

HABIBMETRO



2023

HABIBMETRO

ANNUAL
REPORT

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عَلَّمَ الْقُرْآنَ

OUR VISION

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



OUR VALUES

RESPECT

We respect our heritage, our team's dedication, and our customers' faith in us.

INTEGRITY

We set high professional and ethical standards for ourselves and each other.

TEAMWORK

We play to our strengths and build teams that deliver at the local and global levels.

RESPONSIBILITY

We take responsibility for ourselves, our actions, and always give our best.

COMMITMENT

We are committed to responding to the needs of our customers.

TRUST

We safeguard the trust that our customers place in us, and foster the same with passion.



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CORPORATE INFORMATION

BOARD OF DIRECTORS

CHAIRMAN

Mohamedali R. Habib

PRESIDENT & CHIEF EXECUTIVE OFFICER

Khurram Shahzad Khan

DIRECTORS

Ali Abbas Sikander
Hamza Habib
Mohomed Bashir
Mohsin A. Nathani
Muhammad H. Habib
Rashid Ahmed Jafer
Tahira Raza

BOARD COMMITTEES

AUDIT

Mohsin A. Nathani
Muhammad H. Habib
Rashid Ahmed Jafer
Tahira Raza

CREDIT

Hamza Habib
Khurram Shahzad Khan
Mohamedali R. Habib
Mohsin A. Nathani
Rashid Ahmed Jafer

HUMAN RESOURCE & REMUNERATION

Mohamedali R. Habib
Mohomed Bashir
Mohsin A. Nathani
Tahira Raza

SHARIAH BOARD

Tan Sri Dr. Mohd. Daud Bakar - Chairman
Mufti Abdul Sattar Laghari - Member
Mufti Khawaja Noor ul Hassan - Resident Member

COMPANY SECRETARY

Ather Ali Khan

REGISTERED OFFICE

Ground Floor, HABIBMETRO Head Office
I. I. Chundrigar Road,
Karachi - 74200, Pakistan

INFORMATION TECHNOLOGY

Ali Abbas Sikander
Hamza Habib
Khurram Shahzad Khan
Mohamedali R. Habib

RISK & COMPLIANCE

Khurram Shahzad Khan
Mohsin A. Nathani
Muhammad H. Habib
Rashid Ahmed Jafer
Tahira Raza

SHARE REGISTRAR

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

OUR BOARD OF DIRECTORS



Mr. Mohamedali R. Habib
Chairman

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 other directorship positions in Indus Motor Company Limited and Thal Limited. He is also serving as Chairman of HBZ Finance Ltd. Hong Kong.



Mr. Muhammad H. Habib
Director

Mr. Habib is a banker by profession, with over 40 years of experience. He is currently the President of Habib Bank AG Zurich. Additionally, he holds directorships of HBZ Bank Ltd., South Africa, Habib Canadian Bank, Canada, and Gefan Finanz AG, Switzerland. Mr. Habib is a graduate in Finance from Babson College, Boston MA, USA.

Mr. Khurram Shahzad Khan
President & CEO



Mr. Khurram is a seasoned banker with over 30 years of experience spanning Risk and Credit Management, Corporate, Investment and Transaction Banking in local and multinational financial institutions, including Banque Indosuez and Standard Chartered Bank, where he served as Country Chief Risk Officer & Chief Credit Officer.

He has held several senior management positions, including Chairman, Board of Directors at Standard Chartered Medaraba and Standard Chartered Leasing and Director at HABIBMETRO Financial Services.

Prior to taking charge as President & CEO of HABIBMETRO, he led the Corporate & Transaction Banking Group at the Bank, as an SEVP and a member of the Management Committee.

Khurram is an MBA from University of Rochester, USA, and also holds a BSc Engineering degree from UET Lahore. He is also a Certified Director.



Ms. Tahira Raza
Director

Ms. Tahira Raza has an experience of over four decades in the banking industry of Pakistan. Previously, she has served as the President and Chief Executive Officer of First Women Bank Limited. Her areas of expertise include risk, Credit, Human Resource Management, Audit, Trade Finance & General Banking. She strongly believes that Leaders must continue to learn and improve their Leadership, Corporate Governance and Project Management Skills.

Ms. Raza is a Master in Business Administration (MBA) in Banking and Finance from the Institute of Business Administration (IBA) Karachi and is a banking diploma holder from the Institute of Bankers in Pakistan (IBP).



Mr. Rashid Ahmed Jafer
Director

Mr. Rashid Ahmed Jafer has an experience of 37 years with M/s. A.F. Ferguson & Co., including 23 years as a partner at the organization. He is a fellow member of the Institute of Chartered Accountants of Pakistan (ICAP) and enjoys an expertise in statutory audit.

He has been a member of the Professional Standards and Technical Advisory Committee of ICAP for several years and was a member of the SBP - ICAP Coordination Committee. Currently he is also a member of the Quality Assurance Board of ICAP.

Mr. Mohsin Ali Nathani

Director



Mohsin's banking experience of almost three decades spans geographically across Asia (East and South-East), Middle East and Levant regions. He is currently the Regional CEO of Habib Bank AG Zurich. Prior to his current role, Mohsin was the President & CEO of HABIBMETRO from April 2018 to July 2023.

Previously, Mohsin was associated with Standard Chartered PLC as the UAE CEO and Standard Chartered Bank Pakistan as the CEO. Prior to that, he was at Barclays Bank Pakistan as their Country Head and Managing Director.

Mohsin's experience spreads across corporate banking, fixed income markets and Islamic Banking. Earlier in his career, he has been in senior positions, heading the Asian syndicated loans business at ABN AMRO Singapore, co-heading the Asian debt markets at Citigroup Hong Kong and holding the Regional Head (Middle East) of Corporate Banking position at Citigroup Dubai. He also served as the Senior Credit Officer & Senior Securities Officer.

Mohsin is an MBA from the Institute of Business Administration, Karachi. He enjoys playing bridge and is actively involved in social, educational and charitable activities. He is currently serving as a member of the Boards of Directors of HABIBMETRO, Habib Canadian Bank, Habib Bank Zurich (Hong Kong), Abbott and I-Care Pakistan.

Previously, he held directorial positions on boards of CDC, Standard Chartered Bank, SCB Modaraba, SCB Leasing, Pakistan Centre for Philanthropy (PCP), Kidney Centre and also served as a trustee of the IBA endowment fund.



Mr. Ali Abbas Sikander

Director

Mr. Abbas is recognized as a decisive and pioneering C-level Officer and advisor reputed for strategy and leadership, with a wealth of experience in Financial and Banking sectors. For over 25 years he has been driving e-business, customer product solutions, revenue generation and innovative financial solutions through use of technology and strategic partnerships.

As a highly personable subject matter expert in Payments, Microfinance, and Transactional Banking, this trusted board advisor has demonstrated adaptability and strategic thinking to develop high performing teams, systems and solutions in highly competitive yet traditionally structured environments.

With the technical and commercial expertise to deliver tangible results Mr. Abbas quickly adds value to any forward thinking organization and its partners.



Mr. Hamza Habib

Director

Mr. Hamza Habib was appointed as a non-executive director of Habib Metropolitan Bank Ltd. in 2020. He is also a director on the board of Agriauto Industries Ltd, a PSX-listed company. He has over 14 years of banking experience and is currently the Head of Corporate Banking at Habib Bank AG Zurich (HBZ) in Dubai, UAE. Mr. Habib has held various positions within the HBZ Group, including Alternate Chief Executive at Habib Bank Zurich (Hong Kong) Ltd, prior to which he was an Area Head with HBZ in the UAE. He also worked with Standard Chartered Bank in Geneva and London.

Mr. Hamza Habib graduated from Babson College in Wellesley, Massachusetts (USA), with a Bachelor of Science in Business Management. He is also a Certified Director from the Pakistan Institute of Corporate Governance.

Mr. Mohamed Bashir

Director



Mr. Mohamed Bashir has a very rich and extensive experience in commerce and industry and is an experience businessman and a well-known figure in the Textile industry. Mr. Bashir joined the Board of Gul Ahmed Textile Mills Limited in 1982. He is a fellow member of Chartered Institute of Management Accountants (CIMA), United Kingdom.

Presently, Mr. Bashir is the Chairman of the Board of Directors of Gul Ahmed Textile Mills Limited and Founding Director and Former Chairman of the Pakistan Business Council. He is also the Vice President of International Cotton Association (ICA). Mr. Bashir holds Directorships of Gul Ahmed Energy Limited, Ideas (Private) Limited, Gul Ahmed Holdings, Gul Ahmed Textile Mills (Europe) Ltd. UK, Gul Ahmed International Limited (FZC) UAE, Habib Metropolitan Bank Limited, Education Fund for Sindh and Habib University Foundation. He is also a Member of Pakistan France Business Council, Pakistan German Business Council and Pakistan Swedish Business Council.

Mr. Bashir has also served as the President of International Textile Manufacturers Federation (ITMF) and as Chairman of All Pakistan Textile Mills Association and former Honorary Consul General of Sweden. In recognition of his services he was awarded Sitara-e-Imtiaz by the President of Pakistan in 2006 and has also been conferred as Justice of Peace. On April 7, 2017, Mr. Bashir was awarded with the Grade d'Officier in the National Order of Merit by the President of the French Republic and was also awarded the Knight of King, Northern Star Order, first class by the King of Sweden, Mr. Carl Gustaf on 19 February 2020.

OUR MANAGEMENT

Ahmed Shah Durrani
Group Executive Retail Bank
& Chief Digital Officer

Yawer Gulani
Head of Systems,
Policies & Procedures

Ali Mansoor
Head of Credit

Syed Intikhab Hussain Rizvi
Country Treasurer

Muhammad Raza Dyer
Head of Operations

Asad Ali
Head of Human Resources



Najeeb Gilani
Head of Internal Audit

Syed Abu Tufail
Head of Information Technology

Fuzail Abbas
Group Executive/Chief Financial Officer

Haris Ahmed
Joint Head Commercial
North

Saleemullah Shaikh
Head of Islamic Banking

Syed Hasnain Haider Rizvi
Head of Compliance
& Legal

Syed Ather Ahmed
Head of Commercial Banking
(South) & FI

Amanullah Shaikh
Head of Corporate
& Transaction Banking



Khurram Shahzad Khan
President & Chief Executive

Zulfiqar Alavi
Chief Risk Officer

Wahid Younus Dada
Group Executive Remedial Management
& General Service Division

AWARDS AND ACCOLADES

Championship Award
Global Islamic Finance Awards - 2023

**Community Impact & Crisis
Disaster/Assistance Awards**
12th Corporate Social Responsibility
Summit Awards

**Best Bank For Cash
Management &
Payment and
Collection (Pakistan)**
Global Transaction Banking
Innovation Awards 2023



**US Dollar Clearing Elite
Quality Award 2022**
J.P. Morgan

**Brand Of The Year 2022
in General Banking**
Brand Of The Year Awards 2022

**Best Commercial Bank
& Most Customer
Centric Bank in
Pakistan**
International Finance
Awards - 2023

**Best Brand Building
and/or Awareness
Campaign**
Dragons of Pakistan

DEI Learning & Development, Recruitment and Community, Govt. Relation & Philanthropy Awards
Annual Global DEI Benchmark Awards 2023

PSX Top 25 Companies Award
Pakistan Stock Exchange Limited

IRBA Excellence Award - Islamic Banking Strategy for Global Growth 2022
Islamic Retail Banking Awards

Best Short Form Video
Pakistan Digital Banking Awards 2023



Islamic Banking & Takaful Achievement Award
11th Federation of Pakistan Chambers of Commerce & Industry Achievement Awards

Employee Engagement/Volunteering and Relief Efforts Awards
National Forum For Environment & Health 15th Annual International CSR Summit

Best Mid-Sized Bank (Runner-Up)
CFA Pakistan Awards

Financial Highlights

(Rs. in Million)

Total Assets



Advances - Gross



Total Deposits



Shareholder's Equity



Operating Profit



EPS (In Rs.)



CHAIRMAN'S REVIEW



Dear Shareholders,

On behalf of the directors of Habib Metropolitan Bank, it gives me pleasure to present this report on overall performance of the Bank and effectiveness of the role played by the Board of Directors in achieving objectives of the Bank, together with the financial statements of the Bank for the year ended 31 December 2023. The operating financial results and appropriations on an unconsolidated basis, as recommended by the Board of Directors, are summarized below:

	Rupees in '000
Profit before provisions and tax	56,734,313
Provisions and write offs - net	(4,739,101)
Profit before tax	51,995,212
Taxation	(27,611,394)
Profit after tax	24,383,818
Un-appropriated profit brought forward	36,464,323
Transfer from surplus on revaluation of assets - net of tax	162,415
Other comprehensive income	71,003
Profit available for appropriation	61,081,559
Appropriations:	
Transfer to Statutory Reserve	(4,876,764)
Cash dividend (Rs. 3.25 per share) - 2022	(3,405,452)
Interim Cash dividend (Rs. 5.00 per share) - 2023	(5,239,157)
	(13,521,373)
Un-appropriated profit carried forward	47,560,186

The Directors are pleased to propose a final cash dividend of Rs. 5.50 per share (55%) for the year under review. This is in addition to the interim cash dividend of Rs. 5.00 per share (50%) already paid. As such, the total dividend for the year 2023 amounts to Rs. 10.50 per share (105%).

During the year under review, Pakistan continued to face political uncertainty coupled with macro-economic challenges. These are being managed effectively by the caretaker government.

By the Grace of Allah, your Bank continues to make steady progress. The total assets crossed Rs. 1.5 trillion, total deposits crossed Rs. 1 trillion as compared to Rs 880.7 bn at the end of previous year. Investments increased to Rs 925.4 bn translating a growth of 27.9% as compared to last year.

HabibMetro posted profit before tax of Rs. 52.0 billion for the year 2023. The performance translates into after tax earnings of Rs. 23.27 per share.

At year-end, HabibMetro's equity stands at Rs. 93.28 billion, with a capital adequacy level of 18.26% against the required 11.50%.

The primary role of the Board is to set the overall strategy for the Bank and enhance its long-term strategic value. The Board's focus remains the overall governance structure to ensure effective oversight of the business, establishing a risk & control framework, determining Bank's level of risk tolerance through different policies and documents relating to operational, regulatory, compliance; and financial performance of the Bank.

The composition of the Board has been established to ensure the availability of a pool of resources with relevant knowledge and experience to manage the strategic objectives of the Bank. It comprises of three independent directors including one female director and five non-executive directors.

The Board ensures that the business of the Bank is conducted in an efficient and effective manner within an established framework of effective system of internal controls, robust risk management processes and compliance with regulatory requirements. 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.

An internal 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.

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

I would like to take this opportunity to place on record my sincere gratitude to the Ministry of Finance, the State Bank of Pakistan and the Securities and the Exchange Commission of Pakistan for their continued support and guidance. I also acknowledge our valued customers for their trust and 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: 15 February 2024

DIRECTORS' REPORT TO THE SHAREHOLDERS

Dear Shareholders,

On behalf of the Board of Directors, we are pleased to present the annual financial statements of Habib Metropolitan Bank Limited (HABIBMETRO) for the financial year ended 31 December, 2023.

ECONOMIC AND BANKING REVIEW

During the period under review, Pakistan continued to face multiple challenges on economic front which were managed effectively by the government through fiscal measures including import rationalization, interest rate management and swiftly implementing austerity measures required by IMF. This resulted in improved external accounts and continued fiscal consolidation. Several key developments have taken place since the last recorded period, including improvement in foreign exchange reserves on the basis of monthly current account surplus and significant financial inflows.

While business sentiments continued to improve, as reflected in recent surveys, the geopolitical situation has led to a surge in freight charges and poses risks to global trade and commodity prices. Additionally, the decline in inflation anticipated earlier for the period decelerated due to significant adjustments in energy prices. Moreover, the Pak rupee depreciated by 24.4 percent against US Dollar, during the year under review. The average inflation for FY24 is projected to range between 23-25 percent. However, to achieve the long-term inflation target of 5-7 percent by September 2025, factors such as upholding a tight monetary policy stance, continued fiscal consolidation and realization of planned external inflows will play instrumental roles. The State Bank of Pakistan (SBP) increased the policy rate by cumulative 600 basis points to 22 percent in 2023 (versus increase of 625 basis points during 2022).

The real GDP growth remained unchanged in the range of 2-3 percent for FY24 with moderate economic recovery, primarily driven by the agricultural sector. Industrial sector also witnessed moderate growth in November 2023, recovering from a marginal decline observed in the initial five months of FY24. Moreover, the capacity utilization of certain industries such as textile and FMCGs is increasing on a month-on-month basis.

Current account surplus recorded in December 2023 led to a substantial decrease of 77 percent in H1-FY24 deficit, bringing it to USD 0.8 billion. The SBP expects the projected current account deficit to remain in the range of 0.5-1.5 percent of GDP during FY24. The exports registered a year-on-year increase of 5.3 percent during H1 of FY24. Simultaneously, imports declined considerably due to lower international commodity prices and better domestic crop output towards the end of H1-FY24.

The banking sector's deposit base amounted to Rs. 27.84 trillion at the end of December 2023 with a growth of 23.9 percent, meanwhile, advances grew by 3.7 percent year-on-year and stood at Rs. 12.35 trillion. Investments increased by 41.2 percent year-on-year to be recorded at Rs. 25.28 trillion.

BANK'S PERFORMANCE DURING THE YEAR

By the Grace of Allah, HABIBMETRO has posted a profit before tax of Rs. 51,995 million for year ended December 31, 2023, an increase of 88.3 percent year-on-year. The earnings per share amounts to Rs. 23.27.

The Bank's net interest income increased by 75.9 percent year-on-year and amounted to Rs. 71,418 million. Total non-interest income increased by 15.7 percent and amounted to Rs. 15,294 million including Fee and commission income increased by 18.5 percent and amounted to Rs. 9,396 million compared to Rs. 7,931 million in 2022.

Investments increased to 925,412 million by 27.9 percent while Net Advances decreased by 4.9 percent during the year and amounted Rs. 412,049 million, respectively. Deposits increased by 14.9 percent from their 2022 year-end level to Rs. 1,012,303 million. The Bank continues to focus on low-cost deposit mobilization as a result of which CA mix increased to 36.9 percent.

The Bank's Net Equity exhibited a growth of 25.2 percent and amounted to Rs. 93,275 million, with a capital adequacy level of 18.3 percent at the end of the year under review.

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

The Bank maintained its ratings of AA+ for long term and A1+ for short term assigned by Pakistan Credit Rating Agency Limited (PACRA). 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 adding 25 new branches to its network in 2023 - in doing so, your Bank's outreach spread to 13 new cities, with an increased footprint of 525 branches in 207 cities across Pakistan.

HABIBMETRO enjoys correspondent relationships with banks of repute in more than 100 countries, with large number of banks having formal credit lines for the Bank. HABIBMETRO provides comprehensive banking services and products including specialized trade finance products, and an array of products and services such as secured SMS and Internet & Mobile Banking services, globally accepted Visa Debit Cards and a nationwide network of 550+ ATMs.

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

TRANSACTION BANKING

HABIBMETRO's Transaction Banking is serving over 2,000 business customers. The period under review was considered the best year for Transaction Banking at HABIBMETRO. During the year, various new product offerings were made available for the Bank's customers. The Bank revamped its existing corporate collections module (Net2Bank) and offered state-of-the-art transaction banking facilities to cater to client's collections requirements and enhancing customer experiences. This module efficiently addresses diverse daily collections for clients in both integrated and non-integrated modes.

The bank relaunched its Corporate Web Banking Payment Portal, incorporating numerous new features which resulted in a significant increase in payments throughput volume.

The Bank won two international awards in a second consecutive year, for the Transaction Banking, from "Digital Bankers".

1. Best Bank for Payments & Collections - Pakistan
2. Best Bank for Cash Management - Pakistan

This recognition underscores HABIBMETRO's commitment to excellence in the realm of transaction banking.

DIGITAL CHANNELS

In 2023, HABIBMETRO witnessed a significant growth in digital banking penetrations & usage. The number of customers using digital banking services substantially increased reflecting the successful adoption of digital channels. This growth can be attributed to the bank's strategic initiatives to enhance digital offerings, improve user experience, and increase awareness of digital banking benefits.

HABIBMETRO's mobile app played a pivotal role in driving digital engagement. The bank witnessed a substantial increase in mobile app downloads, with a 100% growth in active users and transaction volumes compared to the previous year. The mobile app's user-friendly interface, robust security features, and diverse functionalities contributed to its popularity among customers. On app stores, HABIBMETRO Insta Mobile App maintains its position as one of the top-rated apps in the industry.

The focus on deepening debit card acquisitions yielded positive results for HABIBMETRO in 2023. The bank successfully expanded its customer base by promoting the benefits of using debit cards. As a result, the number of active debit cards have now crossed 650,000+, indicating a growing preference for cashless transactions and digital payments.

In 2023, the Contact Center successfully launched new Interactive Voice Response (IVR) services to enhance customer experience and streamline call handling processes. The introduction of advanced IVR functionalities, such as debit card activation & blocking, and cheque book activation & stop cheque significantly improved the efficiency and effectiveness of customer interactions. These enhancements resulted in reduced wait times, increased first-call resolutions, and overall customer satisfaction.

HUMAN RESOURCES

HABIBMETRO has continued to demonstrate growth and progress in its workforce through employee engagement and well-being, learning and development, diversity, equity, and inclusion (DEI) and integrated talent management leading to an efficient and progressive work environment.

DEI has remained the prime focus, with over 19% female staff, the Bank has surpassed gender diversity targets for 2023. The drive for diversity included the induction of female branch staff, batch hiring, formation of the DEI Committee comprising of senior management, formation of the DEI Sub-Committee with a specialized task team, establishment of the Female Leadership Working Group, DEI sensitization sessions and employee engagement to achieve goals and facilitate inclusion.

HABIBMETRO continues to recruit persons with disabilities with a focus on developing them to become independent professionals through internships and by offering them learning opportunities.

The Bank supported the growth of branches across Pakistan with the strength of the Human Resources Division and its specialties. An interim inflationary allowance was also introduced for junior and middle management grades in 2022, to provide financial relief and comfort to staff amidst the challenging economic climate. It continued through 2023 to support them during significant inflationary pressure.

Staff development remained key as the Bank invested in training in-house and digital learning including external learning opportunities, both locally and internationally. The Bank has been responsive to staff, their challenges and their development needs forging a relationship of trust, respect and commitment with employees nationwide.

HABIBMETRO remains an equal opportunity employer and strives to be an Employer of Choice for current and future bankers in Pakistan.

CORPORATE SOCIAL RESPONSIBILITY

HABIBMETRO's role as a trusted institution extends beyond financial performance and the Bank recognizes its responsibility to be a conscientious corporate citizen. Therefore, our philanthropic vision is guided by our core values of responsibility, commitment and respect, and is focused on continued investment in the communities we serve.

During the year, the Bank made significant contributions to healthcare, education, environmental sustainability, community development and diversity and inclusion. We forged partnerships with not-for-profit organizations to benefit the community, particularly the underprivileged segment. The total contribution for the year amounted to PKR 285 million, with detailed information available in the notes to the accounts.

The Bank also recognizes its role in fostering economic growth and its contribution towards the community and its development. The Bank continues to be one of the leading corporate taxpayers with more than PKR 24.91 billion paid as direct taxes to the Government of Pakistan during the year 2023. Additionally, an amount of PKR 31.33 billion indirect tax and withholding income tax deductions for the exchequer was collected through the Bank's network.

GREEN BANKING INITIATIVES

HABIBMETRO recognizes its responsibility towards environmental, social and governance practices. The Bank believes in playing its part in the collective national and global efforts to mitigate the deteriorating environmental and social circumstances. Environmental, Social and Governance (ESG) aspects are becoming a part of the strategic as well as operational considerations of the Bank. The Bank also strives to align itself with the regulatory expectations and requirements in this regard, and has put in place a Green Banking Policy with focus on the following areas:

- **Environmental & Social Risk Management**

For improving financial stability through management and mitigation of environmental and social exposures of financing portfolios, HABIBMETRO is in the process of integrating Environmental and Social Risk Management (ESRM) considerations into the credit risk assessment process, for the purpose of enacting ESRM practices effectively.

- **Business Facilitation**

For fostering development of 'green market' through actively tapping the emerging viable business opportunities of financing; including clean energy and resource efficiency projects. The Bank is actively pursuing a green portfolio through soliciting clients for Renewable Energy related financing through SBP's Renewable Energy Refinance Scheme.

- **Own Impact Reduction**

The Bank has an increased focus on potential re-engineering of internal operations and procedures of the Bank. To reduce impact on environment and society, the Bank is adopting energy efficient solutions such as, low energy consumption LEDs, inverter-based air conditioning units, UPS & solar panels as primary backups for ATMs.

- **Capacity Building**

To increase the understanding and acceptability towards the initiative and eco-friendly practices, the Bank arranges learning and training opportunities for its team through internal and external sources. This enables better understanding of the Green Banking concepts and assists the team to perform better environmental due diligence in assessing credit proposals, adopting own impact reduction measures and helps in business facilitation.

CUSTOMER GRIEVANCES HANDLING:

HabibMetro Bank is committed to provide an immaculate customer experience, which is considered as one of the most important factors in driving growth. The Bank's consumer grievance handling mechanism serves as the first line of defense against the grievances of the Bank's customers and therefore it is ensured that all the grievances received are handled fairly, transparently and efficiently.

In order to make the complaint lodging and handling process more visible and accessible, awareness was given through social media platforms and notifications through SMS were also sent to the Bank's customers from time to time regarding modes of complaint lodgment i.e. email, call center, letter, website, branch etc. All complaints received are investigated and resolved / disposed at the earliest and the customer is kept up-to-date with respect to the progress of the grievances through SMS, email and letters. Further, customers' feedback mechanism is also in-place for complaint resolution and grievance handling.

In the year 2023, total of 50,866 complaints were received at the Bank and the overall turnaround time of resolved complaints was 6.5 working days. The Bank also conducts detailed root cause analysis to identify gaps and improve processes, products and services on a continuous basis.

