools in under privileged rural areas where more than 1,500 children are enrolled. Details of your Bank's social contributions can be found in the notes to the accounts.

Your Bank continues to be one of the nation's leading taxpayers with more than Rs. 4 billion paid as direct taxes to the Government of Pakistan during the year 2019. Furthermore, an additional amount of about Rs. 10.983 billion comprising indirect tax and withholding income tax deductions for the exchequer was collected through the Bank's network.

GREEN BANKING INITIATIVES

Green banking is an emerging concept in the field of banking, which explains the integration of environment friendly banking practices in order to achieve long lasting sustainable growth. As a prudent regulator, the State Bank of Pakistan has introduced Green Banking Guidelines and is accordingly pursuing banks to adopt environmental friendly practices and build a "Green Portfolio".

In order to align the Bank with regulatory expectations, HabibMetro has put in place a Green Banking Policy, which is divided into following three areas:

Environmental Risk Management

For increasing financial stability through understanding, management and mitigation of environmental exposures of financing portfolios HabibMetro has initiated integration of environmental risk considerations into the credit risk assessment by introducing an Environmental Due Diligence Check list, which is now part of the Credit Proposals.

Business Facilitation

For fostering development of 'green market' through actively tapping the emerging viable business opportunities of financing to clean energy and resource efficiency projects, the Bank is actively pursuing a green portfolio through soliciting clients for Renewable Energy related financing and is aiming to tap State Bank of Pakistan's Renewable Energy Refinance Scheme.

Own Impact Reduction

For potential re-engineering of internal operations and procedures of the Bank, in order to reduce impact on environment and society, the Bank is adopting energy efficient solutions such as, replacement of lights with low energy consumption LEDs, replacing cooling solutions to greener inverter based air conditioning units and installation of UPS and solar panels as primary backups for ATMs.

CUSTOMER GRIEVANCES HANDLING

HabibMetro is committed to provide immaculate customer service which is considered an important factor to drive growth. The Bank's consumer grievance handling mechanism serves as first line of defense against the grievance of the Bank customers and therefore, it is ensured that all the grievances received are handled fairly, transparently and efficiently. In order to make the complaint handling process visible and accessible to the Bank's customers, the complainant can register complaint through various channels i.e. email, call center, letter, website etc., which are then investigated and resolved at the earliest keeping the customer up-to-date with respect to the progress of the grievances through SMS, email and letters. In 2019, total 19,498 complaints were received in the

Bank. The average resolution time of complaints was 4.6 working days (except Visa/POS & F&F related complaints) whereas the overall average resolution time of complaint was 8.9 working days. The Bank also conducts detailed root cause analysis to identify the gaps and improve processes, products and services on continuous basis.

CORPORATE GOVERNANCE

BOARD AND BOARD COMMITTEES MEETINGS

Details of the meetings of the Board of Directors and its Committees held during the year 2019 and the attendance by each director / committee member are given as under:

Name of Directors	Board of Directors	Audit Committee	Credit Committee	Human Resource & Remuneration Committee	Risk & Compliance Committee	Information & Technology Committee
Mr. Mohamedali R. Habib	4/4	-	4/4	-	-	-
Mr. Ali S. Habib	3/4	5/6	-	-	-	-
Mr. Anjum Z. Iqbal	4/4	6/6	4/4	-	4/4	3/3
Mr. Firasat Ali	4/4	-	-	3/3	4/4	3/3
Mr. Mohamed Bashir	4/4	-	-	-	-	-
Mr. Muhammad H. Habib	4/4	-	4/4	-	-	-
Mr. Sohail Hasan	4/4	6/6	-	-	-	-
Mr. Tariq Ikram	4/4	-	-	3/3	-	-
Mr. Mohsin A. Nathani	4/4	-	4/4	3/3	4/4	3/3
Meetings held	4	6	4	3	4	3

BOARD REMUNERATION POLICY

The remuneration policy for non-executive directors has been recommended by the Board for approval by the shareholders at the Annual General Meeting.

The information in respect of directors' remuneration is provided in note 37 of the financial statements.

COMPOSITIONS OF THE BOARD AND BOARD COMMITTEES

Current compositions of the Board and Board Committees are provided in the Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019.

PATTERN OF SHAREHOLDING

The pattern of shareholdings as on 31 December 2019 is annexed to the report.

The Bank is a subsidiary of Habib Bank AG Zurich - Switzerland (the holding company with 51% shares in the Bank) which is incorporated in Switzerland.

AUDITORS

The present auditors KPMG Taseer Hadi and Co., Chartered Accountants, retire and being eligible offers themselves for reappointment.

As required under the Code of Corporate Governance, upon the recommendation of the Audit Committee, the Board has recommended the appointment of KPMG Taseer Hadi and Co., Chartered Accountants as auditors of the Bank for the year ending 31 December 2020.

CORPORATE AND FINANCIAL REPORTING FRAMEWORK

1. The financial statements prepared by the Bank, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of accounts have been maintained by the Bank.
3. Appropriate accounting policies and estimates have been consistently applied in preparation of financial statements except changes as disclosed in note 4.1 to the financial statements.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and departure therefrom, if any, has been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Bank's ability to continue as a going concern.
7. There has been no departure from the best practices of the code of corporate governance, as detailed in the listing regulations.
8. The key operating and financial data of last six years of the Bank is placed below:

Rs. in millions

	2019	2018	2017	2016	2015	2014
Shareholders' Equity	44,238	37,002	40,498	39,670	36,828	34,750
Paid-up capital	10,478	10,478	10,478	10,478	10,478	10,478
Total assets	859,575	673,396	660,666	538,007	502,433	409,894
Deposits	611,869	543,578	508,104	429,932	402,671	319,597
Advances	263,948	226,690	174,319	142,962	132,647	134,751
Investments	448,910	346,666	396,637	314,619	292,779	221,761
Profit pre-tax	11,238	10,074	9,129	10,334	12,539	7,312
Profit post-tax	6,583	6,161	5,509	6,119	7,656	4,927
Earnings per share (Rs)	6.28	5.88	5.26	5.84	7.31	4.7
Cash dividend (%) - final	25	20	30	30	20	25
- interim	-	-	-	-	20	-
No. of staff	5,192	4,841	4,719	4,597	4,277	3,914
No. of branches/sub branches	392	352	320	307	276	240

Value of investments of Provident Fund and Gratuity Scheme are as under:

- Provident Fund Rs. 3,297.226 million as at 31 December 2019
- Gratuity Fund Rs. 1,372.614 million as at 31 December 2019

RISK MANAGEMENT

STATEMENT ON RISK MANAGEMENT FRAMEWORK

Risk Management considerations are embedded in HabibMetro's philosophy, strategy, organizational practices and structure. The Bank has devised a cohesive risk management structure for credit, operations, information, continuity, liquidity and market risk, with an integrated approach and strengthened internal controls.

The Bank's entire branch network is on-line and its state-of-the-art processing system is secure and has adequate capacity. Segregation of duties as a control is built into the Bank's system and organization. The Internal Audit Division conducts independent, risk-based review and verification of the Bank's branches and major functions throughout the year for evaluation of the control system. Comprehensive internal reports and an effective Management Information System has been developed as an additional tool for the management of risk control. The Risk Management Division is staffed with seasoned and experienced professionals, who have the capacity and knowledge to cover all aspects of risks faced by the bank.

The Bank's Board of Directors along with the Board Risk and Compliance Committee, Central Management Committee and Operational Risk and Compliance Committee oversee the Bank's strategy, efforts and processes related to risk management.

CREDIT RISK

HabibMetro observes a strategy to control credit risk through product, geography, industry and customer diversification. The Bank extends trade and working capital financing, keeping the major portion of its exposure on a short-term and self-liquidating basis. A major portion of the Bank's credit portfolio is priced on a floating rate basis using KIBOR as a reference, which minimizes interest rate risk. The risk inherent in extending credit is further mitigated by rigorous and robust credit granting procedures, which have been structured to ensure proper evaluation, adequacy of security, and monitoring of exposures on an ongoing basis. All of these risk measures are further augmented by centralized trade processing and credit administration.

MARKET / LIQUIDITY RISK

The Asset and Liability Management Committee reviews, recommends and monitors limits for FX and Money market exposures. The strategy is to balance risk, liquidity and profitability. A Board approved investment policy focuses on, amongst other aspects, asset allocation and operating guidelines. Furthermore, the monitoring of market and liquidity risk is ensured in line with Board approved Market and Liquidity Risk Management Policy.

STRESS TESTING

Stress testing techniques are used to assess risk exposures across the institution and to estimate the changes in the value of the portfolio, when exposed to various risk factors. Risk factors used in stress testing models are Interest Rate, Credit, Equity Price, Exchange Rate and Liquidity. The Bank's stress testing methodology ensures adherence to the SBP guidelines as well.

OPERATIONAL RISK

Operational Risk is prevalent in all area of banking activities and remains a major challenge worldwide. Identification of this threat prior to materialization and strengthening of controls for mitigation, have always been the Bank's priority. The Bank has a dedicated Operational Risk Management Unit that designs and implements the Operational Risk framework across the organization. The ORM unit engages with Bank's business / support units and regularly collaborates in determining and reviewing the inherent operational risks, and assessment of residual risk leading to improved quality of control infrastructure and further strengthening of the processes (sub processes) & management information. The Bank's operational risk management infrastructure has been further strengthened through the establishment of a separate Operational Risk and Control Committee.

CONTINUITY RISK

The Bank has an operational Business Continuity Plan in place that reduces the risk of an operational shut down owing to an unfortunate event. The plan is based on a rigorous bank wide business impact analysis exercise. In addition to the offsite arrangement of individual units, bank is also enhancing facilities to function as comprehensive BCP sites to increase resilience at an organizational level.

INFORMATION TECHNOLOGY RISK

The Information Security Department (ISD) is a part of the Risk Management Division of the Bank and works as second line of defense to protect information and information system. With the increasing use of technology in the delivery of services to our customers, the objective of Information Security Department is to minimize the information security risks in the use of IT while optimizing performance and its operations, and to secure customer's financial and personal information. Information Security Department performs activities such as risk assessments, reviews, analysis, reporting and monitoring of risks to achieve the Bank's ultimate goal of managing Information and Technology risk within its risk appetite.

COMPLIANCE

Your Bank continued to strengthen compliance oversight across its network during the year that included enhancing stringent Know Your Customer (KYC) & Anti Money Laundering (AML) / Combating Financing of Terrorism (CFT) controls and regulatory compliance awareness. The Compliance function provides support and counsel to management and staff on compliance and regulatory issues. All new policies and procedures, initiatives, products, services, business processes etc. are reviewed from a Compliance, AML / CFT perspective along with maintaining relationship with regulatory authorities. It is also involved in developing and maintaining a regulatory library that includes circulars issued by the State Bank of Pakistan and other relevant regulatory authorities. Furthermore, facilitation and liaison with the State Bank of Pakistan and its on-site Inspection teams is a key role played by this unit to ensure smooth conduct of the SBP inspection.

With the highly challenging and demanding global AML/CFT environment, Bank's Financial Crimes & Compliance function is fully committed towards implementation of highest standards of compliance within the Bank and ensures management and employees adhere to these standards. The Bank's state of the art Transaction Monitoring System (TMS) facilitates in monitoring activities that may be related to Money Laundering (ML) / Terrorism Financing (TF) through the Bank's channels, products and services. The TMS monitors out-of-pattern transactions and reviews different transactional activity through multiple AML / CFT scenarios embedded in the core banking system. In addition, the Bank has a robust Customer Due Diligence (CDD) process that allows the Bank to document/update each profile of customer and conduct comprehensive CDD as per regulatory requirements. Being a trade-oriented bank, cross border transactions are screened and pre-approved by Compliance to ensure that transactions, which includes sanctioned elements, are not conducted. In addition, a dedicated CFT Desk has been established in the Bank which focuses on mitigation of TF risk in the Bank. Inquiries from Law Enforcement Agencies (LEAs) are also facilitated through this unit. In order to ensure compliance of UNSC resolutions and that bank's services are not extended to proscribed individuals and entities, systems processes & controls are monitored and upgraded time to time.

In order to efficiently report Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs) to the Financial Monitoring Unit (FMU), the process of reporting is automated through goAML application.

Your Bank has also participates as a Foreign Financial Institution (FFI) and is fully compliant with the Foreign Account Tax Compliance Act (FATCA) by collecting additional information and documentation from prospective clients, in order to determine whether they have any US tax reporting responsibilities. FATCA is a US legislation aimed at preventing tax evasion by US Persons that came into effect in Pakistan on 1 July 2014. To ensure compliance with the FATCA legislation, Compliance Division facilitates coordination, training, development and monitoring of FATCA requirements.

Common Reporting Standards (CRS) is a global standard approved by the Organization for Economic Cooperation & Development (OECD) Council and has been translated into domestic law by Government of Pakistan through Income Tax Ordinance 2001 vide S.R.O 166 (I)/2017. The Bank is compliant with CRS rules and for this purpose, tax residency of customers is obtained for further reporting to Federal Board of Revenue (FBR).

Compliance also assures identification, monitoring and resolution of regulatory issues (including follow-up) through on-site reviews by Area Compliance Officers (ACOs). Furthermore, ACOs also play a key role in enhancing the compliance culture in the Bank by ensuring improving standards of adherence with regulations at branch level.

Whilst focusing on creativity and innovation, Compliance function will continue to increase its effectiveness through professional development of its staff and strengthening of functional solutions.

CONTROLS

Every effort within the Risk Management function contributes to the overall control culture of the organization specifically from the risk perspective. In addition, the Internal Control Unit (ICU) working as a part of the risk management team of the Bank is responsible for implementing and maintaining a sound system of operational internal controls to ensure efficiency and effectiveness. These efforts are a component of the overall Internal Control ambit of operations, compliance with legal requirements along with reliability of financial reporting managed collectively by the Compliance, Finance and Risk Management Division. Adequate systems, processes and controls have been put in place by the management to identify and mitigate the risk of failure to achieve the overall objectives of the Bank.

The Bank's organizational structure and lines of authority are well-defined and processes throughout the Bank are governed by policies and procedures and approved by the Board. Existing policies and procedures are reviewed at regular intervals and improved from time to time. The Board has constituted subcommittees for oversight of the overall Risk Management Framework which meet at regular intervals to ensure adequacy of governance.

The Bank's operating system contains controls embedded into all processes and functions which are governed through policies and procedures and their compliance and effectiveness is verified by independent Internal Audit Division which reports directly to the Board Audit Committee.

SBP Internal Control Guidelines require the Bank's management to evaluate the effectiveness of internal controls. The management believes that the Bank's existing system of Internal Control is considered reasonable in design and is being effectively implemented and monitored. Please refer to "The Statement of Internal Controls" annexed to the Annual Report.

INTERNAL AUDIT

While broadening risk awareness and assuring regulatory compliance, Internal Audit being third line of defense at HabibMetro is an essential element of the Bank's overall control environment that provides independent assurance to the management and the Board in assessing the Bank's internal control system. The Internal Audit Division reviews the Bank's policies, processes, systems, controls to provide reasonable assurance to the governing authorities and adds value towards the Bank's risk mitigation endeavors.

HabibMetro has an active Board Audit Committee functioning under the Listed Companies (Code of Corporate Governance) Regulations as stipulated by SECP and as adopted by SBP. The members of Board Audit Committee are Non-Executive Directors and its Chairman is an Independent Director.

Reporting directly to the Board Audit Committee, Internal Audit pro-actively follows a risk based approach to auditing branches, operational areas and key activities of the Bank with a significant emphasis on corrective actions and elimination of control lapses. These audit reviews are focused on related key risk indicators and system weaknesses to identify control, cost and revenue efficiencies.

FUTURE OUTLOOK

The SBP's projection for average inflation remains broadly unchanged at 11 - 12 percent for FY20 and it expects inflation to come down to the medium-term target range of 5 - 7 percent over the next six to eight quarters.

The SBP's projection for real GDP growth for FY20 is likely to be revised downward with a gradual recovery expected in the coming months.

Going forward, HabibMetro remains committed to protecting its shareholders' interests, while maximizing the value and service offered to its customers through a varied spectrum of financial products architected upon an advanced technological platform. The Bank aims to target organic growth, add new clients, mobilize low-cost deposits, improve asset quality and enhance cost efficiency.

ACKNOWLEDGEMENTS

In the end, I would like to take this opportunity to place on record our sincere gratitude to the Board, the Ministry of Finance, the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan for their support and continued guidance and to our valued customers for their trust and support. I thank the staff members for their devotion, diligence and commendable performance.

On behalf of the Board

MOHSIN A. NATHANI

President & Chief Executive Officer

MOHAMEDALI R. HABIB

Chairman

Karachi: 27 February 2020

CORPORATE GOVERNANCE

Profile of the Board of Directors

Mr. Mohamedali R. Habib - Chairman / Non-Executive Director

Mr. Mohamedali R. Habib has been director of the Bank since 9 September 2004. He is Chairman of the Board and a member of the Board Credit Committee.

Mr. Mohamedali R. Habib is a graduate in Business Management - Finance from Clark University, USA. He also holds a Post Graduate Diploma in General Management from Stanford - National University of Singapore. Mr. Habib has worked in the corporate sector for three decades, in various managerial capacities across different industries, including multinational projects. Mr. Habib stepped into the banking industry in 1996 when he joined Habib Bank AG Zurich, where he has worked in different capacities. In addition to serving as the Group CEO of Habib Bank AG Zurich, Mr. Habib holds directorships in Thal Limited, Indus Motor Company Limited, Habib Insurance Company Limited, House of Habib (Private) Limited, Habib & Sons, Habib University and Habib University Foundation.

Mr. Ali S. Habib - Non-Executive Director

Mr. Ali S. Habib has been director of the Bank since 5 September 2011. He is a member of the Board Audit Committee.

Mr. Ali S. Habib is a graduate in Mechanical Engineering from University of Minnesota and also holds a Post Graduate Diploma in Executive Development from Harvard University. He is the Chairman of Indus Motor Company Limited (a joint venture of the House of Habib with Toyota Motor Corporation & Toyota Tsusho Corporation of Japan). He also serves as a member on the board of directors of Thal Limited, Shabbir Tiles & Ceramics Limited, Thal Nova Power Thar (Private) Limited, Thal Electrical (Private) Limited, House of Habib (Private) Limited, Habib University Foundation, and Pakistan Business Council.

Mr. Anjum Z. Iqbal - Non-Executive Director

Mr. Anjum Iqbal has been the director of the Bank since 20 October 2016. He is the Chairman of the Board Risk & Compliance Committee and the Board Information Technology Committee. He is also a member of the Board Audit Committee and the Board Credit Committee.

Mr. Anjum Iqbal holds a Master's degree in Business Administration (MBA) in Marketing and Finance from the Institute of Business Administration (IBA), University of Karachi, Pakistan.

Mr. Anjum Iqbal was President and Chief Executive Officer of HabibMetro during 2009 to 2012. Presently, he is a member of General Management of Habib Bank AG Zurich and Regional CEO for Emerging Markets in February 2016. He oversees the bank's operations in Africa (Kenya and South Africa). He is also member of the Group Credit Management Committee (GCMC). He served as Chief Executive Officer of HBZ UK operations from 2012 - 2015. While in Pakistan, he also served as a Director of Central Depository Company of Pakistan Limited, during 2009 to 2012, nominated by the Securities and Exchange Commission of Pakistan. Prior to joining Habib Bank AG Zurich, he worked with Citigroup for more than 30 years, holding various senior management positions across different geographies. In his most recent role with Citigroup, he was Managing Director responsible for the EMEA Commercial Banking Group in London. He holds directorships in HBZ Bank Limited, South Africa and Habib Bank Zurich, Plc - UK.

Mr. Firasat Ali - Independent Director

Mr. Firasat Ali has been the director of the Bank since 8 September 2014. He is a member of the Board Human Resource & Remuneration Committee, the Board Risk & Compliance Committee and the Board Information Technology Committee.

Mr. Ali holds a Master's degree in Agriculture Economics, Leeds University, UK and a Master's Degree in Economics, Government College Lahore. He is presently the CEO of "The Centre for Change" a think tank that caters to varied needs of change and its proper management for individuals, organizations and other pertinent segments. His career, spanning over 37 years, includes distinguished assignments in economic advisory/consultancy; he has served as an adviser at the USAID, UNDP and various government / private

organizations. He has also been associated with National Investment Trust Limited for 10 years where he served as Head of Corporate Governance, Corporate Affairs & Company Secretary. He has also been a visiting senior professor of economics at various local institutes. He holds directorship in Punjab Oil Mills Limited.

Mr. Mohomed Bashir - Non-Executive Director

Mr. Mohomed Bashir is the founding director of the Bank and is on the Board since 3 August 1992.

Mr. Bashir is an experienced businessman and a known figure in the textile industry. He holds a fellow membership of Chartered Institute of Management Accountants (C.I.M.A), UK. Presently, Mr. Bashir is the Chairman of Gul Ahmed Textile Mills Limited. He also holds directorships in Gul Ahmed Holdings (Private) Limited, Gul Ahmed Energy Limited, Gul Ahmed Power Company (Private) Limited, Gul Ahmed Renewable Energy (Private) Limited, Gul Ahmed International Limited (FZC) - UAE, GTM (Europe) Limited - UK, GTM USA Corp - USA., Sky Home Corp - USA, Habib University Foundation, Education Fund for Sindh and Pakistan Business Council.

Mr. Muhammad H. Habib - Non-Executive Director

Mr. Muhammad H. Habib is on the Board of the Bank since 12 April 2007. He is the Chairman of the Board Credit Committee.

Mr. Habib is a banker by profession, with over 32 years of experience. He is presently the President of Habib Bank AG Zurich. Additionally, he holds directorships of HBZ Bank Limited, South Africa; Habib Canadian Bank, Canada; Gefan Finanz AG, Switzerland; Habib Bank Zurich, Plc, UK and Habib University Foundation. Mr. Habib is a graduate in Finance from Babson College, Boston MA. USA.

Mr. Sohail Hasan - Independent Director

Mr. Sohail Hasan has been on the Board of the Bank since 25 March 2013. He is the Chairman of the Board Audit Committee.

Mr. Sohail Hasan is a fellow member of the Institute of Chartered Accountants in England and Wales, as well as of Pakistan. He has served as a partner for over 35 years in A. F. Ferguson & Co., a member firm of Price Waterhouse Coopers. Mr. Hasan has extensive experience in accounting, assurance, tax and management advisory services covering government agencies, multinationals and private and public sector companies. His experience spreads over a large and diverse portfolio of companies in the manufacturing, petroleum, oil marketing, telecommunication, banking, other financials and service sectors. He also holds directorship in BMA Asset Management Company Limited.

Mr. Tariq Ikram - Independent Director

Mr. Tariq Ikram has been the director of the Bank since 30 March 2011. He is the Chairman of the Board Human Resource & Remuneration Committee.

Mr. Ikram holds a Master's in English Literature from Government College Lahore. He is a seasoned trainer and speaker. He enjoys a diverse educational background coupled with his rich experience in both the private and public sectors, along with extensive worldwide travel and interaction with governments and private sectors. He has served as the Chief Executive of Reckitt & Colman (later Reckitt Benckiser (Private) Limited) of Pakistan Limited.

Mr. Mohsin Ali Nathani - President & CEO

Mr. Mohsin assumed charge as President & CEO on 23 April 2018. He is a member of the Board Credit Committee, Board Human Resource & Remuneration Committee, Board Information Technology Committee and Board Risk & Compliance Committee.

Mr. Mohsin is an MBA from Institute of Business Administration, Karachi. He is a seasoned corporate banker with over 25 years of banking experience, covering Asia (East and South-East), Middle East and Levant regions. He was the CEO for UAE at Standard Chartered PLC and in his penultimate role, he looked after Standard Chartered Bank Pakistan Limited as CEO. Prior to that, he managed Barclays Bank Pakistan as their Country Head and Managing Director.

Composition of Board Committees and their Terms of Reference

Current compositions of the Board and Board Committees are provided in the Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019. Further, the number of meetings of the Board of Directors (BOD) and its Sub-Committees held during the year 2019 and the attendance by each director / committee member are provided in the Directors' Report.

The key terms of reference of the Board Committees are as follows:

Board Audit Committee (BAC)

The BAC is responsible under the Code of Corporate Governance to review and recommend to the BOD, the interim and annual financial statements of the Bank particularly focusing on major judgmental areas, going concern assumption, change in accounting policies and estimates, related party transactions and compliance with applicable accounting standards. The BAC is also tasked with the responsibility for reviewing and approving annual audit plan, scope and extent of internal audit and reporting framework and procedures. It also ensures adequacy of internal control systems of the Bank including financial and operational controls, accounting systems, reporting structures along with the Bank's statement on internal controls prior to endorsement by the BOD. Further, the BAC is updated regularly on significant issues raised by the SBP in its inspection reports, and observations raised by the External & Internal auditors along with the progress thereon. The BAC also recommends to the BOD the appointment, re-appointment, removal and remuneration of external auditors. The other functions of the BAC include consideration of major findings of internal investigations and monitoring compliance with the best practices of the corporate governance.

Board Credit Committee (BCC)

The primary function of the BCC is to establish and maintain a system of oversight and supervision over the Bank's credit portfolio / management / operations and to provide required direction and guidance on behalf of the Board of Directors (BOD). The Committee also oversees adherence to the Bank's Credit Policy approved by the BOD. It periodically reviews and analyzes credit portfolio composition to monitor credit concentration risk and credit processes that ensure sustainable credit health of the portfolio. Further, the BCC is tasked to review exposures exceeding a certain percentage of the Bank's equity and devise mechanism for monitoring the same and also review non-performing loans and write off / remission allowed there against. It also ensures that the provisions made are in accordance with the Board approved policy and in compliance with the regulatory guidelines. The Committee may invite other officials of the management / audit for deliberation on matters relating to Credit / Credit Risk Management.

Board Human Resource and Remuneration Committee (BHR&RC)

The BHR&RC is responsible for the reviewing the HR policies, HR initiatives including manpower planning, learning & development policy, utilization of HR budgets and other HR activities. The BHR&RC also recommends to the Board of Directors (BOD) compensation & remuneration practices and succession planning for CEO, CFO, Company Secretary, and Head of Internal Audit. It also reviews Chief Executive's recommendations for direct reports including key executives. Further, the BHR&RC reviews and approves terminal benefits such as provident fund, gratuity and other separation benefits / schemes. In addition, it also considers any HR related issue specifically delegated by the BOD.