CORPORATE GOVERNANCE

BOARD MEETINGS

Details of the meetings of the Board of Directors and its Sub-Committees held during the year 2023 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	6/6	–	2/2	4/4	–	1/1
Mr. Ali Abbas Sikander **	3/6	–	–	–	–	1/1
Mr. Anjum Z Iqbal *	1/6	1/4	1/2	–	1/3	–
Mr. Firasat Ali *	1/6	–	–	1/4	1/3	–
Mr. Hamza Habib	6/6	3/4	1/2	–	–	1/1
Mr. Mohomed Bashir	6/6	0/4	–	2/4	–	–
Mr. Muhammad H. Habib	6/6	1/4	1/2	–	2/3	–
Mr. Rashid Ahmed Jafer	6/6	4/4	2/2	–	2/3	–
Ms. Tahira Raza	6/6	2/4	–	4/4	2/3	–
Mr. Mohsin A. Nathani **	6/6	1/4	2/2	1/4	3/3	–
Mr. Khurram Shahzad Khan ***	3/6	–	1/2	–	1/3	1/1
Meetings held	6	4	2	4	3	1

* Mr. Anjum Z. Iqbal and Mr. Firasat Ali stand retired at 31st AGM held on March 30, 2023.

** Mr. Ali Abbas Sikander and Mr. Mohsin A. Nathani have been elected at 31st AGM held on March 30, 2023.

*** Mr. Khurram Shahzad Khan assumed the charge as President & CEO w.e.f. August 1, 2023 in place of Mr. Mohsin Ali Nathani.

Note: The Board Committees have been reconstituted during the year after the election of Board of Directors.

CHANGES IN THE BOARD OF DIRECTORS

During 2023, election of directors was held where Mr. Anjum Z. Iqbal and Mr. Firasat Ali did not offer themselves for election as directors, hence they stand retired and on their place Mr. Ali Abbas Sikander and Mr. Mohsin Ali Nathani were elected.

The Board of Directors place on record and expresses their sincere gratitude to Mr. Anjum Z. Iqbal and Mr. Firasat Ali for their outstanding contributions during the tenure on the Board. The Board also acknowledges and appreciates the dedication and commitment and wishes them very best in their future endeavors.

BOARD REMUNERATION POLICY

The remuneration policy of non-executive directors, including independent directors, has been approved in line with SBP's guidelines dated 31 March 2020. Significant features of this policy are as under:

- All Non-Executive directors shall be entitled for remuneration as determined by the Board, from time to time, for him/her attending meetings of the Board, its sub-committees and shareholders including the holding of the office of Chairman of the Board or its sub-committees.
- The scale of remuneration under the policy shall be recommended by the Board for shareholders' approval on pre or post facto basis.
- The level of remuneration so determined shall not, in any case, exceed the limits defined by the SBP.

-
- All the Directors will be eligible for travelling, boarding and lodging expenses, including ancillary expenses, for the purpose of attending meetings or engagements related to the Bank's business.

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 shareholding as on 31 December 2023 is annexed to the report.

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

AUDITORS

The present auditors M/s. KPMG Taseer Hadi and Co., Chartered Accountants, retired and being eligible offered themselves for reappointment.

As required under the Code of Corporate Governance, upon the recommendation of the Audit Committee, the Board has recommended the appointment and remuneration of KPMG Taseer Hadi and Co., Chartered Accountants as auditors of the Bank for the year ending 31 December 2024.

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.
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 Listed Companies (Code of Corporate Governance) Regulations, 2019.
8. The key operating and financial data of last six years of the Bank is placed below:

Rs. in millions

	2023	2022	2021	2020	2019	2018
Shareholders' Equity	93,275	74,507	62,975	57,648	44,238	37,002
Paid-up capital	10,478	10,478	10,478	10,478	10,478	10,478
Total assets	1,556,417	1,397,444	1,224,416	1,017,572	859,771	673,396
Deposits	1,012,303	880,697	772,286	680,956	611,869	543,578
Advances	412,049	433,503	398,382	312,167	263,948	226,690
Investments	925,412	723,579	667,996	584,532	448,910	346,666
Profit pre-tax	51,995	27,617	21,541	20,037	11,238	10,074
Profit post-tax	24,384	14,261	13,459	12,008	6,583	6,161
Earnings per share (Rs)	23.27	13.61	12.84	11.46	6.28	5.88
Cash dividend (percent) - final	55	32.5	30	25	25	20
- interim	50	20	20	20	-	-
No. of staff	7,193	6,915	6,410	5,603	5,192	4,841
No. of branches/sub branches	525	500	459	406	392	352

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

- Provident Fund Rs. 6,026.3 million as at 31 December 2023
- Gratuity Fund Rs. 2,491.8 million as at 31 December 2023

RISK MANAGEMENT

STATEMENT ON RISK MANAGEMENT FRAMEWORK

HABIBMETRO has a robust and rigorous risk management framework catering to its complexity, size, and target market. Risk Management considerations are embedded into 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 framework ensures comprehensive management of risk across all areas of the Bank. It has a role at all levels and tiers of the Bank with risk management considerations at the strategic, tactical as well as the operational levels. It is equipped with the capacity and flexibility to respond to evolving market, regulatory as well and internal risk requirements.

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 approval procedures, which have been structured to ensure proper evaluation, adequacy of security, and monitoring of exposures on an ongoing basis. All these risk-mitigation measures are further facilitated by centralized trade processing and credit administration.

HABIBMETRO is in the process of implementing the IFRS-9 standards. IFRS-9 replaces the existing guidelines of the IAS 39 Financial Instruments: Recognition and Measurement. This includes revised standards 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. The Bank is geared for timely implementation of the SBP guidelines pertaining to IFRS-9 timelines issued from time to time.

MARKET / LIQUIDITY RISK

The role of specialized Market & Liquidity Risk Unit is to systematically identify, assess, monitor, and report all related financial risk exposures and limits in the form of interest rate, equity, currency or foreign exchange and financial institutions (FI). The monitoring of all these risks is ensured in line with Board approved Market and Liquidity Risk Management Policy. The Asset and Liability Management Committee periodically reviews economic & business environment and recommends level of exposures along with limits for FX, Money Market & Equity. The strategy is to balance risk, liquidity, and profitability. Furthermore, the Board approved investment policy focuses on, amongst other aspects, asset allocation and operating guidelines.

STRESS TESTING

The Bank proactively uses stress testing techniques 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.

CAPITAL MANAGEMENT

The Bank has maintained its Capital Adequacy Ratio (CAR) above the regulatory thresholds under the prescribed Basel regulations and instructions issued by the regulator from time to time. It also has in place a Board approved Internal Capital Adequacy Assessment Process and Risk Appetite Statement. The Internal Capital Adequacy Assessment Process (ICAAP) Framework is well defined and is reviewed/updated on an annual basis.

OPERATIONAL RISK

Operational risk is present in all aspects of bank activities and can expose the Bank to material financial and/or reputational losses. Identification of threats prior to materialization of the risk and strengthening of controls for mitigation, have always been the Bank's priority. The Bank has a dedicated Operational Risk Management (ORM) Unit that designs and implements the Operational Risk framework across the organization. The ORM unit engages and regularly collaborates with the Bank's business / support units to review and determine the inherent operational risks, applicable controls and mitigations and an assessment of residual risk. This leads to improved quality of control infrastructure and strengthened processes and management information.

The Bank is committed to enhance Operational Risk coverage and integrate it with other risk classifications (Market, Credit Risk, Compliance and legal risks) under a comprehensive approach to manage the dynamic environment and evolving risk landscape. The Bank's operational risk management infrastructure remains strengthened by the oversight of the Operational Risk and Control Committee (ORCC) which ensures the effective and efficient management of the Bank's significant operational risks.

FRAUD RISK

The Bank expends dedicated efforts towards reduction of fraud incidents and misconduct. A robust policy is in place to strengthen the process of prevention, detection, investigation and reporting. The Bank has a dedicated Fraud Risk Management Unit which ensures the effective management of the Bank's fraud risk with the support and oversight of the Board Risk & Compliance Committee (BR&CC).

With greater uptake of the Bank's alternate delivery banking channels, the FRM Unit works on a 24/7 basis to monitor digital banking transactions, identifying trends and activities inconsistent with normal transactional behavior or with the propensity of fraud risk. The Bank endeavors to safeguard its customers from fraudulent Activities by adopting best practices and collaborating with industry partners.

BUSINESS CONTINUITY RISK

The Bank constantly works on improving its operational resilience through an effective Business Continuity Framework. The framework consists of a policy and comprehensive plans with detailed roles, responsibilities, actions plans and recovery strategies, drawn from a rigorous risk and impact analysis aims to respond to disastrous situations. It complies with the regulatory framework and best industry practices, subject to regular reviews and audits. From an execution perspective, a Crisis Management Team constituting of the Senior Management, monitors situations and takes the necessary timely decisions in the event of any crisis situations.

As a part of a contingency arrangement, the Bank maintains multiple BCP Sites along with facilities for staff to work from home, if required. Staff readiness to respond in such situations is ensured through training, awareness and testing efforts. The entire effort is based on the purpose of building a resilient culture within an organization, whereby continuity of operations and continued provision of service is always prioritized.

INFORMATION SECURITY RISK

The Information Security Department (ISD) is a part of the Risk Management Division of the Bank and works as a second line of defense to protect the Bank's information and information system. With the increasing use of technology in the customer service delivery, the objective of Information Security Department is to minimize the information security risks by ensuring confidentiality and availability of customer's financial and personal information. ISD performs activities such as risk assessments, reviews, analysis, reporting and monitoring of risks to achieve the Bank's goal of managing Information and Technology risk within its risk appetite. It also works to increase the level of understanding and awareness of the information security risks and their mitigations.

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) / Combatting Proliferation Financing (CPF) 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 / CPF perspective along with maintaining relationship with regulatory authorities. An automated Compliance Risk Management (CRM) system has also been implemented wherein a regulatory library is maintained that includes circulars issued by the SBP and other relevant regulatory authorities. Furthermore, facilitation and liaison with the SBP and its on-site Inspection teams is a key role played by this unit to ensure smooth conduct of the SBP inspection. Inquiries from Law Enforcement Agencies (LEAs) are also facilitated through Compliance Function.

With the highly challenging and demanding global AML/CFT/CPF 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 also exercises oversight of its subsidiaries from an AML/CFT/CPF perspective

The Bank's 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. Furthermore, 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. Bank regularly reports Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs) to the Financial Monitoring Unit (FMU) through goAML portal.

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. Bank has taken additional steps to curb risks associated with Trade Based Money Laundering. This includes performing due diligence of all trade transactions and updating trade KYCs / risk profiles of trade customers, screening of counterparties, vessels, banks etc. Bank has also implemented a renowned Technology-based solution for mitigation of ML/TF risks associated with Trade Transactions. In addition to screening, the system supports in identification of dual use goods and tracking of vessels to further strengthen existing controls.

In addition, a dedicated CFT Desk is in place which focuses on mitigation of TF risk in the Bank.. In order to ensure compliance of UNSC resolutions and that bank's services are not extended to proscribed or designated individuals and entities, systems processes & controls are monitored and upgraded from time to time.

Training & Development of staff on ML /TF / PF risks and their mitigant has been a focus throughout the year. Various bi-lingual eLearning modules have been completed by staff and numerous face-to face session were also conducted to keep staff members abreast on latest threats, vulnerabilities, and developments in this area.

Your Bank 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 July 01, 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).

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

The Risk Management function contributes to the overall control culture of the organization specifically from the risk perspective. The Internal Control Unit (ICU), as a part of the Risk Management team of the Bank, is responsible for implementing and maintaining a sound system of operational internal controls that ensure efficiency and effectiveness. These efforts are a component of the overall Internal Control ambit of operations, compliance with regulatory and 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 approved by the Board. Existing policies and procedures are reviewed at regular intervals and improved from time to time. The Board has constituted sub-committees 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 an 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.

INTERNAL AUDIT

HABIBMETRO has an active Board Audit Committee functioning under the Listed Companies (Code of Corporate Governance) Regulations 2019 as stipulated by SECP and adopted by the SBP and Guidelines on Internal Audit Function issued by the SBP. The Board Audit Committee is chaired by an independent director.

Reporting directly to the Board Audit Committee, Internal Audit pro-actively follows a risk-based approach for auditing branches, operational areas and key activities of the Bank, highlighting control lapses, and tracking completion of remedial actions, wherever warranted.

Internal Audit, being the third line of defense, is an essential element of the Bank's overall control environment that provides independent assurance to the Bank's Management and Board in assessing the Bank's internal control system. Internal Audit periodically reviews the Bank's policies, processes, systems, and controls to provide reasonable assurance to the governing authorities and adds value towards the Bank's risk mitigation endeavors.

FUTURE OUTLOOK

Macroeconomic conditions have generally improved during the last quarter of CY2023 with GDP growth of 2.0 percent expected in FY2024 after contraction of 0.2 percent in FY2023. Inflation is expected to decline in second half of FY2024 owing to high base effect. Current account deficit is expected to increase around 1.5 percent of the GDP in FY2024 as the recovery takes hold. Further with the conduct of elections, formulation of new government and negotiation for a new IMF program shall be critical for reviving economic situation in the country.

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

ACKNOWLEDGEMENTS

In conclusion, we would like 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 continued support and guidance to the Bank. We would like to thank our valued customers for the trust and patronage that they continue to extend to us. Further we would also like to thank the Board of Directors for sharing the valuable experience and guidance enabling the Bank to pursue its growth trajectory. Lastly, we would like to acknowledge the unwavering dedication of the staff of HABIBMETRO Bank, who continue to work tirelessly to provide uninterrupted financial services. Their efforts enable the Bank to grow from strength to strength.

On behalf of the Board

KHURRAM SHAHZAD KHAN

President & Chief Executive Officer

MOHAMEDALI R. HABIB

Chairman

Karachi: 15 February 2024

CORPORATE GOVERNANCE

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 2023 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)

BAC ensures adequacy of internal control systems of the Bank including financial and operational controls, accounting systems, reporting structures along with recommending the Bank's statement on internal controls for endorsement by the BOD.

Under SECP's Listed Companies (Code of Corporate Governance) Regulations, 2019, BAC is responsible to review & recommend to the BOD, interim and annual financial statements of the Bank while focusing particularly on major judgmental areas, going concern assumption, change in accounting policies & estimates, related party transactions and compliance with applicable accounting standards.

BAC also reviews & approves annual internal audit plan, scope and extent of internal audit function and its reporting framework and procedures.

BAC is updated regularly on significant issues raised by the external & internal auditors along with related corrective action progress. Further, BAC ensures compliance of the corrective actions determined by Shari'ah Board on the reports of Internal and External Shari'ah Audit.

BAC also recommends to the BOD, appointment, removal and remuneration of external auditors as well as for the Head of Internal Audit Function.

BAC also ensures independence of Internal Audit in its day-to-day activities with unrestricted access to people, information, records, and systems so that it is able to perform audit activities with objectivity.

Finally, BAC reviews effectiveness of whistle blowing mechanism of the Bank and ensures that concerns raised are treated confidentially.

Board Credit Committee (BCC)

The primary function of the BCC is to maintain an oversight over the Bank's credit portfolio management process, portfolio quality and adherence to the credit policy and regulatory requirements. It reviews and provides guidance to the Management with respect to the large exposures, credit portfolio strategy and related risks so as to ensure continued health of the portfolio and a sustainable growth. It also provides credit approval for exposures which are beyond the delegation provided to the Bank's CCC.

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 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 considers any HR related issue specifically delegated by the BOD.

Board Information Technology 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 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. The BITC also reviews the IT Disaster Recovery Plan for maintaining continuity of services.

Board Risk and Compliance Committee (BR&RC)

The BR&CC establishes a governance structure and maintains 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 along with continuously monitoring, assessing and managing the risk profile of the bank. It ensures that all material risks are deliberated and mitigated in an integrated manner engaging all the relevant stakeholders. 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:

- Ensuring independence of Risk Management and Compliance Functions as well as adequacy of resources allocated given the size, nature, and volume of business.
- Recommending Risk Management Policies and ensuring implementation of Compliance Program, Compliance Risk Strategy and allied policies including CDD / AML / CFT / CPF.
- Ensuring that Management identifies, assesses and understands the ML / TF / PF risks and ensures proportionate AML / CFT / CPF controls are in place.
- 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 Adequacy and Management, Market / Liquidity Profile, Credit Portfolio, Results of Stress Tests and Frameworks of Operational, Continuity, Fraud, Conduct Risks and Risk Based Financial Reporting (IFRS).

Board's Oversight over Shariah Compliance Mechanism

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

Appointment of the Shariah Board Members

The appointment of the Shariah Board (SB) Members, including Resident Shariah Board Member & Chairman, is done by the Board of Directors as per applicable rules and regulations, including clearance of Fit and Proper Criteria (FAPC) 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 FAPC.

Profile of Shariah Board Members

Tan Sri Dr. Mohd. Daud Bakar, Chairman Shariah Board

Tan Sri Dr. Mohd. Daud Bakar is an internationally recognized Shariah Scholar from Malaysia. He is the Founder and Group Chairman of Amanie Group. He is a Shariah Board Member of various financial institutions and also holds prominent Chairmanships such as HabibMetro Sirat, Federal Territories Islamic Religious Council, Malaysia, Astana International Financial Centre (AIFC), Kazakhstan and the Securities Commission of Malaysia.

He received his first degree in Shariah from the University of Kuwait in 1988, a P h.D. from the University of St. Andrews, the United Kingdom in 1993, and a Bachelor of Jurisprudence from the University of Malaya, in 2002. He is the author of the famous book titled "Shariah Minds in Islamic Finance" which received the "Islamic Finance Book of the Year 2016" award. He has also published several articles in various academic journals and has made many presentations at various conferences across the globe. Tan Sri Dr. Mohd. Daud has been honored with "The Asset Triple A Industry Leadership Award" at The Asset Triple A Islamic Finance Award 2014 by The Asset magazine and has been named as the "Most Outstanding Individual", awarded by the King of Malaysia. He was also awarded, "The Royal Award for Islamic Finance 2022" from the King of Malaysia for contributions in Islamic Banking.

Mufti Abdul Sattar Laghari, Member Shariah Board

Mufti Abdul Sattar Laghari is Shariah Board Member at HabibMetro Sirat. Mufti Laghari is among the senior Shariah Scholars in the field of Islamic Banking & Finance. He has been associated with HMB as Resident Shariah Board Member (RSBM) & Head Shariah Compliance since 2015 to June 2021. Mr. Laghari holds a Shahada tul Aalamiyah (Dars e Nizami) from Jamia Darul-Uloom, Korangi, Karachi. He holds Specialization (Takhassus) in Islamic Fiqh and Fatwa from Darul Ifta wal Irshad Nazimabad 4 Karachi, an institution founded by grand Mufti of Pakistan Mufti Rasheed Ahmad Ludhyanvi (late) with Masters in Islamic Studies from University of Karachi.

Mufti Laghari also holds a certificate of 1 year correspondence course in Islamic Law from Shariah Academy International Islamic University Islamabad Pakistan along with certificates of various courses on Islamic Banking and Finance conducted by Prominent learning Centers in Pakistan & Malaysia. He is NIBAF qualified and also holds a certificate by NIBAF for completing a comprehensive module base course for Shariah Scholars. He has been providing Shariah Advisory services since 2005 starting his career with National Bank of Pakistan.

Mufti Laghari provided Shariah Advisory services to NBFIs from 2008 to 2015. Mufti Laghari has remained a member of sub committees for review of some AAOIFI Shariah standards at State Bank of Pakistan. He is a master trainer in Islamic banking and Finance and has conducted extensive courses throughout Pakistan. Mufti Laghari is also a visiting trainer at NIBAF. He is also a visiting faculty member at Center for Islamic Economics (CIE) at Darul Uloom Korangi Karachi. During his career he has also issued numerous fatawa on general as well as financial & Islamic Banking issues. He is also Imam & Khateeb at Jamiah Masjid Tauheed Nazimabad 2 Karachi since 2002.

Mufti Khawaja Noor ul Hassan, Resident Shariah Board Member

Mufti Khawaja Noor ul Hassan has extensive professional experience in Islamic banking including Shariah governance & compliance, Islamic product development, and management, credit administration with prestigious institutions such as Saadiq, Standard Chartered Bank (Pakistan), Faysal Bank, Meezan Bank & Albaraka Bank (formerly Emirates Global Islamic Bank). He also has over 03 years' experience, working as corporate law consultant & Assistant company secretary.

Mufti Noor possesses both contemporary & religious qualifications. He holds the Shahadat-ul-Aalamia and Takhassus fil-Ifta (Specialization in Islamic Jurisprudence and Fatwa) from Jamia Farooqia & Jamia Darul Uloom, Taleem ul Quran, Karachi. He also holds a Bachelor's degree in Law (LLB), a Master's degree in Islamic Studies, and a Master's degree in Islamic History from the University of Karachi & Federal Urdu University respectively.

Mufti Noor is the registered Shariah advisor at the Securities and Exchange Commission of Pakistan (SECP) and Certified Director as per the code of corporate governance, SECP. He is also enrolled as an advocate, High Court and is a member of Sindh Bar Council and Karachi Bar Association. He has vast teaching experience of religious and Islamic banking courses and is the visiting faculty member in different institutions such as in Institute of Business Administration (IBA), Jamia Yousufia Binnoria, Jamia tur Rasheed, Karachi and Centre of Islamic Economics (a division of Jamia Darul Uloom, Karachi).

Key Terms of Reference of Shariah Board

The Shariah Board (SB) shall be empowered to consider, decide and supervise all Shariah related matters, develop a comprehensive Shariah 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 Shariah. 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 Shariah audit, external Shariah audit, Shariah compliance reviews and the SBP Shariah 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 as prescribed in the Shariah framework to any other person or any of its members as all decisions and rulings of the SB shall be in conformity with the directives, regulations, instructions and guidelines issued by SBP in accordance with the rulings of Shariah Advisory Committee of the SBP.

Shariah Board meetings held during the year

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

Board Remuneration Policy

In line with the regulatory guidelines, the Remuneration Policy is already in place wherein the criteria for identification and performance evaluation of MRTs and MRCs is defined.

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.

Following are the main objectives of Remuneration Framework:

- I. To promote consistent, sound and effective risk management, to discourage risk-taking that exceeds the risk thresholds of the Bank;
- II. To ensure that the remuneration practice is in line with the Bank's objectives, taking into consideration all major risks that the Bank may face.
- III. To attract, retain and motivate employees who perform while managing the risks facing the Bank, and also those who ensure long term value generation.

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 (BHR&RC), which shall be mainly responsible for overseeing the Bank's remuneration programme.

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.

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

The MRTs and MRCs are 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 is 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 individual level accountability mechanism whereby a certain portion of variable compensation of the MRTs / MRCs is 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 is 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 malus triggers i.e. 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 2023

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	7
Female	1

2. The composition of board is as follows:

Category	Names
Independent Directors	Mr. Ali Abbas Sikander Mr. Rashid Ahmed Jafer
Female Independent Director	Ms. Tahira Raza
Non-Executive Directors	Mr. Hamza Habib Mr. Mohamedali R. Habib Mr. Mohomed Bashir Mr. Mohsin Ali Nathani Mr. Muhammad H. Habib
President & CEO	Mr. Khurram Shahzad Khan

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 the Board/ shareholders as empowered by the relevant provisions of the Act and these Regulations.
7. The meetings of the Board were presided over by the Chairman. 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 and the shareholders have 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.
9. The Bank is compliant with the requirement of directors' training program provided in these Regulations.
10. During the current year, there was no new appointment of Chief Financial Officer (CFO), the Company Secretary and the Head of Internal Audit.

11. Chief Financial Officer and Chief Executive Officer duly endorsed the financial statements before approval of the Board.
12. The board has formed committees comprising of members given below:

Committees	Names	Committee Designation	Category of Director
Audit Committee	Mr. Rashid Ahmed Jafer	Chairman	Independent Director
	Mr. Mohsin A. Nathani	Member	Non-Executive Director
	Mr. Muhammad Hyder Habib	Member	Non-Executive Director
	Ms. Tahira Habib	Member	Independent Director
Human Resources & Remuneration Committee	Ms. Tahira Raza	Chairperson	Independent Director
	Mr. Mohamedali R. Habib	Member	Non-Executive Director
	Mr. Mohamed Bashir	Member	Non-Executive Director
	Mr. Mohsin A. Nathani	Member	Non-Executive Director
Risk & Compliance Committee	Mr. Muhammad Hyder Habib	Chairman	Non-Executive Director
	Mr. Khurram Shahzad Khan	Member	President & Chief Executive
	Mr. Mohsin A. Nathani	Member	Non-Executive Director
	Ms. Tahira Raza	Member	Independent Director
	Mr. Rashid Ahmed Jafer	Member	Independent Director
Credit Committee	Mr. Mohamedali R. Habib	Chairman	Non-Executive Director
	Mr. Hamza Habib	Member	Non-Executive Director
	Mr. Khurram Shahzad Khan	Member	President & Chief Executive
	Mr. Mohsin A. Nathani	Member	Non-Executive Director
	Mr. Rashid Ahmed Jafer	Member	Independent Director
IT Committee	Mr. Ali Abbas Sikander	Chairman	Independent Director
	Mr. Hamza Habib	Member	Non-Executive Director
	Mr. Khurram Shahzad Khan	Member	President & Chief Executive
	Mr. Mohamedali R. Habib	Member	Non-Executive Director

Note: The Board Committees have been reconstituted during the year after the election of Board of Directors.

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

Committees	Frequency of Meetings
Audit Committee	Four meetings were held during the financial year ended December 31, 2023
Human Resources & Remuneration Committee	Four meetings were held during the financial year ended December 31, 2023
Risk & Compliance Committee	Three meetings were held during the financial year ended December 31, 2023
Credit Committee	Two meetings were held during the financial year ended December 31, 2023
IT Committee	One meeting was held during the financial year ended December 31, 2023

-
15. The board has set up an effective internal audit function.
16. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan and registered with Audit Oversight Board of Pakistan, that they and all their partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan and that they and the partners of the firm involved in the audit are not a close relative (spouse, parent, dependent and non-dependent children) of the Chief Executive Officer, Chief Financial Officer, Head of Internal Audit, Company Secretary or Director of the Bank.
17. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Act, these Regulations or any other regulatory requirement and the auditors have confirmed that they have observed IFAC guidelines in this regard.
18. We confirm that all requirements of regulations 3, 6, 7, 8, 27, 32, 33 and 36 of the Regulations have been complied with.

On behalf of the Board

KHURRAM SHAHZAD KHAN

President & Chief Executive Officer

Karachi: 15 February 2024

MOHAMEDALI R. HABIB

Chairman

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Habib Metropolitan Bank Limited

Review Report on 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 2023 in accordance with the requirements of Regulation No. 36 of the Regulations.