Board IT Committee (BITC)

The BITC establishes and maintains a system of governance and oversight of the Bank's technology functions. It is responsible for advising and reporting to the Board of Directors (BOD) on the technology activities and digital initiatives. It also oversees technology risk management strategies and activities, receives periodic updates from ITSC and monitors all technology projects approved by the BOD for timely implementation.

Board Risk and Compliance Committee (BR&RC)

The BR&CC establishes and maintain a system of oversight over the Bank's Risk management, Compliance and control activities on behalf of the Board of Directors (BOD). It provides a platform for inculcating and enhancing Risk Management and Compliance culture within the organization whereby ensuring that all material risks are deliberated at this forum in an integrated manner. It is responsible for establishing and maintaining a Compliance and Risk management process with an enterprise wide approach, built to identify and prioritize risks including Compliance and AML / CFT related risks and to evaluate the alignment and effectiveness of activities including:

- recommending Risk Management Policies, Compliance Risk Strategy, Compliance Program and allied policies including AML / CFT and review implementation thereof.
- review adequacy of compliance monitors and thresholds for transaction monitoring.
- evaluate significant observations / issues raised in the SBP inspection reports and review the actions taken in this regard.
- reviewing and approving Risk Appetite including risk limits and triggers as well as ensuring independence of Risk and Control Functions.
- reviewing and assessing the Bank's Capital Management, Market / Liquidity Profile, Credit Portfolio, Results of Stress Tests and Frameworks of Operational, Continuity, Fraud and Conduct Risks.

Board's Oversight over Shari'ah Compliance Functions and Shari'ah Board (SB)

The SB members meet the Board of Directors on half yearly basis and give detailed briefings on the Shari'ah compliance environment, the issues / weaknesses (if any), and recommendations to improve Shari'ah compliance environment and to ensure timely and effective enforcement of the SB's decisions, fatawas, observations and recommendations. Further, every year, Shari'ah Board Report is also presented by the SB in the meeting of the Board of Directors of the Bank.

Appointment of the Shari'ah Board Members

The appointment of the Shari'ah Board Members, including Resident Shari'ah Board Member & Chairman, is done by the Board of Directors as per applicable rules and regulations, including clearance of Fit and Proper Criteria and prior written clearance of the SBP. The SB members are appointed for a term of three years. They may be reappointed for another term by the BOD, subject to SBP FPT criteria.

Profile of Shari'ah Board Members

Mufti Muhammad Zubair Usmani - Chairman & Member

Mufti Muhammad Zubair Usmani has been on Shari'ah Board since 18 November 2015. He is the Chairman of the Shari'ah Board.

Mufti Muhammad Zubair Usmani is a very famous Islamic scholar in Islamic Banking Industry having vast knowledge of Islamic Banking & Finance. He holds the degree of Doctorate in Islamic Finance along with religious and modern education from University of Karachi. He has completed his religious education along with specialization in Islamic Jurisprudence from Jamia Darul Uloom Karachi. Mufti Zubair Usmani is the author of different books including, but not limited to, Accounting and Auditing for Islamic Financial system, Comparative Study between Islam & Christianity, and Ijarah (Islamic Leasing). Mufti Zubair Usmani served as member of Shari'ah Boards of several banks, NBFIs and other institutions. Previously, he also served as a member of Shari'ah Advisory Board of the SBP. Presently, he is the Chairman of the Shari'ah Boards of United Bank Limited and Habib Bank Limited and is also member of the Shari'ah Board of MCB Arif Habib Fund and a Shari'ah advisor in Adamjee Takaful - Life, Trust Modaraba and BF Modaraba.

Mufti Ibrahim Essa - Member

Mufti Ibrahim Essa has been on Shari'ah Board since 18 November 2015.

Mufti Ibrahim Essa holds a Master's degree in Quran & Sunnah and specialization in Islamic Jurisprudence from Jamiah Darul Uloom Karachi. He is member of teaching faculties at different institutions like Jamia Darul-Uloom Karachi (since September 2006), IBA Karachi, Centre for Islamic Economics and NIBAF. Presently, he is Chairman of the Shari'ah Board of Zarai Taraqiati Bank Limited and is also a member of the Shari'ah Boards of The Bank of Khyber, Al Hamd Shari'ah Advisory Services (Private) Limited and Al Hamd Halal Certification (Private) Limited.

Mufti Abdul Sattar Laghari - Resident Shari'ah Board Member and Head of Shari'ah Compliance Department

Mufti Abdul Sattar Laghari has been on Shari'ah Board since 18 November 2015.

Mufti Abdul Sattar Laghari has completed his religious studies (Qura'an, Hadith & Fiqh) from Jamia Darul-Uloom, Karachi and specialization in Islamic Jurisprudence from Darul Ifta wal Irshad. Mufti Laghari was a member of teaching faculties of different Islamic institutions. Mufti Laghari has remained a member of sub-committees for review of some AAOIFI Shari'ah standards at the SBP. He has conducted extensive courses and training on Islamic Banking & Finance and has also issued numerous fatawas related to the issues of conventional finance and Islamic Banking. He is also a visiting trainer of National Institute of Banking and Finance, which is a training institute of the SBP. Mufti Laghari is also author of two books. He was also Shari'ah advisor of National Bank of Pakistan, First Habib Modaraba, First National Bank Modaraba, KASB Modaraba and Standard Chartered Modaraba.

Key Terms of Reference of Shari'ah Board

The Shari'ah Board (SB) shall be empowered to consider, decide and supervise all Shari'ah related matters, develop a comprehensive Shari'ah compliance framework for all areas of operations and shall review and approve all the procedure manuals, product programs / structures, process flows, related agreements, marketing advertisements, sales illustrations and brochures so that they are in conformity with the rules and principles of Shari'ah. The SB shall have at all reasonable times unhindered access to all books of accounts, records, documents and information from all sources including professional advisors and IBI's employees in the due discharge of its duties, considering the importance and binding nature of decisions, rulings and fatawa given by SB, it shall rigorously deliberate on the issue placed before it for consideration before giving any decision / fatawa.

All reports of internal Shari'ah audit, external Shari'ah audit, Shari'ah compliance reviews and the SBP Shari'ah compliance inspection shall be submitted to the SB for consideration and prescribing appropriate enforcement action and also specify the process / procedures to be adopted for changing, modifying or revisiting fatawa, rulings and guidelines already issued by it.

The SB shall not delegate any of its roles and responsibilities prescribed in this framework to any other person or any of its members as all decisions and rulings of the SB of the IBI shall be in conformity with the directives, regulations, instructions and guidelines issued by SBP in accordance with the rulings of Shari'ah Advisory Committee of the SBP.

Shari'ah Board meetings held during the year

During the year seven meetings were held and were attended by all members.

REMUNERATION POLICY

The Bank engaged an external consultant for assistance in implementation of the SBP's Revised Guidelines on Remuneration Practices. The major activities performed by them were identification of Material Risk Takers (MRTs) and Material Risk Controllers (MRCs), development of risk-adjusted balanced scorecards for all MRTs and MRCs, identification of areas for improvement and development of bank-wide remuneration policy. The Bank has processes in place to ensure that the consultants were independent, and no conflict of interest existed with any Board member or any of its key executive.

Scope, objective and governance of remuneration policy

The scope of remuneration policy covers all employees across the Bank who are materially responsible for risk taking or risk controlling activities. The purpose of the policy is to develop a fair, objective, transparent and sound remuneration policy that is in alignment with risks and responsibilities of the organization.

The Board is overall responsible for reviewing, approving and monitoring implementation of the Bank-wide remuneration framework, based on the recommendations of Board's Human Resource & Remuneration Committee (HRRC), which shall be mainly responsible for overseeing the Bank's remuneration programme.

Material Risk Taker (MRT) / Material Risk Controller (MRC)

The MRTs and MRCs have been identified through a detailed assessment of the Bank's employees using various qualitative and quantitative criteria, as documented in the remuneration policy.

The Bank offers a compensation structure with a balanced mix of fixed and variable elements, with the objective to encourage behaviors focused on achievement of long-term sustainable results. For MRTs / MRCs, the deferred variable component has been made part of their compensation structure.

Performance measurement of MRTs and MRCs

The Bank's performance management mechanism provides a sound basis for assessing employee performance holistically. The Bank's remuneration policy is aligned with the performance management mechanism and differentiates pay appropriately amongst its employees based on degree of contribution, skill and availability of talent owing to competitive market forces by considering factors such as role, skills, competencies, experience and grade / seniority.

Performance measurement of MRTs / MRCs are carried out through the risk-adjusted balanced scorecards. The Bank has developed risk-adjusted balanced scorecards for all MRTs and MRCs for their performance measurement, which ensure establishing a correlation between and alignment of risks and rewards. These scorecards are prepared at individual levels, incorporating various financial, non-financial / qualitative and risk-adjusting factors.

The Bank has introduced an individual level accountability mechanism whereby a certain portion of variable compensation of the MRTs / MRCs will be deferred / withheld for a defined period, thus creating alignment between the employees' and stakeholders' interests and reinforcing that compensation is appropriately linked to longer-term sustainable performance.

The deferred pay will be subject to claw back clause that permits the Bank to cancel or reduce, all or part of the amount of an unvested variable compensation award, due to specific crystallized risk, behavior, conduct, or adverse performance outcome, attributable to the MRT / MRC.

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

FOR THE YEAR ENDED 31 DECEMBER 2019

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

1. The total number of directors are 8 (eight) as per the following:

Gender	Number
Male	8
Female	Nil

2. The composition of board is as follows:

Category	Names
Independent Director	Mr. Firasat Ali Mr. Sohail Hasan Mr. Tariq Ikram
Non-Executive Director	Mr. Ali S. Habib Mr. Anjum Z. Iqbal Mr. Mohamedali R. Habib Mr. Mohamed Bashir Mr. Muhammad H. Habib
President / CEO	Mr. Mohsin A. Nathani

3. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Bank.
4. The Bank has prepared a Code of Conduct and has ensured that appropriate steps have been taken to disseminate it throughout the Bank along with its supporting policies and procedures.
5. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Bank. The Board has ensured that complete record of particulars of 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 Board/shareholders as empowered by the relevant provisions of the Act and the 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 Board.
8. The Board has approved a formal policy and transparent procedures for remuneration of directors in accordance with the instructions from the State Bank of Pakistan, Act and these Regulations. The policy will be placed at the annual general meeting for shareholders' approval.
9. The Board will facilitate the minority shareholders to contest election of directors in accordance with the Regulations.

10. The Bank is compliant with the requirement of directors training program provided in these Regulations.
11. The Board has approved appointment of chief financial officer, company secretary and head of internal audit, including their remuneration and term and conditions of employment and complied with relevant requirements of the Regulations.
12. Chief financial officer and chief executive officer duly endorsed the financial statements before approval of the Board.
13. The board has formed committees comprising of members given below:

Committees	Names	Committee Designation	Category of Director
Audit Committee	Mr. Sohail Hasan Mr. Ali S. Habib Mr. Anjum Z. Iqbal	Chairman Member Member	Independent Director Non-Executive Director Non-Executive Director
Human Resources & Remuneration Committee	Mr. Tariq Ikram Mr. Firasat Ali Mr. Mohsin A. Nathani	Chairman Member Member	Independent Director Independent Director President & Chief Executive Officer
Risk & Compliance Committee	Mr. Anjum Z. Iqbal Mr. Firasat Ali Mr. Mohsin A. Nathani	Chairman Member Member	Non-Executive Director Independent Director President & Chief Executive Officer
Credit Committee	Mr. Muhammad H. Habib Mr. Mohamedali R. Habib Mr. Anjum Z. Iqbal Mr. Mohsin A. Nathani	Chairman Member Member Member	Non-Executive Director Non-Executive Director Non-Executive Director President & Chief Executive Officer
IT Committee	Mr. Anjum Z. Iqbal Mr. Firasat Ali Mr. Mohsin A. Nathani	Chairman Member Member	Non-Executive Director Independent Director President & Chief Executive Officer

14. The terms of reference of the aforesaid committees have been formed, documented and advised to the committee for compliance.
15. The frequency of meetings of the committee were as per following:

Committees	Frequency of Meetings
Audit Committee	Six meetings were held during the financial year ended December 31, 2019
Human Resources & Remuneration Committee	Three meetings were held during the financial year ended December 31, 2019
Risk & Compliance Committee	Four meetings were held during the financial year ended December 31, 2019
Credit Committee	Four meetings were held during the financial year ended December 31, 2019
IT Committee	Three meetings were held during the financial year ended December 31, 2019

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16. The board has set up an effective internal audit function.
17. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan and registered with Audit Oversight Board of Pakistan, that they or 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.

On behalf of the Board

MOHSIN A. NATHANI

President & Chief Executive Officer

Karachi: 27 February 2020

MOHAMEDALI R. HABIB

Chairman

INDEPENDENT AUDITOR'S REVIEW REPORT

To the Members of Habib Metropolitan Bank 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 Habib Metropolitan Bank Limited ("the Bank"), for the year ended 31 December 2019 in accordance with the requirements of regulation 36 of the Regulations.

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

As part of our audit of 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 31 December 2019.

Karachi: 5 March 2020

KPMG Taseer Hadi & Co.
Chartered Accountants

STATEMENT OF INTERNAL CONTROLS

An internal control system is a set of procedures and activities designed to identify, evaluate and mitigate the risk in processes and operations in order to support the overall 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 on an ongoing basis.

The management of the Bank has formulated, implemented, and maintained a system of internal controls approved by the Board of Directors, the goal of which is to achieve effectiveness and efficiency of operations while adhering to laws and regulations, resulting in reliability of financial reporting. However, any system of internal controls can only be designed to manage, rather than eliminate the risk of failure to achieve objectives. It can therefore only provide reasonable assurance and not absolute assurance against material misstatement and loss. It also requires continuous improvement to align it with the changing environment and needs of the business.

The Bank's internal control structure comprises of different levels of monitoring activities.

Line Management's role is to monitor day-to-day operations and ensure that the business risks are properly mitigated, control breaches are identified on a timely basis and corrective actions are promptly implemented.

The Compliance Division of the Bank is entrusted with the responsibility to minimize compliance risk with reference to regulatory framework. Compliance status of irregularities identified are reported to the Bank's Management Compliance Committee, while other significant compliance matters are reported to Board Risk & Compliance Committee. Further, compliance status of observations highlighted in regulatory inspection reports are presented in Board Audit Committee. The division also has a Financial Crimes and Compliance function to ensure compliance with the relevant AML Laws & Regulations.

Internal Audit Division is an independent function and follows a risk-based approach to provide assurance to the governing authorities on adequacy and effectiveness of the Bank's procedures, processes, controls and systems. All significant/material observations of internal audit activities are reported to Board Audit Committee on a regular basis, which actively monitors and tracks resolution of these observations and provides guidance in improving the overall control environment of the Bank.

Internal Controls Function is responsible for implementation of financial reporting controls within the business processes / support functions and mitigate the risk of failure to achieve overall objectives of the Bank. The Bank follows the SBP's instructions on Internal Controls over Financial Reporting (ICFR) and has complied with the SBP's stage wise implementation roadmap. In this regard, the Bank has developed a management testing and reporting framework for monitoring ongoing operating effectiveness of key controls. During the year, the Bank conducted testing of financial reporting controls for ensuring the effectiveness of ICFR prevalent throughout the year. None of the deficiencies identified are expected to have a material impact on financial reporting.

The Bank monitors its processes and operations on an ongoing basis to ensure that an effective and efficient internal control system remains active and implemented and strive for continuous strengthening of its control environment.

Based upon the results achieved from reviews, ongoing testing of financial reporting controls and audits conducted during the year 2019, management considers that, the existing system of internal controls, including ICFR, is adequate and has been effectively implemented and monitored.

NAJEEB GILANI
Head of Internal Audit

SYED HASNAIN HAIDER RIZVI
Head of Compliance

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President and CEO

Karachi: 27 February 2020

REPORT OF SHARI'AH BOARD

FOR THE YEAR ENDED 31 DECEMBER 2019

In the name of Allah, the Beneficent, the Merciful.

While the Board of Directors and Management are solely responsible to ensure that the operations of HabibMetro Sirat are conducted in a manner that complies with Shari'ah principles at all times, the Shari'ah Board required to submit a report on the overall Shari'ah Compliance environment of HabibMetro Sirat.

By the Grace of Allah Almighty, the Shari'ah Board (SB) held 7 meetings during the year to review various concepts, products, processes, transactions and their Shari'ah Compliance, referred by the Resident Shari'ah Board Member (RSBM). Further, all the process flows regarding financing facilities approved by the RSBM have also been ratified by the SB.

Thus, to form our opinion as expressed in this report, the SB of the Bank carried out reviews, on test check basis, of each class of transactions, the relevant documentation and process flows. Further, the Shari'ah Board has also reviewed the periodical reports of RSBM, Shari'ah Compliance Department (SCD) and Internal Shari'ah Audit Division. The external Shari'ah Audit Report for the year 2018 has been reviewed by the SB whereas the external Shari'ah Audit for the year 2019 is in process. Based on the above, SB is of the view that:

- i. HabibMetro Sirat has complied with Shari'ah rules and principles in the light of fatawa, rulings and guidelines issued by its Shari'ah Board.
- ii. HabibMetro Sirat has complied with directives, regulations, instructions and guidelines related to Shari'ah compliance issued by SBP in accordance with the rulings of SBP's Shari'ah Advisory Committee.
- iii. HabibMetro Sirat has a comprehensive mechanism in place to ensure Shari'ah compliance in their overall operations.
- iv. HabibMetro Sirat has a well-defined system in place sound enough to ensure that any earnings realized from sources or by means prohibited by Shari'ah have been credited to charity account and are being properly utilized.
- v. HabibMetro Sirat has complied with the SBP instructions on profit & loss distribution and Pool management, and an Automated Pool Management System is in place to ensure transparency in the calculation of income, expenses and profit distribution.
- vi. The management has arranged number of training for the staff of Islamic Banking as well as for the staff of conventional branches and Islamic Banking Windows (IBWs). Also, SB and SCD has conducted specific product wise training for the staff members of Islamic Banking Branches (IBBs).
- vii. The level of awareness, capacity and sensitization of the staff, management and the BOD in appreciating the importance of Shari'ah compliance in the products and processes of the Bank, is satisfactory.
- viii. The SB has been provided adequate resources enabling it to discharge its duties effectively.
- ix. As suggested last year, the Management has implemented the following during the year:
 - a) Two e-Learning Modules have been launched during the year on the concepts of Islamic Banking for capacity building of the staff at Islamic Banking Branches and IBWs.

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- b) Shari'ah compliant Demand Finance facility has been approved by the Shari'ah Board, which is to be implemented under the consultation of Human Resource Division.
 - c) With the increase in financing activities the role and resources of Credit Operations at Islamic CAD has been enhanced for efficient working.

In order to further enhance the scope and controls of Islamic Banking, the Shari'ah Board recommends the following:

- i. We understand that the task of providing Shari'ah compliant Provident Fund facility to the Islamic Banking Staff is under progress however, the same should be completed at the earliest.
- ii. Further e-Learning Modules be launched for IBBs and IBWs in respect of liability and asset based products to facilitate Islamic Banking Customers.

May Allah accept our efforts and grant us success in the field of Islamic Finance. We also pray to Allah Almighty and seek His guidance and blessings for further progress, development and prosperity of HabibMetro Sirat.

MUFTI MUHAMMAD ZUBAIR ASHRAF USMANI

Chairman Shari'ah Board

MUFTI ABDUL SATTAR LAGHARI

Resident Shari'ah Board Member

MUFTI MUHAMMAD IBRAHIM ESSA

Shari'ah Board Member

Karachi: 27 February 2020

INDEPENDENT AUDITOR'S REPORT

To the members of Habib Metropolitan Bank Limited

Report on the Audit of the Unconsolidated Financial Statements

Opinion

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

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

Key Audit Matters

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

Following are the Key Audit Matters:

S. No.	Key Audit Matters	How the matter was addressed in our audit
1	PROVISION AGAINST LOANS AND ADVANCES	
	<p>Refer to note 10 to the unconsolidated financial statements and the accounting policies in note 4.5 to the unconsolidated financial statements.</p> <p>The Bank's advances to the customers represent 30.70% of its total assets as at 31 December 2019 and are stated at Rs.263.948 billion which is net of provision of Rs.16.91 billion at the year end.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> Assessed the design and tested the operation of manual and automated controls over the classification of customers, including the following: <ul style="list-style-type: none"> The accuracy of data input into the system used for credit grading;

S. No.	Key Audit Matters	How the matter was addressed in our audit
	<p>The provision against loans and advances was identified as a key audit matter in our audit as it involves a considerable degree of management judgment and compliance with the Prudential Regulations (PRs) issued by the State Bank of Pakistan.</p>	<ul style="list-style-type: none"> - The ongoing monitoring and identification of advances displaying indicators of impairment and whether they are migrating on a timely basis to watch list or to non-performing advances; and - Controls over the computation and recording of provisions; • For a sample of Corporate and Commercial exposure, in respect of watch list accounts and the accounts where the management has not identified as displaying indicators of impairment, challenged the management's assessment by comparing historical performance, financial ratios, reports on the securities available along with expected future performance and formed our view as to whether any impairment indicators are present/ there is need for additional impairment; • Where the management has identified as displaying indicators of impairment, assessed the number of days overdue, assessed the external valuers' credentials, compared the values used in the valuation reports and factors used for calculation of provision in accordance with the Prudential Regulations; • For Retail and SME advances, analyzed the days past due report for the calculation of specific provision required in accordance with Prudential Regulations; and • For Retail, Consumer and SME advances, where the management has not identified as displaying any indicators of impairment, compared the general provision calculated with the provision required in accordance with the requirement of Prudential Regulations.
2	VALUATION OF INVESTMENTS	
	<p>Refer to note 9 to the unconsolidated financial statements and the accounting policy in note 4.4 to the unconsolidated financial statements.</p> <p>As at 31 December 2019, the Bank had investments classified as "Available-for-sale", "Held to maturity", and "Subsidiary" amounting to Rs. 448.90 billion in aggregate representing 52.2 % of the total assets of the Bank.</p> <p>We identified the valuation of investments including determination of impairment allowance on investments classified as 'Available-for-sale' as a key audit matter because of its significance in relation to the total assets of the Bank and judgment involved in assessing impairment allowance.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> • Assessed the design and tested the operation of controls for the valuation of investments including impairment allowance against investment classified as available for sale; • Assessed, on sample basis, whether available for sale investments were valued at fair value based on the last quoted market price and rates quoted by PSX, PKRV, and Mutual Fund Association of Pakistan (MUFAP) etc.; and • Assessed whether impairment indicators exists against investments classified as available-for-sale, and assessed whether impairment is recorded for impaired investments.

Information Other than the Unconsolidated Financial Statements and Auditor's Report Thereon

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Unconsolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the unconsolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 unconsolidated financial statements.

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

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

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- 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 unconsolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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 unconsolidated financial statements, including the disclosures, and whether the unconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the unconsolidated financial statements of the current year 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:

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

- a) proper books of account have been kept by the Bank as required by the Companies Act, 2017 (XIX of 2017) and the returns referred above from the branches have been found adequate for the purpose of our audit;
- b) the unconsolidated statement of financial position, the unconsolidated profit and loss account, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated cash flow statement together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 and the Companies Act, 2017(XIX of 2017) and are in agreement with the books of account;
- c) investments made, expenditure incurred and guarantees extended during the year were in accordance with the objects and powers of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank; and

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

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

Other Matter

The engagement partner on the audit resulting in this independent auditor's report is Aryn Pirani.

Karachi: 5 March 2020

KPMG Taseer Hadi & Co.
Chartered Accountants

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	2019	2018
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks	6	70,713,603	48,177,009
Balances with other banks	7	1,865,528	1,115,557
Lendings to financial institutions	8	22,197,303	11,984,795
Investments	9	448,909,727	346,665,904
Advances	10	263,948,473	226,689,617
Fixed assets	11	8,306,783	3,899,579
Intangible assets	12	66,462	121,442
Deferred tax assets	13	3,712,435	5,821,182
Other assets	14	39,854,208	28,920,696
		<u>859,574,522</u>	<u>673,395,781</u>
LIABILITIES			
Bills payable	15	11,541,474	12,173,407
Borrowings	16	144,464,063	51,347,381
Deposits and other accounts	17	611,869,248	543,577,510
Liabilities against assets subject to finance lease		—	—
Sub-ordinated debts		—	—
Deferred tax liabilities		—	—
Other liabilities	18	47,462,207	29,295,527
		<u>815,336,992</u>	<u>636,393,825</u>
NET ASSETS		<u>44,237,530</u>	<u>37,001,956</u>
REPRESENTED BY			
Share capital	19	10,478,315	10,478,315
Reserves		17,584,517	16,267,793
(Deficit) / surplus on revaluation of assets - net of tax	20	(2,885,060)	(5,573,656)
Unappropriated profit		19,059,758	15,829,504
		<u>44,237,530</u>	<u>37,001,956</u>
CONTINGENCIES AND COMMITMENTS	21		

The annexed notes 1 to 44 and annexures I & II form an integral part of these unconsolidated financial statements.

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

MOHOMED BASHIR
Director

SOHAIL HASSAN
Director

MOHAMEDALI R. HABIB
Chairman

UNCONSOLIDATED PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019	2018
		Rupees in '000	
Mark-up / return / interest earned	23	72,206,339	42,520,197
Mark-up / return / interest expensed	24	(54,815,387)	(26,297,463)
Net mark-up / interest income		17,390,952	16,222,734
Non mark-up / interest income			
Fee and commission income	25	5,252,351	4,106,898
Dividend income		90,123	92,587
Foreign exchange income		3,116,980	1,498,410
Income / (loss) from derivatives		—	—
(Loss) / gain on securities	26	(1,164,918)	102,229
Other income	27	52,555	273,891
Total non mark-up / interest income		7,347,091	6,074,015
Total income		24,738,043	22,296,749
Non mark-up / interest expenses			
Operating expenses	28	12,754,190	11,616,837
Workers' welfare fund		238,000	192,000
Other charges	29	101,813	31,105
Total non mark-up / interest expenses		(13,094,003)	(11,839,942)
Profit before provisions		11,644,040	10,456,807
Provisions reversal and write offs - net	30	(406,169)	(382,429)
Extra ordinary / unusual items		—	—
Profit before taxation		11,237,871	10,074,378
Taxation	31	(4,654,390)	(3,913,794)
Profit after taxation		6,583,481	6,160,584
		Rupees	
Basic and diluted earnings per share	32	6.28	5.88

The annexed notes 1 to 44 and annexures I & II form an integral part of these unconsolidated financial statements.