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

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

The Regulations require the Bank to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval, its related party transactions. 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.

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 2023.

Karachi: 06 March 2024
UDIN: CR202310201p3kAzgeEa

KPMG Taseer Hadi & Co.
Chartered Accountants

STATEMENT OF INTERNAL CONTROLS

This statement is being issued in compliance with the Guidelines on Internal Controls, issued by the State Bank of Pakistan vide BSD Circular No. 7 dated May 27, 2004.

MANAGEMENT EVALUATION OF INTERNAL CONTROL SYSTEM

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 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. The 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 and strengthen compliance environment across the organization and ensure a professional working relationship with the State Bank of Pakistan (SBP) and other regulatory bodies. The Management has established a Management Compliance Committee to oversee compliance and controls related matters of the bank. Compliance status of irregularities identified and other compliance related matters are reported to the Bank's Management Compliance Committee, while significant compliance matters are also reported to Board Risk & Compliance Committee. Further, compliance status of observations highlighted in regulatory inspection reports are also presented in Board Risk & Compliance Committee. The Division also has a Financial Crimes and Compliance function to ensure compliance with the relevant AML / CFT / CPF Laws & Regulations.

Internal Audit Division is an independent function and follows a risk-based approach to provide reasonable assurance to the governing authorities on adequacy and effectiveness of the Bank's procedures, processes, controls and systems. All significant/ material observations made through internal audit activities are reported to the Board Audit Committee (BAC) 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.

Based upon the results achieved from reviews, ongoing testing of financial reporting controls and audits conducted during the year 2023, management considers that, the existing system of internal controls 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

KHURRAM SHAHZAD KHAN
President &
Chief Executive Officer

Karachi: 15 February 2024

REPORT OF SHARI'AH BOARD

FOR THE YEAR ENDED 31 DECEMBER 2023

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

All Praise be to Allah Subhanahu, the Lord of all the Worlds and Blessings on our Master, Prophet Muhammad (Peace be upon Him), and His Household and all His Companions.

By the Grace of Allah Almighty, Sirat, the Islamic Banking Division of Habib Metropolitan Bank Limited ("Bank") has completed its twenty years of successful operations of Islamic Banking. The Bank is continuously expanding its Islamic Banking network and at the end of the year 2023, the number of Islamic Banking Branches and Islamic Banking Windows were one hundred and seventeen (117) and two hundred and thirty-three (233) respectively.

During the year, the Shariah Board held four (04) meetings and has reviewed, provided opinions and approved different existing and new products, policies, manuals, processes, transactions, process flows, Shariah compliance review reports and Shariah audit reports. Further, the Shariah Board and the Board of Directors also met twice this year to have a briefing on Shariah compliance environment of the Bank.

The Shariah Board appreciates the vision of the Board of Directors and the management for the continuous growth and support for Islamic Banking.

Following is an overview for the year 2023:

1. Islamic Business

During the year 2023, diversified Islamic financing products including but not limited to Istisna, Murabaha/Musawamah, Al-Bai, Working Capital Musharakah, and Diminishing Musharakah were utilized. In this regard, Shariah Board has reviewed and approved different structures for Corporate, SME and Commercial customers including participation in Islamic syndicate transactions. The breakup is as follows:

S. No.	Islamic Financing Modes	Number
1.	Istisna	45
2.	Murabaha/Musawamah	30
3.	Al-Bai	14
4.	Working Capital Musharakah	13
5.	Diminishing Musharakah (DM)	05
6.	Participation in Islamic Syndicated transactions (Istisna & Sukuk under the mode of DM)	02
	Total	109

2. Islamic Branches/Windows: Expansion & Conversion

During the year, the Bank has converted 53 conventional branches into Islamic branches, opened 02 new Islamic branches and 16 new Islamic banking windows.

3. Shariah Compliance and Shariah Audit

During the year, Shariah Compliance & Shariah Audit teams have conducted different regulatory and regular reviews, and audits on a sample basis. The Shariah reviews and audits include different portfolios across different regions under Islamic financing, deposits (profit and loss distribution), Islamic treasury, Islamic branch network and existing Islamic products. During the year, 22 reports were issued by Shariah Compliance & Shariah Audit teams which were reviewed, and corrective actions were provided by the Shariah Board, where required.

4. Charity Amounts

The opening balance of the charity account on January 01, 2023 was Rs. 254,493/-. During the year Rs. 447,754/- has been credited in the charity account which includes the amount received due to delayed payments by the customers & Shariah non-compliance and other reasons. An amount of Rs.300,000/- was utilized for different charitable organizations and the remaining will also be distributed to approved charitable and social welfare institutions.

5. Training & Capacity Building

During the year, 3200 plus staff have attended over 73 Islamic Banking training sessions through in-house programs, external training sessions and H-learning modules. The participants include the staff at Islamic Banking Branches, Islamic Banking Windows, relationship managers, support functions and others. Further, 21 senior management and 17 branch staff have attended 17 days

& 05 days Islamic banking sessions through National Institute of Banking & Finance (NIBAF) respectively. Moreover, a virtual Islamic banking session was also arranged through Cambridge Islamic Finance for senior management, including CMC representatives. The Bank has also made training arrangements for the local Shariah Board Members. The members attended different sessions including AAOIFI Shariah Board's conference in Bahrain & Islamic Capital Market conference in Islamabad jointly organised by SECP and AAOIFI.

Shariah Board's Opinion

As per the Shariah Governance Framework, the Board of Directors and the management are responsible to ensure that the operations of the Bank are conducted in a manner that comply with Shariah principles at all times, while we are required to submit a report on the overall Shariah compliance environment of the Bank.

To establish our opinion as expressed in this report, we have reviewed the reports of Shariah Compliance Department, Internal Shariah Audit and External Shariah Audit who had carried out their reviews and audits, on test check basis for each class of transactions with the relevant documentation and process flows.

Based on the above, we are of the view that:

- i. The Bank has complied with Shariah rules and principles in the light of fatawa, rulings and guidelines issued by its Shariah Board.
- ii. The Bank has by and large complied with directives, regulations, instructions and guidelines related to Shariah compliance issued by State Bank of Pakistan (SBP) in accordance with the rulings of SBP's Shariah Advisory Committee.
- iii. The Bank has a comprehensive mechanism in place to ensure Shariah compliance in their overall operations.
- iv. The Bank has a well-defined system in place which are sound enough to ensure that any earnings realized from sources or by means prohibited by Shariah have been credited to charity account and are being properly utilized for charitable purposes.
- v. The Bank has complied with the SBP instructions on profit & loss distribution and pool management.
- vi. The Learning Department and the management have arranged various Islamic Banking capacity building sessions and are in continuous process to enhance Islamic Banking learning environment. In this regard, the level of awareness, capacity and sensitization of the staff, management and the Board in appreciating the importance of Shariah compliance in the products and processes of the Bank, is acceptable.
- vii. The Shariah Board has been provided adequate resources enabling it to discharge its duties. However, considering the increase in the business, network and volume of the work, it is suggested to further strengthen the Shariah compliance function in the Bank.

Recommendations

Based on the above, we recommend that:

1. The Bank should continue to expand its network through conversion of conventional branches and opening of new Islamic banking branches considering the Strategic plan of State Bank of Pakistan as well.
2. The Bank should continue to make arrangements for intensive Islamic banking trainings, refresher sessions and awareness sessions for their senior management, Islamic Banking staff, relevant stakeholders and customers.
3. The Bank should continue to enhance the promotion and marketing of Islamic Banking products and services at all available forums.

And Allah Subhanahu knows the Best.

May Allah Subhanahu accept our endeavours and grant us devotion to accomplish His cherished tasks, forgive our mistakes and make us successful herein this world and hereafter. We also pray, seek guidance and blessings from Allah Almighty for further progress and prosperity of Islamic banking. Ameen

TAN SRI DR. MOHD. DAUD BAKAR

Chairman Shari'ah Board

MUFTI KHAWAJA NOOR UL HASSAN

Resident Shari'ah Board Member

MUFTI ABDUL SATTAR LAGHARI

Member Shari'ah Board

Karachi: 15 February 2024 | Shaban 04, 1445 A.H.

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 2023, and the unconsolidated statement of profit or loss, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated statement of cash flows for the year then ended, along with unaudited certified returns received from the branches except for forty branches which have been audited by us and notes to the unconsolidated financial statements, including material accounting policy information and other explanatory information and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the unconsolidated statement of financial position, the unconsolidated statement of profit or loss, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and unconsolidated statement of cash flows 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 2023 and of the profit and 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 Matter

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

Following is the Key Audit Matter:

S. No.	Key Audit Matter	How the matter was addressed in our audit
1	PROVISION AGAINST ADVANCES	
	<p>Refer notes 4.5 and 10 to the Bank's unconsolidated financial statements for the accounting policy and particulars of provision against advances.</p> <p>The Bank's advances to customers represent 26.47% of its total assets. These are stated net of provision against advances of Rs. 26.60 billion as at 31 December 2023.</p> <p>Estimation of provision against advances involves use of significant management judgements and estimation uncertainty along with compliance with the regulatory</p>	<p>Our audit procedures to access the provision against advances, amongst others, included the following:</p> <ul style="list-style-type: none"> • Assessed the design and tested the operating effectiveness of controls over classification and grading of customers, including: <ul style="list-style-type: none"> – The accuracy of data input into the system used for credit grading; – The ongoing monitoring and identification of advances displaying indicators of impairment and

S. No.	Key Audit Matters	How the matter was addressed in our audit
	requirements. These judgements are subjective and can significantly influence the provision against advances. Therefore, we have considered provision against advances as a key audit matter.	<p>whether they are migrating on a timely basis to early alert or to higher risk grade;</p> <ul style="list-style-type: none"> – Identification of past due customers. • For a sample of advances, where the management has not identified as displaying indicators of impairment, challenged the management's assessment by comparing the historical performance, financial ratios and reports on security maintained and formed our own view whether any impairment indicators are present. • For a sample of advances, where management has identified as displaying indicators of impairment, assessed the number of days overdue including the basis used for the calculation of provision in accordance with the Prudential Regulations. • Analysed the days past due report and factors used for calculation of specific provision required in accordance with Prudential Regulations.

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

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

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

In connection with our audit of the unconsolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the unconsolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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.
- 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 period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements:

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 statement of profit or loss, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and unconsolidated statement of cash flows together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 and the Companies Act, 2017(XIX of 2017) and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were in accordance with the objects and powers of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank; and
- d) zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

We confirm that for the purpose of our audit we have covered more than sixty percent of the total loans and advances of the Bank. The engagement partner on the audit resulting in this independent auditor's report is Aryn Pirani.

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

	Note	2023	2022
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks	6	91,466,596	54,747,065
Balances with other banks	7	21,123,950	22,452,296
Lendings to financial institutions	8	5,496,284	76,331,607
Investments	9	925,411,965	723,578,560
Advances	10	412,048,924	433,502,914
Fixed assets	11	23,316,486	21,663,890
Intangible assets	12	323,254	97,968
Deferred tax assets	13	5,164,164	5,061,251
Other assets	14	72,065,464	60,008,369
		<u>1,556,417,087</u>	<u>1,397,443,920</u>
LIABILITIES			
Bills payable	15	28,352,699	19,538,428
Borrowings	16	323,269,590	343,967,768
Deposits and other accounts	17	1,012,302,844	880,696,783
Liabilities against assets subject to finance lease		-	-
Sub-ordinated debts		-	-
Deferred tax liabilities		-	-
Other liabilities	18	99,216,621	78,733,617
		<u>1,463,141,754</u>	<u>1,322,936,596</u>
NET ASSETS			
		<u>93,275,333</u>	<u>74,507,324</u>
REPRESENTED BY			
Share capital	19	10,478,315	10,478,315
Reserves		30,418,061	25,534,917
Surplus / (deficit) on revaluation of assets - net of tax	20	4,818,771	2,029,769
Unappropriated profit		47,560,186	36,464,323
		<u>93,275,333</u>	<u>74,507,324</u>
CONTINGENCIES AND COMMITMENTS			
	21		

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

FUZAIL ABBAS Chief Financial Officer **KHURRAM SHAHZAD KHAN** President & Chief Executive Officer **MOHSIN A. NATHANI** Director **RASHID AHMED JAFER** Director **MOHAMEDALI R. HABIB** Chairman

UNCONSOLIDATED PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023	2022
		Rupees in '000	
Mark-up / return / interest earned	23	205,612,424	133,165,182
Mark-up / return / interest expensed	24	(134,194,789)	(92,554,492)
Net mark-up / interest income		71,417,635	40,610,690
NON MARK-UP / INTEREST INCOME			
Fee and commission income	25	9,395,774	7,930,643
Dividend income		625,579	318,116
Foreign exchange income		5,203,162	5,093,568
Income / (loss) from derivatives		-	-
Gain / (loss) on securities	26	(5,272)	(216,569)
Other income	27	75,297	89,460
Total non mark-up / interest income		15,294,540	13,215,218
Total income		86,712,175	53,825,908
NON MARK-UP / INTEREST EXPENSES			
Operating expenses	28	28,752,611	22,021,134
Workers' welfare fund		1,101,762	588,184
Other charges	29	123,489	67,878
Total non mark-up / interest expenses		(29,977,862)	(22,677,196)
Profit before provisions		56,734,313	31,148,712
Provisions and write offs - net	30	(4,739,101)	(3,531,453)
Extra ordinary / unusual items		-	-
PROFIT BEFORE TAXATION		51,995,212	27,617,259
Taxation	31	(27,611,394)	(13,356,536)
PROFIT AFTER TAXATION		24,383,818	14,260,723
		Rupees	
Basic and diluted earnings per share	32	23.27	13.61

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

FUZAIL ABBAS
Chief Financial Officer

KHURRAM SHAHZAD KHAN
President &
Chief Executive Officer

MOHSIN A. NATHANI
Director

RASHID AHMED JAFER
Director

MOHAMEDALI R. HABIB
Chairman

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023	2022
		Rupees in '000	
Profit after taxation		24,383,818	14,260,723
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		6,380	3,168
Movement in surplus / deficit on revaluation of investments - net of tax		3,239,522	(3,036,360)
		3,245,902	(3,033,192)
Items that will not be reclassified to profit and loss in subsequent periods:			
Remeasurement gain / (loss) on defined benefit obligations - net of tax		71,003	4,816
Movement in surplus on revaluation of non-banking assets - net of tax	20.2	(94,289)	201,372
Surplus on revaluation of fixed assets - net of tax	20.1	(193,816)	5,338,110
		(217,102)	5,544,298
Total comprehensive income		27,412,618	16,771,829

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

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Director

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UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

	Reserves						Surplus / (deficit) on revaluation			Total
	Share capital	Exchange translation reserve	Share premium	Statutory reserve	Special reserve	Revenue reserve	Investments	Fixed / non-banking assets	Un-appropriated profit	
Rupees in '000										
Opening balance as at 1 January 2022	10,478,315	1,761	2,550,985	18,386,497	240,361	1,500,000	(1,753,925)	1,372,089	30,198,569	62,974,652
Profit after taxation	-	-	-	-	-	-	-	-	14,260,723	14,260,723
Other comprehensive income - net of tax	-	3,168	-	-	-	-	(3,036,360)	5,539,482	4,816	2,511,106
Total comprehensive income	-	3,168	-	-	-	-	(3,036,360)	5,539,482	14,265,539	16,771,829
Transfer to statutory reserve	-	-	-	2,852,145	-	-	-	-	(2,852,145)	-
Transfer from surplus on revaluation of assets to unappropriated profit - net of tax	-	-	-	-	-	-	-	(91,517)	91,517	-
Transactions with owners, recorded directly in equity										
Cash dividend (Rs.3 per share) for the year ended 31 December 2021	-	-	-	-	-	-	-	-	(3,143,494)	(3,143,494)
Interim dividend (Rs.2.00 per share) for the year ended 31 December 2022	-	-	-	-	-	-	-	-	(2,095,663)	(2,095,663)
Balance as at 31 December 2022	10,478,315	4,929	2,550,985	21,238,642	240,361	1,500,000	(4,790,285)	6,820,054	36,464,323	74,507,324
Profit after taxation	-	-	-	-	-	-	-	-	24,383,818	24,383,818
Other comprehensive income - net of tax (where applicable)	-	6,380	-	-	-	-	3,239,522	(288,105)	71,003	3,028,800
Total comprehensive income	-	6,380	-	-	-	-	3,239,522	(288,105)	24,454,821	27,412,618
Transfer to statutory reserve	-	-	-	4,876,764	-	-	-	-	(4,876,764)	-
Transfer from surplus on revaluation of assets to unappropriated profit - net of tax	-	-	-	-	-	-	-	(162,415)	162,415	-
Transactions with owners, recorded directly in equity										
Cash dividend (Rs. 3.25 per share) for the year ended 31 December 2022	-	-	-	-	-	-	-	-	(3,405,452)	(3,405,452)
Interim dividend (Rs. 5.00 per share) for the year ended 31 December 2023	-	-	-	-	-	-	-	-	(5,239,157)	(5,239,157)
Balance as at 31 December 2023	10,478,315	11,309	2,550,985	26,115,406	240,361	1,500,000	(1,550,763)	6,369,534	47,560,186	93,275,333

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

FUZAIL ABBAS Chief Financial Officer **KHURRAM SHAHZAD KHAN** President & Chief Executive Officer **MOHSIN A. NATHANI** Director **RASHID AHMED JAFER** Director **MOHAMEDALI R. HABIB** Chairman

UNCONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023	2022
Rupees in '000			
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		51,995,212	27,617,259
Less: Dividend income		(625,579)	(318,116)
		<u>51,369,633</u>	<u>27,299,143</u>
Adjustments			
Depreciation on operating fixed assets	11.2	1,980,576	1,548,406
Depreciation on right-of-use assets	11.2	1,460,229	1,289,677
Depreciation on non-banking assets	14.1.1	–	371
Amortisation	12	131,824	83,256
Mark-up / return / interest expensed on lease liability against right-of-use assets	24	963,868	815,888
Provisions and write-offs excluding recovery of written off bad debts	30	4,817,908	3,615,111
Net gain on sale of fixed assets	27	(33,833)	(41,532)
Gain on sale of right-of-use assets		–	(11,402)
Provision against workers welfare fund		1,101,762	588,184
Provision against compensated absences	28.1	164,748	101,346
		<u>10,587,082</u>	<u>7,989,305</u>
		<u>61,956,715</u>	<u>35,288,448</u>
Decrease / (increase) in operating assets			
Lendings to financial institutions		70,835,323	(72,390,323)
Advances		16,696,513	(38,499,878)
Other assets (excluding dividend and non-banking assets)		(12,300,178)	(11,744,804)
		<u>75,231,658</u>	<u>(122,635,005)</u>
Increase / (decrease) in operating liabilities			
Bills payable		8,814,271	1,593,784
Borrowings from financial institutions		(20,247,945)	26,492,134
Deposits and other accounts		131,606,061	108,410,726
Other liabilities (excluding current taxation)		14,209,163	21,770,528
		<u>134,381,550</u>	<u>158,267,172</u>
		<u>271,569,923</u>	<u>70,920,615</u>
Payment against compensated absences		(108,216)	(96,716)
Income tax paid		(24,909,910)	(11,436,763)
		<u>246,551,797</u>	<u>59,387,136</u>
Net cash flows from operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investment in available-for-sale securities		(317,539,667)	135,665,152
Net investment in held-to-maturity securities		121,009,128	(197,012,846)
Dividend received		628,057	324,134
Investment in fixed assets		(2,778,725)	(2,971,389)
Investment in intangible assets		(357,110)	(60,535)
Proceeds from sale of fixed assets		45,246	85,476
Effect of translation of net investment in an offshore branch		2,661	5,834
		<u>(198,990,410)</u>	<u>(63,964,174)</u>
Net cash flows from investing activities			
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(9,678,226)	(4,233,724)
Payment of lease liability against right-of-use assets		(2,041,743)	(1,680,714)
		<u>(11,719,969)</u>	<u>(5,914,438)</u>
Net cash flows from financing activities			
Increase / (decrease) in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		35,841,418	(10,491,476)
		<u>75,860,490</u>	<u>86,351,966</u>
Cash and cash equivalents at the end of the year	33	<u>111,701,908</u>	<u>75,860,490</u>

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

FUZAIL ABBAS Chief Financial Officer **KHURRAM SHAHZAD KHAN** President & Chief Executive Officer **MOHSIN A. NATHANI** Director **RASHID AHMED JAFER** Director **MOHAMEDALI R. HABIB** Chairman

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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 525 (2022:500) branches, including 117 (2022: 61) Islamic banking branches, an offshore branch (Karachi Export Processing Zone branch) and 1 (2022:1) sub branch 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 HabibMetro Head Office, 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.

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

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

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 (ICAP), as are notified under the Companies Act, 2017;
- Provisions of and directives issued under the Banking Companies Ordinance, 1962 and the Companies Act, 2017; and
- Directives issued by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP) from time to time.

Whenever the requirements of the Banking Companies Ordinance, 1962, the Companies Act, 2017 or the directives issued by the SBP and the SECP differ with the requirements of 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. Furthermore, 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 02 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 There are certain new and amended standards, interpretations and amendments that are mandatory for the Bank's accounting periods beginning on or after 1 January 2023 but are considered not to be relevant or do not have any significant effect on the Bank's operations and therefore not detailed in these unconsolidated financial statements.

2.3.2 The Bank has adopted certain amendments to approved accounting and reporting standards as applicable in Pakistan which became effective for the current period. The said amendments did not have any material impact on these unconsolidated financial statements.

The Bank has adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. These did not result in any changes to the accounting policies itself and did not impact the accounting policy information disclosed in the audited annual financial statements as at and for the year ended 31 December 2022.

The amendments require the disclosure of 'material', rather than 'significant', accounting policies. The amendments also provide guidance on the application of materiality for the disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

Management has reviewed the accounting policies and assessed that information given in Note 4 of summary of significant accounting policies as disclosed in the audited annual financial statements as at and for the year ended 31 December 2022 are in line with the amendments. The amendments had no impact on the Bank's unconsolidated financial statements.

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

2.4.1 IFRS 9 'Financial Instruments'

The management of the Bank has performed an impact assessment of the application of IFRS 9, taking into account the SBP's application instructions. The assessment is based on currently available information and may be subject to change at the time of recognizing the impact of the initial adoption of IFRS 9 (the standard). In addition, there will be changes in the classification of certain financial instruments. These changes and impacts are discussed below:

Governance, ownership and responsibilities

Board's Risk and Compliance Committee (BRCC) is tasked with overseeing the implementation of IFRS 9. A Steering Committee for the implementation of IFRS 9 has representation from Finance, Risk, Credit and IT function of the Bank.

Bank's Risk management function is responsible for methodologies for the calculation of Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD) and Credit Conversion Factors (CCF) for off-balance sheet exposures. These models shall be validated on yearly basis considering the following aspects:

- Expected Credit Loss (ECL) model design validation, data quality validation and benchmarking with external best practices.
- Calibration testing which ensures the accuracy of the observed PDs

The Risk function will also perform the back testing of ECL at least on a yearly basis and will be responsible for the independent validation of the risk parameters / risk models including PD, LGD and CCF, etc., that are used to compute ECL. The function shall identify, prepare and extract the data required for the risk parameters modelling and ECL calculations.

Finance function shall ensure that all disclosures are made as required by the formats and guidelines issued by the SBP.

Classification and measurement

The classification and measurement of financial assets depends on their contractual cash flow characteristics and the entity's business model. Financial assets are measured at amortized cost, Fair Value Through Profit & Loss (FVTPL) or Fair Value through Other Comprehensive Income (FVOCI). Financial assets that do not meet the Solely Payment of Principal and Interest (SPPI) criteria are measured at FVTPL regardless of the business model in which they are held. The Bank has reviewed the impact of the initial adoption of IFRS 9 on its financial assets as follows:

Equity securities

Listed equity securities currently classified as available-for-sale (AFS) with gains and losses recorded in OCI, the Bank will apply the option to classify them as FVOCI. Therefore, the application of IFRS 9 will not have an impact on initial adoption. However, in accordance with the requirements of the standard, gains and losses recognized in OCI will not be recycled through the profit and loss account on derecognition of these securities.

Unquoted equity securities will also be required to be measured at fair value under IFRS 9. For unquoted equity securities the Bank will apply the irrevocable option to classify them as at FVOCI. The fair value gains and losses on initial recognition and subsequent measurement would be recognized in Other Comprehensive Income (OCI) and will not be recycled through the profit and loss account on the derecognition of these securities.

Debt securities and loans and advances

Debt securities currently classified as AFS and those that pass the SPPI test, are expected to be measured at fair value through OCI under IFRS 9 as the Bank's business model is to hold the assets to collect contractual cash flows, but also to sell those investments. Debt securities currently classified as Held-to-maturity securities and those securities, including loans and advances, which pass the SPPI test are expected to be measured at amortized costs under IFRS 9 as the Bank's business model is to hold the assets to collect contractual cash flows.

Cashflows of certain debt instruments classified in AFS categories, that do not pass the SPPI test would be measured at fair value through profit and loss.

Impairment

The impairment requirements apply to financial assets measured at amortized cost and FVOCI (other than equity instruments), lease receivables, and certain loan commitments and financial guarantee contracts. On initial recognition,

an impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are in 'stage 1'; financial assets that are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment, are considered to be in default or otherwise credit impaired, are in 'stage 3'.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

Based on the requirement of IFRS 9 and SBP's IFRS 9 application instructions, the Bank has performed an ECL assessment taking into account the key elements such as assessment of Significant Increase in Credit Risk (SICR), Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). These elements are described below:

- PD: The probability that a counterparty will default, calibrated over the 12 months from the reporting date (12-months ECL stage 1) or over the lifetime of the product (lifetime ECL, stage 2).
- LGD: An estimate of the loss incurred on a facility upon default by a customer. LGD is calculated as the difference between contractual cash flows due and those that the Bank expects to receive. It is expressed as a percentage of the exposure outstanding on the date of classification of an obligor.
- EAD: The expected balance sheet exposure at the time of default (Exposure at Default).

For calculating ECL, the Bank shall classify its financial assets under the three following categories:

- a) Stage 1: Performing assets: Financial assets where there has not been a SICR since initial recognition, the Bank shall recognize an allowance based on the 12-month ECL.
- b) Stage 2: Under-Performing Assets: Financial assets where there has been a SICR since initial recognition, but they are not credit impaired, the Bank shall recognize an allowance for the lifetime ECL for all exposures categorized in this stage based on the actual maturity profile.
- c) Stage 3: Non-Performing Assets: Financial assets which have objective evidence of impairment at the reporting date. The Bank shall recognize ECL on these financial assets using the higher off approach, which means that lifetime ECL computed under IFRS 9 is compared with regulatory provision required as per Prudential Regulations issued by the SBP

Under the SBP's instructions, Government Securities and credit exposure in local currency guaranteed by the Government are exempted from the application of the ECL framework.

Significant increase in credit risk (SICR)

SICR is assessed in the context of an increase in the risk of a default occurring over the life of the financial instrument compared to that expected at the time of initial recognition. It is not assessed in the context of an increase in the ECL.

The Bank uses a number of qualitative and quantitative measures in assessing SICR. Quantitative measures relate to deterioration of Obligor Risk Ratings (ORR) or where principal and / or interest payments are 60 days or more past due.

Qualitative factors include, inter alia, unavailability of financial information and pending litigation.

Based on the level of increase in credit risk, the Bank shall calculate 12 month ECL for assets which did not have a SICR i.e., Stage 1 or a lifetime expected loss for the life of the asset (for assets which demonstrated an SICR) i.e., Stage 2.

At every reporting date, the Bank shall assess whether there has been an SICR since the initial recognition of the asset. If there is an SICR, the asset must be assigned to the appropriate stage of credit impairment (Stage 2 or 3).

Presentation and disclosure

IFRS 9 also introduces expanded disclosure requirements and changes in presentation which will be incorporated as per the SBP's revised format.

Impact of adoption of IFRS 9

The Bank has performed a preliminary assessment of the potential impact of the adoption of IFRS 9. This is an estimate and the actual impact on the Bank's financial statements for the year 2024 will depend on the financial instruments that the Bank holds during that period and the economic conditions at that time, as well as accounting elections and judgements that it will make in future.

Classification, measurement and financial impact

The classification of the Banks investments is expected to change as follows:

- Debt instruments amounting to Rs. 2,088,546 thousand and Rs. 9,587,800 thousand will be reclassified from AFS to FVTPL and FVOCI respectively.
- Equity instruments amounting to Rs. 2,000,880 thousand will be reclassified from AFS to FVTPL, whereas equity instruments of Rs. 4,680,023 thousand will be reclassified from AFS to FVOCI.

Financial impact

Due to the adoption of IFRS-9, the estimated adjustment for Expected Credit Loss is expected to increase the opening balance of the Bank's equity at 01 January 2024 by Rs. 409,514 thousand approximately.

Impact on regulatory capital

In order to mitigate the impact of ECL on capital, the SBP has permitted banks to adopt a transitional approach to phase in the impact over a period of five years. The transitional arrangement applies only to ECL for stage 1 and 2 financial assets.

Due to adoption of IFRS-9 and excluding the effect of above mentioned transitional arrangement, the Bank's Total Capital Adequacy Ratio, CET 1 Capital Adequacy Ratio and Tier 1 Capital Adequacy Ratio available to meet buffers are expected to be 18.40%, 16.85% and 16.85% respectively.

2.4.2 Furthermore, following standards, amendments and interpretations of approved accounting standards will be effective for the accounting periods as stated below:

Standard, interpretation or amendment	Effective date (annual periods beginning on or after)
Classification of Liabilities as Current or Non-current - Amendments to IAS 1	1 January 2024
Non-current Liabilities with Covenants - Amendments to IAS 1	1 January 2024
Lease Liability in a Sale and Leaseback - Amendments to IFRS 16	1 January 2024
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28	Not yet finalized
Supplier Finance Arrangements - Amendments to IAS 7 & IFRS 7	1 January 2024
Lack of Exchangeability - Amendments to IAS 21	1 January 2025

However the above are either not applicable to the Bank or are not expected to have any material impact on the Bank's financial statements.

2.5 Critical Accounting Estimates and Judgments

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 judgement 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 judgements were made by management in the application of accounting policies are as follows:

- i) Classification, Valuations and impairment of investments (note 4.4)
- ii) Provision against non-performing loans and advances (note 4.5.1)
- iii) Depreciation (note 4.6.2) and amortisation (note 4.7)
- iv) Valuation of Fixed assets (4.6.2) and Non-banking assets acquired in satisfaction of claims (note 4.8)
- v) Taxation (note 4.11)
- vi) Defined benefit plan (note 4.13.1)
- vii) Compensated Absences (note 4.13.2)
- viii) Right-of-use assets (note 4.6.3) and related lease liability (note 4.14)
- ix) Impairment of non-financial assets (excluding deferred tax asset) (note 4.21)

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, certain classes of fixed assets and non-banking assets in satisfaction of claims are stated at revalued amount less accumulated depreciation and derivative financial instruments are carried at fair value as disclosed in notes 4.4, 4.6, 4.8 and 4.9 respectively.

4. MATERIAL ACCOUNTING POLICY INFORMATION

4.1 The principal accounting policies applied in the preparation of these unconsolidated financial statements are set out below. These have been consistently applied to all the years presented.

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 (repo) from and lending (reverse repo) to financial institutions, at contracted rates for a specified period of time. These are recorded as under:

Purchase under resale agreement (reverse repo)

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 over the term of the agreement.

Sale under repurchase agreement (repo)

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.

Bai muajjal

In Bai Muajjal, the Bank sells sukuk on credit to other financial institutions. The sale / purchase price is agreed at the time of sale and such proceeds are received at the end of the credit agreed period. The sukuk sold under bai muajjal transaction 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.

Musharaka / Mudaraba

In Musharaka / Mudaraba, the Bank invests in the Shariah compliant business pools of the financial institutions at the agreed profit sharing ratio. Loss, if any will be shared between the parties as per the investment.

Musharaka from the SBP under Islamic Export Refinance Scheme (IERS)

Under IERS, the Bank accepts funds from the SBP under Shirkat-ul-aqd to constitute a pool for investment in islamic export refinance portfolio of the Bank under the guidelines issued by the SBP. The profit of the pool is shared as per the agreed weightages between the partners.

Mudaraba investment from the SBP under various long term Islamic refinance schemes

Under various long term Islamic refinance schemes of the SBP, the Bank accepts funds from the SBP which are received on mudaraba basis for investment in the pool of the Bank. The profit of the pool is shared as per the agreed profit sharing ratio of the pool and the weightages assigned to these investments.

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.

Bai Muajjal transactions undertaken with the Government of Pakistan are disclosed as investments.

Available-for-sale

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

4.4.3 Initial Measurement

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.

Subsequent Measurement

Held-for-trading

Investments classified as held-for-trading are subsequently measured at fair value. 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.

Held-to-maturity

Investments classified as held-to-maturity are carried at amortised cost.

Available-for-sale

Quoted securities classified as available-for-sale are subsequently measured at fair value. Any unrealised 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.

Impairment

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 a available-for-sale and held-to-maturity securities (other than Federal Government securities, 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 investment 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. Advances are written-off in line with the Bank's policy when there are no realistic prospects of recovery.

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

Ijarah assets are stated at cost less depreciation and are disclosed as part of 'Islamic financing and related assets'. Rental received / receivable on Ijarah are recorded as income / revenue. The Bank charges depreciation from the date of recognition of Ijarah of respective assets to Lessee (mustajir). Ijarah assets are depreciated over the period of Ijarah using the straight line method. Ijarah rentals outstanding are disclosed in 'other assets' on the Statement of Financial Position at amortized cost.

Diminishing musharaka

Under diminishing musharaka based financing, the Bank enters into a musharaka 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 rental payment agreement for the utilization of the Bank's musharaka share by the customer. The Bank receives periodic payments from its customers partly for renting its portion of the assets and partly for gradual transfer / sale of its ownership. The rental payments are recognized in profit and loss account whereas transfer / sale payments are applied towards reducing the outstanding principal.

Running Musharaka

Under Running Musharaka, the Bank enters into financing with the customer based on Shirkatul Aqd in the customer's operating business. Under this mechanism the customer can withdraw and return funds to the Bank subject to consumer's running musharakah financing limit during the Musharaka period. At the end of each quarter / half year the customer pays the provisional profit as per the desired profit rate which is subject to final settlement based on the relevant quarterly / half yearly / annual accounts of the customer.

Istisna

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

Al-Bai

The product is based on the Islamic mode "musawamah". Under this financing, the Bank purchases the goods from its customers on cash payment basis and after taking the possession by the Bank, the customer on behalf of the Bank sells them. Upon subsequent sale by the customer, the financed amount along with the profit is paid by the customer to the Bank.

Murabaha

In Murabaha transactions, the Bank purchases the goods and after taking the possession, sells them to the customer on cost plus profit basis either in a spot or credit transaction.

Salam

In Salam, the seller undertakes to supply specific goods to the buyer at a future date in exchange of an advanced price fully paid at spot. The payment is at spot but the supply of purchased goods is deferred. The purchased

goods by the Bank are then sold by the customer on behalf of the Bank and the financed amount along with profit is paid to the Bank.

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 (Owned)

Fixed assets are stated at cost, except for land and buildings which are carried at revalued amount, less any applicable accumulated depreciation and accumulated impairment losses (if any). Land and buildings are stated at revalued amount less accumulated depreciation (in case of buildings) and 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 till the date of disposal.

Subsequent cost 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.

Land and buildings are revalued by independent professionally qualified valuers with sufficient regularity to ensure that their net carrying amount does not differ materially from their fair value. If an asset's carrying value increases as a result of revaluation, such increase or surplus arising on revaluation is credited to the surplus on revaluation of land and building account. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, if the increase reverses a deficit on the same asset previously recognized in the profit and loss account, such an increase is also recognized in the profit and loss account to the extent of the previous deficit and thereafter in the surplus on the revaluation of land and building account.

In the case of revalued assets, any accumulated depreciation on the date of revaluation is eliminated against the gross carrying amount of the net asset and the net amount restated at the revalued amount of the asset.

Surplus on revaluation of land and building (net of any associated deferred tax) to the extent of the incremental depreciation charged on the related assets is transferred to unappropriated profit.

Surplus on revaluation (net of any deferred tax) realized on disposal of land and building is transferred directly to unappropriated profit.

4.6.3 Right-of-use assets and their related lease liability

The Bank recognizes a right-of-use asset and lease liability (note 4.14) at the lease commencement date. The right of-use asset is initially measured at amount equal to present value of lease liability, and subsequently at cost less any accumulated depreciation and impairment losses if any, 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.

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

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

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

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

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

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 off-balance exposure 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 reviewed at each statement of financial position date and 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 gain / losses recognised in other comprehensive income, which is adjusted against the related deficit / surplus.

4.12 Deposits / Borrowings

Deposits / Borrowings 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 and are not reclassified to profit and loss account in subsequent periods.

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

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 in accordance with the terms of the scheme.

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 unpaid at the commencement date, discounted using the Bank's incremental borrowing rate as the interest rate implicit in the lease cannot be readily determined. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made.

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 / interest 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 / interest recoverable on classified loans and advances and investments is recognised on receipt basis. mark-up / return / interest 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 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.

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 income is recognized on an accrual basis, when services are rendered.

4.16 Off setting

Financial assets and financial liabilities are set off and the net amount is reported in the unconsolidated 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 expense are translated into rupees at average rate of exchange prevailing during the year. Exchange gain or loss on such translation is taken to equity through statement of 'other comprehensive income' under 'exchange translation reserve'.

4.17.3 Contingencies and commitments

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. Commitments for outstanding forward foreign exchange contracts disclosed in these unconsolidated financial statements are translated at contracted rates.

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 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. Diluted earnings per share is not calculated separately, as the Bank does not have any convertible instruments in issue.

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. These are 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	2023	2022
		Rupees in '000	
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		11,629,146	11,785,531
Foreign currencies		4,164,225	1,955,812
		<u>15,793,371</u>	<u>13,741,343</u>
With State Bank of Pakistan in			
Local currency current accounts	6.1	48,615,441	31,843,038
Foreign currencies			
– current accounts	6.2	1,991,420	2,843,777
– cash reserve account	6.3	6,308,767	5,631,918
– deposit account - special cash reserve	6.4	11,497,335	564,907
		<u>68,412,963</u>	<u>40,883,640</u>
With National Bank of Pakistan in			
Local currency current accounts		7,152,782	84,330
Prize bonds		107,480	37,752
		<u>91,466,596</u>	<u>54,747,065</u>

6.1 These accounts are maintained to comply with the statutory cash reserve requirement of the SBP.

6.2 These represent foreign currency collection / settlement accounts maintained with the SBP.

6.3 These represent accounts 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 2023, carries mark-up at the rate of 4.34% (2022: 3.14%) per annum.

7. BALANCES WITH OTHER BANKS

	Note	2023	2022
Rupees in '000			
In Pakistan			
In current accounts		21,746	49,263
In deposit accounts	7.1	758	552
		<u>22,504</u>	<u>49,815</u>
Outside Pakistan			
In current accounts	7.2	21,101,446	22,402,481
		<u>21,123,950</u>	<u>22,452,296</u>

7.1 This carries mark-up at the rate of 20.50% (2022: 14.50%) per annum.

7.2 These include balances in current accounts amounting to Rs. 680,649 thousand (2022: Rs. 466,178 thousand) with branches of the holding company.

8. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings	8.2	5,496,284	1,902,020
Repurchase agreement lendings (reverse repo)	8.3	-	74,429,587
Mudaraba placements		-	-
		<u>5,496,284</u>	<u>76,331,607</u>

8.1 Particulars of lendings

In local currency			
- secured		-	74,429,587
- unsecured		-	-
In foreign currency - unsecured	8.2	5,496,284	1,902,020
		<u>5,496,284</u>	<u>76,331,607</u>

8.2 These foreign currency lendings carry mark-up rate ranging from 9.80% to 12.00% (2022: 11.00%) per annum and are due to mature latest by 04 April 2024 (2022: 27 March 2023).

8.3 Securities held as collateral against lending to financial institutions (reverse repo)

	2023			2022		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
Rupees in '000						
Market treasury bills	-	-	-	33,169,690	-	33,169,690
Pakistan investment bonds	-	-	-	38,644,648	-	38,644,648
	<u>-</u>	<u>-</u>	<u>-</u>	<u>71,814,338</u>	<u>-</u>	<u>71,814,338</u>

8.3.1 Face value in respect of Market treasury bills is Rs. Nil (2022: Rs. 33,950,000 thousand) and of Pakistan investment bonds is Rs. Nil (2022: Rs. 41,400,000 thousand) respectively.

8.3.2 These carry profit / return Nil (2022: 15.00% to 16.25%) per annum with maturity upto Nil (2022: 06 January 2023).

9. INVESTMENTS

9.1 Investments by types

	2023				2022			
	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	806,507,307	-	(3,855,444)	802,651,863	490,587,062	-	(8,275,110)	482,311,952
Shares	4,047,185	(206,844)	839,682	4,680,023	2,947,348	(474,761)	(27,254)	2,445,333
Non-government debt securities	11,953,893	(87,683)	(189,864)	11,676,346	12,064,982	(90,496)	(255,266)	11,719,220
Mutual funds	16,949	(12,763)	4,069	8,255	16,949	(12,276)	-	4,673
Real estate investment trust	1,831,780	-	160,845	1,992,625	1,531,780	-	153,621	1,685,401
	<u>824,357,114</u>	<u>(307,290)</u>	<u>(3,040,712)</u>	<u>821,009,112</u>	<u>507,148,121</u>	<u>(577,533)</u>	<u>(8,404,009)</u>	<u>498,166,579</u>
Held-to-maturity securities								
Federal government securities	98,872,853	-	-	98,872,853	220,531,981	-	-	220,531,981
Non-government debt securities	4,700,000	-	-	4,700,000	4,050,000	-	-	4,050,000
	<u>103,572,853</u>	<u>-</u>	<u>-</u>	<u>103,572,853</u>	<u>224,581,981</u>	<u>-</u>	<u>-</u>	<u>224,581,981</u>
Subsidiaries	<u>830,000</u>	<u>-</u>	<u>-</u>	<u>830,000</u>	<u>830,000</u>	<u>-</u>	<u>-</u>	<u>830,000</u>
Total investments	<u>928,759,967</u>	<u>(307,290)</u>	<u>(3,040,712)</u>	<u>925,411,965</u>	<u>732,560,102</u>	<u>(577,533)</u>	<u>(8,404,009)</u>	<u>723,578,560</u>

9.2 Investment in subsidiaries - incorporated in Pakistan

	Holding %	Assets	Liabilities	Revenue	Profit after tax	Total comprehensive income
2023						
Habib Metropolitan Financial Services Limited	100%	356,760	46,836	53,857	(20,406)	(16,869)
Habib Metropolitan Modaraba Management Company (Private) Limited	100%	723,378	13,465	105,652	105,968	98,208
First Habib Modaraba (FHM)	5.43%	22,878,502	17,913,536	4,425,279	811,792	816,442
2022						
Habib Metropolitan Financial Services Limited	100%	481,349	154,554	64,263	(3,293)	(12,373)
Habib Metropolitan Modaraba Management Company (Private) Limited	100%	552,885	21,897	125,821	63,510	19,184
First Habib Modaraba (FHM) (Refer Note 9.2.1 mentioned below)	5.43%	19,655,973	15,298,319	2,902,938	622,428	365,193
Habib Metro Modaraba (HMM) (Refer Note 9.2.1 mentioned below)	-	-	-	28,439	10,715	10,715

9.2.1 Subsequent to year end, the Bank invested Rs. 1,000,000 thousand (2022: Nil thousand) in its 100% owned subsidiary, Habib Metro Exchange Services Limited. The subsidiary is in process of fulfilling the legal and compliance requirements to get the company registered.

9.3 Investments by segments

	2023				2022			
	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	335,775,414	-	878,703	336,654,117	281,774,093	-	(693,337)	281,080,756
Pakistan investment bonds	479,399,875	-	(5,459,487)	473,940,388	396,583,580	-	(7,090,846)	389,492,734
Ijarah sukuk	84,720,427	-	725,340	85,445,767	28,080,161	-	(490,927)	27,589,234
Islamic Naya Pakistan certificate mudaraba investment pool - foreign currencies	4,999,907	-	-	4,999,907	3,989,495	-	-	3,989,495
Islamic Naya Pakistan certificate mudaraba investment pool - Pak Rupee	484,537	-	-	484,537	691,714	-	-	691,714
	<u>905,380,160</u>	<u>-</u>	<u>(3,855,444)</u>	<u>901,524,716</u>	<u>711,119,043</u>	<u>-</u>	<u>(8,275,110)</u>	<u>702,843,933</u>
Shares								
Listed companies	3,915,456	(127,773)	839,682	4,627,365	2,815,619	(395,690)	(27,254)	2,392,675
Unlisted companies	131,729	(79,071)	-	52,658	131,729	(79,071)	-	52,658
	<u>4,047,185</u>	<u>(206,844)</u>	<u>839,682</u>	<u>4,680,023</u>	<u>2,947,348</u>	<u>(474,761)</u>	<u>(27,254)</u>	<u>2,445,333</u>
Non-government debt securities								
Listed								
Term finance certificates	1,387,701	(64,946)	(5,274)	1,317,481	757,781	(64,946)	-	692,835
Sukuk certificates / bonds	6,768,455	-	(180,655)	6,587,800	6,876,651	-	(255,266)	6,621,385
Unlisted								
Term finance certificates	3,295,000	-	-	3,295,000	3,925,000	-	-	3,925,000
Sukuk certificates / bonds	502,737	(22,737)	(3,935)	476,065	505,550	(25,550)	-	480,000
Certificates of investment	4,700,000	-	-	4,700,000	4,050,000	-	-	4,050,000
	<u>16,653,893</u>	<u>(87,683)</u>	<u>(189,864)</u>	<u>16,376,346</u>	<u>16,114,982</u>	<u>(90,496)</u>	<u>(255,266)</u>	<u>15,769,220</u>
Mutual funds								
Close end								
	16,949	(12,763)	4,069	8,255	16,949	(12,276)	-	4,673
	<u>16,949</u>	<u>(12,763)</u>	<u>4,069</u>	<u>8,255</u>	<u>16,949</u>	<u>(12,276)</u>	<u>-</u>	<u>4,673</u>
Real estate investment trust	1,831,780	-	160,845	1,992,625	1,531,780	-	153,621	1,685,401
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
First Habib Modaraba	180,000	-	-	180,000	180,000	-	-	180,000
	<u>830,000</u>	<u>-</u>	<u>-</u>	<u>830,000</u>	<u>830,000</u>	<u>-</u>	<u>-</u>	<u>830,000</u>
	<u>928,759,967</u>	<u>(307,290)</u>	<u>(3,040,712)</u>	<u>925,411,965</u>	<u>732,560,102</u>	<u>(577,533)</u>	<u>(8,404,009)</u>	<u>723,578,560</u>

	2023	2022
	— Rupees in '000 —	
9.3.1 Investments given as collateral against repo borrowing		
The market value of investments given as collateral against borrowings is as follows:		
Federal government securities		
Market treasury bills	129,183,999	105,872,299
Pakistan investment bonds	54,741,950	90,133,387
	<u>183,925,949</u>	<u>196,005,686</u>
9.3.2	Investments include securities which are held by the Bank to comply with the statutory liquidity requirements as set out under section 29 of the Banking Companies Ordinance, 1962.	
9.3.3	Investments include Rs. 132,000 thousand (2022: Rs. 132,000 thousand) pledged with State Bank of Pakistan against TT/DD discounting facilities and demand loan facilities.	
9.4 Provision for diminution in value of investments		
9.4.1		
Opening balance	577,533	506,474
Charge for the year	63,244	240,145
Reversal for the year	(2,813)	(3,920)
Net charge for the year	60,431	236,225
Reversal on disposal	(330,674)	(144,028)
Amount written off	—	(21,138)
Closing balance	<u>307,290</u>	<u>577,533</u>
9.4.2 Particulars of provision against debt securities		
	2023	2022
Category of classification	Non-performing investments	Provision
	Non-performing investments	Provision
	— Rupees in '000 —	
Domestic		
Loss	<u>87,683</u>	<u>87,683</u>
	90,496	90,496
9.5 Quality of available-for-sale securities	2023	2022
	Cost / amortised cost	
	— Rupees in '000 —	
Federal Government Securities - Government guaranteed		
Market treasury bills	335,775,414	134,914,176
Pakistan investment bonds	383,491,620	325,867,628
Ijarah sukuk	81,755,829	25,124,049
Islamic naya Pakistan certificate Mudaraba investment pool - foreign currencies	4,999,907	3,989,495
Islamic naya Pakistan certificate Mudaraba investment pool - Pak Rupee	484,537	691,714
	<u>806,507,307</u>	<u>490,587,062</u>
Shares		
Listed companies		
Automobile parts and accessories	—	41,743
Cement	6,965	247,866
Chemical	—	105,865
Commercial banks	1,318,152	1,164,754
Fertilizer	674,210	716,062
Investment banks / investment companies / securities companies	121,516	122,847
Oil and gas exploration, power generation and distribution	1,552,500	321,616
Pharmaceuticals	40,376	34,206
Textile	121,398	252
Transport	80,339	60,408
	<u>3,915,456</u>	<u>2,815,619</u>

	2023		2022	
	Cost	Break-up value	Cost	Break-up value
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	25,387	35,000	24,548
Society for World Wide Inter Bank Financial Telecommunication (Swift)	7,844	92,577	7,844	52,600
Pakistan Corporate Restructuring Company Limited	27,524	25,817	27,524	25,817
	<u>131,729</u>	<u>143,781</u>	<u>131,729</u>	<u>102,965</u>

	Note	2023	2022
		Cost / amortised cost	
Rupees in '000			

Non-government debt securities

Listed

AAA	629,920	–
AA+	42,835	42,835
A+	340,000	375,000
AA	600,000	600,000
A	50,000	50,000
Unrated	6,493,401	6,566,597
	<u>8,156,156</u>	<u>7,634,432</u>

Unlisted

AAA	3,250,000	3,880,000
AA+	425,000	425,000
AA	–	–
AA-	–	–
A	100,000	100,000
Unrated	22,737	25,550
	<u>3,797,737</u>	<u>4,430,550</u>

Mutual funds

Unrated	16,949	16,949
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Real estate investment trust

Listed

AAA (rr)	831,780	831,780
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Unlisted

RM 3+	1,000,000	700,000
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9.6 Particulars relating to held-to-maturity securities are as follows:

Federal government securities - Government guaranteed

Market treasury bills	–	146,859,917
Pakistan investment bonds	95,908,255	70,715,952
Ijarah sukuk	2,964,598	2,956,112
	<u>98,872,853</u>	<u>220,531,981</u>

Non-government debt securities - unlisted

Certificates of investment - unrated	9.6.1	4,700,000	4,050,000
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9.6.1 This represents certificates of investment (musharaka) carrying expected profit rate 22.10% (2022: 15.75% to 16.25%) per annum with maturity upto 29 March 2024 (2022: 28 March 2023).

9.6.2 The market value of federal government securities classified as held-to-maturity is Rs. 91,477,864 thousand (2022: Rs. 214,186,517 thousand).