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

MOHOMED BASHIR
Director

SOHAIL HASSAN
Director

MOHAMEDALI R. HABIB
Chairman

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	Rupees in '000	
Profit after taxation	6,583,481	6,160,584
Other comprehensive income		
Items that may be reclassified to profit and loss in subsequent periods:		
Effect of translation of net investment in an offshore branch	28	–
Movement in surplus / (deficit) on revaluation of investments - net of tax	2,642,626	(6,512,484)
Items that will not be reclassified to profit and loss in subsequent periods:		
Remeasurement gain / (loss) on defined benefit obligations - net of tax	56,262	(905)
Movement in surplus on revaluation of non-banking assets - net of tax	48,840	–
Total comprehensive income / (loss)	9,331,237	(352,805)

The annexed notes 1 to 44 and annexures I & II form an integral part of these unconsolidated financial statements.

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

MOHOMED BASHIR
Director

SOHAIL HASSAN
Director

MOHAMEDALI R. HABIB
Chairman

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Reserves					Surplus / (deficit) on revaluation				
	Share capital	Exchange translation reserve	Share premium	Statutory reserve	Special reserve	Revenue reserve	Investments	Non-banking assets	Un-appropriated profit	Total
	Rupees in '000									
Opening balance as at 1 January 2018	10,478,315	–	2,550,985	10,744,330	240,361	1,500,000	759,367	182,331	14,042,566	40,498,255
Profit after taxation	–	–	–	–	–	–	–	–	6,160,584	6,160,584
Other comprehensive income - net of tax	–	–	–	–	–	–	(6,512,484)	–	(905)	(6,513,389)
Total comprehensive income	–	–	–	–	–	–	(6,512,484)	–	6,159,679	(352,805)
Transfer to statutory reserve	–	–	–	1,232,117	–	–	–	–	(1,232,117)	–
Transfer from surplus on revaluation of assets to unappropriated profit - net of tax	–	–	–	–	–	–	–	(2,870)	2,870	–
Transactions with owners, recorded directly in equity										
Cash dividend (Rs.3.00 per share) for the year ended 31 December 2017	–	–	–	–	–	–	–	–	(3,143,494)	(3,143,494)
Balance as at 31 December 2018	10,478,315	–	2,550,985	11,976,447	240,361	1,500,000	(5,753,117)	179,461	15,829,504	37,001,956
Profit after taxation	–	–	–	–	–	–	–	–	6,583,481	6,583,481
Other comprehensive income - net of tax	–	28	–	–	–	–	2,642,626	48,840	56,262	2,747,756
Total comprehensive income	–	28	–	–	–	–	2,642,626	48,840	6,639,743	9,331,237
Transfer to statutory reserve	–	–	–	1,316,696	–	–	–	–	(1,316,696)	–
Transfer from surplus on revaluation of assets to unappropriated profit - net of tax	–	–	–	–	–	–	–	(2,870)	2,870	–
Transactions with owners, recorded directly in equity										
Cash dividend (Rs. 2.00 per share) for the year ended 31 December 2018	–	–	–	–	–	–	–	–	(2,095,663)	(2,095,663)
Balance as at 31 December 2019	10,478,315	28	2,550,985	13,293,143	240,361	1,500,000	(3,110,491)	225,431	19,059,758	44,237,530

The annexed notes 1 to 44 and annexures I & II form an integral part of these unconsolidated financial statements.

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

MOHOMED BASHIR
Director

SOHAIL HASSAN
Director

MOHAMEDALI R. HABIB
Chairman

UNCONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019	2018
		Rupees in '000	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		11,237,871	10,074,378
Less: Dividend income		(90,123)	(92,587)
		<u>11,147,748</u>	<u>9,981,791</u>
Adjustments			
Depreciation on operating fixed assets	11.2	974,613	814,045
Depreciation on right-of-use assets		769,693	—
Depreciation on non-banking assets	14.1.1	11,236	12,044
Amortization	12	93,299	128,406
Mark-up / return / interest earned on lease liability against right-of-use assets		443,504	—
Provisions and write-offs excluding recovery of written off bad debts	30	423,508	476,140
Net gain on sale of fixed assets		(16,473)	(8,251)
Gain on sale of non-banking assets	27	—	(202,282)
Gain on sale of non-current assets held for sale	27	—	(35,042)
Provision against workers welfare fund		238,000	192,000
Provision against compensated absences		82,448	76,325
		<u>3,019,828</u>	<u>1,453,385</u>
		<u>14,167,576</u>	<u>11,435,176</u>
(Increase) / decrease in operating assets			
Lendings to financial institutions		(10,212,508)	(1,069,990)
Advances		(37,626,365)	(52,802,142)
Other assets (excluding current taxation, dividend and non-banking assets)		(4,448,306)	(2,374,861)
		<u>(52,287,179)</u>	<u>(56,246,993)</u>
Increase / (decrease) in operating liabilities			
Bills payable		(631,933)	(7,470,196)
Borrowings from financial institutions		92,198,529	(14,068,692)
Deposits and other accounts		68,291,738	35,473,559
Other liabilities (excluding current taxation)		7,626,638	2,416,253
		<u>167,484,972</u>	<u>16,350,924</u>
		<u>129,365,369</u>	<u>(28,460,893)</u>
Payment against compensated absences		(64,895)	(71,032)
Income tax paid		(4,296,604)	(3,076,799)
		<u>125,003,870</u>	<u>(31,608,724)</u>
Net cash flow generated from / (used in) operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(98,403,719)	41,314,859
Net investments in held-to-maturity securities		169,475	(1,448,559)
Dividend received		90,123	153,063
Investments in fixed assets		(1,498,141)	(1,594,250)
Investments in intangibles assets		(38,319)	(25,561)
Proceeds from sale of fixed assets		22,377	20,452
Proceeds from sale of non-banking assets		—	600,000
Proceeds from sale of non-current assets held for sale		—	250,000
Effect of translation of net investment in an offshore branch		28	—
		<u>(99,658,176)</u>	<u>39,270,004</u>
Net cash flow (used in) / generated from investing activities			
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(2,093,622)	(3,129,047)
Payment of lease liability against right-of-use assets		(883,660)	—
		<u>(2,977,282)</u>	<u>(3,129,047)</u>
Net cash used in financing activities			
Increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		46,103,870	41,571,637
Cash and cash equivalents at end of the year	33	<u>68,472,282</u>	<u>46,103,870</u>

The annexed notes 1 to 44 and annexures I & II form an integral part of these unconsolidated financial statements.

FUZAIL ABBAS Chief Financial Officer	MOHSIN A. NATHANI President & Chief Executive Officer	MOHOMED BASHIR Director	SOHAIL HASSAN Director	MOHAMEDALI R. HABIB Chairman
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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1. STATUS AND NATURE OF BUSINESS

Habib Metropolitan Bank Limited (the Bank) was incorporated in Pakistan on 3 August 1992, as a public limited company, under the Companies Ordinance, 1984 (now Companies Act, 2017) and is engaged in commercial banking and related services. Its shares are listed on the Pakistan Stock Exchange. The Bank operates 362 (2018: 322) branches, including 31 (2018: 31) Islamic banking branches and an offshore branch (Karachi Export Processing Zone branch), and 30 (2018: 30) sub branches in Pakistan. The Bank is a subsidiary of Habib Bank AG Zurich - Switzerland (the holding company with 51% shares in the Bank) which is incorporated in Switzerland.

The registered office of the Bank is situated at Spencer's Building, I.I. Chundrigar Road, Karachi.

2. BASIS OF PRESENTATION

2.1 These unconsolidated financial statements represent separate financial statements of the Bank. The consolidated financial statements of the Bank and its subsidiary companies are being separately issued.

2.2 Statement of compliance

These unconsolidated financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards 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 Accountants of Pakistan, as are notified under the Companies Act, 2017;
- Provisions of and directives issued under the Banking Companies Ordinance, 1962 and the Companies Act, 2017; and
- Directives issued by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP).

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

The SBP vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement" and IAS 40 "Investment Property" for banking companies till further instructions. Further, according to a notification of the Securities and Exchange Commission of Pakistan (SECP) through S.R.O. No. 411(1)/2008 dated 28 April 2008, IFRS 7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these unconsolidated financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by the SBP.

The Securities and Exchange Commission of Pakistan (SECP) has notified Islamic Financial Accounting Standard (IFAS) 3, 'Profit and Loss Sharing on Deposits' issued by the Institute of Chartered Accountants of Pakistan. IFAS 3 shall be followed with effect from the financial periods beginning on or after 1 January 2014 in respect of accounting for transactions relating to 'Profit and Loss Sharing on Deposits' as defined by the said standard. The standard has resulted in certain new disclosures in the financial statements of the Bank. The SBP through BPRD Circular Letter No. 4 dated 25 February 2015, has deferred the applicability of IFAS 3 till further instructions and prescribed the Banks to prepare their annual and periodical financial statements as per existing prescribed formats issued vide BPRD Circular 2 of 2018, as amended from time to time.

2.3 Standards, interpretations and amendments to published approved accounting standards that are effective in current year

2.3.1 IFRS 16 became effective for annual reporting period commencing on or after 1 January 2019. The impact of the adoption of IFRS 16 is given in note 2.3.3 to these financial statements.

2.3.2 There are certain other new and amended standards, interpretations and amendments that are mandatory for the Bank's accounting periods beginning on or after 1 January 2019 but are considered not to be relevant or do not have any significant effect on the Bank's operations and therefore not detailed in these financial statements.

2.3.3 Adoption of International Financial Reporting Standards (IFRS) 16 'Leases'

On 1 January 2019, the Bank adopted IFRS 16 'Leases'. This IFRS has introduced a single lease accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 'Leases'. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases differently.

The significant judgments in the implementation were determining if a contract contained a lease, and the determination of whether the Bank is reasonably certain that it will exercise extension options present in lease contracts. The significant estimates were the determination of incremental borrowing rates. The weighted average discount rate applied to lease liabilities on the transition date 1 January 2019 was 13.22 percent.

The impact of IFRS 16 on the Bank is primarily where the Bank is a lessee in property lease contracts. The Bank has elected to adopt simplified approach on transition and has not restated comparative information. On 1 January 2019, the Bank recognized a lease liability, being the remaining lease payments, including extension options where renewal is reasonably certain, discounted using the Bank's incremental borrowing rate at the date of initial application. The corresponding right-of-use asset recognized is the amount of the lease liability adjusted by prepaid or accrued lease payments related to those leases. The balance sheet has increased as a result of the recognition of lease liability and right-to-use assets as of 1 January 2019 was Rs. 3,465,455 thousand with no adjustment to retained earnings. The asset is presented in 'Fixed Assets' and the liability is presented in 'Other liabilities'. Also in relation to those leases under IFRS 16, the Bank has recognized depreciation and interest costs, instead of operating lease expenses.

The Bank has elected not to recognize right-of-use assets and lease liabilities for some leases of low value assets. The lease payments associated with these leases are recognized as an expenses on a straight-line basis over the lease term. The right-of-use assets are presented in the same line items as it presents underlying assets of the same nature that it owns.

Upto 31 December 2018, assets held under property leases, not equivalent to ownership rights, were classified as operating leases and were not recognized as asset in the statement of financial position. Payments or accruals under operating leases were recognised in profit and loss on a straight line basis over term of the lease.

The effect of this change in accounting policy is as follows:

	31 December 2019 Rupees in '000
Impact on Statement of Financial Position	
Increase in fixed assets - right-of-use assets	3,826,142
Decrease in other assets - advances, deposits and other prepayments	(306,405)
Increase in other assets - taxation	119,813
	<u>3,639,550</u>
Increase in other liabilities - lease liability against right-of-use assets	<u>(3,826,950)</u>
Decrease in net assets	<u>(187,400)</u>
	For the year ended 31 December 2019 Rupees in '000
Impact on Profit and Loss account	
Increase in mark-up expense - lease liability against right-of-use assets	(443,504)
(Increase) / decrease in administrative expenses:	
- Depreciation on right-of-use assets	(769,693)
- Rent expense	905,984
Decrease in profit before tax	<u>(307,213)</u>
Decrease in tax	119,813
Decrease in profit after tax	<u>(187,400)</u>

In view of the application of above IFRS, the Bank's accounting policy for right-of-use assets and its related lease liability is mentioned in note 4.6.3 and note 4.14 respectively.

2.4 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

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

- Amendment to IFRS 3 'Business Combinations' – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of annual period beginning on or after 1 January 2020). The IASB has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The standard is effective for transactions in the future and therefore would not have an impact on past financial statements.

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- Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (effective for annual periods beginning on or after 1 January 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB has also issued guidance on how to make materiality judgments when preparing their general purpose financial statements in accordance with IFRS Standards.
 - On 29 March 2018, the International Accounting Standards Board (the IASB) has issued a revised Conceptual Framework for Financial Reporting which is applicable immediately contains changes that will set a new direction for IFRS in the future. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs and any inconsistencies with the revised Framework will be subject to the usual due process – this means that the overall impact on standard setting may take some time to crystallise. The companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, banks should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs.
 - Interest Rate Benchmark Reform which amended IFRS 9, IAS 39 and IFRS 7 is applicable for annual financial periods beginning on or after 1 January 2020. The G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of major interest rate benchmarks. Following the review, the FSB published a report setting out its recommended reforms of some major interest rate benchmarks such as IBORs. Public authorities in many jurisdictions have since taken steps to implement those recommendations. This has in turn led to uncertainty about the long-term viability of some interest rate benchmarks. In these amendments, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark including its replacement with an alternative benchmark rate, such as that resulting from the FSB's recommendations set out in its July 2014 report 'Reforming Major Interest Rate Benchmarks' (the reform). The amendments made provide relief from the potential effects of the uncertainty caused by the reform. A company shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform. The amendments are not likely to affect the financial statements of the Bank.
 - IFRS 14 'Regulatory Deferral Accounts' - (effective for annual periods beginning on or after 1 July 2019) provides interim guidance on accounting for regulatory deferral accounts balances while IASB considers more comprehensive guidance on accounting for the effects of rate regulation. In order to apply the interim standard, an entity has to be rate regulated – i.e. the establishment of prices that can be charged to its customers for goods or services is subject to oversight and / or approved by an authorized body. The term 'regulatory deferral account balance' has been chosen as a neutral descriptor for expense (income) or variance account that is included or is expected to be included by the rate regulator in establishing the rate(s) that can be charged to customers and would not otherwise be recognized as an asset or liability under other IFRSs. The standard is not likely to have any effect on the Bank's financial statements.
 - IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation – for Banks and DFIs, the effective date of the standard has been extended to annual periods beginning on or after 1 January 2021 vide SBP circular 4 dated 23 October 2019. IFRS 9 replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. According to SBP circular referred to above, the Banks / DFIs are required to have a parallel run of IFRS 9 from 1 January 2020. The Banks / DFIs are also required to prepare proforma financial statements which includes the impact of IFRS 9 from the year ended 31 December 2019. These proforma financial statements are being prepared by the Bank and the Bank is in the process of assessing the impact of the application of IFRS 9 on its financial statements.

2.5 Critical accounting judgments and key sources of estimation uncertainty

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

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

- i) Classification of investments (note 4.4.1 and 4.4.2)
- ii) Valuation and impairment of available-for-sale equity investments (note 4.4.3)
- iii) Provision against non-performing loans and advances (note 4.5.1) and debt securities classified as investments (note 4.4.3)
- iv) Impairment of non-financial assets (excluding deferred tax asset) (note 4.21)
- v) Income taxes (note 4.11)
- vi) Depreciation and amortisation (note 4.6.2 and 4.7)
- vii) Defined benefit plan (note 4.13.1)
- viii) Compensated Absences (note 4.13.2)
- ix) Right-of-use assets (note 4.6.3) and related lease liability (note 4.14)

3. BASIS OF MEASUREMENT

Accounting convention

These unconsolidated financial statements have been prepared under the historical cost convention except that certain investments are stated at market value, derivative financial instruments are carried at fair value and non-banking assets in satisfaction of claims are stated at revalued amount less accumulated depreciation as disclosed in notes 4.4, 4.9 and 4.8 respectively.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 The principal accounting policies applied in the preparation of these financial statements are set out below. These have been consistently applied to all the years presented except for the changes mentioned in note 2.3.3 to the financial statements.

4.2 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents include cash and balances with treasury banks and balances with other banks less overdrawn nostro balances.

4.3 Lendings to / borrowings from financial institutions

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

Sale under repurchase agreement

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the statement of financial position and are measured in accordance with accounting policies for investments and counter party liability is included in borrowing from financial institutions. The difference between sale and repurchase price is accrued as markup expense on a pro-rata basis over the term of the repo agreement.

Purchase under resale agreement

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position and instead amounts paid under these arrangements are included in lendings to financial institutions. The difference between purchase and resale price is accrued as markup income on a pro-rata basis over the term of the agreement.

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

Bai muajjal

The securities sold under Bai muajjal agreement are derecognised on the date of disposal. Receivable against such sale is recognised at the agreed sale price. The difference between the sale price and the carrying value on the date of disposal is taken to income on straight line basis.

4.4 Investments

4.4.1 Investments in subsidiaries are stated at cost less provision for impairment, if any.

4.4.2 Other investments are classified as follows:

Held-for-trading

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

Held-to-maturity

These are securities with fixed or determinable payments and fixed maturities that are held with the positive intention and ability to hold till maturity.

Available-for-sale

These are investments except from those made in subsidiaries and that do not fall under the held-for-trading or held-to-maturity categories.

4.4.3 Investments (other than held-for-trading) include transaction costs associated with the investments. In case of held-for-trading transaction costs are charged to profit and loss account when incurred.

All “regular way” purchases and sales of investments are recognised on the trade date, i.e., the date that the Bank commits the purchase or sell the asset. Regular way purchases or sales are purchases or sales of investments that require delivery of assets within the time frame generally established by regulation or convention in the market place.

In accordance with the requirements of the SBP, quoted securities, other than those classified as held-to-maturity and investments in subsidiaries, are carried at market value. Investments classified as held-to-maturity are carried at amortised cost whereas investments in subsidiaries are carried at cost less impairment losses, if any.

Unrealised surplus / deficit arising on the revaluation of the Bank’s held-for-trading investment portfolio is taken to the profit and loss account. Surplus / deficit arising on revaluation of quoted securities classified as available for sale is kept in a separate account shown in equity. Surplus / deficit arising on these securities is 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. Break-up value of these securities is calculated as per the latest available audited financial statements. Investments in other unquoted securities are valued at cost less impairment losses, if any.

Provision for diminution in the value of term finance certificates and sukuk certificates are made as prescribed under Prudential Regulation issued by the SBP.

Provision for impairment in the value of available-for-sale and held-to-maturity securities (other than bonds and term finance certificates and sukuk certificates) is made after considering objective evidence of impairment, if any, in their value (as a result of one or more events that may have an impact on the estimated future cash flows of the investments). A significant or prolonged decline in the fair value of an equity investment below its cost is also considered an objective evidence of impairment. Impairment losses are taken to profit and loss account.

4.5 Advances (including net investments in finance lease and ijarah arrangements)

4.5.1 Loans and advances

Loans and advances and net investments in finance lease are stated net of provision for loan losses against non-performing advances. Provision for loan losses is made in accordance with the Prudential Regulations issued by the SBP and is charged to profit and loss account. The Bank also maintains general provision in addition to the requirements of the Prudential Regulations on the basis of management’s assessment of credit risk characteristics and general banking risk such as nature of credit, collateral type, industry sector and other relevant factors.

4.5.2 Finance lease receivables

Leases where the Bank transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance lease. A receivable is recognised at an amount equal to the present value of the minimum lease payments including guaranteed residual value, if any. Finance lease receivables are included in advances to the customers.

4.5.3 Islamic finance and related assets

Ijarah

In accordance with the requirements of IFAS 2 for the accounting and financial reporting of "ijarah", ijarah arrangements by the Islamic banking branches are accounted for as 'assets held under ijarah' and are stated at cost less accumulated depreciation, residual value and impairment losses, if any. Accordingly, assets subject to ijarah have been reflected in note 10 to these unconsolidated financial statements under "advances". Rental income on these ijarah is recognised in the Bank's profit and loss account on a time proportion basis, while depreciation is calculated on ijarah assets on a straight line basis over the period of ijarah from the date of delivery of respective assets to mustajir (lessee) up to the date of maturity / termination of ijarah agreement and is charged to the profit and loss account. The classification and provisioning of ijarah assets is done in line with the requirements laid down in the Prudential Regulations and are recognised in the profit and loss account.

Diminishing musharakah

In diminishing musharakah based financing, the Bank enters into a musharakah based on shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into periodic profit payment agreement for the utilization of the Bank's mushariki share by the customer. Income from these transactions are recorded on an accrual basis.

Istisna

In istisna financing, the Bank places an order to purchase some specific goods / commodities from its customers to be delivered to the Bank within an agreed time. The goods are then sold and the amount financed is paid back to the Bank.

Al-bai

The product is based on the Islamic mode "musawamah". Musawamah is a general kind of sale in which price of the commodity to be traded is agreed between seller and the buyer without any reference to the cost incurred and profit charged by the former.

Murabaha

Murabaha receivables are stated at gross amount receivable less deferred income and provisions, if any.

4.6 Fixed assets

4.6.1 Capital work-in-progress

These are stated at cost less impairment losses, if any.

4.6.2 Property and equipment

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except for freehold land which are stated at cost less accumulated impairment losses, if any.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset at the rates specified in note 11.2. Depreciation on additions during the year is calculated from the date of addition. In case of disposals during the year, the depreciation is charged up till the date of disposal.

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

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

The residual values, useful lives and depreciation methods are reviewed and changes, if any, are treated as change in accounting estimates, at each statement of financial position date.

4.6.3 Right-of-use assets

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

4.7 Intangible assets

These are stated at cost less accumulated amortisation and impairment, if any. The cost of intangible assets are amortised from the month when the assets are available for intended use, using the straight line method, whereby the cost of the intangible asset is amortised over its estimated useful life over which economic benefits are expected to flow to the Bank. The useful life and amortisation method is reviewed and adjusted, if appropriate, at each statement of financial position date.

4.8 Non-banking assets

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

4.9 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value at the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivative financial instruments are carried as asset when fair value is positive and liabilities when fair value is negative. Any change in the value of derivative financial instruments is taken to the profit and loss account.

4.10 Provisions

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

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 statement of financial position date and are adjusted to reflect the current best estimate.

4.11 Taxation

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

4.11.1 Current

Provision for current taxation is based on taxable income for the year at the current rates of taxation after taking into consideration available tax credits and rebates. The charge for the current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments framed / finalised during the year.

4.11.2 Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amount used for taxation purposes. Deferred tax is measured at the tax rate that are expected to be applied on the temporary differences when they reverse, based on the tax rates that have been enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that the future taxable profit 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 assets and actuarial gains / losses recognised in other comprehensive income, which is adjusted against the related deficit / surplus.

4.12 Deposits

Deposits are recorded at the amount of proceeds received. The cost of deposits is recognised as an expense on an accrual basis in the period in which it is incurred.

4.13 Employees' benefits

4.13.1 Retirement benefits

Defined benefit plan

The Bank operates an approved funded gratuity scheme for all its permanent employees. Retirement benefits are payable to the members of the scheme on the completion of prescribed qualifying period of service under

the scheme. Contribution is made in accordance with the actuarial recommendation. The actuarial valuation is carried out annually as at the statement of financial position date using the "projected unit credit actuarial cost method".

All actuarial gains and losses are recognised in other comprehensive income as they occur.

Past service cost resulting from changes to defined benefit plan is recognised in the profit and loss account.

Defined contribution plan

The Bank operates a recognised provident fund scheme for all its regular employees, which is administered by the Board of Trustees. Contributions are made by the Bank and its employees, to the fund at the rate of 10% of basic salary.

4.13.2 Compensated absences

A provision is made for estimated liability for annual leaves as a result of services rendered by the employees against unavailed leaves, as per term of service contract, up to the statement of financial position date.

The actuarial valuation under the "projected unit credit actuarial cost method" has been carried out by the Bank for the determination of the liability for compensated absences. Liability so determined is fully recognised by the Bank.

4.14 Lease liability against right-of-use assets

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

4.15 Revenue recognition

Revenue is recognised to the extent that the economic benefits will flow to the Bank and the revenue can be reliably measured. These are recognised as follows:

4.15.1 Advances and investments

- Mark-up / return on regular loans / advances and debt securities investments is recognised on a time proportion basis that take into account the effective yield on the asset. Where debt securities are purchased at premium or discount, the same is amortised through the profit and loss account using the effective interest rate method.
- Mark-up / return on classified loans and advances and investments is recognised on receipt basis. Interest / return / mark-up on classified rescheduled / restructured loans and advances and investments is recognised as permitted by the regulations of the SBP.

-
- Dividend income is recognised when the Bank's right to receive the dividend is established.
 - Gains and losses on sale of investments are recognised in the profit and loss account.
 - Income on bills discounted are recognised over the period of the bill.

4.15.2 Lease financing / ijarah contracts

Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Unrealised income on classified leases is recognised on receipt basis.

Rental income on ijarah executed by the Islamic Banking branches are accounted for under IFAS 2 (refer note 4.5) is recognised in the profit and loss account on a time proportion basis.

Gains / losses on termination of lease contracts and other lease income are recognised when realised.

4.15.3 Fees, commission and brokerage

Fees, commission and brokerage is accounted for on accrual basis.

4.16 Off setting

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

4.17 Foreign currencies

4.17.1 Foreign currency transactions

Foreign currency transactions are translated into local currency at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the statement of financial position date. Forward exchange contracts are revalued using forward exchange rates applicable to their respective remaining maturities. Gains or losses on above translation are included in profit and loss account.

4.17.2 Offshore branch operations

The assets and liabilities of an offshore branch operations are translated into rupees at the exchange rates prevailing at the statement of financial position date. The income and expenses are translated into rupees at average rate of exchange prevailing during the period. Exchange gain or loss on such translation is taken to equity through statement of 'other comprehensive income' under 'exchange translation reserve'.

4.17.3 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 ruling on the statement of financial position date.

4.18 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing product or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's primary format of reporting is based on the following business segments.

4.18.1 Business segments

a) Trading and sales

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

b) Retail banking

Retail banking provides services to small borrowers i.e. consumers. It includes loans, deposits and other transactions with retail customers.

c) Commercial banking

This includes loans, deposits and other transactions with corporate customers; and SME customers.

4.18.2 Geographical segments

The Bank conducts all its operations in Pakistan including an offshore branch in Karachi Export Processing Zone.