10. ADVANCES

	Note	Performing		Non-Performing		Total	
		2023	2022	2023	2022	2023	2022
Rupees in '000							
Loans, cash credits, running finances, etc.	10.1	261,089,008	282,270,838	16,160,613	11,882,972	277,249,621	294,153,810
Islamic financing and related assets		114,143,049	106,585,085	554,851	336,625	114,697,900	106,921,710
Bills discounted and purchased		43,580,472	44,866,490	3,120,153	9,430,159	46,700,625	54,296,649
Advances - gross		418,812,529	433,722,413	19,835,617	21,649,756	438,648,146	455,372,169
Provision against advances							
- specific		-	-	(19,273,580)	(17,249,750)	(19,273,580)	(17,249,750)
- general		(7,325,642)	(4,619,505)	-	-	(7,325,642)	(4,619,505)
		(7,325,642)	(4,619,505)	(19,273,580)	(17,249,750)	(26,599,222)	(21,869,255)
Advances - net of provision		411,486,887	429,102,908	562,037	4,400,006	412,048,924	433,502,914

10.1 Includes net investment in finance lease as disclosed below:

	2023			2022		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
Rupees in '000						
Lease rentals receivable	63,051	24,341	87,392	64,036	72,305	136,341
Residual value	98,474	7,526	106,000	77,345	28,655	106,000
Minimum lease payments	161,525	31,867	193,392	141,381	100,960	242,341
Financial charges for future periods	(14,319)	(1,913)	(16,232)	(18,226)	(9,235)	(27,461)
Present value of minimum lease payments	147,206	29,954	177,160	123,155	91,725	214,880

10.2 Particulars of advances - gross

	2023	2022
Rupees in '000		
In local currency	371,132,659	398,963,527
In foreign currencies	67,515,487	56,408,642
	438,648,146	455,372,169

10.3 Advances include Rs. 19,835,617 thousand (2022: Rs. 21,649,756 thousand) which have been placed under non-performing status as detailed below:

Category of classification	2023		2022	
	Non-performing advances	Provision	Non-performing advances	Provision
	Rupees in '000			
Domestic				
Other asset especially mentioned	20,395	–	12,640	–
Substandard	243,168	58,876	533,656	36,601
Doubtful	485,917	242,959	2,663,649	103,101
Loss	19,086,137	18,971,745	18,439,811	17,110,048
	<u>19,835,617</u>	<u>19,273,580</u>	<u>21,649,756</u>	<u>17,249,750</u>

10.4 Particulars of provision against advances

	Note	2023			2022		
		Specific	General	Total	Specific	General	Total
		Rupees in '000					
Opening balance		17,249,750	4,619,505	21,869,255	15,900,830	5,095,818	20,996,648
Charge for the year		6,295,438	2,706,137	9,001,575	5,162,335	–	5,162,335
Reversals for the year		(4,244,098)	–	(4,244,098)	(1,307,136)	(476,313)	(1,783,449)
Net charge for the year		2,051,340	2,706,137	4,757,477	3,855,199	(476,313)	3,378,886
Amount written off	10.5	(27,510)	–	(27,510)	(2,506,279)	–	(2,506,279)
Closing balance		<u>19,273,580</u>	<u>7,325,642</u>	<u>26,599,222</u>	<u>17,249,750</u>	<u>4,619,505</u>	<u>21,869,255</u>

10.4.1 The Bank maintains general provision, as a matter of prudence, on account of the management's assessment of credit risk and general banking risk particularly in the current stressed economic condition amounting to Rs. 7,265,010 thousand (2022: Rs. 4,560,235 thousand). General provision also includes provision of Rs. 60,609 thousand (2022: Rs. 59,265 thousand) made against consumer portfolio and Rs. 23 thousand (31 December 2022: Rs. 5 thousand) made against small enterprises (SEs) portfolio as required by the Prudential Regulations issued by the SBP.

10.4.2 Particulars of provision against advances

	2023			2022		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
In local currency	17,991,864	7,325,642	25,317,506	13,021,100	4,619,505	17,640,605
In foreign currencies	1,281,716	–	1,281,716	4,228,650	–	4,228,650
	<u>19,273,580</u>	<u>7,325,642</u>	<u>26,599,222</u>	<u>17,249,750</u>	<u>4,619,505</u>	<u>21,869,255</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 decided to not to avail the benefit of Forced Sales Value (FSV) against non-performing loans, as available under BSD Circular No. I of 21 October 2011 issued by the SBP. However, during the previous year, FSV benefit of Rs. 2,617,170 thousand was availed and had this benefit of FSV not been taken by the Bank in the previous year, specific provision against non-performing advances would have been higher by Rs. 2,617,170 thousand and profit before tax for that year would have been lower by Rs. 1,334,757 thousand.

	Note	2023	2022
Rupees in '000			
10.5 Particulars of write offs			
10.5.1 Against provisions	10.4	27,510	2,506,279
Directly charged to profit and loss account		-	-
		<u>27,510</u>	<u>2,506,279</u>
10.5.2 Write offs of Rs. 500,000/- and above		27,510	2,504,916
Write offs of below Rs. 500,000/		-	1,363
		<u>27,510</u>	<u>2,506,279</u>

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

In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of Rs. 500,000 or above allowed to the persons during the year ended 31 December 2023 is enclosed as Annexure I. However, this write off does not affect the Bank's right to recover the debts from these customers.

	Note	2023	2022
Rupees in '000			
11. FIXED ASSETS			
Capital work-in-progress	11.1	293,119	340,967
Property and equipment	11.2	23,023,367	21,322,923
		<u>23,316,486</u>	<u>21,663,890</u>
11.1 Capital work-in-progress			
Civil works	11.1.1	79,056	100,669
Advance to suppliers		214,063	240,298
		<u>293,119</u>	<u>340,967</u>

11.1.1 This represents advances against renovation being carried out at various locations and to the vendors.

11.2 Property and equipment

	2023									
	Freehold land	Leasehold land	Buildings on freehold land	Buildings on leasehold land	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Lease hold improvements	Right-of-use assets (branches on rent)	Total
	Rupees in '000									
At 1 January 2023										
Cost / Revalued amount	3,045,790	4,020,390	447,516	3,403,561	1,048,449	5,612,516	240,159	5,119,306	10,126,510	33,064,197
Accumulated depreciation	-	-	(23,255)	(158,055)	(538,641)	(4,013,017)	(108,070)	(3,509,319)	(3,390,917)	(11,741,274)
Net book value	<u>3,045,790</u>	<u>4,020,390</u>	<u>424,261</u>	<u>3,245,506</u>	<u>509,808</u>	<u>1,599,499</u>	<u>132,089</u>	<u>1,609,987</u>	<u>6,735,593</u>	<u>21,322,923</u>
Year ended December 2023										
Opening net book value	3,045,790	4,020,390	424,261	3,245,506	509,808	1,599,499	132,089	1,609,987	6,735,593	21,322,923
Additions	67,084	155,000	-	-	211,211	1,408,299	218,509	759,790	-	2,819,893
Additions to right-of-use assets	-	-	-	-	-	-	-	-	2,326,089	2,326,089
Disposals	-	-	-	-	(1,008)	(914)	(9,491)	-	-	(11,413)
Depreciation charge	-	-	(46,130)	(314,287)	(133,600)	(847,579)	(64,489)	(574,491)	(1,460,229)	(3,440,805)
Exchange rate adjustments	-	-	-	5,502	333	838	7	-	-	6,680
Closing net book value	<u>3,112,874</u>	<u>4,175,390</u>	<u>378,131</u>	<u>2,936,721</u>	<u>586,744</u>	<u>2,160,143</u>	<u>276,625</u>	<u>1,795,286</u>	<u>7,601,453</u>	<u>23,023,367</u>
At 31 December 2023										
Cost / Revalued amount	3,112,874	4,175,390	447,516	3,409,063	1,240,791	6,941,579	434,570	5,879,096	12,452,599	38,093,478
Accumulated depreciation	-	-	(69,385)	(472,342)	(654,047)	(4,781,436)	(157,945)	(4,083,810)	(4,851,146)	(15,070,111)
Net book value	<u>3,112,874</u>	<u>4,175,390</u>	<u>378,131</u>	<u>2,936,721</u>	<u>586,744</u>	<u>2,160,143</u>	<u>276,625</u>	<u>1,795,286</u>	<u>7,601,453</u>	<u>23,023,367</u>
Rate of depreciation (percentage)	<u>-</u>	<u>-</u>	<u>4</u>	<u>4</u>	<u>15</u>	<u>25</u>	<u>20</u>	<u>20</u>		
	2022									
	Freehold land	Leasehold land	Buildings on freehold land	Buildings on leasehold land	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Lease hold improvements	Right-of-use assets (branches on rent)	Total
	Rupees in '000									
At 1 January 2022										
Cost / Revalued amount	1,386,858	99,340	356,349	2,712,785	837,506	4,628,341	237,173	4,437,472	8,121,258	22,817,082
Accumulated depreciation	-	(4,719)	(216,826)	(1,179,847)	(439,612)	(3,362,508)	(108,894)	(3,057,600)	(2,613,373)	(10,983,379)
Net book value	<u>1,386,858</u>	<u>94,621</u>	<u>139,523</u>	<u>1,532,938</u>	<u>397,894</u>	<u>1,265,833</u>	<u>128,279</u>	<u>1,379,872</u>	<u>5,507,885</u>	<u>11,833,703</u>
Year ended December 2022										
Opening net book value	1,386,858	94,621	139,523	1,532,938	397,894	1,265,833	128,279	1,379,872	5,507,885	11,833,703
Additions	498,278	268,667	-	-	223,985	1,040,279	92,479	681,834	-	2,805,522
Additions to right-of-use assets	-	-	-	-	-	-	-	-	2,575,654	2,575,654
Movement in surplus on assets revalued during the year	1,070,460	2,335,148	404,431	2,985,926	-	-	-	-	-	6,795,965
Disposals	-	-	-	-	(1,162)	(1,578)	(41,204)	-	(58,269)	(102,213)
Depreciation charge	-	-	(29,499)	(203,179)	(111,259)	(705,277)	(47,473)	(451,719)	(1,289,677)	(2,838,083)
Exchange rate adjustments	-	-	-	5,091	350	242	8	-	-	5,691
Reclassification / accumulated depreciation due to revaluation / transfer from non-banking assets	90,194	1,321,954	(90,194)	(1,075,270)	-	-	-	-	-	246,684
Closing net book value	<u>3,045,790</u>	<u>4,020,390</u>	<u>424,261</u>	<u>3,245,506</u>	<u>509,808</u>	<u>1,599,499</u>	<u>132,089</u>	<u>1,609,987</u>	<u>6,735,593</u>	<u>21,322,923</u>
At 31 December 2022										
Cost / Revalued amount	3,045,790	4,020,390	447,516	3,403,561	1,048,449	5,612,516	240,159	5,119,306	10,126,510	33,064,197
Accumulated depreciation	-	-	(23,255)	(158,055)	(538,641)	(4,013,017)	(108,070)	(3,509,319)	(3,390,917)	(11,741,274)
Net book value	<u>3,045,790</u>	<u>4,020,390</u>	<u>424,261</u>	<u>3,245,506</u>	<u>509,808</u>	<u>1,599,499</u>	<u>132,089</u>	<u>1,609,987</u>	<u>6,735,593</u>	<u>21,322,923</u>
Rate of depreciation (percentage)	<u>-</u>	<u>-</u>	<u>4</u>	<u>4</u>	<u>15</u>	<u>25</u>	<u>20</u>	<u>20</u>		

11.3 Revaluation of properties

The Bank's land and buildings were revalued by an independent professional valuer, M/S Iqbal A. Nanjee & Co. (Private) Limited as at 30 June 2022. The valuation was performed by the valuer on the basis of an assessment of present market values. The revaluations had resulted in a surplus of Rs. 6,795,965 thousand over the book value. In addition, a non-banking asset transferred to property and equipment in the previous year was revalued by M/S Akbani & Javed Associates on 31 December 2021. Cumulated surplus on that asset amounted to Rs. 154,193 thousand and was also revalued on the basis of present market value. Accordingly total revaluation surplus (before incremental depreciation) amounted to Rs. 6,950,158 thousand. Details are as follows:

Revaluation surplus (gross amount without incremental depreciation):	Rupees in '000
Freehold land	1,070,460
Leasehold land	2,488,939
Buildings on Freehold land	404,431
Buildings on Leasehold land	<u>2,986,328</u>
	<u>6,950,158</u>

11.3.1 Surplus on revaluation of fixed assets (net of incremental depreciation) are as follows:

	2023	2022
	Rupees in '000	
Freehold land	1,070,460	1,070,460
Leasehold land	2,488,939	2,488,939
Buildings on Freehold land	342,783	383,769
Buildings on Leasehold land	<u>2,568,981</u>	<u>2,846,455</u>
	<u>6,471,163</u>	<u>6,789,623</u>

11.3.2 Had there been no revaluation the carrying amounts of revalued assets would have been as follows:

Freehold land	1,975,330	1,975,330
Leasehold land	1,531,451	1,531,451
Buildings on freehold land	35,348	40,492
Buildings on leasehold land	<u>362,238</u>	<u>399,051</u>
	<u>3,904,367</u>	<u>3,946,324</u>

11.4 The cost of fully depreciated assets still in use includes:

	2023	2022
	Rupees in '000	
Furniture and fixtures	<u>500,731</u>	<u>245,833</u>
Electrical, office and computer equipment	<u>3,152,659</u>	<u>2,531,673</u>
Vehicles	<u>41,083</u>	<u>17,345</u>
Lease hold improvements	<u>2,661,925</u>	<u>2,553,860</u>

11.5 Details of fixed assets disposed off to employees / ex employees during the year ended 31 December 2023

Particulars	Cost	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	— Rupees in '000 —				
Vehicle	1,753	1	1,320	As per HR policy	Mr. Muhammad Yousuf (Employee)
Vehicle	2,471	525	3,100	As per HR policy	Mr Amir Hameed Piracha (Employee)
Vehicle	4,106	3,436	3,500	As per HR policy	Mr. Muhammmad Khan (Ex-Employee)
Vehicle	1,759	1	1,260	As per HR policy	Mr. Talal Hussain Niazi (Employee)
Vehicle	2,941	2,266	3,150	As per HR policy	Mr. Tauheed UI Islam (Ex-Employee)
Vehicle	2,525	779	2,750	As per HR policy	Mr. Wamiq Hasan (Ex-Employee)
Vehicle	2,875	910	2,265	As per HR policy	Mr. Farjad Jaffery (Ex-Employee)
Vehicle	2,675	1,571	2,265	As per HR policy	Ms. Sheeza Ahmed (Ex-Employee)
Vehicle	8	1	500	As per HR policy	Mr. Athar Naufeez (Employee)
Vehicle	17	4	1,428	As per HR policy	Mr. Arfan Asghar (Employee)
Vehicle	1,752	1	1,410	As per HR policy	Mr. Muhammad Zia Majeed (Employee)

12. INTANGIBLE ASSETS

	Computer software	
	2023	2022
	— Rupees in '000 —	
At 1 January		
Cost	709,531	648,996
Accumulated amortisation	(611,563)	(528,307)
Net book value	<u>97,968</u>	<u>120,689</u>
Opening net book value	97,968	120,689
Additions - directly purchased	357,110	60,535
Amortisation charge	(131,824)	(83,256)
Closing net book value	<u>323,254</u>	<u>97,968</u>
At 31 December		
Cost	1,066,641	709,531
Accumulated amortisation	(743,387)	(611,563)
Net book value	<u>323,254</u>	<u>97,968</u>
Rate of amortisation (percentage)	<u>33.3</u>	<u>33.3</u>
Useful life in years	<u>3</u>	<u>3</u>

12.1 The cost of fully amortised intangible assets (computer software) still in use is Rs. 546,908 thousand (2022: Rs. 464,314 thousand).

13. DEFERRED TAX ASSETS

	2023			
	Balance as at January 01, 2023	Recognised in profit and loss account	Recognised in OCI	Balance as at December 31, 2023
	Rupees in '000			
Deductible temporary differences on				
Provision for diminution in value of investments	248,338	(97,766)	-	150,572
Provision against advances and off - balance sheet	2,924,963	2,494,347	-	5,419,310
Accelerated tax depreciation	335,679	(19,796)	-	315,883
Deferred liability on defined benefit plan	6,946	-	(21,756)	(14,810)
Deficit on revaluation of investments	3,613,724	-	(2,123,775)	1,489,949
	<u>7,129,650</u>	<u>2,376,785</u>	<u>(2,145,531)</u>	<u>7,360,904</u>
Taxable temporary differences on				
Surplus on revaluation of non-banking assets	(675,664)	-	(94,289)	(769,953)
Surplus on revaluation of fixed assets	(1,389,016)	156,045	(193,816)	(1,426,787)
Exchange translation reserve	(3,719)	-	3,719	-
	<u>(2,068,399)</u>	<u>156,045</u>	<u>(284,386)</u>	<u>(2,196,740)</u>
	<u>5,061,251</u>	<u>2,532,830</u>	<u>(2,429,917)</u>	<u>5,164,164</u>
	2022			
	Balance as at January 01, 2022	Recognised in profit and loss account	Recognised in OCI	Balance as at December 31, 2022
	Rupees in '000			
Deductible temporary differences on				
Provision for diminution in value of investments	197,524	50,814	-	248,338
Provision against advances and off - balance sheet	2,561,945	363,018	-	2,924,963
Accelerated tax depreciation	193,885	141,794	-	335,679
Deferred liability on defined benefit plan	20,096	-	(13,150)	6,946
Deficit on revaluation of investments	1,121,362	-	2,492,362	3,613,724
	<u>4,094,812</u>	<u>555,626</u>	<u>2,479,212</u>	<u>7,129,650</u>
Taxable temporary differences on				
Surplus on revaluation of non-banking assets	(877,238)	10	201,564	(675,664)
Surplus on revaluation of fixed assets	-	69,030	(1,458,046)	(1,389,016)
Exchange translation reserve	(1,053)	-	(2,666)	(3,719)
	<u>(878,291)</u>	<u>69,040</u>	<u>(1,259,148)</u>	<u>(2,068,399)</u>
	<u>3,216,521</u>	<u>624,666</u>	<u>1,220,064</u>	<u>5,061,251</u>

14. OTHER ASSETS

	Note	2023		2022	
		Rupees in '000			
Income / mark-up / profit accrued in local currency - net of provision		38,188,932		21,118,836	
Income / mark-up / profit accrued in foreign currencies - net of provision		304,547		99,685	
Advances, deposits, advance rent and other prepayments		575,609		381,260	
Non-banking assets acquired in satisfaction of claim	14.1	2,204,729		2,204,729	
Mark-to-market gain on forward foreign exchange contracts		2,888,760		2,702,151	
Acceptances		25,076,677		25,377,732	
Receivable from the SBP against encashment of government securities		43,509		16,850	
Stationery and stamps on hand		244,084		115,004	
Receivable from defined benefit plan	35.4	60,450		-	
Others	14.2	758,056		6,272,011	
		<u>70,345,353</u>		<u>58,288,258</u>	
Provision against other assets	14.3	(375,000)		(375,000)	
Other assets (net of provision)		<u>69,970,353</u>		<u>57,913,258</u>	
Surplus on revaluation of non-banking assets acquired in satisfaction of claims	20.2	2,095,111		2,095,111	
		<u>72,065,464</u>		<u>60,008,369</u>	

	Note	2023	2022
Rupees in '000			
14.1	Market value of non-banking assets acquired in satisfaction of claims 14.1.2	<u>4,299,840</u>	<u>4,299,840</u>

Non-banking assets acquired in satisfaction of claims have been revalued by independent professional valuator as at 31 December 2021. The revaluation was carried out by M/s Akbani & Javed Associates on the basis of an assessment of present market values.

	2023	2022
Rupees in '000		
14.1.1 Non-banking assets acquired in satisfaction of claims		
Opening balance	4,299,840	4,546,895
Transferred to fixed asset	-	(246,684)
Depreciation	-	(371)
Closing balance	<u>4,299,840</u>	<u>4,299,840</u>

14.1.2 Revaluation surplus of Rs. 2,095,111 thousand (2022: Rs. 2,095,111 thousand) is included in the above value.

14.2 This includes Rs. Nil thousand (2022:Rs. 5,384,344 thousand) representing payments for the Bank's customers against letters of credit which were subsequently adjusted against the margin deposits and/or classified as advances on the execution of relevant documents. This also includes Rs.143,243 thousand (2022:Rs. 241,825 thousand) receivable on the sale of equity securities. This also includes fully provided balance of Rs. 375,000 thousand (2022:Rs. 375,000).

	2023	2022
Rupees in '000		
14.3 Movement in provision held against other assets		
Opening balance	375,000	375,000
Charge for the year	-	-
Reversal for the year	-	-
Closing balance	<u>375,000</u>	<u>375,000</u>

15. BILLS PAYABLE

In Pakistan	28,254,056	19,445,038
Outside Pakistan	98,643	93,390
	<u>28,352,699</u>	<u>19,538,428</u>

	Note	2023	2022
		Rupees in '000	
16. BORROWINGS			
Secured			
Borrowings from the State Bank of Pakistan under:			
Export refinance scheme	16.2	85,990,034	80,119,841
Long term financing facility - renewable energy scheme	16.3	2,327,108	2,454,119
Long term financing facility	16.4	19,057,928	21,471,497
Refinance for payment of wages and salaries	16.5	–	2,398,979
Temporary economic refinance facility	16.6	28,797,755	31,169,597
Long term financing facility - for storage of agricultural produce scheme	16.7	621,700	532,962
Refinance facility for modernization of SME	16.8	105,858	123,608
Refinance facility for combating COVID-19	16.9	35,878	51,463
Refinance and credit guarantee scheme for women entrepreneurs	16.10	23,208	–
	16.11	136,959,469	138,322,066
Repurchase agreement borrowings (Repo) - secured	16.12	184,947,267	197,452,237
Due against bills rediscounting - secured	16.13	474,216	4,254,594
		<u>322,380,952</u>	<u>340,028,897</u>
Unsecured			
Call borrowing	16.14	–	2,600,000
Overdrawn nostro accounts		888,638	1,323,711
Overdrawn local bank account		–	15,160
		<u>888,638</u>	<u>3,938,871</u>
		<u>323,269,590</u>	<u>343,967,768</u>
16.1 Particulars of borrowings in respect of currencies			
In local currency		321,906,736	338,389,463
In foreign currencies		1,362,854	5,578,305
		<u>323,269,590</u>	<u>343,967,768</u>

16.2 These borrowings have been obtained from the SBP for extending export finance to customers. These carry mark-up at rates ranging from 17% to 18% per annum (2022: 11% to 12% per annum) and are due to mature latest by 26 June 2024.

16.3 These borrowings have been obtained from the SBP under a scheme for providing financing facilities to customers against renewable energy plants. These carry mark-up at rates ranging from 2% to 3% per annum (2022: 2% to 3% per annum) and are due to mature latest by 31 May 2034.

16.4 These borrowings have been obtained from the SBP under a scheme for providing concessionary financing facilities to the industry for purchase of new locally manufactured plant and machinery. These carry mark-up at rates ranging from 10% to 11.5% per annum (2022: 10% to 11.5% per annum) and are due to mature latest by 06 January 2033.

16.5 These borrowings have been obtained from the SBP under a scheme for providing financing facilities to help businesses in payment of wages and salaries to their employees during the pandemic and thereby support continued employment. These carry mark-up at rate of Nil (2022: 0% per annum).

16.6 These borrowings have been obtained from the SBP under a scheme to provide concessionary refinance for setting up of new industrial units in the backdrop of challenges being faced by industries during the pandemic. These carry mark-up at rate of 1% per annum (2022: 1.00% per annum) and are due to mature latest by 08 November 2033.

16.7 These borrowings have been obtained from the SBP under a scheme for financing the storage of agricultural produce to encourage the private sector to establish silos, warehouses and cold storages. These carry mark-up at rate of 2% per annum (2022: 2.00% per annum) and are due to mature latest by 21 February 2032.

- 16.8** These borrowings have been obtained from the SBP under a scheme to finance modernization of Small and Medium Enterprises (SME). These carry mark-up at rates of 2% per annum (2022: 2.00% per annum) and are due to mature latest by 18 November 2027.
- 16.9** These borrowings have been obtained from the SBP under a scheme to provide combat the emergency refinance facility to hospitals & medical centre. These carry mark-up at rates of 0% per annum (2022: 0% per annum) and are due to mature latest by 30 June 2026.
- 16.10** These borrowings have been obtained from the SBP under a scheme to provide finance for women entrepreneurs across the country. These carry mark-up at rates of 0% per annum (2022: 0% per annum) and are due to mature latest by 04 October 2028.
- 16.11** As per the terms of the agreement, the Bank has granted the SBP the right to recover the outstanding amounts from the Bank at the date of maturity of the finances by directly debiting the Bank's current account maintained with the SBP.
- 16.12** These carry mark-up rates ranging between 21.75% to 23.00% (2022: 15.75% to 16.75%) per annum having maturity upto 12 Jan 2024 (2022: 03 March 2023) and are secured against investments mentioned in note 9.3.1.
- 16.13** 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 of 6.91% (2022: 5.11% to 6.04%) per annum having maturity upto 23 January 2024 (2022: 3 April 2023).
- 16.14** These carry mark-up rate Nil (2022: 15.70 % to 16.10%) per annum having maturity upto Nil (2022: 03 January 2023).

17. DEPOSITS AND OTHER ACCOUNTS

	2023			2022		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
	Rupees in '000					
Customers						
Current accounts	310,810,460	59,724,307	370,534,767	261,734,505	42,738,681	304,473,186
Savings deposits	341,643,324	16,798,084	358,441,408	216,746,274	19,820,695	236,566,969
Term deposits	175,268,425	50,971,995	226,240,420	211,585,932	52,733,398	264,319,330
Others	41,503,257	72,458	41,575,715	48,007,631	18,692	48,026,323
	<u>869,225,466</u>	<u>127,566,844</u>	<u>996,792,310</u>	<u>738,074,342</u>	<u>115,311,466</u>	<u>853,385,808</u>
Financial institutions						
Current deposits	2,327,236	1,030,085	3,357,321	1,483,744	882,797	2,366,541
Savings deposits	11,868,434	–	11,868,434	19,714,760	–	19,714,760
Term deposits	260,684	22,739	283,423	5,222,729	6,945	5,229,674
Others	1,356	–	1,356	–	–	–
	<u>14,457,710</u>	<u>1,052,824</u>	<u>15,510,534</u>	<u>26,421,233</u>	<u>889,742</u>	<u>27,310,975</u>
	<u>883,683,176</u>	<u>128,619,668</u>	<u>1,012,302,844</u>	<u>764,495,575</u>	<u>116,201,208</u>	<u>880,696,783</u>

17.1 Composition of deposits

	2023	2022
	Rupees in '000	
Individuals	463,434,699	389,001,497
Government (Federal and Provincial)	35,486,080	57,795,609
Public Sector Entities	23,681,503	33,175,399
Banking Companies	1,576,992	1,143,946
Non-Banking Financial Institutions	13,933,550	26,167,029
Private Sector	474,190,020	373,413,303
	<u>1,012,302,844</u>	<u>880,696,783</u>

- 17.2** This includes eligible deposits of Rs. 620,878,246 thousand (2022: Rs. 462,162,381 thousand) which are covered under deposit protection mechanism as required by the Deposit Protection Corporation circular no. 4 of 2018.

	Note	2023	2022
Rupees in '000			
18. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		19,323,624	14,182,495
Mark-up / return / interest payable in foreign currencies		684,315	985,955
Unearned commission and income		721,371	529,602
Accrued expenses		4,349,843	2,271,216
Current taxation (provision less payments)		10,078,741	4,844,427
Acceptances		25,076,677	25,377,732
Unclaimed dividend		85,648	86,375
Dividend payable		–	1,032,890
Branch adjustment account		3,719	2,233
Mark to market loss on forward foreign exchange contracts		4,203,701	2,180,854
Provision for compensated absences	36.2	325,877	269,345
Payable to defined benefit plan	35.4	–	32,309
Provision against off-balance sheet obligations	18.1	32,583	32,583
Workers' welfare fund	18.3	3,712,446	2,610,684
Charity fund balance		402	254
Excise duty payable		2,263	3,081
Locker deposits		989,676	980,238
Advance against diminishing musharakah		–	66,667
Advance rental for ijarah		19,440	15,872
Security deposits against leases / ijarah		244,813	256,562
Sundry creditors		3,283,612	1,756,937
Lease liability against right-of-use assets	18.2	9,051,378	7,803,164
Withholding tax / duties		224,649	450,494
Others	18.4	16,801,843	12,961,648
		<u>99,216,621</u>	<u>78,733,617</u>

18.1 Provision against off-balance sheet obligations

Opening balance	32,583	32,583
Reversal for the year	–	–
Closing balance	<u>32,583</u>	<u>32,583</u>

The above represents provision against certain letters of credit and guarantee.

18.2 Lease liability against right-of-use assets

Not later than 1 year	853,561	857,264
Later than one and less than five years	4,278,203	4,607,959
Over five years	<u>3,919,614</u>	<u>2,337,941</u>
	<u>9,051,378</u>	<u>7,803,164</u>

18.2.1 This represents branch premises acquired on rent.

18.3 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 judgement may not currently be treated as conclusive. Accordingly the Bank maintains its provision in respect of WWF.

18.4 This includes Rs.15,169,499 thousand (2022:Rs. 12,186,315) received by the Bank from a correspondent bank against standby letter of credit claimed by the customer. The honorable High Court of Sindh has passed interim order restraining the Bank to transfer amount pending arbitration.

19. SHARE CAPITAL

19.1 Authorised capital

2023 (Number of shares)	2022		2023	2022
			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 (2022: 534,394 thousand) ordinary shares of Rs. 10/- each (51% holding) and Habib Insurance Company Limited (the associated company) held 6,706 thousand (2022: 6,306 thousand) ordinary shares of Rs. 10/- each.

20. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS

	Note	2023	2022
		Rupees in '000	
Surplus / (deficit) on revaluation of			
- Available for sale securities	9.1	(3,040,712)	(8,404,009)
- Fixed Assets	20.1	6,471,163	6,789,623
- Non-banking assets acquired in satisfaction of claims	20.2	2,095,111	2,095,111
		5,525,562	480,725
Less: Deferred tax on surplus / (deficit) on revaluation of			
- Available for sale securities		(1,489,949)	(3,613,724)
- Fixed Assets	20.1	1,426,787	1,389,016
- Non-banking assets acquired in satisfaction of claims	20.2	769,953	675,664
		(706,791)	1,549,044
		<u>4,818,771</u>	<u>2,029,769</u>

20.1 Fixed assets

Surplus on revaluation as at 1 January		6,789,623	-
Revaluation of fixed assets during the year		-	6,795,964
Transferred from non banking asset		-	154,193
Transferred to unappropriated profit in respect incremental depreciation during the year - net of deferred tax		(162,415)	(91,504)
Related deferred tax liability on incremental depreciation		(156,045)	(69,030)
		<u>(318,460)</u>	6,789,623
Surplus on revaluation as at 31 December		<u>6,471,163</u>	<u>6,789,623</u>
Less: Related deferred tax liability on:			
Revaluation as at 1 January		1,389,016	-
Revaluation of fixed assets during the year		-	1,457,854
Transferred to fixed assets		-	192
Impact of change in tax rate		193,816	-
Incremental depreciation during the year		(156,045)	(69,030)
		<u>37,771</u>	1,389,016
Related deferred tax liability		<u>1,426,787</u>	<u>1,389,016</u>
		<u>5,044,376</u>	<u>5,400,607</u>

	Note	2023	2022
		Rupees in '000	
20.2 Non-banking assets acquired in satisfaction of claims			
Surplus on revaluation as at 1 January		2,095,111	2,249,327
Transferred to fixed asset		—	(154,193)
Transferred to unappropriated profit in respect incremental depreciation during the year - net of deferred tax		—	(13)
Related deferred tax liability on incremental depreciation		—	(10)
		—	(154,216)
Surplus on revaluation as at 31 December		2,095,111	2,095,111
Less: Related deferred tax liability on:			
Revaluation as at 1 January		675,664	877,238
Transferred to fixed asset		—	(192)
Impact of change in tax rate		94,289	(201,372)
Incremental depreciation during the year		—	(10)
		94,289	(201,574)
Related deferred tax liability		769,953	675,664
		1,325,158	1,419,447

	Note	2023	2022
		Rupees in '000	
21. CONTINGENCIES AND COMMITMENTS			
Guarantees	21.1	137,319,392	131,519,154
Commitments	21.2	499,761,681	395,110,802
Other contingent liabilities	21.3	3,024,648	2,980,386
		640,105,721	529,610,342
21.1 Guarantees			
Financial guarantees		29,705,918	26,172,591
Performance guarantees		55,811,913	62,206,335
Other guarantees		51,801,561	43,140,228
		137,319,392	131,519,154
21.2 Commitments			
Documentary credits and short-term trade-related transactions:			
Letters of credit		132,975,536	157,455,041
Commitments in respect of:			
Forward foreign exchange contracts	21.2.1	365,390,061	236,024,551
Forward lendings	21.2.2	1,093,000	1,165,004
Commitments in respect of:			
Acquisition of operating fixed assets		303,084	466,206
		499,761,681	395,110,802

	2023	2022
	Rupees in '000	
21.2.1 Commitments in respect of forward foreign exchange contracts		
Purchase	190,089,104	128,349,072
Sale	175,300,957	107,675,479
	<u>365,390,061</u>	<u>236,024,551</u>

21.2.2 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 the following:

	Note	2023	2022
		Rupees in '000	
Commitments in respect of syndicate financing		<u>1,0933,000</u>	<u>1,165,004</u>

21.3 Other contingent liabilities

Claims against bank not acknowledged as debt	21.3.1	2,918,592	2,874,330
Foreign Exchange repatriation case	21.3.2	<u>106,056</u>	<u>106,056</u>
		<u>3,024,648</u>	<u>2,980,386</u>

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

21.3.2 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 a 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 judgement. The Honorable High Court has granted relief to the Bank by way of interim orders. Based on merits, 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 "Foreign exchange income". 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 unfavorable 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).

	2023	2022
	Rupees in '000	
23. MARK-UP / RETURN / INTEREST EARNED		
Loans and advances	65,332,100	41,397,766
Investments	134,432,964	88,979,157
Lending with financial institutions	5,376,253	2,784,170
Balance with banks	471,107	4,089
	<u>205,612,424</u>	<u>133,165,182</u>
24. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	93,264,764	60,952,623
Borrowings	34,172,324	26,660,090
Cost of foreign currency swaps against foreign currency deposits	5,793,833	4,125,891
Lease liability against right-of-use assets	963,868	815,888
	<u>134,194,789</u>	<u>92,554,492</u>
25. FEE & COMMISSION INCOME		
Branch banking customer fees	1,225,583	895,336
Credit related fees	37,216	44,968
Card related fees	1,062,450	778,556
Commission on trade	5,630,911	4,942,364
Commission on guarantees	960,388	819,349
Commission on remittances including home remittances	49,872	38,637
Commission on bancassurance	177,489	184,306
Commission on cash management	155,293	132,467
Investment Banking Fee	61,505	40,769
Others	35,067	53,891
	<u>9,395,774</u>	<u>7,930,643</u>
26. GAIN / (LOSS) ON SECURITIES		
Federal Government Securities	(820,402)	(209,955)
Shares	815,130	(35,061)
Mutual Funds - net	-	28,447
	<u>(5,272)</u>	<u>(216,569)</u>
27. OTHER INCOME		
Rent on properties	25,754	31,785
Gain on sale of fixed assets - net	33,833	41,532
Gain on sale of ijarah assets - net	15,034	3,894
Gain on sale of right-of-use-assets - net	-	11,402
Staff notice period and other recoveries	676	847
	<u>75,297</u>	<u>89,460</u>

	Note	2023	2022
Rupees in '000			
28. OPERATING EXPENSES			
Total compensation expense	28.1	11,273,456	9,446,785
Property expense			
Rent & taxes		182,503	173,814
Insurance		8,197	6,879
Utilities cost		1,351,707	1,036,153
Security (including guards)		836,191	692,183
Repair & maintenance (including janitorial charges)		919,926	643,542
Depreciation on owned fixed assets		934,908	684,397
Depreciation on right-of-use assets		1,460,229	1,289,677
		<u>5,693,661</u>	<u>4,526,645</u>
Information technology expenses			
Software maintenance		615,264	369,168
Hardware maintenance		444,648	264,847
Depreciation		341,649	277,560
Amortisation		131,824	83,256
Network charges		779,919	372,719
		<u>2,313,304</u>	<u>1,367,550</u>
Other operating expenses			
Directors' fees and allowances		24,270	12,643
Fees and allowances to Shariah Board		24,838	21,372
Legal & professional charges		311,376	203,775
Outsourced services costs	34.1	367,003	309,779
Travelling & conveyance		691,804	475,781
NIFT clearing charges		96,897	91,907
Depreciation		704,019	586,449
Depreciation - non-banking assets		-	371
Training & development		42,914	33,596
Postage & courier charges		174,723	141,762
Communication		162,169	129,628
Subscription		805,390	458,660
Repair & maintenance		296,044	199,961
Brokerage & commission		185,829	182,648
Stationery & printing		541,696	417,929
Marketing, advertisement & publicity		605,175	517,797
Management fee		1,864,538	798,133
Insurance		1,126,488	969,930
Donations	28.3	285,273	200,405
Auditors' Remuneration	28.4	22,528	20,609
Security		323,276	229,185
Others		815,940	677,834
	28.2	9,472,190	6,680,154
		<u>28,752,611</u>	<u>22,021,134</u>

	2023	2022
	Rupees in '000	
28.1 Total compensation expense		
Managerial Remuneration		
i) Fixed	8,871,025	7,326,469
ii) Variable - Cash Bonus / Awards etc.	906,397	781,547
Charge for defined benefit plan	279,679	307,030
Contribution to defined contribution plan	326,528	280,055
Charge for compensated absences	164,748	101,346
Rent & house maintenance	41,504	37,617
Conveyance	658,894	582,948
Employee Old Age Benefits Contribution	24,681	29,773
	<u>11,273,456</u>	<u>9,446,785</u>
28.2 Total cost for the year included in other operating expenses (other than in outsourced services cost) relating to outsourced activities is Rs. 117,452 thousand (2022:Rs. 113,136 thousand) pertaining to payments made to companies incorporated in Pakistan.		
28.3 Donations paid in excess of Rs. 500,000 to a single party during the year are as follows:		
DONEE		
Memon Health and Education Foundation (Memon Medical Institute)	88,500	1,000
Patients' Aid Foundation	35,500	-
The Indus Hospital	33,050	38,700
Habib University Foundation	25,000	25,000
AL-Mustafa Welfare Society Trust	10,000	5,000
Nisar Fatima Amin Foundation	10,000	15,000
Dawat-e-Islami Trust	7,500	-
Saylani Welfare International	7,500	3,500
Family Educational Services Foundation	5,330	2,150
The Layton Rehmatulla Benevolent Trust	4,100	1,000
Embassy of Turkiye Administrative	3,000	-
Habib Girls School Trust	3,000	500
Sindh Institute of Urology & Transplantation (SIUT)	3,000	-
Green Island Trust	2,850	-
Karwan-e-Hayat (Institute For Mental Health)	2,500	500
Karachi Down Syndrome Program	2,000	1,750
Idara-i-Talim-o-Aagahi Public Trust	1,625	-
The Citizens Archive of Pakistan	1,500	-
The Citizens Foundation	1,500	41,000
The Patients Behbud Society for AKUH	1,500	1,000
Safaid Posh Dastarkhwan	1,200	1,050
Rehnuma Public School (Path Education Society)	1,100	1,825
Institute of Business Administration	1,077	1,720
Abbas-e-Alamdar Hostel	1,050	1,100
Abdul Sattar Edhi Foundation	1,000	1,000
Afzaal Memorial Thalassemia Foundation	1,000	-
AL-Khidmat Foundation Pakistan	1,000	-
Alleviate Addiction Suffering Trust (AAS Trust)	1,000	1,000
Anjuman Behbood-e-Samat-e-Atfal	1,000	1,000
Bait-ul-Sukoon	1,000	1,000
ChildLife Foundation	1,000	500
For the Needy and Hungry Foundation (Trust)	1,000	-

	2023	2022
	Rupees in '000	
Mohamedali Habib Welfare Trust	1,000	–
The Aga Khan Hospital and Medical College Foundation	1,000	1,000
The Kidney Centre Post Graduate Training Institute	1,000	1,000
Zehra Homes	1,000	1,000
Al-Sayyeda Benevolent Trust	960	960
Habib Medical Trust	960	960
Habib Poor Fund	960	960
RahmatBai Habib Food & Clothing Trust	960	960
RahmatBai Habib Widows & Orphan Trust	960	960
Jafaria Disaster Cell Welfare Organization	750	4,350
Pak Medical and Welfare Trust (Paknight Clinic)	750	500
Shaukat Khanum Memorial Trust	750	500
Special Olympics Pakistan	750	–
Hunar Ghar Welfare Organization	700	–
Pakistan Memon Educational & Welfare Society	600	600
Women Empowerment Group (Pink Ribbon)	600	–
GOREAD.PK	580	–
Al-Umeed Rehabilitation Association	500	1,000
Depilex Smileagain Foundation	500	–
Habib Public School	500	500
Health Oriented Preventive Education	500	500
Healthcare and Social welfare Association	500	500
Lady Dufferin Hospital	500	1,100
Memon Educational Board	500	500
Pakistan Hindu Council	500	500
Pakistan Memon Women Educational Society	500	500
Panah Trust	500	500
Poor Patients Aid Society Civil Hospital Karachi	500	500
Vocational Welfare Society for Mentally Retarded Markaz-e-Umeed	500	500
Zubaida Machiyara Trust	500	–
Ida Rieu Welfare Association	–	600
Developments in Literacy	–	1,200

None of the directors, executives and their spouses had interest in the donations disbursed during the year 2023, except for donations paid to:

Name of Donee	Directors	Interest in Donee as
Habib University Foundation	Mr. Mohamed 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
RehmatBai Habib Food & Clothing Trust	Mr. Muhammad H. Habib	Member of the Board of Trustees
RehmatBai Habib Widows & Orphan Trust	Mr. Muhammad H. Habib	Member of the Board of Trustees

28.4 Auditors' remuneration

	2023	2022
	Rupees in '000	
Audit fee	4,000	3,250
Review of half yearly financial statements	1,500	1,200
Fee for other statutory reporting / other services	10,250	10,250
Special certifications	3,128	2,500
Sales tax and out-of-pocket expenses on above services	3,650	3,409
	<u>22,528</u>	<u>20,609</u>

	Note	2023	2022
		Rupees in '000	
29. OTHER CHARGES			
Penalties imposed by the SBP		<u>123,489</u>	<u>67,878</u>
30. PROVISIONS & WRITE OFFS - NET			
Provision / (reversal of provision) for diminution in value of investments - net	9.4.1	60,431	236,225
Provision against loans & advances - net	10.4	4,757,477	3,378,886
Recovery of written off bad debts		<u>(78,807)</u>	<u>(83,658)</u>
		<u>4,739,101</u>	<u>3,531,453</u>
31. TAXATION			
Current		28,284,158	13,981,202
Prior year	31.2	1,860,066	-
Deferred	13	<u>(2,532,830)</u>	<u>(624,666)</u>
		<u>27,611,394</u>	<u>13,356,536</u>
31.1	Income tax assessments of the Bank have been finalised up to the tax year 2023 (corresponding to the accounting year ended 31 December 2022). 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.		
31.2	This reflects provision made, on prudent basis, for additional tax imposed by the Federal Board of Revenue (FBR) through its notification dated 21 November 2023 on the foreign exchange income of the banking sector at the rate of 40% for the financial year ended 31 Dec 2021 and 31 Dec 2022. The Bank has challenged the imposition of additional tax before the Sindh High Court which has granted stay against such demand. The matter is currently pending for final adjudication.		
31.3		2023	2022
		Rupees in '000	
31.3 Relationship between tax expense and accounting profit			
Profit before tax		<u>51,995,212</u>	<u>27,617,259</u>
Tax at the applicable tax rate of 49% (2022:49%)		25,477,654	13,532,457
Prior year tax charge		1,860,066	-
Deferred tax - prior year (due to change in tax rate)		<u>(489,625)</u>	<u>(302,908)</u>
Permanent differences		763,299	126,987
Tax charge for the year		<u>27,611,394</u>	<u>13,356,536</u>
32. BASIC AND DILUTED EARNINGS PER SHARE			
Profit after taxation		<u>24,383,818</u>	<u>14,260,723</u>
		Number in '000	
Weighted average number of ordinary shares		<u>1,047,831</u>	<u>1,047,831</u>
		Rupees	
Basic and diluted earnings per share		<u>23.27</u>	<u>13.61</u>

	Note	2023	2022
Rupees in '000			
33. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	6	91,466,596	54,747,065
Balances with other banks	7	21,123,950	22,452,296
Overdrawn nostro accounts	16	(888,638)	(1,338,871)
		<u>111,701,908</u>	<u>75,860,490</u>

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

	2023		
	Other liabilities	Equity	
		Reserves	Unappropriated profit
Rupees in '000			
Balance as at 1 January	78,733,617	25,534,917	36,464,323
Changes from financing cash flow			
Dividend paid	-	-	(9,678,226)
Other Changes:			
Liability related			
- Cash based	14,209,163	-	-
- Non-cash based	7,307,458	-	-
- Dividend payable	(1,033,617)	-	1,033,617
Transfer of profit to statutory reserve	-	4,876,764	(4,876,764)
Total liability related other changes	20,483,004	4,876,764	(3,843,147)
Equity related	-	6,380	24,617,236
Balance as at 31 December	<u>99,216,621</u>	<u>30,418,061</u>	<u>47,560,186</u>
	2022		
	Other liabilities	Equity	
		Reserves	Unappropriated profit
Rupees in '000			
Balance as at 1 January	55,044,575	22,679,604	30,198,569
Changes from financing cash flow			
Dividend paid	-	-	(4,233,724)
Other Changes:			
Liability related			
- Cash based	21,770,528	-	-
- Non-cash based	913,081	-	-
- Dividend payable	1,005,433	-	(1,005,433)
Transfer of profit to statutory reserve	-	2,852,145	(2,852,145)
Total liability related other changes	23,689,042	2,852,145	(3,857,578)
Equity related	-	3,168	14,357,056
Balance as at 31 December	<u>78,733,617</u>	<u>25,534,917</u>	<u>36,464,323</u>

34. STAFF STRENGTH	<u>2023</u>	Number	<u>2022</u>
Permanent	5,722		5,457
Temporary	<u>566</u>		<u>579</u>
Bank's own staff strength at end of the year	<u><u>6,288</u></u>		<u><u>6,036</u></u>

34.1 In addition to the above, 905 (2022: 879) employees of outsourcing services companies were assigned to the Bank as at 31 December 2023 to perform services other than guarding and janitorial services.

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. The minimum qualifying period for eligibility under the plan is five years of continuous service.

35.2 Number of employees under the scheme	<u>2023</u>	Number	<u>2022</u>
Gratuity fund	<u>5,713</u>		<u>5,443</u>

35.3 Principal actuarial assumptions

The latest actuarial valuation was carried out on 31 December 2023 using "Projected Unit Credit Actuarial Cost Method". The main assumptions used for the actuarial valuation were as follows:

	<u>2023</u>	<u>2022</u>
Discount rate - percent per annum	16.00	14.25
Expected rate of return on plan assets - percent per annum	14.25	12.50
Expected long term rate of salary increase - percent per annum	15.50	13.75
Mortality rates (for death in service)	Adjusted SLIC 2001- 2005	Adjusted SLIC 2001- 2005

35.4 Reconciliation of payable to defined benefit plan	Note	<u>2023</u>	<u>2022</u>
		Rupees in '000	
Fair value of plan assets	35.6	2,333,569	1,988,918
Present value of defined benefit obligation	35.5	<u>(2,273,119)</u>	<u>(2,021,227)</u>
Receivable/(Payable)		<u>60,450</u>	<u>(32,309)</u>

35.5 Movement in payable to defined benefit plan

Obligations at the beginning of the year	2,021,227	1,760,171
Current service cost	275,132	235,102
Past service cost	-	65,925
Interest cost	271,786	209,522
Benefits due but not paid (payables)	(791)	(4,498)
Benefits paid by the Bank	(227,116)	(163,530)
Re-measurement gain	(67,119)	(81,465)
Obligations at the end of the year	<u>2,273,119</u>	<u>2,021,227</u>

	Note	2023	2022
Rupees in '000			
35.6 Movement in fair value of plan assets			
Fair value at the beginning of the year		1,988,918	1,709,898
Interest income on plan assets		267,239	203,519
Contribution by the Bank		279,679	307,030
Benefits paid		(227,116)	(163,530)
Benefits due but not paid		(791)	(4,498)
Re-measurements: net return on plan assets over interest income loss	35.8.2	25,640	(63,501)
Fair value at the end of the year		<u>2,333,569</u>	<u>1,988,918</u>
35.7 Movement in payable under defined benefit schemes			
Opening balance		32,309	50,273
Charge for the year	35.8.1	279,679	307,030
Contribution by the Bank		(279,679)	(307,030)
Re-measurement loss / (gain) recognised in OCI during the year	35.8.2	(92,759)	(17,964)
Closing balance		<u>(60,450)</u>	<u>32,309</u>
35.8 Charge for defined benefit plans			
35.8.1 Cost recognised in profit and loss			
Past service cost		-	65,925
Current service cost		275,132	235,102
Net interest on defined benefit asset		4,547	6,003
		<u>279,679</u>	<u>307,030</u>
35.8.2 Re-measurements recognised in OCI during the year			
Gain on obligation			
- Financial assumptions		4,598	4,210
- Experience adjustment		(71,717)	(85,675)
		<u>(67,119)</u>	<u>(81,465)</u>
Return on plan assets over interest income		(25,640)	63,501
Total re-measurements recognised in OCI		<u>(92,759)</u>	<u>(17,964)</u>
35.9 Components of plan assets			
PLS Saving Account	35.9.1	310,643	238,351
Term Deposit Certificates	35.9.1	86,250	77,528
Federal Government Securities			
Defense Saving Certificates		1,229,800	1,114,000
Special Saving Certificates		-	51,967
Market treasury bills		456,301	15,000
Pakistan Investment Bonds		250,575	492,072
		<u>2,333,569</u>	<u>1,988,918</u>

35.9.1 The amount represents balance which is deposited with the branches of the Bank. Further, the funds primarily invested in Government securities which do not carry any credit risk, however, these are subject to interest rate risk based on market movements and are regularly monitored by the Trustees of the employee funds.

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::

	2023 Rupees in '000
1 % increase in discount rate	(201,772)
1 % decrease in discount rate	233,413
1% increase in expected future increment in salary	234,115
1% decrease in expected future increment in salary	(205,799)
10% increase in expected withdrawal rate	769
10% decrease in expected withdrawal rate	(808)
1% increase in expected mortality rate	1,616
1% decrease in expected mortality rate	(1,494)

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 funds in the next financial year

301,464

35.12 Expected charge for the next financial year

301,464

35.13 Maturity profile

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

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 9.6 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 16.00% 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 AND COMPENSATED ABSENCES

36.1 Provident fund

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.

Number of the members participating in the fund at the end of the year 30 June 2023 as per accounts are 5,080 (2022: 4,517).

36.2 Compensated absences

The Bank maintains a non-funded scheme for compensated absences. These can be accumulated up to 60 days. Liability as of the year-end was Rs. 325,877 thousand (2022:Rs. 269,345 thousand) and was determined through an actuarial valuation carried out under the 'Projected Unit Credit Method'. Valuation was carried out by a qualified actuary. Charge for the year amounting to Rs. 164,748 thousand (2022:Rs. 101,326 thousand) has been recognised to the profit and loss account.

37. COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

37.1 Total compensation expense

	2023					
	Directors		Members Shari'ah Board	President & Chief Executive Officer	Key management personnel	Other material risk taker / controller
	Chairman	Non- executives				
	Rupees in '000					
Fees	-	17,700	-	-	-	-
Managerial remuneration						
Fixed	-	-	23,176	127,972	366,950	780,357
Charge for defined benefit plan	-	-	301	6,750	10,083	22,136
Contribution to defined contribution plan	-	-	361	5,068	13,556	26,982
Security charges and vehicle maintenance	6,205	-	-	-	-	-
Utilities	365	-	-	1,717	-	-
	<u>6,570</u>	<u>17,700</u>	<u>23,838</u>	<u>141,507</u>	<u>390,589</u>	<u>829,475</u>
Number of persons	<u>1</u>	<u>4</u>	<u>3</u>	<u>2</u>	<u>19</u>	<u>119</u>
	2022					
	Directors		Members Shari'ah Board	President & Chief Executive Officer	Key management personnel	Other material risk taker / controller
	Chairman	Non- executives				
	Rupees in '000					
Fees	-	6,200	-	-	-	-
Managerial remuneration						
Fixed	-	-	19,968	137,543	337,053	709,548
Charge for defined benefit plan	-	-	329	5,502	12,321	26,173
Contribution to defined contribution plan	-	-	345	5,700	12,765	25,077
Security charges and vehicle maintenance	6,108	-	-	-	-	-
Utilities	335	-	-	2,593	-	-
	<u>6,443</u>	<u>6,200</u>	<u>20,642</u>	<u>151,338</u>	<u>362,139</u>	<u>760,798</u>
Number of persons	<u>1</u>	<u>4</u>	<u>3</u>	<u>1</u>	<u>17</u>	<u>106</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.