4.19 Dividend distribution and appropriations

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

4.20 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. 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 period. 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.

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

At each statement of financial position date, the Bank reviews the carrying amount of its assets (other than deferred tax asset) to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of relevant asset is estimated. Recoverable amount is the greater of the net selling price and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the assets is reduced to its recoverable amount. The resulting impairment loss is recognised as an expense immediately. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

Details of the basis of determination of impairment against loans and advances and investments have been discussed in their respective notes.

4.22 Acceptances

Acceptances comprises undertakings by the Bank to pay bill of exchange due on customers. It is recognised as financial liability and the contractual right of reimbursement from the customer is recorded as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities in these unconsolidated financial statements.

4.23 Financial instruments

All financial assets and liabilities are recognised at the time when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Bank loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognised when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to profit and loss account. Financial assets carried on the statement of financial position include cash and bank balances, lendings to financial institutions, investments, advances and certain receivables. Financial liabilities include borrowings, deposits, bills payable and other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy notes associated with them.

5. FUNCTIONAL AND PRESENTATION CURRENCY

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

	Note	2019	2018
		Rupees in '000	
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		7,400,310	7,657,613
Foreign currencies		1,289,049	2,013,643
		<u>8,689,359</u>	<u>9,671,256</u>
With State Bank of Pakistan in			
Local currency current accounts	6.1	37,267,692	20,272,252
Foreign currency current account	6.2	64,248	244,068
Foreign currency deposit accounts			
– cash reserve account	6.3	5,663,551	4,151,971
– special cash reserve account	6.4	16,348,050	12,370,079
		<u>59,343,541</u>	<u>37,038,370</u>
With National Bank of Pakistan in			
Local currency current accounts		2,558,634	1,443,318
Prize bonds			
		122,069	24,065
		<u>70,713,603</u>	<u>48,177,009</u>

- 6.1** These accounts are maintained to comply with the statutory cash reserve requirements.
- 6.2** This represents US Dollar collection / settlement account maintained with SBP.
- 6.3** This represents account maintained with the SBP to comply with the Cash Reserve requirement against foreign currency deposits.
- 6.4** This represents account maintained with the SBP to comply with the Special Cash Reserve requirement against foreign currency deposits. The return on this account is declared by the SBP on a monthly basis and, as at 31 December 2019, carries mark-up at the rate of 0.70% to 1.51% (2018: 0.56% to 1.35%) per annum.

7. BALANCES WITH OTHER BANKS

	Note	2019	2018
		Rupees in'000	
In Pakistan			
In current accounts		146,324	94,005
In deposit accounts	7.1	310,468	208,066
		<u>456,792</u>	<u>302,071</u>
Outside Pakistan			
In current accounts	7.2	1,408,736	813,486
		<u>1,865,528</u>	<u>1,115,557</u>

- 7.1** These carry mark-up rates of 11.25% (2018: 6.50%) per annum.
- 7.2** These include balances in current accounts of Rs. 111,070 thousand (2018: Rs. 112,023 thousand) with branches of the holding company.

8. LENDINGS TO FINANCIAL INSTITUTIONS

Call / clean money lendings		–	3,000,000
Repurchase agreement lendings (Reverse Repo)		–	4,184,795
Bai muajjal receivable with the State Bank of Pakistan	8.2	7,507,303	–
Letters of placement	8.3	7,500,000	3,800,000
Musharakah placements	8.4	7,190,000	1,000,000
		<u>22,197,303</u>	<u>11,984,795</u>
8.1 Particulars of lendings			
In local currency		<u>22,197,303</u>	<u>11,984,795</u>

- 8.2** These will mature upto 18 March 2020 and the maturity amount is Rs. 8,286,578 thousand.
- 8.3** These carry profit / return ranging from 10.00% to 12.25% (2018: 10.60% to 10.75%) per annum with maturity upto 3 March 2020 (2018: 1 February 2019).
- 8.4** These carry profit / return rate from 8% to 12.15% (2018: 9.25%) per annum with maturity upto 3 February 2020 (2018: 2 January 2019).

9. INVESTMENTS

9.1 Investments by types

	2019				2018			
	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
Rupees in '000								
Available-for-sale securities								
Federal government securities	401,765,140	–	(4,916,665)	396,848,475	307,815,954	–	(8,965,814)	298,850,140
Shares	682,760	(333,784)	106,775	455,751	655,236	(273,810)	59,396	440,822
Non-government debt securities	9,383,743	(130,559)	(39,636)	9,213,548	4,956,734	(138,428)	16,532	4,834,838
Mutual funds	29,702	(9,647)	9,656	29,711	29,702	(5,753)	2,147	26,096
Real estate investment trust	387,869	–	54,499	442,368	387,869	–	36,790	424,659
	412,249,214	(473,990)	(4,785,371)	406,989,853	313,845,495	(417,991)	(8,850,949)	304,576,555
Held-to-maturity securities								
Federal government securities	36,089,874	–	–	36,089,874	36,259,349	–	–	36,259,349
Non-government debt securities	5,000,000	–	–	5,000,000	5,000,000	–	–	5,000,000
	41,089,874	–	–	41,089,874	41,259,349	–	–	41,259,349
Subsidiaries	830,000	–	–	830,000	830,000	–	–	830,000
Total Investments	454,169,088	(473,990)	(4,785,371)	448,909,727	355,934,844	(417,991)	(8,850,949)	346,665,904

9.2 Investment in subsidiaries - incorporated in Pakistan

	Holding %	Assets	Liabilities	Revenue	Profit / (loss) after tax	Total com- prehensive income
2019		Rupees in '000				
Habib Metropolitan Financial Services Limited	100%	465,069	139,995	55,961	6,479	4,735
Habib Metropolitan Modaraba Management Company (Private) Limited	100%	469,823	19,147	80,139	40,475	27,519
Habib Metro Modaraba	60%	327,753	7,537	45,446	25,927	25,927
2018						
Habib Metropolitan Financial Services Limited	100%	504,877	184,538	44,254	(15,841)	(30,014)
Habib Metropolitan Modaraba Management Company (Private) Limited	100%	429,599	6,442	64,194	28,174	34,934
Habib Metro Modaraba	60%	307,903	5,365	17,274	5,447	5,447

9.3 Investments by segments

	2019				2018			
	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
	Rupees in '000							
Federal government securities								
Market treasury bills	269,483,603	–	(98,941)	269,384,662	167,095,595	–	(17,562)	167,078,033
Pakistan investment bonds	164,762,723	–	(4,817,724)	159,944,999	151,704,966	–	(8,897,428)	142,807,538
Ijarah sukuk	–	–	–	–	21,666,054	–	(50,824)	21,615,230
Bai muajjal	3,608,688	–	–	3,608,688	3,608,688	–	–	3,608,688
	437,855,014	–	(4,916,665)	432,938,349	344,075,303	–	(8,965,814)	335,109,489
Shares								
Listed companies	548,245	(254,713)	106,775	400,307	548,245	(194,739)	59,396	412,902
Unlisted companies	134,515	(79,071)	–	55,444	106,991	(79,071)	–	27,920
	682,760	(333,784)	106,775	455,751	655,236	(273,810)	59,396	440,822
Non-government debt securities								
Listed term finance certificates	3,212,414	(70,403)	(46,556)	3,095,455	3,421,584	(72,045)	7,719	3,357,258
Unlisted term finance certificates	29,697	(21,138)	–	8,559	81,051	(21,138)	–	59,913
Sukuk certificates / bonds	6,141,632	(39,018)	6,920	6,109,534	1,454,099	(45,245)	8,813	1,417,667
Certificates of investment	5,000,000	–	–	5,000,000	5,000,000	–	–	5,000,000
	14,383,743	(130,559)	(39,636)	14,213,548	9,956,734	(138,428)	16,532	9,834,838
Mutual funds								
Open end	12,753	–	5,820	18,573	12,753	–	2,147	14,900
Close end	16,949	(9,647)	3,836	11,138	16,949	(5,753)	–	11,196
	29,702	(9,647)	9,656	29,711	29,702	(5,753)	2,147	26,096
Real estate investment trust	387,869	–	54,499	442,368	387,869	–	36,790	424,659
Subsidiaries								
Habib Metropolitan Financial Services Limited	300,000	–	–	300,000	300,000	–	–	300,000
Habib Metropolitan Modaraba Management Company (Private) Limited	350,000	–	–	350,000	350,000	–	–	350,000
Habib Metro Modaraba	180,000	–	–	180,000	180,000	–	–	180,000
	830,000	–	–	830,000	830,000	–	–	830,000
Total investments	454,169,088	(473,990)	(4,785,371)	448,909,727	355,934,844	(417,991)	(8,850,949)	346,665,904

	2019	2018
	Rupees in '000	
9.3.1 Investments given as collateral against repo borrowing		
Federal government securities		
Market treasury bills	81,790,898	3,443,636
Pakistan investment bonds	7,415,475	9,165,995
	<u>89,206,373</u>	<u>12,609,631</u>

9.4 Provision for diminution in value of investment

9.4.1	Opening balance	417,991	537,372
	Charge for the year	63,868	100,021
	Reversal for the year	(7,869)	(14,442)
	Net charge for the year	55,999	85,579
	Reversal on disposal	—	(198,028)
	Investment written off	—	(6,932)
	Closing balance	<u>473,990</u>	<u>417,991</u>

9.4.2 Particulars of provision against debt securities

Category of classification	2019		2018	
	Non-performing investments	Provision	Non-performing investments	Provision
	Rupees in '000			
Domestic				
Substandard	—	—	—	—
Doubtful	—	—	—	—
Loss	130,559	130,559	138,428	138,428
	<u>130,559</u>	<u>130,559</u>	<u>138,428</u>	<u>138,428</u>

9.5 Quality of available for sale securities

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

	2019	2018
	Cost	
	Rupees in '000	
Federal government securities		
Market treasury bills	269,483,603	167,095,595
Pakistan investment bonds	132,281,537	119,054,305
Ijarah sukuk	—	21,666,054
	<u>401,765,140</u>	<u>307,815,954</u>
Shares		
Listed companies		
Automobile assembler	20,091	20,091
Automobile parts and accessories	58,026	58,026
Cement	81,811	81,811
Commercial banks	96,357	96,357
Fertilizers	96,070	96,070
Investment banks / investment company / securities companies	94,360	94,360
Oil and gas exploration companies	69,843	69,843
Transport	30,254	30,254
Others	1,433	1,433
	<u>548,245</u>	<u>548,245</u>

	2019		2018	
	Cost	Breakup	Cost	Breakup
	Rupees in '000			
Unlisted companies				
Pakistan Export Finance Guarantee Limited	11,361	—	11,361	—
DHA Cogen Limited	50,000	—	50,000	—
Dawood Family Takaful Limited	35,000	17,710	35,000	17,290
Society for World Wide Inter Bank Fund Transfer (Swift)	10,630	12,906	10,630	12,906
Pakistan Corporate Restructuring Company Limited *	27,524	27,524	—	—
	<u>134,515</u>	<u>58,140</u>	<u>106,991</u>	<u>30,196</u>

* This represents amount paid in advance against subscription of ordinary shares of Rs. 10 each.

Non-government debt securities

	Note	2019	2018
		Cost	
		Rupees in '000	
Listed			
AAA		998,800	381,783
AA+		472,835	1,149,200
AA		306,276	636,399
A+		249,550	939,270
AA-		1,344,550	944,600
A		600,000	200,000
A-		171,428	107,142
Unrated		4,977,143	517,289
		<u>9,120,582</u>	<u>4,875,683</u>
Unlisted			
AAA		121,429	—
A+		102,535	—
Unrated		39,197	81,051
		<u>263,161</u>	<u>81,051</u>
Mutual funds - listed			
Unrated		29,702	29,702
Real estate investment trust - listed			
AAA (rr)		387,869	—
RR1		—	387,869
		<u>387,869</u>	<u>387,869</u>

9.6 Particulars relating to held-to-maturity securities are as follows:

Federal government securities

Pakistan investment bonds	32,481,186	32,650,661
Bai muajjal	3,608,688	3,608,688
	<u>36,089,874</u>	<u>36,259,349</u>

Non-government debt securities

Certificate of investments - unlisted

Unrated	9.6.1	<u>5,000,000</u>	<u>5,000,000</u>
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9.6.1 This represents certificates of musharakah carrying expected profit rate at 13.35% per annum and maturity ranging from 2 January 2020 to 30 March 2020.

9.6.2 The market value of securities classified as held-to-maturity is Rs. 44,168,228 thousand (2018: 42,847,389 thousand).

10. ADVANCES

	Note	Performing		Non-Performing		Total	
		2019	2018	2019	2018	2019	2018
Rupees in '000							
Loans, cash credits, running finances, etc.							
In Pakistan	10.1	199,539,259	172,320,248	14,554,885	14,710,168	214,094,144	187,030,416
Islamic financing and related assets		22,193,648	17,629,691	853,946	503,972	23,047,594	18,133,663
Bills discounted and purchased		41,598,380	35,620,461	2,124,307	2,465,767	43,722,687	38,086,228
Advances - gross		263,331,287	225,570,400	17,533,138	17,679,907	280,864,425	243,250,307
Provision against non-performing advances							
-specific		-	-	(15,294,415)	(15,324,500)	(15,294,415)	(15,324,500)
-general		(1,621,537)	(1,236,190)	-	-	(1,621,537)	(1,236,190)
		(1,621,537)	(1,236,190)	(15,294,415)	(15,324,500)	(16,915,952)	(16,560,690)
Advances - net of provisions		261,709,750	224,334,210	2,238,723	2,355,407	263,948,473	226,689,617

10.1 Net investments in finance lease

	2019				2018			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
Rupees in '000								
Lease rentals receivable	79,406	73,554	-	152,960	160,706	74,785	-	235,491
Residual value	87,725	17,898	-	105,623	93,817	13,146	-	106,963
Minimum lease payments	167,131	91,452	-	258,583	254,523	87,931	-	342,454
Financial charges for future periods	(16,524)	(13,294)	-	(29,818)	(19,076)	(11,414)	-	(30,490)
Present value of minimum lease payments	150,607	78,158	-	228,765	235,447	76,517	-	311,964

10.2 Particulars of advances – gross

	2019	2018
Rupees in '000		
In local currency	239,106,297	213,632,404
In foreign currencies	41,758,128	29,617,903
	280,864,425	243,250,307

10.3 Advances include Rs. 17,533,138 thousand (2018: Rs. 17,679,907 thousand) which have been placed under non-performing status as detailed below:

Category of classification
Domestic

	2019		2018	
	Non-performing loans	Provision	Non-performing loans	Provision
Rupees in '000				
Substandard	433,980	76,611	259,378	17,562
Doubtful	628,533	273,742	127,952	2,136
Loss	16,470,625	14,944,062	17,292,577	15,304,802
	<u>17,533,138</u>	<u>15,294,415</u>	<u>17,679,907</u>	<u>15,324,500</u>

10.4 Particulars of provision against advances

	Note	2019			2018		
		Specific	General	Total	Specific	General	Total
		Rupees in '000					
Opening balance		15,324,500	1,236,190	16,560,690	16,168,582	257,841	16,426,423
Charge for the year		1,179,540	385,347	1,564,887	936,036	978,349	1,914,385
Reversals for the year		(1,197,378)	–	(1,197,378)	(1,482,574)	–	(1,482,574)
Net charge / (reversal) for the year		(17,838)	385,347	367,509	(546,538)	978,349	431,811
Amount written off	10.5	(12,247)	–	(12,247)	(297,544)	–	(297,544)
Closing balance		15,294,415	1,621,537	16,915,952	15,324,500	1,236,190	16,560,690

10.4.1 General provision includes provision of Rs. 3,410 thousand (2018: Rs. 5,134 thousand) made against consumer portfolio and Rs. 55 thousand (2018: Rs. 35 thousand) made against small enterprises (SEs) portfolio as required by the Prudential Regulation issued by the SBP.

10.4.2 Particulars of provision against advances

	2019			2018		
	Specific	General	Total	Specific	General	Total
Rupees in '000						
In local currency	14,877,139	1,621,537	16,498,676	14,952,295	1,236,190	16,188,485
In foreign currencies	417,276	–	417,276	372,205	–	372,205
	<u>15,294,415</u>	<u>1,621,537</u>	<u>16,915,952</u>	<u>15,324,500</u>	<u>1,236,190</u>	<u>16,560,690</u>

10.4.3 Consideration of forced sales value (FSV) for the purposes of provisioning against non-performing loans

During the current year, the Bank availed additional forced sale value (FSV) benefit under BSD Circular No. 1 of 21 October 2011. This has resulted in reduction of provision against non-performing loans and advances by Rs. 315,348 thousand (2018: 628,190 thousand). Further, as of 31 December 2019, had the benefit of FSVs (including those availed into previous year) not been taken by the Bank, the specific provision against non-performing advances would have been higher by Rs. 1,598,972 thousand (2018: Rs. 2,096,898 thousand) and accumulated profit would have been lower by Rs. 1,039,332 thousand (2018: Rs. 1,362,983 thousand). This amount of Rs. 1,039,332 thousand (2018: Rs. 1,362,983 thousand) is not available for distribution of cash and stock dividend to the shareholders and bonus to employees.

	Note	2019	2018
		Rupees in '000	
10.5 Particulars of write offs			
10.5.1 Against provisions	10.4	12,247	297,544
Directly charged to profit and loss account		-	-
		<u>12,247</u>	<u>297,544</u>
10.5.2 Write offs of Rs. 500,000/- and above		12,247	297,544
Write offs of below Rs. 500,000/-		-	-
		<u>12,247</u>	<u>297,544</u>

10.6 Details of loan write offs 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 Rs. 500,000 or above allowed to the persons during the year ended 31 December 2019 is enclosed as Annexure I.

11. FIXED ASSETS

Capital work-in-progress	11.1	343,734	142,460
Property and equipment	11.2	4,136,907	3,757,119
Right-of-use assets	2.3.3	3,826,142	-
		<u>8,306,783</u>	<u>3,899,579</u>
11.1 Capital work-in-progress			
Civil works	11.1.1	243,323	32,040
Advance to suppliers		100,411	110,420
		<u>343,734</u>	<u>142,460</u>

11.1.1 This represents advance against renovation being carried out at various locations.

11.2 Property and equipment

Property and equipment					2019				
	Freehold land	Leasehold land	Building / office premises on freehold land	Building / office premises on leasehold land	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Lease hold improvement	Total
	Rupees in '000								
At 1 January									
Cost	–	7,488	352,783	2,532,621	454,610	2,799,097	89,533	2,873,685	9,109,817
Accumulated depreciation	–	(1,789)	(180,200)	(874,466)	(246,991)	(1,953,305)	(23,295)	(2,072,652)	(5,352,698)
Net book value	–	5,699	172,583	1,658,155	207,619	845,792	66,238	801,033	3,757,119
Year ended 31 December									
Opening net book value	–	5,699	172,583	1,658,155	207,619	845,792	66,238	801,033	3,757,119
Transfer / additions	59,871 *	91,852	3,566 *	175,405	71,990	710,260	48,878	198,483	1,360,305
Disposals	–	–	–	–	(141)	(1,157)	(4,606)	–	(5,904)
Depreciation charge	–	(511)	(12,161)	(98,797)	(58,304)	(500,823)	(21,796)	(282,221)	(974,613)
Closing net book value	59,871	97,040	163,988	1,734,763	221,164	1,054,072	88,714	717,295	4,136,907
At 31 December									
Cost	59,871	99,340	356,349	2,708,026	523,008	3,454,715	131,604	3,072,168	10,405,081
Accumulated depreciation	–	(2,300)	(192,361)	(973,263)	(301,844)	(2,400,643)	(42,890)	(2,354,873)	(6,268,174)
Net book value	59,871	97,040	163,988	1,734,763	221,164	1,054,072	88,714	717,295	4,136,907
Rate of depreciation (percentage)									
	–	1.49	4	4	15	25	20	20	

* This represents transfer of property from non-banking assets refer note 14.1.1.

	2018								
	Freehold land	Leasehold land	Building / office premises on freehold land	Building / office premises on leasehold land	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Lease hold improvement	Total
	Rupees in '000								
At 1 January									
Cost	–	7,488	352,783	1,900,513	383,104	2,477,460	35,647	2,557,131	7,714,126
Accumulated depreciation	–	(1,677)	(168,039)	(806,352)	(202,512)	(1,611,498)	(11,604)	(1,803,448)	(4,605,130)
Net book value	–	5,811	184,744	1,094,161	180,592	865,962	24,043	753,683	3,108,996
Year ended 31 December									
Opening net book value	–	5,811	184,744	1,094,161	180,592	865,962	24,043	753,683	3,108,996
Additions	–	–	–	632,108	75,903	382,906	63,591	319,861	1,474,369
Disposals	–	–	–	–	(322)	(1,411)	(8,180)	(2,288)	(12,201)
Depreciation charge	–	(112)	(12,161)	(68,114)	(48,554)	(401,665)	(13,216)	(270,223)	(814,045)
Closing net book value	–	5,699	172,583	1,658,155	207,619	845,792	66,238	801,033	3,757,119
At 31 December									
Cost	–	7,488	352,783	2,532,621	454,610	2,799,097	89,533	2,873,685	9,109,817
Accumulated depreciation	–	(1,789)	(180,200)	(874,466)	(246,991)	(1,953,305)	(23,295)	(2,072,652)	(5,352,698)
Net book value	–	5,699	172,583	1,658,155	207,619	845,792	66,238	801,033	3,757,119
Rate of depreciation (percentage)	–	1.49	4	4	15	25	20	20	

11.2.1 The cost of fully depreciated assets still in use includes;

	2019	2018
	Rupees in '000	
Furniture and fixture	325,724	310,630
Electrical, office and computer equipment	1,392,282	1,157,601
Vehicles	7,568	7,024
Lease hold improvement	1,526,060	1,278,515

11.2.2 Details of fixed assets disposed-off to related parties during the year ended 31 December 2019

Particulars	Cost	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	Rupees in '000				
Vehicle	16	13	881	Negotiation	Mr. Aamir Hameed Piracha (Employee)
Vehicle	18	14	963	Negotiation	Mr. Abdul Jabbar Rathod (Ex-employee)
Vehicle	1,782	1,279	1,650	Negotiation	Mr. Farooq Ahmed Malik (Ex-employee)
Vehicle	1,734	1,067	1,097	Negotiation	Mr. Iqbal Ahmed Farooqi (Ex-employee)
Vehicle	13	–	525	Negotiation	Mr. Mirza Sultan Ali (Ex-employee)
Vehicle	590	590	885	Negotiation	Mr. Mirza Najam Sehar (Ex-employee)
Vehicle	319	319	945	Negotiation	Mr. Nayyar Hasan Zaidi (Employee)
Vehicle	1,734	1,067	1,097	Negotiation	Mr. Qazi Ahmed Siddiqui (Ex-employee)
Vehicle	45	27	2,010	Negotiation	Mr. Sirajuddin Aziz (Ex-employee)
Vehicle	18	15	15	Negotiation	Mr. Waheed Usman Sakrani (Ex-employee)
Vehicle	18	15	16	Negotiation	Mr. Zubair Javaid (Ex-employee)
Vehicle	17	11	859	Negotiation	Syed Abu Tufail (Employee)
Vehicle	24	19	19	Negotiation	Syed Hasan Ali Kazmi (Ex-employee)
Vehicle	17	10	840	Negotiation	Syed Hasnain Haider Rizvi (Employee)
Vehicle	51	40	2,100	Negotiation	Syed Muhamamd Talib Rizvi (Ex-employee)
Vehicle	98	98	98	Negotiation	Mr. Khadim Ali Nanji (Ex-employee)

12 Intangible assets - computer software

At 1 January

	2019	2018
	Rupees in '000	
Cost	425,995	400,434
Accumulated amortisation and impairment	(304,553)	(176,147)
Net book value	121,442	224,287

Year ended 31 December

Opening net book value	121,442	224,287
Additions:		
- directly purchased	38,319	25,561
Amortisation charge	(93,299)	(128,406)
Closing net book value	66,462	121,442

At 31 December

Cost	464,314	425,995
Accumulated amortisation and impairment	(397,852)	(304,553)
Net book value	66,462	121,442
Rate of amortisation (percentage)	33.3%	33.3%
Useful life in years	3	3

12.1 The cost of fully amortised intangible assets (computer software) still in use is Rs. 263,561 thousand (2017: Rs. 27,875 thousand).