37.1.2 In addition to above, bonus paid to the chief executives, members of Shari'ah board, Key management personnel and other material risk taker / controller of the Bank amounted to Rs. 65,675 (2022:Rs. 52,500 thousand), Rs. 1,887 thousand (2022:Rs. 1,059 thousand), Rs. 95,526 thousand (2022:Rs. 75,560 thousand) and Rs. 169,278 thousand (2022:Rs. 122,086 thousand) respectively.

37.1.3 The total amount of deferred bonus as at 31 December 2023 for the President / CEO, members of Shari'ah board, key management personnel and other material risk takers / material risk controllers is Rs. 134,960 thousand (31 December 2022:Rs. 101,149 thousand). The deferred bonus is held in a trust fund.

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

		2023						
		Meeting fees and allowances paid						
		For Board committees						Total amount paid
Sr. No.	Name of director	For Board meetings	Audit	Information technology	Human resource & remuneration	Risk & compliance	Credit	
		Rupees in '000						
1	Mohamedali R. Habib	-	-	-	-	-	-	-
2	Ali Abbas Sikandar	1,500	-	500	-	-	-	2,000
3	Anjum Z. Iqbal	-	-	-	-	-	-	-
4	Firasat Ali	200	-	-	300	150	-	650
5	Hamza Habib	-	-	-	-	-	-	-
6	Mohomed Bashir	2,700	-	-	800	-	-	3,500
7	Mohsin A. Nathani	-	-	-	-	-	-	-
8	Muhammed H. Habib	-	-	-	-	-	-	-
9	Rashid Ahmad Jaffer	2,700	1,700	-	-	900	550	5,850
10	Tahira Raza	2,700	800	-	1,400	800	-	5,700
		<u>9,800</u>	<u>2,500</u>	<u>500</u>	<u>2,500</u>	<u>1,850</u>	<u>550</u>	<u>17,700</u>
		2022						
		Meeting fees and allowances paid						
		For Board committees						Total amount paid
Sr. No.	Name of director	For Board meetings	Audit	Information technology	Human resource & remuneration	Risk & compliance	Credit	
		Rupees in '000						
1	Mohamedali R. Habib	-	-	-	-	-	-	-
2	Anjum Z. Iqbal	-	-	-	-	-	-	-
3	Firasat Ali	800	-	300	300	600	-	2,000
4	Hamza Habib	-	-	-	-	-	-	-
5	Mohomed Bashir	800	-	-	-	-	-	800
6	Muhammed H. Habib	-	-	-	-	-	-	-
7	Rashid Ahmad Jaffer	800	800	-	-	-	-	1,600
8	Tahira Raza	800	-	-	400	600	-	1,800
		<u>3,200</u>	<u>800</u>	<u>300</u>	<u>700</u>	<u>1,200</u>	<u>-</u>	<u>6,200</u>

37.3 Remuneration paid to the Shariah Board Members

	2023			2022		
	Chairman	Resident member	Non-resident members	Chairman	Resident member	Non-resident members
	Rupees in '000					
Managerial remuneration						
Fixed	7,213	8,267	7,696	6,317	7,567	6,084
Charge for defined benefit plan	-	301	-	-	329	-
Contribution to defined contribution plan	-	361	-	-	345	-
	<u>7,213</u>	<u>8,929</u>	<u>7,696</u>	<u>6,317</u>	<u>8,241</u>	<u>6,084</u>
Total number of person	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

In addition to above, bonus paid to resident member amounted to Rs. 1,887 thousand (2022: Rs. 1,059 thousand).

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 equity securities, other than investments in subsidiaries, is determined on the basis of the break-up value of these investments as per their latest available audited financial statements.

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

The fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since they are either short-term in nature or, in the case of customer advances, deposits and certain long term borrowings are frequently repriced.

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 categorized:

On balance sheet financial instruments	2023				
	Carrying / notional value	Fair value			Total
		Level 1	Level 2	Level 3	
		Rupees in '000			
Financial assets measured at fair value					
- Investments					
- Available-for-sale securities					
Federal government securities	802,651,863	-	802,651,863	-	802,651,863
Sukuk certificates and bonds	7,063,865	-	7,063,865	-	7,063,865
Ordinary shares of listed companies	4,627,365	4,627,365	-	-	4,627,365
Mutual funds - close end	8,255	8,255	-	-	8,255
Real estate investment trust	1,992,625	992,625	-	1,000,000	1,992,625
Listed term finance certificates	1,317,481	-	1,317,481	-	1,317,481
Unlisted term finance certificates	3,295,000	-	3,295,000	-	3,295,000
Financial assets - disclosed but not measured at fair value					
- Investments					
- Held-to-maturity securities					
Federal government securities	98,872,853	-	91,477,864	-	91,477,864
Certificates of investment	4,700,000	-	-	-	-
- Subsidiaries					
Ordinary shares of listed company	180,000	86,062	-	-	86,062
Ordinary shares of unlisted companies	650,000	-	-	-	-
- Available-for-sale securities					
Ordinary shares of unlisted companies	52,658	-	-	-	-
	<u>925,411,965</u>	<u>5,714,307</u>	<u>905,806,073</u>	<u>1,000,000</u>	<u>912,520,380</u>
Off-balance sheet financial instruments measured at fair value					
- Forward purchase of foreign exchange contracts	<u>190,089,104</u>	<u>-</u>	<u>187,821,748</u>	<u>-</u>	<u>187,821,748</u>
- Forward sale of foreign exchange contracts	<u>175,300,957</u>	<u>-</u>	<u>176,253,371</u>	<u>-</u>	<u>176,253,371</u>
		2022			
On balance sheet financial instruments	Carrying / notional value	Fair value			Total
		Level 1	Level 2	Level 3	
		Rupees in '000			
Financial assets measured at fair value					
- Investments					
- Available-for-sale securities					
Federal government securities	482,311,952	-	482,311,952	-	482,311,952
Sukuk certificates and bonds	7,101,385	-	7,101,385	-	7,101,385
Ordinary shares of listed companies	2,392,675	2,392,675	-	-	2,392,675
Mutual funds - open end	-	-	-	-	-
- close end	4,673	4,673	-	-	4,673
Real estate investment trust	1,685,401	985,401	-	700,000	1,685,401
Listed term finance certificates	692,835	-	692,835	-	692,835
Unlisted term finance certificates	3,925,000	-	3,925,000	-	3,925,000
Financial assets - disclosed but not measured at fair value					
- Investments					
- Held-to-maturity securities					
Federal government securities	220,531,981	-	214,186,517	-	214,186,517
Certificates of investment	4,050,000	-	-	-	-
- Subsidiaries					
Ordinary shares of listed company	180,000	92,700	-	-	92,700
Ordinary shares of unlisted companies	650,000	-	-	-	-
- Available-for-sale securities					
Ordinary shares of unlisted companies	52,658	-	-	-	-
	<u>723,578,560</u>	<u>3,475,449</u>	<u>708,217,689</u>	<u>700,000</u>	<u>712,393,138</u>
Off-balance sheet financial instruments measured at fair value					
- Forward purchase of foreign exchange contracts	<u>128,349,072</u>	<u>-</u>	<u>129,060,889</u>	<u>-</u>	<u>129,060,889</u>
- Forward sale of foreign exchange contracts	<u>107,675,479</u>	<u>-</u>	<u>107,865,999</u>	<u>-</u>	<u>107,865,999</u>

38.2 Fair value of non-financial assets

	2023				
	Carrying / notional value	Fair value			Total
		Level 1	Level 2	Level 3	
		Rupees in '000			
- Fixed assets	10,375,530	-	-	10,375,530	10,375,530
- Non-banking assets acquired in satisfaction of claim	4,299,840	-	-	4,299,840	4,299,840
	<u>14,675,370</u>	<u>-</u>	<u>-</u>	<u>14,675,370</u>	<u>14,675,370</u>

	2022				
	Carrying / notional value	Fair value			Total
		Level 1	Level 2	Level 3	
		Rupees in '000			
Non-financial assets measured at fair value					
- Fixed assets	10,735,947	-	-	10,735,947	10,735,947
- Non-banking assets acquired in satisfaction of claim	4,299,840	-	-	4,299,840	4,299,840
	<u>15,035,787</u>	<u>-</u>	<u>-</u>	<u>15,035,787</u>	<u>15,035,787</u>

38.3 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 website.
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

Fixed assets and non-banking assets acquired in satisfaction of claim	<p>Fixed assets and non-banking assets are valued by professionally qualified valuers. The valuation is based on their assessment of the market value of the assets. In determining the valuation for land and building the valuer refers to numerous independent market inquiries from local estate agents / realtors in the vicinity to establish the present market value. The fair valuation of land and building are considered to represent a level 3 valuation based on significant non-observable inputs being the location and condition of the assets.</p> <p>The fair value is subject to change owing to changes in input. However, management does not expect there to be a material sensitivity to the fair value arising from the non-observable inputs.</p>
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39. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	31 December 2023			
	Trade & sales	Retail banking	Commercial banking	Total
	Rupees in '000			
Profit and Loss				
Net mark-up / return / profit	116,074,837	(43,251,782)	(1,405,420)	71,417,635
Inter segment revenue - net	(116,634,183)	73,734,459	42,899,724	-
Non mark-up / return / interest income	5,856,603	1,378,406	8,059,531	15,294,540
Total Income	5,297,257	31,861,083	49,553,835	86,712,175
Segment direct expenses	(345,746)	-	-	(345,746)
Inter segment expense allocation	-	(9,814,951)	(19,817,165)	(29,632,116)
Total expenses	(345,746)	(9,814,951)	(19,817,165)	(29,977,862)
Provisions	(60,430)	(14,322)	(4,664,349)	(4,739,101)
Profit before tax	4,891,081	22,031,810	25,072,321	51,995,212
Balance Sheet				
Cash and bank balances	21,123,950	30,296,185	61,170,411	112,590,546
Investments	925,411,965	-	-	925,411,965
Net inter segment lending	-	453,622,274	285,526,668	739,148,942
Lendings to financial institutions	5,496,284	-	-	5,496,284
Advances - performing	-	16,829,682	401,982,847	418,812,529
Advances - non-performing	-	330,126	19,505,491	19,835,617
Provision against advances	-	(201,087)	(26,398,135)	(26,599,222)
Others	28,135,172	8,747,161	63,987,035	100,869,368
Total Assets	980,167,371	509,624,341	805,774,317	2,295,566,029
Borrowings	186,310,121	-	136,959,469	323,269,590
Deposits and other accounts	-	463,433,999	548,868,845	1,012,302,844
Net inter segment borrowing	739,148,942	-	-	739,148,942
Others	5,000,244	19,300,734	103,268,342	127,569,320
Total liabilities	930,459,307	482,734,733	789,096,656	2,202,290,696
Net Assets	49,708,064	26,889,608	16,677,661	93,275,333
Equity				93,275,333
Contingencies and Commitments	365,390,061	9,000	279,258,921	644,657,982

	31 December 2022			
	Trade & sales	Retail banking	Commercial banking	Total
	Rupees in '000			
Profit and Loss				
Net mark-up / return / profit	68,757,937	(28,099,803)	(47,444)	40,610,690
Inter segment revenue - net	(66,138,216)	41,912,492	24,225,724	-
Non mark-up / return / interest income	5,297,640	799,040	7,118,538	13,215,218
Total Income	7,917,361	14,611,729	31,296,818	53,825,908
Segment direct expenses	(317,727)	-	-	(317,727)
Inter segment expense allocation	-	(6,841,037)	(15,518,432)	(22,359,469)
Total expenses	(317,727)	(6,841,037)	(15,518,432)	(22,677,196)
Provisions	(236,225)	(169,415)	(3,125,813)	(3,531,453)
Profit before tax	7,363,409	7,601,277	12,652,573	27,617,259
Balance Sheet				
Cash and bank balances	22,394,553	24,181,637	30,623,171	77,199,361
Investments - net	723,578,560	-	-	723,578,560
Net inter segment lending	-	375,829,199	215,798,022	591,627,221
Lendings to financial institutions	76,331,607	-	-	76,331,607
Advances - performing	-	14,993,766	418,728,647	433,722,413
Advances - non-performing	-	150,844	21,498,912	21,649,756
Provision against advances	-	(191,334)	(21,677,921)	(21,869,255)
Others	17,425,602	9,167,187	60,238,689	86,831,478
Total Assets	839,730,322	424,131,299	725,209,520	1,989,071,141
Borrowings	205,645,702	-	138,322,066	343,967,768
Deposits and other accounts	-	389,001,497	491,695,286	880,696,783
Net inter segment borrowing	591,627,221	-	-	591,627,221
Others	2,870,186	12,950,323	82,451,536	98,272,045
Total liabilities	800,143,109	401,951,820	712,468,888	1,914,563,817
Net Assets	39,587,213	22,179,479	12,740,632	74,507,324
Equity				74,507,324
Contingencies and Commitments	236,024,551	61,978	293,523,813	529,610,342

40. TRUST ACTIVITIES

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

Category	No. of IPS accounts	2023			
		Securities held (Face value)			
		Pakistan investment bonds	GoP ijarah sukuku	Market treasury bills	Total
Rupees in '000					
Assets management companies	18	27,993,900	5,561,500	52,041,150	85,596,550
Corporates	54	6,496,000	479,900	48,474,450	55,450,350
Individual	169	1,706,600	218,700	8,694,306	10,619,606
Insurance companies	1	120,000	–	120,000	240,000
NGO / Charitable organisation	7	175,000	5,000	475,800	655,800
Employee funds	47	4,070,700	696,100	6,912,500	11,679,300
Others	1	–	275,000	–	275,000
		<u>40,562,200</u>	<u>7,236,200</u>	<u>116,718,206</u>	<u>164,516,606</u>
2022					
Category	No. of IPS accounts	Securities held (Face value)			
		Pakistan investment bonds	GoP ijarah sukuku	Market treasury bills	Total
Rupees in '000					
Assets management companies	53	3,940,500	37,500	118,489,725	122,467,725
Corporates	70	4,131,000	–	21,411,000	25,542,000
Individual	159	2,404,400	5,000	3,810,560	6,219,960
Insurance companies	2	130,000	–	–	130,000
NGO / Charitable organisation	16	250,000	–	758,100	1,008,100
Employee funds	159	4,335,300	150,000	5,546,005	10,031,305
Others	4	–	275,000	177,000	452,000
		<u>15,191,200</u>	<u>467,500</u>	<u>150,192,390</u>	<u>165,851,090</u>

41. TRANSACTIONS WITH RELATED PARTIES

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

The Banks enters into transactions with related parties in the ordinary course of business. Contributions / charge for employees' retirement benefits are made in accordance with actuarial valuation / terms of contribution plan. Salaries and allowances of the key management personnel are in accordance with terms of their employment. Other transactions are at agreed terms.

Details of transactions and balances with related parties are as follows:

	2023						
	Holding company	Subsidiary companies	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	Rupees in '000						
Balances with other banks							
In current accounts	680,649	-	186,957	-	-	-	867,606
Investments							
Opening balance	-	4,880,000	-	-	-	-	4,880,000
Investment made during the year	-	18,850,000	-	-	-	-	18,850,000
Investment redeemed / disposed off during the year	-	(18,200,000)	-	-	-	-	(18,200,000)
Closing balance	-	5,530,000	-	-	-	-	5,530,000
Advances							
Opening balance	-	-	4,923,312	232,413	-	-	5,155,725
Addition during the year	-	-	107,246,311	144,741	-	-	107,391,052
Repaid during the year	-	-	(106,460,284)	(93,739)	-	-	(106,554,023)
Closing balance	-	-	5,709,339	283,415	-	-	5,992,754
Other Assets							
Mark-up / return / interest receivable	-	84,162	88,690	-	-	-	172,852
Prepayments / Advance deposits / Other Receivable	468	-	59,669	-	-	60,450	120,587
	468	84,162	148,359	-	-	60,450	293,439
Deposits							
Opening balance	186,031	1,280,231	21,939,773	395,587	703,394	1,139,423	25,644,439
Received during the year	25,230,932	170,548,261	2,458,537,439	3,199,802	1,710,093	5,370,804	2,664,597,331
Withdrawn during the year	(25,174,919)	(170,306,466)	(2,455,198,324)	(3,275,860)	(1,591,393)	(5,088,526)	(2,660,635,488)
Closing balance	242,044	1,522,026	25,278,888	319,529	822,094	1,421,701	29,606,282
Other liabilities							
Mark-up / return / interest payable	-	17,211	259,087	8,517	8,523	100,731	394,069
Management fee payable for technical and consultancy services*	1,850,085	-	-	-	-	-	1,850,085
Other payables	-	-	630	-	995	-	1,625
	1,850,085	17,211	259,717	8,517	9,518	100,731	2,245,779
Contingencies and commitments							
Transaction-related contingent liabilities	-	-	10,950,031	-	-	-	10,950,031
Trade-related contingent liabilities	-	-	1,920,863	-	-	-	1,920,863
	-	-	12,870,894	-	-	-	12,870,894

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

	2022						Total
	Holding company	Subsidiary companies	Associates	Key management personnel	Directors	Retirement benefit plans	
	Rupees in '000						
Balances with other banks							
In current accounts	466,178	-	486,624	-	-	-	952,802
Investments							
Opening balance	-	3,930,000	-	-	-	-	3,930,000
Investment made during the year	-	18,200,000	-	-	-	-	18,200,000
Investment redeemed / disposed off during the year	-	(17,250,000)	-	-	-	-	(17,250,000)
Closing balance	-	4,880,000	-	-	-	-	4,880,000
Advances							
Opening balance	-	-	5,272,235	195,796	-	-	5,468,031
Addition during the year	-	-	90,501,046	119,557	-	-	90,620,603
Repaid during the year	-	-	(90,849,969)	(82,940)	-	-	(90,932,909)
Closing balance	-	-	4,923,312	232,413	-	-	5,155,725
Other Assets							
Mark-up / return / interest receivable	-	54,347	70,410	-	-	-	124,757
Dividend receivable	-	-	-	-	-	-	-
Prepayments / Advance deposits / Other Receivable	468	-	54,848	-	-	-	55,316
	468	54,347	125,258	-	-	-	180,073
Deposits							
Opening balance	174,007	786,214	25,194,705	313,576	813,302	1,770,568	29,052,372
Received during the year	8,400,291	156,565,186	2,316,963,650	2,682,881	3,310,088	5,387,239	2,493,309,335
Withdrawn during the year	(8,388,267)	(156,071,169)	(2,320,218,582)	(2,600,870)	(3,419,996)	(6,018,384)	(2,496,717,268)
Closing balance	186,031	1,280,231	21,939,773	395,587	703,394	1,139,423	25,644,439
Other liabilities							
Mark-up / return / interest payable	-	12,269	133,672	5,911	5,245	11,889	168,986
Management fee payable for technical and consultancy services*	504,927	-	-	-	-	-	504,927
Other payables	-	-	611	-	745	32,309	33,665
	504,927	12,269	134,283	5,911	5,990	44,198	707,578
Contingencies and commitments							
Transaction-related contingent liabilities	-	-	16,461,354	-	-	-	16,461,354
Trade-related contingent liabilities	-	-	7,564,523	-	-	-	7,564,523
	-	-	24,025,877	-	-	-	24,025,877

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

Transactions during the period

	2023						Total
	Holding company	Subsidiary companies	Associates	Key management personnel	Directors	Retirement benefit plans	
	Rupees in '000						
Income							
Mark-up / return / interest earned	-	929,960	320,322	74,779	-	-	1,325,061
Fee and commission income	108	1,751	466,580	-	134	30	468,603
Dividend income	-	12,037	-	-	-	-	12,037
Rent income	5,615	5,618	10,340	-	-	-	21,573
Expense							
Mark-up / return / interest expensed	-	159,078	2,220,887	53,576	67,421	316,753	2,817,715
Commission / brokerage / bank charges expense	3,327	1,779	18,854	-	-	-	23,960
Salaries and allowances	-	-	-	702,191	-	-	702,191
Directors' fees	-	-	-	-	24,270	-	24,270
Charge to defined benefit plan	-	-	-	-	-	279,679	279,679
Contribution to defined contribution plan	-	-	-	-	-	326,528	326,528
Insurance premium expenses	-	-	27,230	-	-	-	27,230
Management fee expense for technical and consultancy services *	1,864,538	-	-	-	-	-	1,864,538
Donation	-	-	26,920	-	-	-	26,920

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

Transactions during the period

	2022						Total
	Holding company	Subsidiary companies	Associates	Key management personnel	Directors	Retirement benefit plans	
	Rupees in '000						
Income							
Mark-up / return / interest earned	–	552,045	328,363	13,730	–	–	894,138
Fee and commission income	1,410	978	216,023	–	206	–	218,617
Dividend income	–	8,100	–	–	–	–	8,100
Rent income	5,616	5,156	9,427	–	–	–	20,199
Expenses							
Mark-up / return / interest expensed	–	104,978	1,624,773	29,864	49,303	94,441	1,903,359
Commission / brokerage / bank charges expense	260	899	146	–	–	–	1,305
Salaries and allowances	–	–	–	707,523	–	–	707,523
Directors' fees	–	–	–	–	12,643	–	12,643
Charge to defined benefit plan	–	–	–	–	–	307,030	307,030
Contribution to defined contribution plan	–	–	–	–	–	280,055	280,055
Insurance premium expense	–	–	20,943	–	–	–	20,943
Software maintenance	–	–	–	–	–	–	–
Management fee expense for technical and consultancy services *	798,133	–	–	–	–	–	798,133
Donation	–	–	26,920	–	–	–	26,920

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

42. CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

	2023	2022
	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	88,120,035	72,103,977
Eligible additional tier 1 (ADT 1) Capital	-	-
Total eligible tier 1 capital	88,120,035	72,103,977
Eligible tier 2 capital	8,686,109	5,234,756
Total eligible capital (Tier 1 + Tier 2)	96,806,144	77,338,733
Risk Weighted Assets (RWAs):		
Credit risk	414,494,946	441,448,612
Market risk	2,228,918	4,592,034
Operational risk	113,309,274	83,146,710
Total	530,033,138	529,187,356
Common equity tier 1 capital adequacy ratio	16.63%	13.63%
Tier 1 capital adequacy ratio	16.63%	13.63%
Total capital adequacy ratio	18.26%	14.61%
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	11.50%	11.50%
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	88,120,035	72,103,977
Total exposures	1,843,597,631	1,767,075,083
Leverage ratio	4.78%	4.08%
Liquidity Coverage Ratio (LCR):		
Total high quality liquid assets	582,822,433	499,913,538
Total net cash outflow	315,797,792	304,953,563
Liquidity coverage ratio	185%	164%
Net Stable Funding Ratio (NSFR):		
Total available stable funding	987,276,461	838,059,737
Total required stable funding	504,533,465	554,156,981
Net stable funding ratio	196%	151%

42.1 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>.

43. 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, market, liquidity and operational 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.

43.1 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. 414,494,946 thousand (2022:Rs. 441,448,612 thousand) as depicted in note 42.

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.

With the expansion of the Consumer lending portfolio, the Credit Review & Administration efforts have been accordingly enhanced by inducting specialized consumer credit risk analysts and processing specialists.

Centralized Credit and Trade processing centre 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 judgement 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

Exposures	2023				
	JCR-VIS	PACRA	S & P	Fitch	Moody's
Corporate	✓	✓	-	-	-
Banks	✓	✓	✓	✓	✓
Sovereigns	-	-	-	-	-
SME's	✓	✓	-	-	-

Credit exposures subject to Standardised Approach

Exposures	Rating category	2023			2022		
		Amount outstanding	Deduction CRM	Net amount	Amount outstanding	Deduction CRM	Net amount
Rupees in '000							
Corporate	1	113,050,499	15,630,380	97,420,119	113,473,456	17,132,295	96,341,161
	2	138,210,055	2,217,085	135,992,970	124,108,694	3,290,673	120,818,021
	3,4	17,170,109	-	17,170,109	19,774,413	-	19,774,413
Claims on banks with original maturity of 3 months or less		11,643,124	-	11,643,124	50,965,641	35,103,923	15,861,718
Retail		18,969,701	4,600,092	14,369,609	27,533,865	5,447,818	22,086,047
Public sector entities	1	14,008,553	2,281,640	11,726,913	17,894,289	99,902	17,794,387
	2,3	2,571,346	31,976	2,539,370	1,780,414	70,979	1,709,435
Others		1,151,683,418	34,000,000	1,117,683,418	909,392,337	46,347,547	863,044,790
Unrated		225,155,520	47,092,171	178,063,349	261,628,508	42,884,576	218,743,932

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

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

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

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

43.1.1 Lendings to financial institutions

Credit risk by public / private sector	Gross lendings		Non-performing lendings		Provision held	
	2023	2022	2023	2022	2023	2022
	Rupees in '000					
Public / Government	2,818,607	41,555,925	-	-	-	-
Private	2,677,677	34,775,682	-	-	-	-
	<u>5,496,284</u>	<u>76,331,607</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

43.1.2 Investment in debt securities

Credit risk by industry sector	Gross investments		Non-performing investments		Provision held	
	2023	2022	2023	2022	2023	2022
	Rupees in '000					
Chemical and Pharmaceuticals	13,237	16,050	13,237	16,050	13,237	16,050
Engineering	340,000	373,585	-	-	-	-
Electronics and electrical appliances	-	-	-	-	-	-
Financial	9,788,547	9,147,835	-	-	-	-
Power (electricity), gas, water, sanitary	6,247,800	6,247,800	-	-	-	-
Textile	9,500	9,500	9,500	9,500	9,500	9,500
Transport, storage and communication	64,946	64,946	64,946	64,946	64,946	64,946
Others	901,524,716	702,843,933	-	-	-	-
	<u>917,988,746</u>	<u>718,703,649</u>	<u>87,683</u>	<u>90,496</u>	<u>87,683</u>	<u>90,496</u>
Credit risk by public / private sector						
Public / Government	907,772,516	709,091,733	-	-	-	-
Private	10,216,230	9,611,916	87,683	90,496	87,683	90,496
	<u>917,988,746</u>	<u>718,703,649</u>	<u>87,683</u>	<u>90,496</u>	<u>87,683</u>	<u>90,496</u>

	2023	2022
	Rupees in '000	
43.1.4 Contingencies and commitments		
Credit risk by industry sector		
Agriculture, forestry, hunting and fishing	739,784	1,042,687
Automobile and transportation equipment	20,415,045	28,202,063
Basic metals & metal products	7,679,903	7,112,449
Cement	4,545,115	6,652,464
Chemicals and pharmaceuticals	47,167,911	30,124,663
Commercial trade	42,625,253	29,645,816
Construction & real estate	2,398,979	6,501,012
Edibles	28,699,440	39,943,856
Electronics and electrical appliances	9,229,267	7,337,494
Financial	292,014,882	194,712,676
Footwear and leather garments	1,738,461	557,508
Individual	9,000	61,978
Mining and quarrying	290,820	270,949
Power (electricity), gas, water, sanitary	11,784,135	21,538,553
Services	17,576,051	21,285,995
Sugar	3,091,371	3,499,614
Textile	107,081,353	91,150,364
Transport, storage and communication	2,970,635	2,769,642
Others	40,048,316	37,200,559
	<u>640,105,721</u>	<u>529,610,342</u>
Credit risk by public / private sector		
Public / Government	53,435,366	42,372,380
Private	586,670,355	487,237,962
	<u>640,105,721</u>	<u>529,610,342</u>

43.1.5 Concentration of advances

The bank top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs. 99,026,277 thousand (2022: Rs. 174,760,738 thousand) are as following:

Funded	72,132,663	111,544,626
Non-Funded	26,893,614	63,216,112
Total Exposure	<u>99,026,277</u>	<u>174,760,738</u>

The sanctioned limits against these top 10 exposures aggregated to Rs. 194,884,498 thousand (2022: Rs. 221,661,400 thousand).