13. DEFERRED TAX ASSETS

	Balance as at 1 January 2018	Recognised in profit & loss account	Recognised in other comprehensive income	Balance as at 31 December 2018	Recognised in profit & loss account	Recognised in other comprehensive income	Balance as at 31 December 2019
	Rupees in '000						
Deductable temporary differences							
Provision for diminution in value of investments	188,080	(41,783)	–	146,297	19,600	–	165,897
Provision for non-performing and off - balance sheet	3,248,393	(501,898)	–	2,746,495	(722,031)	–	2,024,464
Provision against other assets	35,440	(35,440)	–	–	–	–	–
(Deficit) / surplus on revaluation of investments	(408,891)	–	3,506,723	3,097,832	–	(1,422,952)	1,674,880
Deferred liability on defined benefit plan	70,220	–	486	70,706	–	(30,294)	40,412
	3,133,242	(579,121)	3,507,209	6,061,330	(702,431)	(1,453,246)	3,905,653
Taxable temporary differences							
Surplus on revaluation of non-banking assets	(98,178)	1,546	–	(96,632)	1,545	(26,298)	(121,385)
Accelerated depreciation	(199,746)	56,230	–	(143,516)	71,683	–	(71,833)
	(297,924)	57,776	–	(240,148)	73,228	(26,298)	(193,218)
Net deferred tax asset	2,835,318	(521,345)	3,507,209	5,821,182	(629,203)	(1,479,544)	3,712,435

Note

2019

2018

Rupees in '000

14. OTHER ASSETS

Income / mark-up / profit accrued in local currency		12,529,140	8,308,015
Income / mark-up / profit accrued in foreign currencies		43,085	29,916
Advances, deposits, advance rent and other prepayments		225,452	554,859
Advance taxation (payments less provision)		647,808	376,391
Non-banking assets acquired in satisfaction of claim	14.1	417,244	487,505
Branch adjustment account		58	63
Mark-to-market gain on forward foreign exchange contracts		4,458,787	4,206,429
Acceptances		20,971,205	14,429,148
Receivable from the SBP against encashment of government securities		55,080	114,055
Stationery and stamps on hand		88,551	62,236
Others		280,982	285,986
		39,717,392	28,854,603
Provision against other assets	14.2	(210,000)	(210,000)
Other assets (net of provision)		39,507,392	28,644,603
Surplus on revaluation of non-banking assets acquired in satisfaction of claims	20.1	346,816	276,093
		39,854,208	28,920,696
14.1 Market value of non-banking assets acquired in satisfaction of claims		764,060	774,844

	2019	2018
	Rupees in '000	
14.1.1 Non-banking assets acquired in satisfaction of claims		
Opening balance	763,598	1,173,360
Revaluation	106,386	–
Transfer to fixed assets	(63,437)	–
Reversal of surplus on transfer to fixed assets	(31,251)	–
Disposals	–	(397,718)
Depreciation	(11,236)	(12,044)
Closing balance	<u>764,060</u>	<u>763,598</u>
14.1.2 Gain / (loss) on disposal of non-banking assets acquired in satisfaction of claims		
Disposal proceeds	–	600,000
Less:		
- Cost	–	(405,000)
- Depreciation	–	7,282
Gain / (loss)	<u>–</u>	<u>202,282</u>
14.2 Movement in provision held against other assets		
Opening balance	210,000	251,250
Charge for the year	–	60,000
Reversal for the year	–	(101,250)
	–	(41,250)
Closing balance	<u>210,000</u>	<u>210,000</u>
15. BILLS PAYABLE		
In Pakistan	<u>11,541,474</u>	<u>12,173,407</u>

	Note	2019	2018
Rupees in '000			
16. BORROWINGS			
Secured			
Borrowings from the State Bank of Pakistan			
Under export refinance scheme		36,842,480	24,196,093
Under long term financing facility - renewable energy		884,970	962,784
Under long term financing facility - locally manufactured plant and machinery		10,466,484	6,730,915
	16.2	48,193,934	31,889,792
Repurchase agreement borrowings (Repo)	16.3	89,397,739	12,658,729
Due against bills rediscounting	16.4	2,765,541	3,310,164
		140,357,214	47,858,685
Unsecured			
Call borrowing		—	300,000
Overdrawn nostro accounts		4,106,849	3,183,003
Overdrawn local bank accounts		—	5,693
		4,106,849	3,488,696
		144,464,063	51,347,381
16.1 Particulars of borrowings in respect of currencies			
In local currency		137,591,673	44,854,214
In foreign currencies		6,872,390	6,493,167
		144,464,063	51,347,381

16.2 These carry mark-up rates ranging between 2.00% to 4.5% (2018: 2.00% to 4.50%) per annum which is payable quarterly or upon maturity of loans, whichever is earlier.

16.3 These carry mark-up rates ranging between 12.75% to 13.36% (2018: 10.00% to 10.35%) per annum having maturity upto 24 January 2020 (2018: 7 February 2019) and are secured against investments mentioned in note 9.3.1.

16.4 This represents the obligation to the corresponding Banks on the discounting of foreign documentary bills purchased by the Bank on discount. The balance carries discount rate at 3.25% (2018: 4.00%) per annum having maturity upto 4 May 2020 (2018: 25 June 2019).

17. DEPOSITS AND OTHER ACCOUNTS

	2019			2018		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
	Rupees in '000					
Customers						
Current accounts (non-remunerative)	146,378,657	26,743,116	173,121,773	120,665,276	23,351,234	144,016,510
Savings deposits	135,390,427	19,016,742	154,407,169	122,955,979	17,173,301	140,129,280
Term deposits	165,375,671	55,096,182	220,471,853	179,727,186	43,693,831	223,421,017
Others	10,525,924	979	10,526,903	7,984,099	906	7,985,005
	457,670,679	100,857,019	558,527,698	431,332,540	84,219,272	515,551,812

Financial institutions

Current deposits (non-remunerative)	1,354,816	1,019,552	2,374,368	1,492,887	942,405	2,435,292
Savings deposits	46,908,562	–	46,908,562	24,280,076	70	24,280,146
Term deposits	4,058,620	–	4,058,620	1,306,000	4,260	1,310,260
	<u>52,321,998</u>	<u>1,019,552</u>	<u>53,341,550</u>	<u>27,078,963</u>	<u>946,735</u>	<u>28,025,698</u>
	<u>509,992,677</u>	<u>101,876,571</u>	<u>611,869,248</u>	<u>458,411,503</u>	<u>85,166,007</u>	<u>543,577,510</u>

	2019	2018
	Rupees in '000	

17.1 Composition of deposits

Individuals	252,753,562	213,639,358
Government (Federal and Provincial)	21,440,428	33,859,180
Public Sector Entities	57,514,775	40,608,189
Banking Companies	5,194,956	1,224,502
Non-Banking Financial Institutions	48,146,594	26,801,196
Private Sector	226,818,933	227,445,085
	<u>611,869,248</u>	<u>543,577,510</u>

17.2 This includes eligible deposits of Rs. 249,447,294 thousand which are covered under deposit protection mechanism as required by the Deposit Protection Corporation Circular no. 4 of 2018.

	Note	2019	2018
		Rupees in '000	
18. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		9,633,242	6,492,116
Mark-up / return / interest payable in foreign currencies		396,052	362,013
Unearned commission and income on bills discounted		200,295	190,533
Accrued expenses		819,184	692,845
Acceptances		20,971,205	14,429,148
Unclaimed dividend		68,257	66,216
Mark to market loss on forward foreign exchange contracts		7,716,740	3,549,157
Provision for compensated absences		226,417	208,864
Deferred liability on defined benefit plan		112,513	199,072
Provision against off-balance sheet obligations	18.1	113,716	113,716
Workers' welfare fund		1,160,189	922,189
Charity fund balance		2,137	291
Excise duty payable		907	1,003
Locker deposits		817,043	764,223
Advance against diminishing musharakah		90,548	23,310
Advance rental for ijarah		1,859	2,259
Security deposits against leases / ijarah		205,188	212,178
Sundry creditors		425,001	391,976
Lease liability against right-of-use assets	2.3.3 & 18.3	3,826,950	-
Withholding tax / duties		400,373	289,241
Others		274,391	385,177
		<u>47,462,207</u>	<u>29,295,527</u>
18.1 Provision against off-balance sheet obligations			
Opening balance		113,716	113,716
Charge for the year		-	-
Closing balance		<u>113,716</u>	<u>113,716</u>
The above represents provision against certain letters of credit and guarantees.			
18.2 Reconciliation of changes in other liabilities arising from financing activates			
Balance as at 1 January		29,295,527	28,381,316
Changes from financing cash flows			
Dividend paid		(2,093,622)	(3,129,047)
Other changes - liability related			
Cash based		7,626,638	2,416,253
Non-cash based			
Defined benefit plan		(86,559)	1,393
Provision against workers welfare fund		238,000	192,000
Provision against compensated absences		17,553	5,293
Acceptances		6,542,057	(1,715,175)
Lease liability against right-of-use assets		3,826,950	-
Dividend declared		2,095,663	3,143,494
		<u>20,260,302</u>	<u>4,043,258</u>
		<u>47,462,207</u>	<u>29,295,527</u>
18.3 Lease liability against right-of-use assets			
Not later than 1 year		546,321	-
Later than one and less than five years		1,952,547	-
Over five years		1,328,082	-
		<u>3,826,950</u>	<u>-</u>

19. SHARE CAPITAL

19.1 Authorised capital

2019 (Number of shares)	2018		2019 Rupees in '000	2018 Rupees in '000
<u>1,200,000,000</u>	<u>1,200,000,000</u>	Ordinary shares of Rs. 10/- each	<u>12,000,000</u>	<u>12,000,000</u>

19.2 Issued, subscribed and paid-up capital

		Ordinary shares of Rs. 10/- each		
30,000,000	30,000,000	- Fully paid in cash	300,000	300,000
92,500,000	92,500,000	- Issued upon amalgamation	925,000	925,000
925,331,480	925,331,480	- Issued as bonus shares	9,253,315	9,253,315
<u>1,047,831,480</u>	<u>1,047,831,480</u>		<u>10,478,315</u>	<u>10,478,315</u>

19.3 As of the date of statement of financial position, the holding company held 534,394 thousand (2018: 534,394 thousand) ordinary shares of Rs. 10/- each (51% holding).

	Note	2019 Rupees in '000	2018 Rupees in '000
20. (DEFICIT) / SURPLUS ON REVALUATION OF ASSETS			
(Deficit) / surplus on revaluation of			
– Non-banking assets	20.1	346,816	276,093
– Available-for-sale securities	9.1	(4,785,371)	(8,850,949)
		(4,438,555)	(8,574,856)
Less: Deferred tax on (deficit) / surplus on revaluation of			
– Non-banking assets	20.1	121,385	96,632
– Available-for-sale securities		(1,674,880)	(3,097,832)
		1,553,495	3,001,200
		<u>(2,885,060)</u>	<u>(5,573,656)</u>
20.1 Non-banking assets			
Surplus on revaluation of non-banking assets as at 1 January		276,093	280,509
Revaluation of non-banking assets during the year - net of deferred tax		69,151	–
Reversal of surplus on transfer to fixed assets - net of deferred tax		(20,311)	–
Transferred to unappropriated profit in respect of incremental depreciation during the period - net of deferred tax		(2,870)	(2,870)
Related deferred tax liability on revaluation of non-banking assets		37,235	–
Related deferred tax liability on reversal of surplus on transfer to fixed assets		(10,937)	–
Related deferred tax liability on incremental depreciation		(1,545)	(1,546)
		70,723	(4,416)
Surplus on revaluation of non banking assets		<u>346,816</u>	<u>276,093</u>
Less: Related deferred tax liability on:			
Revaluation as at January		96,632	98,178
Revaluation of non-banking assets during the year		37,235	–
Reversal of surplus on transfer to fixed assets		(10,937)	–
Incremental depreciation during the year		(1,545)	(1,546)
		24,753	(1,546)
Related deferred tax liability		<u>121,385</u>	<u>96,632</u>
		<u>225,431</u>	<u>179,461</u>

	Note	2019	2018
		Rupees in '000	
21. CONTINGENCIES AND COMMITMENTS			
Guarantees	21.1	81,881,337	53,215,390
Commitments	21.2	661,159,612	322,747,745
Other contingent liabilities	21.3	25,646,157	24,476,694
		<u>768,687,106</u>	<u>400,439,829</u>
21.1 Guarantees			
Financial guarantees		27,956,898	24,441,481
Performance guarantees		40,518,388	21,943,016
Other guarantees		13,406,051	6,830,893
		<u>81,881,337</u>	<u>53,215,390</u>
21.2 Commitments			
Documentary credits and short-term trade-related transactions:			
Letters of credit		119,552,974	89,700,969
Commitments in respect of:			
Forward exchange contracts	21.2.1	538,997,600	230,915,612
Operating leases	21.2.2	–	110,571
Forward lendings	21.2.3	2,168,630	1,887,433
Acquisition of operating fixed assets		440,408	133,160
		<u>661,159,612</u>	<u>322,747,745</u>
21.2.1 Commitments in respect of forward exchange contracts			
Purchase		290,279,554	136,568,523
Sale		248,718,046	94,347,089
		<u>538,997,600</u>	<u>230,915,612</u>
21.2.2 Commitments in respect of operating leases			
Not later than one year		–	110,571
Later than one year and not later than five years		–	–
		<u>–</u>	<u>110,571</u>

21.2.3 Commitments in respect of forward lendings

The Bank has made commitments to extend credit in the normal course of its business, but none of these commitments are irrevocable and do not attract any penalty if the facility is unilaterally withdrawn, except for:

Note	2019	2018
	Rupees in '000	
Commitments in respect of syndicate financing	<u>2,168,630</u>	<u>1,887,433</u>

21.3 Other contingent liabilities

Claims against bank not acknowledged as debt		25,540,101	24,370,638
Foreign Exchange repatriation case	21.3.1	<u>106,056</u>	<u>106,056</u>
		<u>25,646,157</u>	<u>24,476,694</u>

21.3.1 Foreign Exchange repatriation case

While adjudicating foreign exchange repatriation cases of exporters, the Foreign Exchange Adjudicating Court of the State Bank of Pakistan has adjudicated penalty of Rs. 106,056 thousand, arbitrarily on the Bank. The Bank has filed appeals before the Appellate Board and constitutional petitions in the Honorable High Court of Sindh against the said judgment. The Honorable High Court has granted relief to Bank by way of interim orders. Based on merits of the appeals management is confident that these appeals shall be decided in favor of the Bank and therefore no provision has been made against the impugned penalty.

22. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank deals in derivative financial instruments namely forward foreign exchange contracts and foreign currency swaps with the principal view of hedging the risks arising from its trade business.

As per the Bank's policy, these contracts are reported on their fair value at the statement of financial position date. The gains and losses from revaluation of these contracts are included under "income from dealing in foreign currencies". Mark to market gains and losses on these contracts are recorded on the statement of financial position under "other assets / other liabilities".

These products are offered to the Bank's customers to protect from unfavourable movements in foreign currencies. The Bank hedges such exposures in the inter-bank foreign exchange market.

These positions are reviewed on a regular basis by the Bank's Asset and Liability Committee (ALCO).

2019	2018
Rupees in '000	

23. MARK-UP / RETURN / INTEREST EARNED

Loans and advances	27,044,339	13,134,613
Investments	39,840,552	27,394,711
Lending with financial institutions	5,109,655	1,848,650
Balance with other banks	<u>211,793</u>	<u>142,223</u>
	<u>72,206,339</u>	<u>42,520,197</u>

	Note	2019	2018
		Rupees in '000	
24. MARK-UP / RETURN / INTEREST EXPENSED			
Deposits		40,145,138	20,700,199
Borrowings		7,842,581	4,311,967
Foreign currency swap cost		6,384,164	1,285,297
Lease liability against right-of-use assets	2.3.3	443,504	—
		<u>54,815,387</u>	<u>26,297,463</u>
25. FEE & COMMISSION INCOME			
Branch banking customer fees		534,921	458,269
Credit related fees		83,570	52,226
Card related fees		387,020	280,116
Commission on trade		3,600,276	2,757,828
Commission on guarantees		419,584	357,456
Commission on remittances including home remittances		30,936	32,822
Commission on bancassurance		116,069	85,424
Others		79,975	82,757
		<u>5,252,351</u>	<u>4,106,898</u>
26. (LOSS) / GAIN ON SECURITIES			
Realised			
Federal government securities		(1,258,271)	17,664
Shares		93,353	4,222
Mutual funds		—	80,343
		<u>(1,164,918)</u>	<u>102,229</u>
27. OTHER INCOME			
Rent on properties		32,023	23,968
Gain on sale of fixed assets - net		16,473	8,251
Gain on sale of ijarah assets - net		360	526
Income from non-banking assets and gain / (loss)			
on sale of such assets - net		—	202,282
Gain / (loss) on sale of non current assets held for sale - net		—	35,042
Staff notice period and other recoveries		3,699	3,822
		<u>52,555</u>	<u>273,891</u>

	Note	2019	2018
		Rupees in '000	
28. OPERATING EXPENSES			
Total compensation expense	28.1	5,773,561	5,409,553
Property expense			
Rent & taxes		332,015	1,144,296
Insurance		4,223	4,176
Utilities cost		422,380	339,999
Security		388,522	339,606
Repair & maintenance		289,865	302,891
Depreciation		1,163,384	350,610
		<u>2,600,389</u>	<u>2,481,578</u>
Information technology expenses			
Software maintenance		115,991	42,572
Hardware maintenance		147,513	158,809
Depreciation		155,349	107,688
Amortisation		93,299	128,406
Network charges		200,344	158,521
		<u>712,496</u>	<u>595,996</u>
Other operating expenses			
Directors' fees and allowances		17,268	16,779
Fees and allowances to Shariah Board		9,768	8,396
Legal & professional charges		159,667	147,719
Outsourced services costs	34.1	265,247	241,573
Travelling & conveyance		249,067	199,311
Operating lease rental		10,319	28,363
NIFT clearing charges		71,592	70,928
Depreciation		425,573	355,747
Depreciation - non-banking assets		11,236	12,044
Training & development		27,361	32,418
Postage & courier charges		94,591	80,065
Communication		100,323	90,912
Subscription		150,022	203,607
Repair & maintenance		99,471	84,738
Brokerage & commission		131,032	103,761
Stationery & printing		268,196	203,692
Marketing, advertisement & publicity		107,409	146,559
Management fee		400,105	382,772
Insurance		531,759	306,000
Donations	28.2	94,177	100,704
Auditors Remuneration	28.3	12,891	14,569
Others		430,670	299,053
		<u>3,667,744</u>	<u>3,129,710</u>
		<u>12,754,190</u>	<u>11,616,837</u>
28.1 Total compensation expense			
Managerial Remuneration - Fixed		4,485,413	4,164,604
Cash Bonus / Awards etc.		556,682	581,244
Charge for defined benefit plan		169,954	146,968
Contribution to defined contribution plan		193,928	178,825
Charge for compensated absences		82,448	76,325
Rent & house maintenance		24,777	22,188
Conveyance		240,022	220,374
EOBI		20,337	19,025
		<u>5,773,561</u>	<u>5,409,553</u>

2019 2018

Rupees in '000

28.2 Donations paid in excess of Rs. 500,000 to a single party during the year are as follows:

DONEE

Habib University Foundation	20,000	20,056
The Citizens Foundation	18,300	15,600
Patients' Aid Foundation	8,500	10,100
The Indus Hospital	8,500	8,200
The Hunar Foundation	5,000	—
SIUT Trust	2,500	2,500
Mohamedali Habib Welfare Trust	2,000	2,000
Al-Sayyeda Benevolent Trust	1,960	1,960
Habib Medical Trust	1,960	1,960
Developments in Literacy	1,500	—
Karwan-e-Hayat Institute For Mental Health	1,500	—
Abbas-e-Alamdar Hostel	1,100	800
Masoomen Hospital Trust	1,000	1,750
Fatimiyah Education Network	1,000	1,000
The Layton Rehmatulla Benevolent Trust	1,000	1,000
MBJ Health Association	1,000	750
Alleviate Addiction Suffering Trust	1,000	—
Lady Dufferin Hospital	1,000	—
Habib Poor Fund	960	960
RahmatBai Habib Food & Clothing Trust	960	960
RahmatBai Habib Widows & Orphan Trust	960	960
Institute of Business Administration	937	1,157
The Society for the Rehabilitation of Special Children	900	—
Habib Public School	800	500
Pakistan Memon Educational & Welfare Society	600	600
The National Institute of Child Health	600	—
SOS Childrens Villages of Pakistan	585	—
Supreme Court & Prime Minister of Pakistan	—	10,000
Diamer Basha & Mohmand Dam Fund	—	2,500
Sindh Institute of Urology and Transplantation	—	2,500
World Memon Organization	—	1,000
The Medical Aid Foundation	—	1,000
The Patients Behbud Society for AKUH	—	840
Zehra Homes	—	750
Bantva Memon Khidmat Committee (Bantva Memon Hospital)	—	750
Kutiyana Memon Association (Kutiyana Memon Hospital)	—	750
Vocational Welfare Society for Mentally Retarded Markaz-e-Umeed	—	700
Edujee Dinshaw Road Project	—	650
Marie Adelaide Leprosy Centre	—	500
Memon Educational Board	—	500
Pakistan Memon Women Educational Society	—	500
Karachi Down Syndrome Program	—	500
Panah Trust	—	500
Habib Girls School Trust	—	500
Network of Organizations Working with People with Disabilities, Pakistan	—	500
Rotary Club of Karachi Continental Trust	—	500
Women Empowerment Group (Pink Ribbon)	—	500

None of the directors, executives and their spouses had any interest in the donations disbursed during the years 2019 and 2018, except for donations paid to :

Name of Donee	Directors	Interest in Donee as
Habib University Foundation	Mr. Ali S. Habib Mr. Mohomed Bashir Mr. Mohamedali R. Habib Mr. Muhammad H. Habib	Member of the Board of Directors Member of the Board of Directors Member of the Board of Directors Member of the Board of Directors
RehmatBai Habib Food & Clothing Trust	Mr. Muhammad H. Habib	Member of the Board of Trustees
Mohamedali Habib Welfare Trust	Mr. Ali S. Habib	Member of the Board of Trustees
RehmatBai Habib Widows & Orphan Trust	Mr. Muhammad H. Habib	Member of the Board of Trustees

28.3 Auditors' remuneration	Note	2019	2018
		Rupees in '000	
Audit fee		2,650	2,600
Review of half yearly financial statements		1,026	972
Certifications and agreed upon procedures engagements		6,865	8,928
Out-of-pocket expenses		2,350	2,069
		<u>12,891</u>	<u>14,569</u>

29. OTHER CHARGES

Penalties imposed by the SBP	<u>101,813</u>	<u>31,105</u>
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30. PROVISIONS & WRITE OFFS - NET

Provision for diminution in value of investments - net	9.4.1	55,999	85,579
Provision / (reversal) of provision against loan & advances - net	10.4	367,509	431,811
Reversal of provision against other assets - net	14.2	—	(41,250)
Recovery of written off bad debts		(17,339)	(93,711)
		<u>406,169</u>	<u>382,429</u>

31. TAXATION

Current		3,724,641	3,392,449
Prior year		300,546	—
Deferred	13	629,203	521,345
		<u>4,654,390</u>	<u>3,913,794</u>

31.1 Under the Workers' Welfare Ordinance 1971, the Bank is liable to pay workers' welfare fund (WWF) @ 2% of accounting profit before tax or taxable income, whichever is higher. The Bank has made full provision for WWF based on profit for the respective years.

The Supreme Court of Pakistan vide its order dated November 10, 2016 has held that the amendments made in the law introduced by the Federal Government for the levy of WWF were not lawful. The Federal Board of Revenue has filed review petitions against this order which are currently pending.

Legal advice obtained on the matter indicates that consequent to filing of these review petitions the judgment may not currently be treated as conclusive. Accordingly the Bank maintains its provision in respect of WWF.

31.2 Income tax assessments of the Bank have been finalised up to the tax year 2019 (corresponding to the accounting year ended 31 December 2018). Certain appeals are pending with the Commissioner of Inland Revenue (Appeal) and Appellate Tribunal Inland Revenue (ATIR). However, adequate provisions are being held by the Bank.

31.3 Relationship between tax expense and accounting profit

	2019	2018
	Rupees in '000	
Profit before tax	11,237,871	10,074,378
Tax at the applicable tax rate of 35%	3,933,255	3,526,032
Super tax at applicable rate of 4%	449,515	402,975
Prior years taxation - super tax	300,546	-
Others	(28,926)	(15,213)
Tax charge for the year	4,654,390	3,913,794

The Finance Act 2018 has revised the applicability of super tax brought into effect through Finance Act 2015 for the rehabilitation of temporarily displaced persons on the taxable income of respective years. Accordingly, the Bank has recognised super tax at the applicable rate of 4% on taxable income for the year.

32. BASIC AND DILUTED EARNINGS PER SHARE

Note

	2019	2018
	Rupees in '000	
Profit after taxation	6,583,481	6,160,584
	Number in '000	
Weighted average number of ordinary shares	1,047,831	1,047,831
	Rupees	
Basic and diluted earnings per share	6.28	5.88

33. CASH AND CASH EQUIVALENTS

		2019	2018
		Rupees in '000	
Cash and balances with treasury banks	6	70,713,603	48,177,009
Balances with other banks	7	1,865,528	1,115,557
Overdrawn nostro accounts	16	(4,106,849)	(3,183,003)
Overdrawn local bank accounts	16	-	(5,693)
		68,472,282	46,103,870

34. STAFF STRENGTH

		2019	2018
		Number	
Permanent		4,211	3,983
Temporary / on contractual basis		193	181
Bank's own staff strength at end of the year		4,404	4,164

34.1 In addition to the above, 788 (2018: 764) employees of outsourcing services companies were assigned to the Bank as at 31 December 2019.

35. DEFINED BENEFIT PLAN

35.1 General description

The benefits under the funded gratuity scheme are payable on retirement at the age of 60 or earlier cessation of service. The benefit is equal to one month's last basic salary drawn for each year of eligible service subject to a maximum of 24 last drawn basic salary. The minimum qualifying period for eligibility under the plan is five years of continuous service.

		2019	2018
		Number	
35.2 Number of employees under the scheme			
Gratuity fund		4,200	3,969
35.3 Principal actuarial assumptions			
The latest actuarial valuation was carried out on 31 December 2019 using "projected unit credit actuarial cost method". The main assumptions used for the actuarial valuation were as follows:			
		2019	2018
Discount rate - percent per annum		12.75	13.75
Expected rate of return on plan assets - percent per annum		13.75	13.75
Expected long term rate of salary increase - percent per annum		11.75	13.25
Mortality rates (for death in service)		Adjusted SLIC 2001- 2005	Adjusted SLIC 2001- 2005
	Note	2019	2018
		Rupees in '000	
35.4 Reconciliation of payable to defined benefit plan			
Fair value of plan assets	35.6	1,372,614	1,214,825
Present value of defined benefit obligation	35.5	(1,485,127)	(1,413,897)
Payable		(112,513)	(199,072)
35.5 Movement in payable to defined benefit plan			
Obligations at the beginning of the year		1,413,897	1,300,295
Current service cost		143,112	128,695
Interest cost		183,810	115,531
Benefits due but not paid (payables)		(7,716)	(270)
Benefits paid by the Bank		(146,479)	(102,346)
Re-measurement gain		(101,497)	(28,008)
Obligations at the end of the year		1,485,127	1,413,897
35.6 Movement in fair value of plan assets			
Fair value at the beginning of the year		1,214,825	1,102,616
Interest income on plan assets		156,968	97,258
Contribution by the Bank - net		169,954	146,968
Benefits paid		(146,479)	(102,346)
Benefits due but not paid		(7,716)	(270)
Re-measurements: Net return on plan assets over interest income loss	35.8.2	(14,938)	(29,401)
Fair value at the end of the year		1,372,614	1,214,825
35.7 Movement in payable under defined benefit plan			
Opening balance		199,072	197,679
Charge for the year		169,954	146,968
Contribution by the Bank - net		(169,954)	(146,968)
Re-measurement (gain) / loss recognised in OCI during the year	35.8.2	(86,559)	1,393
Closing balance		112,513	199,072

	Note	2019	2018
		Rupees in '000	
35.8 Charge for defined benefit plan			
35.8.1 Cost recognised in profit and loss			
Current service cost		143,112	128,695
Net interest on defined benefit asset		26,842	18,273
		<u>169,954</u>	<u>146,968</u>
35.8.2 Re-measurements recognised in OCI			
Gain on obligation			
– Financial assumptions		(2,829)	18,571
– Experience adjustment		(98,668)	(46,579)
		<u>(101,497)</u>	<u>(28,008)</u>
Return on plan assets over interest income		14,938	29,401
Total re-measurements recognised in OCI		<u>(86,559)</u>	<u>1,393</u>
35.9 Components of plan assets			
Cash and cash equivalents	35.9.1	353,688	974,048
Federal government securities			
Defense saving certificates		770,000	240,777
Pakistan investment bonds		248,926	–
		<u>1,372,614</u>	<u>1,214,825</u>
35.9.1	The amount represents balance which is deposited with the branches of the Bank.		
35.10 Sensitivity analysis			
Sensitivity analysis has been performed by varying one assumption keeping all other assumptions constant and calculating the impact on the present value of the defined benefit obligations under the various employee benefit schemes. The increase / (decrease) in the present value of defined benefit obligations as a result of change in each assumption is summarized below:			
		2019	
		Rupees in '000	
Increase in discount rate by 1 %		(142,688)	
Decrease in discount rate by 1 %		166,829	
Increase in expected future increment in salary by 1%		167,322	
Decrease in expected future increment in salary by 1%		(145,700)	
Increase in expected withdrawal rate by 10%		823	
Decrease in expected withdrawal rate by 10%		(849)	
Increase in expected mortality rate by 1%		923	
Decrease in expected mortality rate by 1%		(847)	
Although the analysis does not take account of the full distribution of expected cash flows, it does provide an approximation of the sensitivity of the assumptions shown.			
35.11 Expected contributions to be paid to the fund in the next financial year			<u>166,364</u>
35.12 Expected charge for the next financial year			<u>166,364</u>
35.13 Maturity profile			
The weighted average duration of the obligation is 10 years			

35.14 Funding Policy

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

35.15 Significant risk associated with the staff retirement benefit schemes include:

Asset volatility	The risk of the investment underperforming and being not sufficient to meet the liabilities.
Changes in bond yields	The duration of the liabilities is 10 Years. Based on the weighted average duration of this plan and guidance from Pakistan Society of Actuaries ("PSOA"), the discount rate used for the calculations is 12.75% per annum.
Inflation risk	The risk that the final salary at the time of cessation of service is greater than what we assumed. Since the benefit is calculated on the final salary (which will closely reflect inflation and other macroeconomic factors), the benefit amount increases as salary increases.
Mortality rate	The risk that the actual mortality experience is different than the assumed mortality. This effect is more pronounced in schemes where the age and service distribution is on the higher side.
Withdrawal rate	The risk of actual withdrawals experience is different from assumed withdrawal probability. The significance of the withdrawal risk varies with the age, service and the entitled benefits of the beneficiary.

36. DEFINED CONTRIBUTION PLAN

The Bank operates a contributory provident fund scheme for permanent employees. The employer and employee each contribute 10% of the basic salary to the funded scheme every month. Investment made out of provident fund have been made in accordance with the provision of section 218 of the Companies Act 2017.

Number of the members participating in the fund at the end of the year 30 June 2019 as per un-audited accounts are 3,567 (2018: 3,803).

37. COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

37.1 Total compensation expense

	2019						
	Chairman	Directors Executives	Non- executives	Members Shari'ah Board	President & Chief Executive Officer	Key management personnel	Other material risk taker / controller
	Rupees in '000						
Fees	-	-	4,250	-	-	-	-
Managerial remuneration							
Fixed	-	-	-	9,768	103,050	295,281	386,867
Charge for defined benefit plan	-	-	-	188	4,686	12,931	16,291
Contribution to defined contribution plan	-	-	-	330	4,500	12,447	14,349
Utilities	1,895	-	-	-	1,198	-	-
Travelling	5,224	-	-	-	-	-	-
Others	5,899	-	-	-	46	-	-
	<u>13,018</u>	<u>-</u>	<u>4,250</u>	<u>10,286</u>	<u>113,480</u>	<u>320,659</u>	<u>417,507</u>
Number of persons	<u>1</u>	<u>-</u>	<u>5</u>	<u>3</u>	<u>1</u>	<u>21</u>	<u>79</u>

	2018						
	Directors			Members	President &	Key	Other material
	Chairman	Executives	Non-executives	Shari'ah Board	Chief Executive Officer	management personnel	risk taker / controller
	Rupees in '000						
Fees	-	-	4,750	-	-	-	-
Managerial remuneration							
Fixed	-	-	-	8,396	92,790	232,811	307,293
Charge for defined benefit plan	-	-	-	133	3,515	7,725	10,035
Contribution to defined contribution plan	-	-	-	180	4,126	10,440	12,611
Utilities	1,963	-	-	-	1,060	-	-
Travelling	5,467	-	-	-	-	-	-
Others	4,599	-	-	-	-	-	-
	<u>12,029</u>	<u>-</u>	<u>4,750</u>	<u>8,709</u>	<u>101,491</u>	<u>250,976</u>	<u>329,939</u>
Number of persons	<u>1</u>	<u>-</u>	<u>5</u>	<u>3</u>	<u>2</u>	<u>19</u>	<u>75</u>

37.1.1 The Chief Executive and certain executives are provided with free use of car and leave fare assistance in accordance with their terms of employment. The Chief Executive is also provided with accommodation.

37.1.2 In addition to above, bonus paid to the Chief Executive and executives of the Bank amounted to Rs. 25,000 thousand (2018: Rs. 41,250 thousand) and Rs. 36,500 thousand (2018: Rs. 58,038 thousand) respectively.

37.2 Remuneration paid to directors for participation in board and committee meetings

		2019					
		Meeting fees and allowances paid					
		For board committees					
Sr. no.	Name of director	For board meetings	Audit	Information Technology	Human resource & remuneration	Risk & compliance	Total amount paid
				Rupees in '000			
1	Mohamedali R. Habib	–	–	–	–	–	–
2	Ali S. Habib	300	300	–	–	–	600
3	Anjum Z. Iqbal	–	–	–	–	–	–
4	Firasat Ali	400	–	300	300	400	1,400
5	Mohomed Bashir	400	–	–	–	–	400
6	Muhammed H. Habib	–	–	–	–	–	–
7	Sohail Hasan	400	600	–	–	–	1,000
8	Tariq Ikram	400	–	–	450	–	850
9	Mohsin A. Nathani	–	–	–	–	–	–
		1,900	900	300	750	400	4,250

		2018					
		Meeting fees and allowances paid					
		For Board Committees					
Sr. no.	Name of director	For board meetings	Audit	Information Technology	Human resource & remuneration	Risk & compliance	Total amount paid
		Rupees in '000					
1	Mohamedali R. Habib	-	-	-	-	-	-
2	Ali S. Habib	400	300	-	-	-	700
3	Anjum Z. Iqbal	-	-	-	-	-	-
4	Firasat Ali	500	-	200	400	300	1,400
5	Mohomed Bashir	500	-	-	-	-	500
6	Muhammed H. Habib	-	-	-	-	-	-
7	Sohail Hasan	500	600	-	-	-	1,100
8	Tariq Ikram	500	-	-	550	-	1,050
9	Mohsin A. Nathani	-	-	-	-	-	-
		2,400	900	200	950	300	4,750

37.3 Remuneration paid to Shari'ah Board Members

	2019			2018		
	Chairman	Resident member	Non-resident members	Chairman	Resident member	Non-resident members
Rupees in '000						
Managerial remuneration						
Fixed	3,050	4,868	1,850	2,400	4,796	1,200
Charge for defined benefit plan	-	188	-	-	133	-
Contribution to defined contribution plan	-	330	-	-	180	-
	<u>3,050</u>	<u>5,386</u>	<u>1,850</u>	<u>2,400</u>	<u>5,109</u>	<u>1,200</u>
Number of person	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

38. FAIR VALUE MEASUREMENTS

The fair value of quoted securities other than investment in subsidiaries and those classified as held to maturity, is based on quoted market price. Quoted securities classified as held to maturity are carried at cost.

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

38.1 Fair value of financial assets

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

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

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

Level 3: Fair value measurements using input for the assets or liabilities 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:

On balance sheet financial instruments	Carrying / notional value	2019			
		Fair value			Total
		Level 1	Level 2	Level 3	
		Rupees in '000			
Financial assets measured at fair value					
- Available-for-sale securities					
Federal government securities	396,848,475	–	396,848,475	–	396,848,475
Sukuk certificates and bonds	6,109,534	–	6,109,534	–	6,109,534
Ordinary shares of listed companies	400,307	400,307	–	–	400,307
Mutual funds - open end	18,573	–	18,573	–	18,573
- close end	11,138	11,138	–	–	11,138
Real estate investment trust	442,368	442,368	–	–	442,368
Listed term finance certificates	3,095,455	–	3,095,455	–	3,095,455
Unlisted term finance certificates	8,559	–	8,559	–	8,559
Financial assets - disclosed but not measured at fair value					
- Cash and balances with treasury banks	70,713,603	–	–	–	–
- Balances with other banks	1,865,528	–	–	–	–
- Lendings to financial institutions	22,197,303	–	–	–	–
- Investments					
- Held-to-maturity securities					
Federal government securities	36,089,874	–	–	–	–
Certificates of investments	5,000,000	–	–	–	–
- Subsidiaries					
Ordinary shares of unlisted companies	830,000	–	–	–	–
- Available-for-sale securities					
Ordinary shares of unlisted companies	55,444	–	–	–	–
- Advances	263,948,473	–	–	–	–
- Other assets	38,338,279	–	–	–	–
	<u>845,972,913</u>	<u>853,813</u>	<u>406,080,596</u>	<u>–</u>	<u>406,934,409</u>
Non-financial assets measured at fair value					
- Non-banking assets acquired in satisfaction of claim	764,060	–	764,060	–	764,060
Off-balance sheet financial instruments					
- measured at fair value					
- Forward purchase of foreign exchange contracts	303,454,611	–	283,969,816	–	283,969,816
- Forward sale of foreign exchange contracts	260,497,060	–	245,666,261	–	245,666,261

	2018				
On balance sheet financial instruments	Carrying / notional value	Fair value			
		Level 1	Level 2	Level 3	Total
		Rupees in '000			
Financial assets measured at fair value					
- Investments					
- Available-for-sale securities					
Federal government securities	298,850,140	–	298,850,140	–	298,850,140
Sukuk certificates and bonds	1,417,667	–	1,417,667	–	1,417,667
Ordinary shares of listed companies	412,902	412,902	–	–	412,902
Mutual funds - open end	14,900	–	14,900	–	14,900
- close end	11,196	11,196	–	–	11,196
Real estate investment trust	424,659	424,659	–	–	424,659
Listed term finance certificates	3,357,258	–	3,357,258	–	3,357,258
Unlisted term finance certificates	59,913	–	59,913	–	59,913
Financial assets - disclosed but not measured at fair value					
- Cash and balances with treasury banks	48,177,009	–	–	–	–
- Balances with other banks	1,115,557	–	–	–	–
- Lendings to financial institutions	11,984,795	–	–	–	–
- Investments					
- Held-to-maturity securities					
Federal government securities	36,259,349	–	–	–	–
Certificates of investments	5,000,000	–	–	–	–
- Subsidiaries					
Ordinary shares of unlisted companies	830,000	–	–	–	–
- Available-for-sale securities					
Ordinary shares of unlisted companies	27,920	–	–	–	–
- Advances	226,689,617	–	–	–	–
- Other assets	27,373,549	–	–	–	–
	662,006,431	848,757	303,699,878	–	304,548,635
Non-financial assets measured at fair value					
- Non-banking assets acquired in satisfaction of claim	763,598	–	763,598	–	763,598
Off-balance sheet financial instruments					
- measured at fair value					
- Forward purchase of foreign exchange contracts	140,141,186	–	140,713,734	–	140,713,734
- Forward sale of foreign exchange contracts	97,365,720	–	90,859,150	–	90,859,150

Valuation techniques used in determination of fair valuation of financial instruments within level 2.

Federal government debt securities	The fair value of government securities are valued using PKRV rates.
Debt securities other than federal government securities	The fair value is determined using the prices / rates available on Mutual Funds. Association of Pakistan (MUFAP) / Reuters.
Forward contracts	The fair values are derived using forward exchange rates applicable to their respective remaining maturities.
Mutual funds	The fair value is determined based on the net asset values published at the close of each business day.

Valuation techniques used in determination of fair values of non-financial assets within level 3.

Non-banking assets acquired in satisfaction of claim	Non-banking assets are valued by professionally qualified valuers as per the note 4.8 to the financial statements.
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39. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	31 December 2019			
	Trade & sales	Retail banking	Commercial banking	Total
	Rupees in '000			
Profit and loss				
Net mark-up/return/profit	31,733,207	(16,441,905)	2,099,650	17,390,952
Inter segment revenue - net	(27,969,643)	20,677,098	7,292,545	-
Non mark-up / return / interest income	(1,112,787)	402,732	8,057,146	7,347,091
Total Income	2,650,777	4,637,925	17,449,341	24,738,043
Segment direct expenses	(239,064)	-	-	(239,064)
Inter segment expense allocation	-	(3,703,167)	(9,151,772)	(12,854,939)
Total expenses	(239,064)	(3,703,167)	(9,151,772)	(13,094,003)
Provisions	(55,999)	(6,095)	(344,075)	(406,169)
Profit before tax	2,355,714	928,663	7,953,494	11,237,871
Balance sheet				
Cash and bank balances	1,408,736	29,210,677	41,959,718	72,579,131
Investments	448,909,727	-	-	448,909,727
Net inter segment lending	-	240,325,478	117,585,753	357,911,231
Lendings to financial institutions	22,197,303	-	-	22,197,303
Advances - performing	-	3,416,247	259,915,040	263,331,287
Advances - non-performing	-	14,728	17,518,410	17,533,138
Provision against advances	-	(18,138)	(16,897,814)	(16,915,952)
Others	13,083,500	2,467,871	36,388,517	51,939,888
Total assets	485,599,266	275,416,863	456,469,624	1,217,485,753
Borrowings	96,270,129	-	48,193,934	144,464,063
Subordinated debt	-	-	-	-
Deposits and other accounts	-	252,753,562	359,115,686	611,869,248
Net inter segment borrowing	357,911,231	-	-	357,911,231
Others	7,937,392	8,725,655	42,340,634	59,003,681
Total liabilities	462,118,752	261,479,217	449,650,254	1,173,248,223
Equity	23,480,514	13,937,646	6,819,370	44,237,530
Total equity and liabilities	485,599,266	275,416,863	456,469,624	1,217,485,753
Contingencies and commitments	538,997,600	-	229,689,506	768,687,106

	31 December 2018			
	Trade & sales	Retail banking	Commercial banking	Total
	Rupees in '000			
Profit and loss				
Net mark-up/return/profit	24,363,201	(7,939,399)	(201,068)	16,222,734
Inter segment revenue - net	(21,183,499)	13,282,564	7,900,935	-
Non mark-up / return / interest income	(425,470)	351,234	6,148,251	6,074,015
Total Income	2,754,232	5,694,399	13,848,118	22,296,749
Segment direct expenses	(197,456)	-	-	(197,456)
Inter segment expense allocation	-	(3,221,072)	(8,421,414)	(11,642,486)
Total expenses	(197,456)	(3,221,072)	(8,421,414)	(11,839,942)
Provisions	(85,579)	1,468	(298,318)	(382,429)
Profit before tax	2,471,197	2,474,795	5,128,386	10,074,378
Balance sheet				
Cash and bank balances	907,449	18,934,752	29,450,365	49,292,566
Investments	346,665,904	-	-	346,665,904
Net inter segment lending	-	208,845,333	124,228,550	333,073,883
Lendings to financial institutions	11,984,795	-	-	11,984,795
Advances - performing	-	3,161,296	222,409,104	225,570,400
Advances - non-performing	-	9,947	17,669,960	17,679,907
Provision against advances	-	(11,773)	(16,548,917)	(16,560,690)
Others	12,561,062	1,113,189	25,088,648	38,762,899
Total assets	372,119,210	232,052,744	402,297,710	1,006,469,664
Borrowings	19,457,588	-	31,889,793	51,347,381
Subordinated debt	-	-	-	-
Deposits and other accounts	-	213,639,358	329,938,152	543,577,510
Net inter segment borrowing	333,073,883	-	-	333,073,883
Others	62,254	7,455,218	33,951,462	41,468,934
Total liabilities	352,593,725	221,094,576	395,779,407	969,467,708
Equity	19,525,485	10,958,168	6,518,303	37,001,956
Total equity and liabilities	372,119,210	232,052,744	402,297,710	1,006,469,664
Contingencies and commitments	230,915,612	99,427	169,424,790	400,439,829

40. TRANSACTIONS WITH RELATED PARTIES

The Bank has related party relationships with its holding company, subsidiaries, associates, key management personnel, directors and employees' retirement benefit plans.

Contributions in respect of employees' retirement benefits are made in accordance with actuarial valuation and terms of contribution plan. Salaries & allowances of the key management personnel are in accordance with the terms of their employment. Dividend income is at the rate declared by the investee company. Other transactions are at agreed terms.

The detail of transactions with related parties during the year are as follows:

	2019					
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans
	Rupees in '000					
Balances with other banks						
In current accounts	111,070	-	79,224	-	-	-
Investments						
Opening balance	-	5,830,000	-	-	-	-
Investment made during the year	-	19,700,000	-	-	-	-
Investment redeemed during the year	-	(19,700,000)	-	-	-	-
Closing balance	-	5,830,000	-	-	-	-
Advances						
Opening balance	-	31,606	2,787,011	115,507	-	-
Addition during the year	-	-	35,108,556	133,279	-	-
Repaid during the year	-	(31,606)	(33,797,759)	(26,049)	-	-
Closing balance	-	-	4,097,808	222,737	-	-
Other assets						
Mark-up / return / interest receivable	-	97,528	14,298	-	-	-
Dividend receivable	-	-	-	-	-	-
Prepayments / advance deposits / other receivable	-	-	5,604	-	-	-
	-	97,528	19,902	-	-	-
Borrowings						
Opening balance	8,823	-	-	-	-	-
Borrowings during the year	-	-	-	-	-	-
Repaid during the year	(8,823)	-	-	-	-	-
Closing balance	-	-	-	-	-	-
Deposits						
Opening balance	396,056	972,640	16,332,024	163,874	731,175	3,661,606
Received during the year	12,533,574	132,621,300	1,567,384,846	1,869,293	2,171,678	8,245,283
Withdrawn during the year	(12,400,458)	(133,016,449)	(1,572,453,845)	(1,770,459)	(2,117,359)	(10,995,336)
Closing balance	529,172	577,491	11,263,025	262,708	785,494	911,553
Other liabilities						
Mark-up / return / interest payable	-	4,558	369,452	2,960	6,541	568,494
Management fee payable for technical and consultancy services *	188,163	-	-	-	-	-
Insurance & other payables	-	-	6,332	-	-	112,513
	188,163	4,558	375,784	2,960	6,541	681,007
Contingencies & commitments						
Transaction-related contingent liabilities	-	-	8,166,062	-	-	-
Trade-related contingent liabilities	-	-	1,387,860	-	-	-
	-	-	9,553,922	-	-	-

* Management fee is as per the agreement with the holding company.

	2018						
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	Rupees in '000						
Balances with other banks							
In current accounts	112,023	-	44,688	-	-	-	156,711
Investments							
Opening balance	-	2,780,000	-	-	-	-	2,780,000
Investment made during the year	-	13,900,000	-	-	-	-	13,900,000
Investment redeemed during the year	-	(10,850,000)	-	-	-	-	(10,850,000)
Closing balance	-	5,830,000	-	-	-	-	5,830,000
Advances							
Opening balance	-	-	1,702,532	172,585	-	-	1,875,117
Addition during the year	-	3,095,593	74,680,329	47,080	-	-	77,823,002
Repaid during the year	-	(3,063,987)	(73,595,850)	(104,158)	-	-	(76,763,995)
Closing balance	-	31,606	2,787,011	115,507	-	-	2,934,124
Other assets							
Mark-up / return / interest accrued	-	67,610	17,113	-	-	-	84,723
Prepayments / advance deposits / other receivable	-	-	6,293	-	-	-	6,293
	-	67,610	23,406	-	-	-	91,016
Borrowings							
Opening balance	-	-	-	-	-	-	-
Borrowings during the year	8,823	-	-	-	-	-	8,823
Settled during the year	-	-	-	-	-	-	-
Closing balance	8,823	-	-	-	-	-	8,823
Deposits							
Opening balance	731,705	1,081,972	21,085,764	168,539	675,958	2,379,959	26,123,897
Received during the year	8,548,305	116,852,558	1,648,242,755	600,685	2,393,366	6,066,469	1,782,704,138
Withdrawn during the year	(8,883,954)	(116,961,890)	(1,652,996,495)	(605,350)	(2,338,149)	(4,784,822)	(1,786,570,660)
Closing balance	396,056	972,640	16,332,024	163,874	731,175	3,661,606	22,257,375
Other liabilities							
Mark-up / return / interest payable	-	3,109	352,734	1,295	3,205	632,664	993,007
Management fee payable for technical and consultancy services *	115,344	-	-	-	-	-	115,344
Insurance & other payables	-	-	6,391	-	-	199,072	205,463
	115,344	3,109	359,125	1,295	3,205	831,736	1,313,814
Contingencies & commitments							
Transaction-related contingent liabilities	-	-	7,531,999	-	-	-	7,531,999
Trade-related contingent liabilities	-	-	1,999,428	-	-	-	1,999,428
Commitment against operating leases	-	11,144	-	-	-	-	11,144
	-	11,144	9,531,427	-	-	-	9,542,571

* Management fee is as per the agreement with the holding company.

Transactions during the period

	2019						
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	Rupees in '000						
Income							
Mark-up / return / interest earned	–	541,849	146,009	14,753	–	–	702,611
Fee and commission income	3,711	750	253,990	–	133	–	258,584
Dividend income	–	4,950	–	–	–	–	4,950
Rent income	5,616	4,240	–	–	–	–	9,856
Expense							
Mark-up / return / interest expensed	–	43,019	1,604,713	17,415	70,900	345,619	2,081,666
Commission / brokerage / bank charges expense	686	14	1,368	–	–	–	2,068
Salaries and allowances	–	–	–	489,421	–	–	489,421
Directors' fees	–	–	–	–	17,268	–	17,268
Charge to defined benefit plan	–	–	–	–	–	169,954	169,954
Contribution to defined contribution plan	–	–	–	–	–	193,928	193,928
Operating lease rentals / rent expenses	–	10,319	13,926	–	–	–	24,245
Insurance premium expenses	–	–	12,240	–	–	–	12,240
Maintenance, electricity, stationery & entertainment	–	–	44,671	–	–	–	44,671
Management fee expense for technical and consultancy services *	400,105	–	–	–	–	–	400,105
Donation	–	–	23,920	–	–	–	23,920
Professional / other charges	–	–	196	–	–	–	196

* Management fee is as per the agreement with the holding company.

Transactions during the period

	2018					
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans
	Rupees in '000					
Income						
Mark-up / return / interest earned	–	221,920	70,887	7,339	–	–
Fee and commission income	3,794	345	153,775	–	27	–
Dividend income	–	1,800	–	–	–	–
Rent income	5,616	5,075	–	–	–	–
Expenses						
Mark-up / return / interest expensed	–	25,483	1,072,470	5,987	37,252	344,562
Commission / brokerage / bank charges paid	1,256	126	1,406	–	–	–
Salaries and allowances	–	–	–	392,946	–	–
Directors' fees	–	–	–	–	16,779	–
Charge to defined benefit plan	–	–	–	–	–	146,968
Contribution to defined contribution plan	–	–	–	–	–	178,825
Operating lease rentals / rent expenses	–	28,362	13,067	–	–	–
Insurance premium expense	–	–	17,077	–	–	–
Maintenance, electricity, stationery and entertainment expenses	–	–	69,489	–	–	–
Management fee expense for technical and consultancy services *	382,772	–	–	–	–	–
Donation	–	–	23,976	–	–	–
Professional / other charges	–	–	9,457	–	–	–

* Management fee is as per the agreement with the holding company.

41. CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

	2019	2018
	Rupees in '000	
Minimum Capital Requirement (MCR):		
Paid-up capital (net of losses)	10,478,315	10,478,315
Capital Adequacy Ratio (CAR):		
Eligible Common Equity Tier 1 (CET 1) capital	43,786,789	34,037,880
Eligible Additional Tier 1 (ADT 1) capital	—	—
Total eligible tier 1 capital	43,786,789	34,037,880
Eligible tier 2 capital	1,621,537	976,755
Total eligible capital (tier 1 + tier 2)	45,408,326	35,014,635
Risk Weighted Assets (RWAs):		
Credit risk	267,526,564	229,288,756
Market risk	1,694,641	1,571,342
Operational risk	42,106,000	36,087,611
Total	311,327,205	266,947,709
Common equity tier 1 capital adequacy ratio	14.06%	12.75%
Tier 1 capital adequacy ratio	14.06%	12.75%
Total capital adequacy ratio	14.59%	13.12%
Minimum capital requirements prescribed by SBP		
Common equity tier 1 capital adequacy ratio	6.00%	6.00%
Tier 1 capital adequacy ratio	7.50%	7.50%
Total capital adequacy ratio	12.50%	11.90%
Banks uses simple, maturity method and basic indicator approach for credit risk, market risk and operational risk exposures respectively in the capital adequacy calculation.		
Leverage Ratio (LR):		
Eligible tier 1 capital	43,786,789	34,037,880
Total exposures	1,093,901,591	825,463,970
Leverage ratio	4.00%	4.12%
Liquidity Coverage Ratio (LCR):		
Total high quality liquid assets	343,412,746	317,763,854
Total net cash outflow	174,022,506	125,849,179
Liquidity coverage ratio	197%	252%
Net Stable Funding Ratio (NSFR):		
Total available stable funding	494,729,185	440,145,855
Total required stable funding	290,546,266	216,434,904
Net stable funding ratio	170%	203%

41.1 The full disclosures on the capital adequacy, leverage ratio & liquidity requirements as per SBP instructions issued from time to time are placed on the Bank's website. The link to the full disclosures is available at <https://www.habibmetro.com/financials/#basel-statements>.

42. RISK MANAGEMENT

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

42.1 Credit Risk

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises principally in relation to the lending and trade finance business carried out by the Bank.

As per Basel II methodology the gross credit risk weighted exposure incorporating relevant credit conversion factor is Rs. 267,526,564 thousand (2018: Rs. 229,288,756 thousand) as depicted in note 41.

The Bank's strategy is to minimize credit risk through a strong pre-disbursement credit analysis, approval and risk measurement process added with product, geography and customer diversification. The Bank, as its strategic preference, extends trade and working capital financing, so as to keep the major portion of exposure (funded and non-funded) on a short-term, self-liquidating basis. Major portion of the Bank's credit portfolio is priced on flexible basis with pricing reviewed on periodic basis.

Centralized Credit and Trade processing centres staffed with experienced resource provide strength to post-disbursement aspect of credit risk management.

The Bank's credit policy / manual defines the credit extension criteria, the credit approval and monitoring process, the loan classification system and provisioning policy.

The Bank continually assesses and monitors credit exposures. The Bank follows both objective and subjective criteria of SBP regarding loans classification. The subjective assessment process is based on management's judgment with respect to the borrower's character, activity, cash flow, capital structure, security, quality of management and delinquency.

The Bank uses the 'Standardised Approach' in calculation of credit risk and capital requirements.

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

Types of exposures and ECAI's used

	2019				
Exposures	JCR-VIS	PACRA	S & P	Fitch	Moody's
Corporate	✓	✓	–	–	–
Banks	✓	✓	✓	✓	✓
Sovereigns	–	–	–	–	–
SME's	✓	✓	–	–	–
Securitisation	–	–	–	–	–
Others	–	–	–	–	–

Credit exposures subject to Standardised Approach

Exposures	Rating category	2019			2018		
		Amount outstanding	Deduction CRM	Net amount	Amount outstanding	Deduction CRM	Net amount
		Rupees in '000					
Corporate	1	48,542,726	8,924,191	39,618,535	28,561,091	455,860	28,105,231
	2	68,285,049	1,868,457	66,416,592	43,670,690	1,781,841	41,888,849
	3,4	19,722,344	–	19,722,344	7,009,370	–	7,009,370
	5,6	–	–	–	–	–	–
Claims on banks with original maturity of 3 months or less							
		23,300,848	–	23,300,848	16,600,943	3,138,596	13,462,347
Retail		19,295,388	5,602,152	13,693,236	18,392,113	4,732,720	13,659,393
Public sector entities	1	17,665,277	8,440,349	9,224,928	4,892,198	261,074	4,631,124
	2,3	3,464,113	1,542	3,462,571	3,535,030	–	3,535,030
Others		565,876,583	9,185,000	556,691,583	429,927,319	13,273,000	416,654,319
Unrated		170,709,695	30,672,028	140,037,667	172,690,464	30,633,581	142,056,883

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

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

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

Particulars of the Bank's significant on-balance sheet and off-balance sheet credit risk in various sectors are analysed as follows:

42.1.1 Lendings to financial institutions

Credit risk by public / private sector	Gross lendings		Non-performing lendings		Provision held	
	2019	2018	2019	2018	2019	2018
	Rupees in '000					
Public / government	7,507,303	–	–	–	–	–
Private	14,690,000	11,984,795	–	–	–	–
	<u>22,197,303</u>	<u>11,984,795</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

42.1.2 Investment in debt securities

Credit risk by industry sector	Gross investments		Non-performing investments		Provision held	
	2019	2018	2019	2018	2019	2018
	Rupees in '000					
Chemical and pharmaceuticals	29,518	35,745	29,518	35,745	29,518	35,745
Electronics and electrical appliances	21,138	21,138	21,138	21,138	21,138	21,138
Financial	8,603,802	8,898,206	–	–	–	–
Power (electricity), gas, water and sanitary	5,101,187	376,721	–	–	–	–
Textile	9,500	9,500	9,500	9,500	9,500	9,500
Transport, storage and communication	78,962	131,958	70,403	72,045	70,403	72,045
Others	433,438,349	335,609,487	–	–	–	–
	<u>447,282,456</u>	<u>345,082,755</u>	<u>130,559</u>	<u>138,428</u>	<u>130,559</u>	<u>138,428</u>
Credit risk by public / private sector						
Public / government	432,938,349	335,109,489	–	–	–	–
Private	14,344,107	9,973,266	130,559	138,428	130,559	138,428
	<u>447,282,456</u>	<u>345,082,755</u>	<u>130,559</u>	<u>138,428</u>	<u>130,559</u>	<u>138,428</u>

42.1.3 Advances

Credit risk by industry sector	Gross advances		Non-performing advances		Provision held	
	2019	2018	2019	2018	2019	2018
	Rupees in '000					
Agriculture, forestry, hunting and fishing	2,368,885	826,781	-	-	-	-
Automobile and transportation equipment	3,471,183	2,787,792	1,444,991	1,465,452	1,444,991	1,465,453
Cement	5,289,187	3,742,097	-	-	-	-
Chemicals and pharmaceuticals	18,368,431	15,965,385	429,050	377,061	345,391	353,910
Commercial trade	11,332,539	15,774,388	501,070	395,271	266,839	286,665
Commodity finance	9,185,000	13,273,000	-	-	-	-
Construction and real estate	3,436,882	1,897,330	46,430	68,424	42,929	37,126
Electronics and electrical appliances	8,461,996	4,868,976	293,478	382,704	288,478	283,732
Financial	1,397,031	2,552,337	-	-	-	-
Footwear and leather garments	1,420,120	1,038,309	11,907	26,250	11,907	12,130
Individuals	3,944,467	3,469,022	11,788	3,431	11,788	3,431
Mining and quarrying	49,545	367,826	-	-	-	-
Power (electricity), gas, water and sanitary	38,001,377	29,407,360	75,210	75,210	75,210	75,210
Services	5,432,362	3,899,296	174,541	98,947	139,889	69,662
Sugar	4,747,632	3,845,089	146,080	154,080	124,523	125,337
Textile	113,430,549	95,742,302	12,409,593	12,756,984	11,080,487	11,149,219
Transport, storage and communication	1,734,049	1,107,509	26,483	7,046	-	1,650
Others	48,793,190	42,685,508	1,962,517	1,869,047	1,461,983	1,460,975
	<u>280,864,425</u>	<u>243,250,307</u>	<u>17,533,138</u>	<u>17,679,907</u>	<u>15,294,415</u>	<u>15,324,500</u>
Credit risk by public / private sector	Gross advances		Non-performing advances		Provision held	
	2019	2018	2019	2018	2019	2018
	Rupees in '000					
Public / government	32,057,987	28,395,765	-	-	-	-
Private	248,806,438	214,854,542	17,533,138	17,679,907	15,294,415	15,324,500
	<u>280,864,425</u>	<u>243,250,307</u>	<u>17,533,138</u>	<u>17,679,907</u>	<u>15,294,415</u>	<u>15,324,500</u>

	2019	2018
	Rupees in '000	
42.1.4 Contingencies and commitments		
Credit risk by industry sector		
Agriculture, forestry, hunting and fishing	336,282	152,415
Automobile and transportation equipment	10,982,211	11,789,800
Cement	12,563,953	5,131,148
Chemicals and pharmaceuticals	20,531,217	11,722,057
Commercial trade	25,885,499	20,271,390
Construction and real estate	4,869,468	1,660,021
Electronics and electrical appliances	7,862,823	7,501,362
Financial	387,158,308	213,053,566
Footwear and leather garments	372,394	314,864
Mining and quarrying	54,670	6,501
Power (electricity), gas, water and sanitary	37,927,077	16,031,212
Services	4,724,870	2,651,142
Sugar	2,746,965	2,993,560
Textile	195,274,548	65,037,753
Transport, storage and communication	4,549,841	2,560,943
Others	52,846,980	39,562,095
	<u>768,687,106</u>	<u>400,439,829</u>
Credit risk by public / private sector		
Public / government	139,699,890	68,986,829
Private	628,987,216	331,453,000
	<u>768,687,106</u>	<u>400,439,829</u>

42.1.5 Concentration of advances

The bank top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs. 120,682,204 thousand (2018: 97,831,714 thousand) are as following:

Funded	61,315,041	58,714,302
Non-funded	59,367,163	39,116,872
Total exposure	<u>120,682,204</u>	<u>97,831,174</u>

The sanctioned limits against these top 10 exposures aggregated to Rs 145,090,292 thousand (2018: 120,069,000 thousand)

For the purpose of this note, exposure means outstanding funded facilities and utilised non-funded facilities as at the reporting date. The above exposure does not have any non-performing portfolio.

42.1.6 Advances - province / region-wise disbursement & utilization

Province / region	2019						
	Disburse-ments	Utilization					
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gligit-Baltistan
Rupees in '000							
Punjab	96,815,965	96,129,429	583,128	–	–	103,408	–
Sindh	179,384,861	9,769,759	167,112,157	–	2,502,945	–	–
KPK including FATA	557,432	–	–	557,432	–	–	–
Balochistan	13,738	–	–	–	13,738	–	–
Islamabad	3,779,706	14,865	–	–	–	3,764,841	–
AJK including Gilgit-Baltistan	312,723	–	–	–	–	–	312,723
	<u>280,864,425</u>	<u>105,914,053</u>	<u>167,695,285</u>	<u>557,432</u>	<u>2,516,683</u>	<u>3,868,249</u>	<u>312,723</u>
Province / region	2018						
	Disburse-ments	Utilization					
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gligit-Baltistan
Rupees in '000							
Punjab	93,309,265	88,226,908	4,678,501	–	–	403,856	–
Sindh	147,212,088	5,050,381	134,964,608	383,205	6,813,894	–	–
KPK including FATA	489,290	–	–	489,290	–	–	–
Balochistan	14,097	–	–	–	14,097	–	–
Islamabad	1,900,557	15,473	–	–	–	1,885,084	–
AJK including Gilgit-Baltistan	325,010	–	–	–	–	–	325,010
	<u>243,250,307</u>	<u>93,292,762</u>	<u>139,643,109</u>	<u>872,495</u>	<u>6,827,991</u>	<u>2,288,940</u>	<u>325,010</u>

42.2 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.

The Board of Directors oversees the Bank's strategy for market risk exposures. Asset and Liability Committee (ALCO) which comprises of senior management oversees the statement of financial position of the Bank, assesses the impact of interest rate change on Bank's investment portfolio through stress testing, and performs oversight function to ensure sound asset quality, liquidity and pricing. The investment policy amongst other aspects covers the Bank asset allocation guidelines inclusive of equity investments. While market risk limits are in place and are monitored effectively, the Bank has also formalized liquidity and market risk management policies which contain action plans to strengthen the market risk management system and a middle office function oversees limit adherence. Market risk can be categorised into interest rate risk, foreign exchange risk and equity position risk.

42.2.1 Balance sheet split by trading and banking books

	2019			2018		
	Banking book	Trading book	Total	Banking book	Trading book	Total
	Rupees in '000					
Cash and balances with treasury banks	70,713,603	–	70,713,603	48,177,009	–	48,177,009
Balances with other banks	1,865,528	–	1,865,528	1,115,557	–	1,115,557
Lendings to financial institutions	22,197,303	–	22,197,303	11,984,795	–	11,984,795
Investments	448,909,727	–	448,909,727	346,665,904	–	346,665,904
Advances	263,948,473	–	263,948,473	226,689,617	–	226,689,617
Fixed assets	8,306,783	–	8,306,783	3,899,579	–	3,899,579
Intangible assets	66,462	–	66,462	121,442	–	121,442
Deferred tax assets	3,712,435	–	3,712,435	5,821,182	–	5,821,182
Other assets	39,854,208	–	39,854,208	28,920,696	–	28,920,696
	<u>859,574,522</u>	<u>–</u>	<u>859,574,522</u>	<u>673,395,781</u>	<u>–</u>	<u>673,395,781</u>

42.2.2 Foreign exchange risk

Foreign exchange risk is the probability of loss resulting from adverse movement in exchange rates.

The Bank's business model for foreign exchange risk is to serve trading activities of its clients in an efficient and cost effective manner. The Bank is not in the business of actively trading and market making activities and all FX exposures are backed by customers' trade transaction. A conservative risk approach backed by Bank's business strategy to work with export oriented clients gives the ability to meet its foreign exchange needs.

	2019				2018			
	Foreign currency assets	Foreign currency liabilities	Off-balance sheet items	Net foreign currency exposure	Foreign currency assets	Foreign currency liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000							
United States Dollar	60,775,646	(99,687,924)	39,500,303	588,025	45,177,404	(83,580,308)	39,013,190	610,286
Euro	3,826,292	(2,485,074)	(1,296,276)	44,942	2,932,784	(2,176,460)	(771,956)	(15,632)
Great Britain Pound	926,582	(5,700,743)	4,772,001	(2,160)	596,369	(5,436,274)	4,844,252	4,347
Asian Currency Unit	421,701	(1,000,283)	–	(578,582)	1,352,010	(1,632,650)	–	(280,640)
Japanese Yen	79,473	(117)	(78,403)	953	32,035	(575)	(20,170)	11,290
Arab Emirates Dirham	130,230	(16)	(107,710)	22,504	23,481	(8,869)	(7,561)	7,051
Canadian Dollar	34,861	–	(17,803)	17,058	10,848	–	–	10,848
Australian Dollar	28,507	–	(17,899)	10,608	4,062	–	–	4,062
Saudi Riyal	5,807	–	–	5,807	1,337	–	–	1,337
Other currencies	329,531	(688)	(268,256)	60,587	34,978	(25,504)	11,135	20,609
	<u>66,558,630</u>	<u>(108,874,845)</u>	<u>42,485,957</u>	<u>169,742</u>	<u>50,165,308</u>	<u>(92,860,640)</u>	<u>43,068,890</u>	<u>373,558</u>

	2019		2018	
	Banking book	Trading book	Banking book	Trading book
	Rupees in '000			
Impact of 1% change in foreign exchange rates on				
- Profit and loss account	1,103	-	2,428	-
- Other comprehensive income	-	-	-	-

42.2.3 Equity position risk

Equity position risk arises due to adverse movements in equity prices. The Bank's policy is to take equity position in high dividend yield scripts. The bank as a policy does not enter into any kind of proprietary equity trades. Equity position risk of the Bank is mitigated through portfolio and scrip limits advised by the BoD and are reviewed by the ALCO. The investment in equities and mutual funds is also managed within the statutory limits as prescribed by the SBP.

	2019		2018	
	Banking book	Trading book	Banking book	Trading book
	Rupees in '000			
Impact of 5% change in equity prices on				
- Profit and loss account	(19,599)	-	(18,855)	-
- Other comprehensive income	(12,538)	-	(8,729)	-

42.2.4 Yield / interest rate risk in the banking book (IRRBB)-Basel II specific

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

	2019		2018	
	Banking book	Trading book	Banking book	Trading book
	Rupees in '000			
Impact of 1% change in interest rates on				
– Profit and loss account				
– Other comprehensive income	(3,222,348)	-	-	-

42.2.5 Mismatch of interest rate sensitive assets and liabilities

Effective yield/ interest rate	2019									
	Exposed to yield / interest risk									
	Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Non-interest bearing financial instruments

On-balance sheet financial instruments

Assets

Cash and balances with treasury banks	0.70%	70,713,603	16,348,050	-	-	-	-	-	-	54,365,553
Balances with other banks	11.25%	1,865,528	310,468	-	-	-	-	-	-	1,555,060
Lendings to financial institutions	8.00% to 12.25%	22,197,303	12,190,000	10,007,303	-	-	-	-	-	-
Investments	7.75% to 16.55%	448,909,727	6,223,365	28,353,533	67,051,522	203,392,962	42,727,276	60,188,331	19,070,845	1,757,830
Advances	1.5% to 20.55%	263,948,473	30,825,341	191,077,204	26,912,335	2,584,580	1,413,544	1,487,260	5,281,926	-
Other assets		38,338,279	-	-	-	-	-	-	-	38,338,279
		845,972,913	65,897,224	229,438,040	93,963,857	205,977,542	44,140,820	61,675,591	24,352,771	96,016,722

Liabilities

Bills payable		11,541,474	-	-	-	-	-	-	-	11,541,474
Borrowings	2% to 13.36%	144,464,063	90,519,876	27,688,790	11,680,044	593,036	1,183,481	1,219,729	4,978,580	4,106,849
Deposits and other accounts	0.25% to 16.67%	611,869,248	218,593,206	34,188,795	136,681,768	26,641,075	2,124,751	1,819,609	2,000	186,023,044
Other liabilities		44,380,462	-	-	-	-	-	-	-	44,380,462
		812,255,247	309,113,082	61,877,585	148,361,812	27,234,111	3,308,232	3,039,338	4,980,580	246,051,829
On-balance sheet gap		33,717,666	(243,215,858)	167,560,455	(54,397,955)	178,743,431	40,832,588	58,636,253	19,372,191	(150,035,107)

Off-balance sheet financial instruments

Forward foreign exchange contracts		538,997,600	-	-	-	-	-	-	-	538,997,600
Commitments against syndicate financing		2,168,630	-	-	-	-	-	-	-	2,168,630
Commitments in respect of letter of credits		119,552,974	-	-	-	-	-	-	-	119,552,974
Commitments in respect of operating leases		-	-	-	-	-	-	-	-	-
Commitments against acquisition of fixed assets		440,408	-	-	-	-	-	-	-	440,408

Off-balance sheet gap

		661,159,612	-	-	-	-	-	-	-	661,159,612
Total yield / interest risk sensitivity gap		694,877,278	(243,215,858)	167,560,455	(54,397,955)	178,743,431	40,832,588	58,636,253	19,372,191	1,435,205
Cumulative yield / interest risk sensitivity gap		694,877,278	(243,215,858)	(75,655,403)	(130,053,358)	48,690,073	89,522,661	148,158,914	182,317,568	511,124,505

2018

Effective yield / interest rate	Exposed to yield / interest risk									
	Rupees in '000									
	Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Non-interest bearing financial instruments
On-balance sheet financial instruments										
Assets										
Cash and balances with treasury banks	48,177,009	12,370,079	-	-	-	-	-	-	-	35,806,930
Balances with other banks	1,115,557	208,066	-	-	-	-	-	-	-	907,491
Lending to financial institutions	11,984,795	6,684,795	5,300,000	-	-	-	-	-	-	-
Investments	346,665,904	48,753,438	148,619,367	16,597,027	7,680,474	21,251,520	48,496,605	36,662,638	16,603,695	2,001,140
Advances	226,689,617	37,704,420	166,006,391	11,928,905	2,043,379	1,195,445	1,077,531	1,847,238	3,529,486	-
Other assets	27,373,549	-	-	-	-	-	-	-	-	27,373,549
	662,006,431	105,720,798	319,925,758	28,525,932	9,723,853	22,446,965	49,574,136	38,509,876	20,133,181	66,089,110
Liabilities										
Bills payable	12,173,407	-	-	-	-	-	-	-	-	12,173,407
Borrowings	51,347,381	8,072,387	26,706,623	6,166,610	482,317	1,018,273	813,925	1,545,692	233,000	3,188,696
Deposits and other accounts	543,577,510	186,138,272	51,081,988	120,961,597	22,176,392	3,343,132	2,369,174	3,070,148	-	154,436,807
Other liabilities	26,785,351	-	-	-	-	-	-	-	-	26,785,351
	633,883,649	194,210,659	77,788,611	127,128,207	22,658,709	4,361,405	3,183,099	4,615,940	3,119,858	196,584,261
On-balance sheet gap	28,122,782	(88,489,861)	242,137,147	(98,602,275)	(12,934,856)	18,085,560	46,391,037	33,894,036	17,013,323	(130,495,151)
Off-balance sheet financial instruments										
Forward foreign exchange contracts	230,915,612	-	-	-	-	-	-	-	-	230,915,612
Commitments against syndicate financing	1,887,433	-	-	-	-	-	-	-	-	1,887,433
Commitments in respect of letters of credit	89,700,969	-	-	-	-	-	-	-	-	89,700,969
Commitments in respect of operating leases	110,571	-	-	-	-	-	-	-	-	110,571
Commitments against acquisition of fixed assets	133,160	-	-	-	-	-	-	-	-	133,160
Off-balance sheet gap	322,747,745	-	-	-	-	-	-	-	-	322,747,745
Total yield / interest risk sensitivity gap	350,870,527	(88,489,861)	242,137,147	(98,602,275)	(12,934,856)	18,085,560	46,391,037	33,894,036	17,013,323	192,252,594
Cumulative yield / interest risk sensitivity gap	350,870,527	(88,489,861)	153,647,286	55,045,011	42,110,155	60,195,715	106,586,752	140,480,788	157,494,111	192,252,594

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

	2018		2019	
	Rupees in '000		Rupees in '000	
Reconciliation to total assets				
Total financial assets	845,972,913		812,255,247	
Add: Non financial assets	662,006,431		633,883,649	
Operating fixed assets	3,899,579		3,081,745	
Intangible assets	121,442		2,510,176	
Deferred tax asset	5,821,182			
Other assets	1,515,929			
Balance as per statement of financial position	13,601,609			
	859,574,522		815,336,992	
Reconciliation to total liabilities				
Total financial liabilities	662,006,431		633,883,649	
Add: Non financial liabilities				
Other liabilities	3,899,579		3,081,745	
Balance as per statement of financial position	13,601,609			
	673,395,781		636,393,825	

42.3 Operational risk

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

The Bank's operational risk management strategy takes guidance from Basel - II, the SBP guidelines and best industry practices.

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

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

The Bank uses Basic Indicator Approach (BIA) for regulatory capital at risk calculation for operational risk. Under BIA the capital charge for operational risk is a fixed percentage of average positive annual gross income of the Bank over the past three years. Figures of capital charge of operation risk for the year is Rs. 3,368,480 thousand (2018: Rs. 2,887,009 thousand).

42.4 Liquidity risk

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

Governance of liquidity risk management

ALCO manages the liquidity position on a continuous basis.

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

Funding strategy

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

Liquidity risk mitigation techniques

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

Liquidity stress testing

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

Contingency funding plan

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

42.4.1 Maturities of assets and liabilities - based on contractual maturity of assets and liabilities of the Bank

2019

Rupees in '000													
	Total	Upto 1 day	Over 2 days to 7 days	Over 7 days to 14 days	Over 14 days to 1 month	Over 1 month to 2 months	Over 2 months to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years
Assets													
Cash and balances with treasury banks	70,713,603	70,713,603	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	1,865,528	1,865,528	-	-	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	22,197,303	-	6,200,000	1,500,000	4,490,000	5,647,068	4,360,235	-	-	-	-	-	-
Investments	448,909,727	1,100,331	2,132,813	700,000	1,147,926	1,893,029	19,711,627	66,723,763	76,075,145	127,375,991	43,551,306	60,927,550	21,236,715
Advances	263,948,473	27,169,369	4,899,354	8,254,520	33,799,824	42,122,118	45,306,325	55,550,046	11,935,895	5,132,031	6,007,424	5,754,470	9,395,485
Fixed assets	8,306,783	17,834	107,010	124,845	303,197	207,737	207,736	619,671	611,690	611,690	1,201,327	802,724	1,154,757
Intangible assets	66,462	382	2,290	2,672	6,489	11,832	11,832	30,965	-	-	-	-	-
Deferred tax assets	3,712,435	26,686	160,115	186,800	453,658	343,284	343,283	630,788	425,392	425,391	183,260	261,330	135,817
Other assets	39,854,208	1,078,791	6,472,744	7,551,535	18,339,442	201,406	201,406	266,591	1,244,943	1,244,944	977,095	874,045	1,380,963
	859,574,522	101,972,524	19,974,326	18,320,372	58,540,536	50,426,474	70,142,444	123,821,824	90,293,065	134,790,047	51,920,412	68,620,119	33,303,737
													37,448,642
Liabilities													
Bills payable	11,541,474	11,541,474	-	-	-	-	-	-	-	-	-	-	-
Borrowings	144,464,063	4,106,849	82,025,605	5,934,712	2,559,559	24,051,756	3,637,034	11,680,044	309,698	283,338	1,183,481	1,219,729	2,301,678
Deposits and other accounts	611,869,248	392,016,708	29,677,621	25,256,887	52,201,451	19,366,305	14,588,665	42,299,465	13,649,938	13,391,903	1,803,696	1,819,609	5,170,580
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	2,000
Sub-ordinated debts	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	47,462,207	1,204,749	7,228,493	8,433,242	20,480,730	836,923	836,922	421,320	1,343,464	1,343,464	1,495,084	715,874	2,771,560
	815,336,992	408,869,780	118,931,719	39,624,841	75,241,740	44,254,984	19,062,621	54,400,829	15,303,100	15,018,705	4,482,261	3,755,212	10,868,238
													5,522,962
Net assets													
	44,237,530	306,897,256	(98,957,393)	(21,304,469)	(16,701,204)	6,171,490	51,079,823	69,420,995	74,989,965	119,771,342	47,438,151	64,864,907	22,435,499
													31,925,680
Share capital	10,478,315												
Reserves	17,584,517												
(Deficit) / surplus on revaluation of assets	(2,885,060)												
Unappropriated profit	19,059,758												
	44,237,530												

2018

[illegible]

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

2019

	Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
Assets										
Cash and balances with treasury banks	70,713,603	70,713,603	-	-	-	-	-	-	-	-
Balances with other banks	1,865,528	1,865,528	-	-	-	-	-	-	-	-
Lendings to financial institutions	22,197,303	12,190,000	10,007,303	-	-	-	-	-	-	-
Investments	448,909,727	5,081,070	21,604,656	66,723,763	203,451,136	43,551,306	60,927,550	21,236,715	25,503,531	830,000
Advances	263,948,473	74,123,067	87,428,443	55,550,046	17,067,926	6,007,424	5,754,470	9,395,485	6,927,849	1,693,763
Fixed assets	8,306,783	552,886	415,473	619,671	1,223,380	1,201,327	802,724	1,154,757	1,263,820	1,072,745
Intangible assets	66,462	11,832	23,664	30,966	-	-	-	-	-	-
Deferred tax assets	3,712,435	827,259	686,567	630,788	850,783	183,260	261,330	135,817	169,100	(32,469)
Other assets	39,854,208	33,442,512	402,812	266,591	2,489,887	977,095	874,045	1,380,963	20,303	-
	859,574,522	198,807,757	120,568,918	123,821,825	225,083,112	51,920,412	68,620,119	33,303,737	33,884,603	3,564,039
Liabilities										
Bills payable	11,541,474	11,541,474	-	-	-	-	-	-	-	-
Borrowings	144,464,063	94,626,725	27,688,790	11,680,044	593,036	1,183,481	1,219,729	2,301,678	4,978,580	192,000
Deposits and other accounts	611,869,248	149,996,220	72,922,642	236,366,403	84,741,849	60,225,525	1,819,609	5,795,000	2,000	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Sub-ordinated debts	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	47,462,207	37,347,214	1,673,845	421,320	2,686,928	1,495,084	715,874	2,771,560	350,382	-
	815,336,992	293,511,633	102,285,277	248,467,767	88,021,813	62,904,090	3,755,212	10,868,238	5,330,962	192,000
Net assets	44,237,530	(94,703,876)	18,283,641	(124,645,942)	137,061,299	(10,983,678)	64,864,907	22,435,499	28,553,641	3,372,039
Share capital	10,478,315									
Reserves	17,584,517									
(Deficit) / surplus on revaluation of assets	(2,885,060)									
Unappropriated profit	19,059,758									
	44,237,530									

2018

Total		Rupees in '000								
		Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
Assets										
Cash and balances with treasury banks										
Balances with other banks										
Lendings to financial institutions										
Investments										
Advances										
Fixed assets										
Intangible assets										
Deferred tax assets										
Other assets										
673,395,781 191,336,738 238,329,469 56,890,393 29,811,199 27,999,280 55,217,031 45,212,380 25,096,351 3,502,940										
Liabilities										
Bills payable										
Borrowings										
Deposits and other accounts										
Liabilities against assets subject to finance lease										
Sub-ordinated loans										
Deferred tax liabilities										
Other liabilities										
636,393,825 171,400,039 117,253,173 210,196,814 72,252,972 52,961,506 3,188,242 5,380,285 3,527,794 233,000										
Net assets										
37,001,956 19,936,699 121,076,296 (153,306,421) (42,441,773) (24,962,226) 52,028,789 39,832,095 21,568,557 3,269,940										
10,478,315										
16,267,793										
(5,573,656)										
15,829,504										
37,001,956										

43. GENERAL

43.1 Captions, as prescribed by BPRD Circular No. 2 of 2018 issued by the SBP, in respect of which there are no amounts, have not been reproduced in these financial statements, except for captions of the statement of financial position and profit and loss account.

43.2 Non adjusting event after statement of financial position date

The Board of Directors in its meeting held on 27 February 2020 has proposed a final cash dividend of Rs. 2.5 per share amounting to Rs. 2,619,579 thousand (2018: final cash dividend of Rs. 2.00 per share amounting to Rs. 2,095,663 thousand) for approval by the members of the Bank in the forthcoming Annual General Meeting.

43.3 Corresponding figures

Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements wherever necessary to facilitate comparison and better presentation in accordance with the format prescribed by State Bank of Pakistan vide BPRD circular no. 2 of 2018. However, no material reclassifications have been made.

44. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 27 February 2020 by the Board of Directors of the Bank.

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

MOHOMED BASHIR
Director

SOHAIL HASSAN
Director

MOHAMEDALI R. HABIB
Chairman

ANNEXURE "I" AS REFERRED TO IN NOTE 10.6 OF THE UNCONSOLIDATED FINANCIAL STATEMENTS

STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF RS. 500,000/- OR ABOVE PROVIDED DURING THE YEAR ENDED 31 DECEMBER 2019

S. No.	Name and address of the borrower	Name of individuals / partners / directors (with CNIC / NIC Number)	Father's / Husband's Name	Outstanding liabilities at beginning of the year				Principal written-off	Interest / mark-up waived	Other financial relief provided	Total
				Principal	Interest / mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	12
Rupees in '000											
1	Bonne Fashion Plot No. F-540/A, SITE, Karachi.	Abdul Sattar Bundukda 42201-0431287-9 Muhammad Farhan Bundukda 42201-6581721-3 Muhammad Salman Bundukda 42201-5760409-1 Muhammad Irfan Bundukda 42201-9535188-1 Muhammad Sameer Bundukda 42201-9620688-1 Khatija Sattar 42201-3062595-4	Haji Ismail Bundukda Abdul Sattar Bundukda Abdul Sattar Bundukda Abdul Sattar Bundukda Abdul Sattar Bundukda Abdul Sattar Bundukda	18,615	2,125	-	20,740	-	2,125	-	2,125
2	Farhan & Salman Ind. (Private) Limited Plot No. F-540, SITE, Karachi.	Abdul Sattar Bundukda 42201-0431287-9 Khatija Sattar 42201-3062595-4	Haji Ismail Bundukda Abdul Sattar Bundukda	16,212	1,830	-	18,042	2,327	1,830	-	4,157
3	Hanif Rajput Caterers Suite No. 2, Society Apartment, Kashmir Road, Karachi.	Javed Hanif Rajput 42501-1459075-1	Muhammad Hanif Rajput	30,599	3,244	7,486	41,329	-	-	5,330	5,330
4	Nova International (Private) Limited Plot No. 81, Sector 7-A, Korangi Industrial Area, Karachi	Asif Nazar 42301-6434483-1 Yusuf Nazar 42301-0811400-1 Yasmeen Asif 42301-3484154-4 Nazia Yusuf 42301-0847770-4	Nazar Muhammad Asif Nazar Asif Nazar Yusuf Nazar	223	-	1,229	1,452	-	-	1,229	1,229

S. No.	Name and address of the borrower	Name of individuals / partners / directors (with CNIC / NIC Number)	Father's / Husband's Name	Outstanding liabilities at beginning of the year				Principal written-off	Interest / mark-up waived	Other financial relief provided	Total
				Principal	Interest / mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	12
Rupees in '000											
5	PatelTowelIndustries F-61/B, SITE, Karachi.	Muhammad Zubair Patel 42201-0666228-5 Muhammad Yousuf Patel 42201-0616682-3 Sadaf Asif 42201-0387071-4	Abdul Rauf Abdul Rauf Muhammad Asif	62,024	-	141,406	203,430	-	-	141,406	141,406
6	Madni Chemicals Shop No. 6, Meraj Gulshan Center, 63 Circular Road, Near Akbari Mandi, Lahore	Mrs. Azra 42301-9501936-2	Allah Ditta	11,999	32	1,843	13,874	-	-	775	775
7	Royal Rice Millers (Private) Limited 37.5 KM Main G.T. Road, Sadhoke, District, Gujranwala.	Khawaja Zaheer Ahmed 42301-6879077-3 Khawaja Usman Ahmed 42301-0974172-3 Mrs. Naheed Zaheer 42301-7356985-0 Mian Waheed ud din 35202-2494465-1 Mrs. Akhtar Waheed 35202-2380018-6	Khawaja Muhammad Inam Khawaja Zaheer Ahmed Khawaja Zaheer Ahmed Mian Meraj ud din Mian Waheed ud din	55,391	22,248	-	77,639	9,920	22,248	-	32,168
8	Stahlco Automobile (Private) Limited 6.5 KM Raiwind Road, Lahore	Mr. Asif Rehan Dar 35202-8913452-1 Mrs. Tayyba Jabeen 35202-2643498-0 Mr. Mehmood Javaid Mir 35202-9824334-7 Mrs. Shama Mir 35202-8429701-8 Mr. Shahzaman 35202-6239009-1 Mrs. Yasmin Zaman 35202-3421546-0	Muhammad Zafar Asif Rehan Dar Noor Muhammad Mir Mehmood Javaid Mir Abdul Rasheed Shahzaman	7,736	4,157	19,038	30,931	-	2,293	19,038	21,331
				202,799	33,636	171,002	407,437	12,247	28,496	167,778	208,521

Annexure - II

ISLAMIC BANKING BUSINESS

The bank is operating 31 (2018: 31) Islamic banking branches and 222 (2018: 216) Islamic banking windows at the end of the year.

	Note	2019 Rupees in '000	2018
ASSETS			
Cash and balances with treasury banks		5,696,506	3,340,608
Balances with other banks		—	—
Due from financial institutions	1	22,197,303	1,000,000
Investments	2	14,718,222	21,312,705
Islamic financing and related assets - net	3	22,425,248	17,715,168
Fixed assets	4	522,276	82,121
Intangible assets		—	—
Due from head office	5	3,950,351	1,056,134
Other assets		2,825,100	1,605,849
		<u>72,335,006</u>	<u>46,112,585</u>
LIABILITIES			
Bills payable		718,549	657,934
Due to financial institutions		4,275,353	1,864,574
Deposits and other accounts	6	61,261,923	38,684,214
Due to Head Office		—	—
Subordinated debt		—	—
Other liabilities	7	1,980,357	1,473,908
		<u>68,236,182</u>	<u>42,680,630</u>
NET ASSETS		<u>4,098,824</u>	<u>3,431,955</u>
REPRESENTED BY			
Islamic banking fund		3,003,871	3,003,472
Reserves		—	—
Surplus / (deficit) on revaluation of assets		6,920	(17,981)
Unappropriated profit	8	1,088,033	446,464
		<u>4,098,824</u>	<u>3,431,955</u>
CONTINGENCIES AND COMMITMENTS	9		

The profit and loss account of the Bank's islamic banking branches for the year ended 31 December 2019 is as follows:

	Note	2019	2018
		Rupees in '000	
Profit / return earned	10	4,967,549	2,690,429
Profit / return expensed	11	(3,295,510)	(1,777,470)
Net profit / return		1,672,039	912,959
Other income			
Fee and commission income		152,188	131,603
Dividend income		9,484	—
Foreign exchange income		37,581	33,780
Income / (loss) from derivatives		—	—
Gain / (loss) on securities		84,925	(156)
Other income		22,359	17,513
Total other income		306,537	182,740
Total income		1,978,576	1,095,699
Other expenses			
Operating expenses		686,601	615,528
Workers' welfare fund		—	—
Other charges		90	2,087
Total other expenses		686,691	617,615
Profit before provisions		1,291,885	478,084
Provisions and write offs - net		(203,852)	(31,620)
Profit before taxation		1,088,033	446,464

1. Due from Financial institutions

	2019			2018		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
	Rupees in '000					
Unsecured						
Musharakah	14,690,000	—	14,690,000	1,000,000	—	1,000,000
Bai muajjal receivable from State Bank of Pakistan	7,507,303	—	7,507,303	—	—	—
	<u>22,197,303</u>	<u>—</u>	<u>22,197,303</u>	<u>1,000,000</u>	<u>—</u>	<u>1,000,000</u>

2. Investments by segments:

	2019				2018			
	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
	Rupees in '000							
Federal government securities								
– Ijarah sukuk	–	–	–	–	11,313,145	–	(26,794)	11,286,351
– Bai muajjal	3,608,688	–	–	3,608,688	3,608,688	–	–	3,608,688
	<u>3,608,688</u>	<u>–</u>	<u>–</u>	<u>3,608,688</u>	<u>14,921,833</u>	<u>–</u>	<u>(26,794)</u>	<u>14,895,039</u>
Non-government debt securities								
– Listed	5,378,650	–	2,901	5,381,551	537,142	–	3,805	540,947
– Unlisted	5,723,964	–	4,019	5,727,983	5,871,711	–	5,008	5,876,719
	<u>11,102,614</u>	<u>–</u>	<u>6,920</u>	<u>11,109,534</u>	<u>6,408,853</u>	<u>–</u>	<u>8,813</u>	<u>6,417,666</u>
Total investments	<u>14,711,302</u>	<u>–</u>	<u>6,920</u>	<u>14,718,222</u>	<u>21,330,686</u>	<u>–</u>	<u>(17,981)</u>	<u>21,312,705</u>
	Note				2019		2018	
					Rupees in '000			

3. Islamic financing and related assets - net

Ijarah	3.1	385,320	398,097
Murabaha	3.2	7,754,898	5,906,879
Working capital musharakah		2,642,396	2,533,380
Diminishing musharakah		3,631,076	3,532,275
Salam		-	-
Istisna		569,445	1,029,204
Export refinance murabaha		987,965	497,902
Export refinance istisna		872,438	923,713
Al-bai financing		637,706	316,194
Advances against:			
Ijarah		80,714	123,988
Murabaha		574,988	349,302
Diminishing musharakah		1,969,374	596,470
Istisna		993,202	1,064,759
Export refinance murabaha		13,165	127,507
Export refinance istisna		1,911,104	326,288
Inventory related to			
Al-bai goods		-	240,116
Istisna goods		23,803	167,589
Gross islamic financing and related assets		23,047,594	18,133,663
Provision against non-performing islamic financings		(622,346)	(418,495)
Islamic financing and related assets - net of provision		<u>22,425,248</u>	<u>17,715,168</u>

3.1 Ijarah

	2019						Book value as at 31 Dec 2019
	Cost			Accumulated Depreciation			
	As at Jan 01, 2019	Additions / (deletions)	As at Dec 31, 2019	As at Jan 01, 2019	Charge for the year / (deletions)	As at Dec 31, 2019	
	Rupees in '000						
Plant & Machinery	384,035	56,771 (42,104)	398,702	164,345	298,431 (257,897)	204,879	193,823
Vehicles	266,906	119,052 (78,411)	307,547	88,499	108,076 (80,525)	116,050	191,497
Total	650,941	55,308	706,249	252,844	68,085	320,929	385,320
	2018						Book value as at 31 Dec 2018
	Cost			Accumulated Depreciation			
	As at Jan 01, 2018	Additions / (deletions)	As at Dec 31, 2018	As at Jan 01, 2018	Charge for the year/ (deletions)	As at Dec 31, 2018	
	Rupees in '000						
Plant & machinery	366,538	29,297 (11,800)	384,035	97,574	78,140 (11,369)	164,345	219,690
Vehicles	183,274	121,565 (37,933)	266,906	41,127	73,395 (26,023)	88,499	178,407
Total	549,812	101,129	650,941	138,701	114,143	252,844	398,097

Future Ijarah payments receivable

	2019				2018			
	Not later than 1 year	Later than 1 year & less than 5 years	Over Five years	Total	Not later than 1 year	Later than 1 year & less than 5 years	Over Five years	Total
	Rupees in '000							
Ijarah rental receivables	<u>218,540</u>	<u>213,392</u>	<u>1,167</u>	<u>433,099</u>	<u>208,308</u>	<u>290,883</u>	<u>698</u>	<u>499,889</u>

3.2 Murabaha

	Note	2019	2018
		Rupees in '000	
Murabaha financing	3.2.1	<u>7,754,898</u>	5,906,879
Advances against murabaha		<u>574,988</u>	349,302
		<u>8,329,886</u>	<u>6,256,181</u>
3.2.1 Murabaha receivable - gross	3.2.2	<u>8,146,332</u>	6,104,861
Less: Deferred murabaha income	3.2.4	<u>(213,623)</u>	(111,346)
Profit receivable shown in other assets		<u>(177,811)</u>	(86,636)
Murabaha financings		<u>7,754,898</u>	<u>5,906,879</u>

	2019	2018
	Rupees in '000	
3.2.2 The movement in murabaha financing during the year is as follows:		
Opening balance	6,104,861	4,348,615
Sales during the year	17,401,642	13,402,157
Adjusted during the year	(15,360,171)	(11,645,911)
Closing balance	8,146,332	6,104,861
3.2.3 Murabaha sale price	17,401,642	13,402,157
Murabaha purchase price	(16,653,493)	(13,020,273)
	748,149	381,884
3.2.4 Deferred murabaha income		
Opening balance	111,346	72,516
Arising during the year	748,149	381,884
Less: Recognised during the year	(645,872)	(343,054)
Closing balance	213,623	111,346

4. Fixed assets included right-of-use assets of Rs. 426,791 thousand and other liabilities included related lease liability of Rs. 471,290 thousand more fully explained in note 2.3.3 to the financial statements.

5. Due from Head Office

Inter-branch transactions are made on qard basis.

6. Deposits

	2019			2018		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
	Rupees in '000					
Customers						
Current deposits	11,870,383	3,358,637	15,229,020	7,495,475	868,171	8,363,646
Savings deposits	20,335,790	1,516,796	21,852,586	17,668,850	618,605	18,287,455
Term deposits	18,674,999	939,335	19,614,334	10,608,516	226,122	10,834,638
	50,881,172	5,814,768	56,695,940	35,772,841	1,712,898	37,485,739
Financial Institutions						
Current deposits	851	—	851	2,054	—	2,054
Savings deposits	4,040,132	—	4,040,132	756,421	—	756,421
Term deposits	525,000	—	525,000	440,000	—	440,000
	4,565,983	—	4,565,983	1,198,475	—	1,198,475
	55,447,155	5,814,768	61,261,923	36,971,316	1,712,898	38,684,214

	2019	2018
	Rupees in '000	
6.1 Composition of deposits		
Individuals	30,921,255	20,518,813
Government / Public Sector Entities	35,343	354,537
Banking Companies	3,652,371	1,510
Non-Banking Financial Institutions	1,072,426	1,263,776
Private Sector	25,580,528	16,545,578
	<u>61,261,923</u>	<u>38,684,214</u>

6.2 Particulars of deposits and other accounts

In local currency	55,447,155	36,971,316
In foreign currencies	5,814,768	1,712,898
	<u>61,261,923</u>	<u>38,684,214</u>

6.3 This includes eligible deposits of Rs. 26,123,251 thousand which are covered under deposit protection mechanism as required by the Deposit Protection Corporation Circular no. 4 of 2018.

7. It includes charity fund, details of which are given below:

Charity fund

Opening balance	291	479
Additions during the period		
Received from customers on account of delayed payment	6,663	241
Dividend purification amount	—	—
Other non-shariah compliant income	—	50
Profit on charity saving account	—	—
	<u>6,663</u>	<u>291</u>
Payments / utilization during the period		
Education	(1,445)	(120)
Health	(3,372)	(359)
	<u>(4,817)</u>	<u>(479)</u>
Closing balance	<u>2,137</u>	<u>291</u>

Details of charity where amounts exceeds Rs 500,000 is as follows:

The Citizen Foundation	674	120
Afzaal Memorial Thalassemia Foundation	674	120
Anjuman Behbood-e-Samat-e-Atfal	674	120
Shaukat Khanum Memorial Trust	674	119
Society for Welfare of Patient of SIUT	674	—
The Kidney Centre	674	—
The Layton Rehmatullah Benevolent Trust	674	—

	2019	2018
	Rupees in '000	
8. Unappropriated profit		
Opening balance	446,464	283,058
Add: Islamic banking profit for the period	1,088,033	446,464
Less: Taxation	—	—
Less: Reserves	—	—
Less: Transferred to head office	(446,464)	(283,058)
Closing balance	<u>1,088,033</u>	<u>446,464</u>
9. Contingencies and commitments		
Guarantees	4,646,271	1,893,613
Commitments	<u>4,175,877</u>	<u>3,362,786</u>
	<u>8,822,148</u>	<u>5,256,399</u>
10. Profit / return earned of financing, investments and placement		
Profit earned on:		
Financing	2,031,739	1,132,798
Investments	1,272,668	1,377,339
Placements	<u>1,663,142</u>	<u>180,292</u>
	<u>4,967,549</u>	<u>2,690,429</u>
11. Profit on deposits and other dues expensed		
Deposits and other accounts	3,143,486	1,742,222
Due to financial institutions	89,196	35,248
Lease liability against right-of-use assets	<u>62,828</u>	<u>—</u>
	<u>3,295,510</u>	<u>1,777,470</u>
12. Pool management		
Following pools are maintained by the Bank's Islamic Banking Division (IBD)		
–	General pool - local currency and foreign currencies	
	Deposit accepted in general pool local and foreign currencies is based on modaraba. Profit distributed to depositors as per pre agreed weightages.	
–	Special pool	
	Deposit accepted in special pools are based on modaraba. Profit distributed to depositors as per pre agreed profit sharing ratio.	
–	Islamic export refinance scheme musharakah pool	
	The IERS Pool caters the 'Islamic Export Refinance' requirements based on the guidelines issued by the SBP.	

Nature of general / specific pools local and foreign currencies.

a) Consideration attached with risk and reward

- Period, return, safety, security and liquidity of investment
- All financing proposals under process at various stages and likely to be extended in near future
- Expected withdrawal of deposits according to the maturities affecting the deposit base
- Maturities of funds obtained under modaraba arrangement from head office, Islamic Banking financial institutions
- Element of risk associated with different kind of investments
- Regulatory requirement
- Shariah compliance

b) Priority of utilization of funds

- Depositor funds
- Equity funds
- Placement / investments of other IBI
- Modaraba placement of HabibMetro (head office)

c) Weightages for distribution of profits

Profits are calculated on the basis of weightages assigned to different tiers and tenors (General pool). These weightages are announced at the beginning of the period, while considering weightages emphasis shall be given to the quantum, type and the period of risk assessed by applying following factors.

- Contracted period, nature and type of deposit / fund.
- Payment cycle of profit on such deposit / fund, i.e. monthly, quarterly or on maturity
- Magnitude of risk

Any change in profit sharing weightages of any category of deposit / fund providers shall be applicable from the next month (where applicable).

d) Identification and allocation of pool related income and expenditure:

The allocation of income and expenditure to different pools is being done based on pre-defined basis and accounting principles as mentioned below:

The direct expenditure shall be charged to respective pool, while indirect expenses including the establishment cost shall be borne by Habib Metro IBD as Mudarib. The direct expenses to be charged to the pool may include depreciation of ijarah assets, insurance / takaful expenses of pool assets, stamp fee or documentation charges, brokerage fee for purchase of securities, impairment / losses due to physical damages to specific assets in pools etc. However, this is not an exhaustive list; Habib Metro IBD pool management framework and the respective pool creation memorandum may identify and specify these and other similar expenses to be charged to the pool.

Islamic export refinance scheme musharakah pool

All the features and other details of this pool are in accordance with the SBP IERS scheme and all circulars and instructions issued from time to time in this regard.

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

- Agriculture, forestry, hunting and fishing
- Automobile and transportation equipment
- Chemicals and pharmaceuticals
- Electronic and electrical appliances
- Financial
- Production and transmission of energy
- Footwear and leather garments
- Textile
- Cement
- Others

Parameters used for allocation of profit, charging expenses and provisions etc.

a) Basis of profit allocation

	From 1 January 2019 to 31 December 2019	
	Local Currency	Foreign Currencies
- Rabbul maal	66.73%	10%
- Mudarib	33.27%	90%

b) Charging expenses

The direct expenses are charged to respective pool, while indirect expenses including the establishment cost shall be borne by IBD as mudarib.

c) Provisions

Specific provision amounting to Rs. 203,852 thousand (2018: Rs. 31,620 thousand) has been made during the year.

Mudarib share

	2019		2018	
	Rupees in '000	%	Rupees in '000	%
Rabbul maal	3,181,614	66.57	1,776,235	69.15
Mudarib	1,597,827	33.43	792,338	30.85
Distributable income	4,779,441	100.00	2,568,573	100.00

Amount and percentage of mudarib share transferred to depositors through Hiba (if any)

	2019	2018
	Rupees in '000	
Mudarib share	1,597,827	792,338
Hiba	184,665	49,235
Hiba percentage of mudarib share	11.56%	6.21%

Profit rate earned vs. profit rate distributed to the depositors during the year

	(% Per Annum)	
Profit rate earned	11.54	6.69
Profit rate distributed to depositors	7.09	4.23

PATTERN OF SHAREHOLDINGS

AS ON 31 DECEMBER 2019

Number of shareholders	Size of shareholding Rs. 10 each			Total shares held
331	1	to	100	8,259
330	101	to	500	113,230
246	501	to	1000	210,283
705	1001	to	5000	1,904,386
259	5001	to	10000	1,974,444
322	10001	to	15000	3,890,239
62	15001	to	20000	1,116,885
70	20001	to	25000	1,654,260
32	25001	to	30000	893,543
30	30001	to	35000	990,381
28	35001	to	40000	1,046,783
45	40001	to	50000	2,131,464
39	50001	to	60000	2,154,147
40	60001	to	80000	2,756,146
36	80001	to	100000	3,354,093
53	100001	to	150000	6,635,751
24	150001	to	200000	4,347,082
18	200001	to	250000	4,100,802
51	250001	to	500000	19,242,452
45	500001	to	1000000	31,783,948
15	1000001	to	1500000	17,413,584
11	1500001	to	2000000	18,035,092
16	2000001	to	3000000	37,503,151
6	3000001	to	4000000	21,084,482
14	4000001	to	10000000	80,464,316
9	10000001	to	52050000	248,628,223
1	534390001	to	534395000	534,394,054
2,838				1,047,831,480

COMBINED PATTERN OF SHAREHOLDINGS

AS ON 31 DECEMBER 2019

Categories of Shareholders	Number of Shareholders	Number of Shares held	(%)
Directors, CEO and their spouse(s) and minor children			
Muhammad Hyder	1	2,069,454	0.20
Farah Fatimah	1	1,037,157	0.10
Ali S. Habib	1	1,510,994	0.14
Munizeh Ali Habib	1	604,374	0.06
Mohamedali R. Habib	1	1,612,524	0.15
Syeda Mohamedali R. Habib	1	805,065	0.08
Anjum Z. Iqbal	1	500	0.00
Firasat Ali	1	500	0.00
Mohomed Bashir	1	16,340,985	1.56
Sohail Hasan	1	500	0.00
Tariq Ikram	1	600	0.00
Mohsin Ali Nathani	1	1,804,000	0.17
Associated Companies, undertakings and related parties			
Habib Bank AG. Zurich	1	534,394,054	51.00
Habib Insurance Company Limited	1	2,767,424	0.26
Executives	5	232,138	0.02
Public Sector Companies and Corporations	4	11,103,386	1.06
Banks, development finance institutions, non-banking finance companies, insurance companies, takaful, modarabas and pension funds	24	69,378,669	6.62
Mutual Funds			
CDC - Trustee AKD Index Tracker Fund	1	115,068	0.01
CDC - Trustee NIT-Equity Market Opportunity Fund	1	406,000	0.04
CDC - Trustee National Investment (Unit) Trust	1	39,475,607	3.77
CDC - Trustee MCB Pakistan Stock Market Fund	1	825,500	0.08
CDC - Trustee Pakistan Capital Market Fund	1	449,000	0.04
CDC - Trustee MCB Pakistan Asset Allocation Fund	1	577,000	0.06
CDC - Trustee Atlas Stock Market Fund	1	2,306,500	0.22
CDC - Trustee APF-Equity Sub Fund	1	200,000	0.02

Categories of Shareholders	Number of Shareholders	Number of Shares held	(%)
General Public			
a. Local	2,380	166,255,627	15.87
b. Foreign	252	5,283,171	0.50
Foreign Companies	30	104,330,131	9.96
Others	121	83,945,552	8.01
Totals	2,838	1,047,831,480	100.00

Shareholders holding 5% or more			
Habib Bank AG Zurich		534,394,054	51.00

TRADE IN THE SHARES BY EXECUTIVES *

NAME OF EXECUTIVE	Purchase	Sale
Mohsin Ali Nathani - CEO	1,137,000	–
Fuzail Abbas	50,000	–
Wahid Yunus Dada	107,500	–
Zulfiqar Alavi	–	30,000

* The expression “executives” means as key management includes all executives directly reporting to CEO.