43.1.6 Advances - province / region-wise disbursement & utilization

Province / region	2023						
	Disburse-ments	Utilization					
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan
	Rupees in '000						
Punjab	240,846,664	227,494,987	12,662,567	-	-	689,110	-
Sindh	393,336,348	33,824,739	340,194,392	1,594,747	17,722,470	-	-
KPK including FATA	2,742,818	-	-	2,742,818	-	-	-
Balochistan	37,217	-	-	-	37,217	-	-
Islamabad	16,967,544	294	-	-	-	16,967,250	-
AJK including Gilgit-Baltistan	325,294	-	-	-	-	-	325,294
	<u>654,255,885</u>	<u>261,320,020</u>	<u>352,856,959</u>	<u>4,337,565</u>	<u>17,759,687</u>	<u>17,656,360</u>	<u>325,294</u>

Province / region	2022						
	Disburse-ments	Utilization					
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan
	Rupees in '000						
Punjab	348,935,317	341,076,100	6,754,537	-	-	1,104,680	-
Sindh	495,625,891	18,858,512	454,635,231	1,444,644	20,687,504	-	-
KPK including FATA	4,932,117	-	-	4,932,117	-	-	-
Balochistan	41,198	-	-	-	41,198	-	-
Islamabad	11,071,717	-	-	-	-	11,071,717	-
AJK including Gilgit-Baltistan	1,164,245	-	-	-	-	-	1,164,245
	<u>861,770,485</u>	<u>359,934,612</u>	<u>461,389,768</u>	<u>6,376,761</u>	<u>20,728,702</u>	<u>12,176,397</u>	<u>1,164,245</u>

43.2 Market risk

Market Risk is the risk of loss in earnings and capital due to adverse changes in interest rates, foreign exchange rates, and equity prices as well as their correlations and volatilities. Market Risk performs risk measurement, monitoring, and control functions through the use of various risk procedures and tools.

The Bank has a comprehensive Board approved market risk management policy wherein the governance structure for managing market risk, methods to control market risk, measurement tools used, the market risk exposure limits and the tolerance levels have been addressed. The Bank's strategy for managing market risk is to relate the level of risk exposures to their risk appetite and the capital base. This structure is reviewed, adjusted and approved periodically.

The Board of Directors oversees the Bank's strategy for market risk exposures. The Bank's Market Risk Management governance structure consists of the Risk & Compliance Committee (BR&CC) of the Board, Investment Committee and Asset & Liability Committee (ALCO) and is assisted by the independent Market Risk function with reporting line to the Risk Management Division.

The asset and Liability Committee (ALCO) which comprises senior management oversees the financial position of the Bank, assesses the impact of the interest rate change on the Bank's investment portfolio through sensitivity analysis, duration and performs an oversight function to ensure sound asset quality, liquidity and pricing considering the current interest rate environment. The investment policy amongst other aspects covers the Bank asset allocation guidelines.

Market Risk function seeks to facilitate efficient risk/return management decisions, reduce volatility in operating performance and provide transparency into the Bank's market risk profile for senior management, the Board of Directors, and regulators.

In line with the regulatory requirements, Bank performs the impact of changes in the market factors on the Bank's earnings through regular stress testing and Internal Capital Adequacy Assessment Processes .

43.2.1 Balance sheet split by trading and banking books

	2023			2022		
	Banking book	Trading book	Total	Banking book	Trading book	Total
	Rupees in '000					
Cash and balances with treasury banks	91,466,596	-	91,466,596	54,747,065	-	54,747,065
Balances with other banks	21,123,950	-	21,123,950	22,452,296	-	22,452,296
Lendings to financial institutions	5,496,284	-	5,496,284	76,331,607	-	76,331,607
Investments	925,411,965	-	925,411,965	723,578,560	-	723,578,560
Advances	412,048,924	-	412,048,924	433,502,914	-	433,502,914
Fixed assets	23,316,486	-	23,316,486	21,663,890	-	21,663,890
Intangible assets	323,254	-	323,254	97,968	-	97,968
Deferred tax assets	5,164,164	-	5,164,164	5,061,251	-	5,061,251
Other assets	72,065,464	-	72,065,464	60,008,369	-	60,008,369
	<u>1,556,417,087</u>	<u>-</u>	<u>1,556,417,087</u>	<u>1,397,443,920</u>	<u>-</u>	<u>1,397,443,920</u>

43.2.2 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.

	2023			
	Foreign currency assets	Foreign currency liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
United States Dollar	407,917,288	(483,845,450)	79,854,650	3,926,488
Euro	32,880,994	(11,912,630)	(21,150,155)	(181,791)
Great Britain Pound	5,056,372	(25,104,979)	20,051,785	3,178
Asian Currency Unit	2,051,016	(3,425,069)	-	(1,374,053)
Japanese Yen	2,582,249	(33,357,773)	35,000,000	4,224,476
Arab Emirates Dirham	2,847,411	(1,709,001)	-	1,138,410
Canadian Dollar	161,373	-	-	161,373
Australian Dollar	159,013	-	-	159,013
Saudi Riyal	110,733	-	-	110,733
Chinese Yuan	1,346,475	-	-	1,346,475
Other Currencies	301,425	-	-	301,425
	<u>455,414,349</u>	<u>(559,354,902)</u>	<u>113,756,280</u>	<u>9,815,727</u>

	2022			
	Foreign currency assets	Foreign currency liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
United States Dollar	75,002,935	(111,766,854)	34,134,796	(2,629,123)
Euro	7,555,673	(2,597,588)	(4,998,158)	(40,073)
Great Britain Pound	4,324,831	(6,587,238)	2,313,982	51,575
Asian Currency Unit	522,699	(895,687)	-	(372,988)
Japanese Yen	101,840	(115)	(101,102)	623
Arab Emirates Dirham	195,379	(2,211)	(184,957)	8,211
Canadian Dollar	135,970	-	(125,312)	10,658
Australian Dollar	53,260	-	(53,740)	(480)
Saudi Riyal	124,142	-	(120,410)	3,732
Chinese Yuan	376,018	-	(358,223)	17,795
Other Currencies	390,642	-	(369,112)	21,530
	<u>88,783,389</u>	<u>(121,849,693)</u>	<u>30,137,764</u>	<u>(2,928,540)</u>

	2023		2022	
	Banking book	Trading book	Banking book	Trading book
	Rupees in '000			
Impact of 1% change in foreign exchange rates on				
- Profit and loss account	50,060	-	(14,936)	-
- Other comprehensive income	-	-	-	-

43.2.3 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 Board of Directors and are reviewed by the ALCO. The investment in equities and mutual funds is also managed within the statutory limits as prescribed by the State Bank of Pakistan.

	2023		2022	
	Banking book	Trading book	Banking book	Trading book
	Rupees in '000			
Impact of 5% change in equity prices on				
- Profit and loss account	(37,526)	-	(26,304)	-
- Other comprehensive income	(105,994)	-	(59,956)	-

43.2.4 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 the ALCO. The advances and deposits of the Bank are repriced on a periodic basis based on interest rates scenario.

	2022		2021	
	Banking book	Trading book	Banking book	Trading book
Impact of 1% change in interest rates on				
- Profit and loss account				
- Other comprehensive income	(3,232,974)	-	(2,523,201)	-

43.2.5 Mismatch of interest rate sensitive assets and liabilities

	Exposed to yield / interest risk										
	Effective yield / interest rate	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	Non-interest bearing financial instruments
On-balance sheet financial instruments											
Assets											
Cash and balances with treasury banks	4.34%	11,497,335	-	-	-	-	-	-	-	-	79,969,261
Balances with other banks	17.50%	758	-	-	-	-	-	-	-	-	21,123,192
Lendings to financial institutions	11.37%	1,409,304	3,382,328	704,652	-	-	-	-	-	-	-
Investments	19.35%	158,267,764	94,884,957	130,049,959	372,611,577	16,844,604	68,055,227	70,835,074	6,351,900	-	7,510,903
Advances	15.51%	412,048,924	309,737,952	19,367,142	506,056	1,623,698	3,084,478	5,961,900	40,930,094	2,142,732	-
Other assets		67,320,931	-	-	-	-	-	-	-	-	67,320,931
		1,522,868,650	199,870,033	408,005,237	150,121,753	373,117,633	18,468,302	71,139,705	47,281,994	2,142,732	175,924,287
Liabilities											
Bills payable		-	-	-	-	-	-	-	-	-	28,352,699
Borrowings	19.19%	204,565,958	50,562,670	15,313,870	430,063	1,235,540	2,805,002	5,417,852	42,038,438	11,559	888,638
Deposits and other accounts	11.04%	240,864,493	42,534,220	267,421,445	36,034,139	2,203,342	490,765	7,099,242	186,035	-	415,469,163
Other liabilities		-	-	-	-	-	-	-	-	-	89,742,501
		1,453,667,634	445,430,451	93,096,890	282,735,315	3,438,882	3,295,767	12,517,094	42,224,473	11,559	534,453,001
On-balance sheet gap		(245,560,418)	314,908,347	(132,613,562)	336,653,431	15,029,420	67,843,938	64,279,880	5,057,521	2,131,173	(358,528,714)
Off-balance sheet financial instruments											
Commitments in respect of:											
Forward foreign exchange contracts		180,358,310	120,698,674	62,023,064	2,310,013	-	-	-	-	-	-
Syndicate financing		1,095,000	-	-	-	-	-	-	-	1,093,000	-
Letters of credit		63,739,372	55,615,616	10,865,484	2,407,913	332,675	14,476	-	-	-	-
Acquisition of fixed assets		303,084	-	-	-	-	-	-	-	-	303,084
Off-balance sheet gap		499,761,681	244,097,682	176,314,290	72,888,548	4,717,926	14,476	-	-	1,093,000	303,084
Total Yield / Interest Risk Sensitivity Gap		568,962,697	(1,462,736)	491,222,637	(59,725,014)	341,371,357	15,362,095	67,858,414	5,057,521	3,224,173	(358,225,630)
Cumulative Yield / Interest Risk Sensitivity Gap		568,962,697	(1,462,736)	489,759,901	430,034,887	771,406,244	786,768,339	854,626,753	923,964,154	927,188,327	(358,225,630)

2022

Effective yield / interest rate	Exposed to yield / interest risk										Non-interest bearing financial instruments	
	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		
	Rupees in '000											
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	54,747,065	564,907	-	-	-	-	-	-	-	-	-	54,182,158
Balances with other banks	22,452,296	552	-	-	-	-	-	-	-	-	-	22,451,744
Lending to financial institutions	76,331,607	75,197,987	1,133,620	-	-	-	-	-	-	-	-	-
Investments	723,578,560	166,518,320	74,482,064	154,484,365	166,431,885	87,289,670	14,839,449	53,999,172	568,228	-	-	4,965,407
Advances	433,502,914	35,113,657	315,812,157	14,515,394	291,682	629,355	820,544	4,220,136	45,317,780	-	-	-
Other assets	55,587,265	-	-	-	-	-	-	-	-	-	-	55,587,265
	1,366,199,707	277,395,423	391,427,841	168,999,759	166,723,567	87,919,025	15,659,993	58,219,308	45,886,008	16,782,209	-	137,186,574
Liabilities												
Bills payable	19,538,428	-	-	-	-	-	-	-	-	-	-	19,538,428
Borrowings	343,967,768	136,945,105	140,696,684	9,139,087	82,358	85,546	323,594	3,556,225	41,253,319	10,546,979	-	1,338,871
Deposits and other accounts	880,696,783	197,756,468	52,664,910	204,582,152	45,846,889	3,677,106	7,886,527	11,253,388	2,163,293	-	-	354,866,050
Other liabilities	72,397,698	-	-	-	-	-	-	-	-	-	-	72,397,698
	1,316,600,677	334,701,573	193,361,594	213,721,239	45,929,247	3,762,652	8,210,121	14,809,613	43,416,612	10,546,979	-	448,141,047
On-balance sheet gap	49,599,030	(57,306,150)	198,066,247	(44,721,480)	120,794,320	84,156,373	7,449,872	43,409,695	2,469,396	6,235,230	-	(310,954,473)
Off-balance sheet financial instruments												
Commitments in respect of:												
Forward foreign exchange contracts	236,024,551	-	-	-	-	-	-	-	-	-	-	236,024,551
Syndicate financing	1,165,004	-	-	-	-	-	-	-	-	-	-	1,165,004
Letters of credit	157,455,041	-	-	-	-	-	-	-	-	-	-	157,455,041
Acquisition of fixed assets	466,206	-	-	-	-	-	-	-	-	-	-	466,206
	395,110,802	-	-	-	-	-	-	-	-	-	-	395,110,802
Off-balance sheet gap												
Total yield / interest risk sensitivity gap	444,709,832	(57,306,150)	198,066,247	(44,721,480)	120,794,320	84,156,373	7,449,872	43,409,695	2,469,396	6,235,230	-	84,156,329
Cumulative yield / interest risk sensitivity gap	444,709,832	(57,306,150)	140,760,097	96,038,617	216,832,937	300,989,310	308,439,182	351,848,877	354,318,273	360,553,503	-	84,156,329
Reconciliation of assets and liabilities exposed to yield / interest rate risk with total assets and liabilities												
	2023	2022	Reconciliation to total liabilities									
	Rupees in '000		Rupees in '000									
Reconciliation to total assets	1,522,868,650	1,366,199,707	1,453,667,634									
Total financial assets	23,316,486	21,663,890	Total financial liabilities									
Operating fixed assets	323,254	97,968	Add: Non financial liabilities									
Intangible assets	5,164,164	5,061,251	Other liabilities									
Deferred tax asset	4,744,533	4,421,104	9,474,120									
Other assets	33,548,437	31,244,213	6,335,919									
Balance as per statement of financial position	1,556,417,087	1,397,443,920	1,463,141,754									
			1,322,936,596									

43.3 Operational Risk

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

The Bank's ORM 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, Change Risk Assessment and Risk Assessment of Outsourcing arrangement. 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 & management information. Moreover, Bank wide policies, procedures, frameworks and product programs are also being evaluated from operational risk perspective aiming to beef up control environment.

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 Business Continuity Management function with the support of the senior management remained extremely active during the pandemic to ensure that stakeholders remained safe, all critical services and processes of the bank remain operational and any contingency arising is dealt appropriately. The Bank's operational risk management governance 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. 9,064,742 thousand (2022: Rs. 6,651,737 thousand).

43.4 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

The ALCO continuously monitors the liquidity position and the Bank is confident that the current liquidity buffer is sufficient to cater to any adverse movement in the maturity profile.

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 the 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 the 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.

Habib Metro's strong deposit base backed by continued customer confidence and holding of government securities has enabled the bank to maintain a robust liquidity profile, also depicted through a strong LCR ratio.

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.

Liquidity Risk Mitigation techniques

Various tools and techniques are used to measure and evaluate the possible liquidity risk. These include regular monitoring of different liquidity ratios against approved triggers and communication to senior management and the ALCO. Further, Bank also prepares the maturity profile of assets and liabilities to keep track of 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 the 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.

2022

	Rupees in '000												
	Upto 1 day	Over 1 day 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	Over 5 years
Assets													
Cash and balances with treasury banks	54,747,065	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	22,452,296	-	-	768,400	-	1,133,620	-	-	-	-	-	-	-
Lendings to financial institutions	76,331,607	74,429,587	-	5,248,595	16,570,060	31,595,554	109,355,543	108,557,418	114,346,169	139,963,190	75,701,738	90,059,455	8,526,028
Investments	723,578,560	-	14,838,194	889,003	73,641,723	102,147,463	581,92,263	7,892,284	2,909,575	3,842,879	1,378,704	5,710,190	64,443,983
Advances	433,502,914	8,312,453	889,003	73,641,723	27,505,814	102,147,463	581,92,263	7,892,284	2,909,575	3,842,879	1,378,704	5,710,190	64,443,983
Fixed assets	21,663,890	98,427	114,831	278,876	156,645	156,645	469,544	454,240	454,240	1,632,218	1,382,924	1,731,625	14,717,270
Intangible assets	97,968	1,198	1,388	3,366	5,545	6,121	16,798	15,316	14,812	27,719	5,473	-	-
Deferred tax assets	5,061,251	242,150	282,508	686,091	626,684	626,685	814,977	252,764	252,761	634,679	355,441	394,091	(147,938)
Other assets	60,008,369	1,752,547	12,267,831	29,793,303	407,102	407,103	227,539	2,190,614	2,190,615	37,921	15,900	9,219	193,392
	1,397,443,920	156,452,098	93,599,098	36,403,755	110,420,354	45,271,850	136,073,192	169,076,664	120,168,172	146,138,606	78,840,180	97,904,580	87,732,735
Liabilities													
Bills payable	19,538,428	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	343,967,768	104,004,858	528,218	8,664,914	50,651,971	90,044,713	91,39,087	5,000	77,358	85,546	323,594	3,556,225	51,800,298
Deposits and other accounts	880,696,783	29,380,931	20,103,375	44,665,921	20,508,682	35,591,328	47,290,079	20,773,814	25,579,952	3,879,168	7,888,577	11,253,388	2,163,291
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-ordinated debts	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	78,733,617	9,447,654	11,022,263	26,768,352	6,524,719	6,524,717	212,049	3,777,707	3,777,707	2,412	7,819,279	980,495	301,654
	1,322,936,596	657,817,300	31,653,856	80,099,187	77,685,372	132,160,758	56,641,215	24,556,521	29,435,017	3,967,126	16,031,450	15,790,108	54,265,243
Net assets													
	74,507,324	(501,365,202)	4,749,899	30,321,167	(32,413,522)	3,912,434	112,435,449	94,806,115	90,733,155	142,171,480	62,808,730	82,114,472	33,467,492
Share capital	10,476,315	-	-	-	-	-	-	-	-	-	-	-	-
Reserves	25,534,917	-	-	-	-	-	-	-	-	-	-	-	-
Surplus / (Deficit) on revaluation of assets	2,029,769	-	-	-	-	-	-	-	-	-	-	-	-
Unappropriated profit	36,464,323	-	-	-	-	-	-	-	-	-	-	-	-
	74,507,324	(501,365,202)	4,749,899	30,321,167	(32,413,522)	3,912,434	112,435,449	94,806,115	90,733,155	142,171,480	62,808,730	82,114,472	33,467,492

Share capital
Reserves
Surplus / (Deficit) on revaluation of assets
Unappropriated profit

44. GENERAL

44.1 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 unconsolidated financial statements, except for captions of the statement of financial position and profit and loss account.

44.2 Non adjusting event after statement of financial position date

The Board of Directors in its meeting held on 15 February 2024 has proposed a final cash dividend of Rs. 5.50 per share amounting to Rs. 5,763,073 thousand (2022: final cash dividend of Rs. 3.25 per share amounting to Rs. 3,405,452 thousand) in addition to interim dividend of Rs. 5.00 per share amounting to Rs. 5,239,157 thousand (2022: Rs. 2,095,663 thousand) for approval by the members of the Bank in the forthcoming Annual General Meeting.

45. DATE OF AUTHORISATION FOR ISSUE

These unconsolidated financial statements were authorised for issue on 15 February 2024 by the Board of Directors of the Bank.

FUZAIL ABBAS
Chief Financial Officer

KHURRAM SHAHZAD KHAN
President &
Chief Executive Officer

MOHSIN A. NATHANI
Director

RASHID AHMED JAFER
Director

MOHAMEDALI R. HABIB
Chairman

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								
7	Grain Tech (Pvt) Ltd. 99-C, Model Town, Lahore.	Syed Faisal Hassan 35202-2835900-7 Nosheen Faisal Hassan 35202-2667973-4	Syed Mukhtar Hussain Syed Faisal Hassan	20,160	2,124	-	22,284	-	-	9,984	9,984	
8	Khawaja Corporation Islamic College Road, Near PIA Office, Sialkot.	Khalid Naseem 34602-7317706-5	Muhammad Naseem	7,500	838	-	8,338	-	-	2,835	2,835	
9	Kohistan Plastic Chak No. 204/RB Road, Madina Town, Faisalabad.	Ijaz Ahmed 33100-5979311-3	Chauhdary Muhammad Shareef	-	823	-	823	-	823	-	823	
10	Kohistan Poly Packages (Pvt) Ltd. Chak No. 204/RB Road, Madina Town, Faisalabad.	Ijaz Ahmed 33100-5979311-3 Mona Samreen 33100-7941706-2	Chauhdary Muhammad Shareef Ijaz Ahmed	7,010	3,701	-	10,711	-	3,010	-	3,010	
11	Vicky China Crockery Shop No. 14, Tubewell Market, Shahalam Market, Lahore.	Waqar Azeem 35202-9428574-3	Azeem Ud Din	8,000	1,378	-	9,378	-	1,078	7,933	9,011	
				145,579	17,589	-	163,168	27,510	10,417	36,477	74,404	

Annexure - II

ISLAMIC BANKING BUSINESS

The bank is operating 117 (2022: 61) Islamic banking branches and 233 (2022: 242) Islamic banking windows at the end of the year.

	Note	2023	2022
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks		11,119,511	7,799,004
Balances with other banks		2,956	–
Due from financial institutions	1	–	–
Investments	2	77,555,576	35,039,153
Islamic financing and related assets - net	3	114,142,247	106,613,906
Fixed assets	4	2,344,552	791,323
Intangible assets		–	–
Due from Head Office	5	–	7,364,959
Other assets		11,007,766	6,654,527
Total Assets		<u>216,172,608</u>	<u>164,262,872</u>
LIABILITIES			
Bills payable		1,707,901	1,690,942
Due to financial institutions		35,303,574	39,190,234
Deposits and other accounts	6	147,905,702	107,237,001
Due to Head Office		4,644,318	–
Subordinated debt		–	–
Other liabilities	7	11,480,993	5,162,216
		<u>201,042,488</u>	<u>153,280,393</u>
NET ASSETS		<u>15,130,120</u>	<u>10,982,479</u>
REPRESENTED BY			
Islamic Banking Fund		10,007,047	9,005,661
Reserves		–	–
Deficit on revaluation of assets		402,256	(627,868)
Unappropriated profit	8	4,720,817	2,604,686
		<u>15,130,120</u>	<u>10,982,479</u>
CONTINGENCIES AND COMMITMENTS	9		

The profit and loss account of the Bank's Islamic banking branches for the year ended 31 December 2023 is as follows:

	Note	2023	2022
		Rupees in '000	
Profit / return earned	10	29,447,686	13,609,478
Profit / return expensed	11	(15,849,102)	(7,776,455)
Net Profit / return		13,598,584	5,833,023
Other income			
Fee and Commission Income		658,729	482,267
Dividend Income		-	-
Foreign Exchange Income		120,994	113,758
Income / (loss) from derivatives		-	-
(Loss) / gain on securities		(140,308)	(17)
Other Income		17,806	4,325
Total other income		657,221	600,333
Total Income		14,255,805	6,433,356
Other expenses			
Operating expenses		4,750,271	1,397,216
Other charges		1,180	490
Total other expenses		4,751,451	1,397,706
Profit before provisions		9,504,354	5,035,650
Reversals / (Provisions) and (write offs) - net		(247,851)	71,577
Profit before taxation		9,256,503	5,107,227
Taxation		(4,535,686)	(2,502,541)
Profit after taxation		4,720,817	2,604,686

1. DUE FROM FINANCIAL INSTITUTIONS

	2023			2022		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
Unsecured						
- Mudaraba placements	-	-	-	-	-	-
	-	-	-	-	-	-

Rupees in '000

2. INVESTMENTS BY SEGMENTS:

	2023				2022			
	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
Federal Government Securities:								
- Ijarah Sukuk	59,720,420	-	586,847	60,307,267	19,579,161	-	(372,602)	19,206,559
- Bai-muajjal	-	-	-	-	-	-	-	-
- Islamic naya Pakistan certificate mudaraba investment pool	5,484,444	-	-	5,484,444	4,681,209	-	-	4,681,209
	65,204,864	-	586,847	65,791,711	24,260,370	-	(372,602)	23,887,768

Rupees in '000

	2023				2022			
	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
	Rupees in '000							
Non Government Debt Securities								
- Listed	6,768,455	-	(180,655)	6,587,800	6,876,651	-	(255,266)	6,621,385
- Unlisted	5,180,000	-	(3,935)	5,176,065	4,530,000	-	-	4,530,000
	11,948,455	-	(184,590)	11,763,865	11,406,651	-	(255,266)	11,151,385
Total Investments	77,153,319	-	402,257	77,555,576	35,667,021	-	(627,868)	35,039,153

3. ISLAMIC FINANCING AND RELATED ASSETS - NET

	2023				2022			
	Financing	Advances	Inventory	Total	Financing	Advances	Inventory	Total
	Rupees in '000							
Ijarah	753,507	29,589	-	783,096	875,565	17,577	-	893,142
Ijarah - Islamic long term financing facility	19,727	-	-	19,727	37,887	-	-	37,887
Murabaha	4,061,236	58,969	-	4,120,205	5,812,875	124,591	-	5,937,466
Working capital musharaka	41,790,198	-	-	41,790,198	31,411,281	-	-	31,411,281
Diminishing musharaka	18,051,336	493,346	-	18,544,682	15,714,076	1,392,381	-	17,106,457
Salam	-	-	-	-	22,000	53,000	-	75,000
Istisna	4,702,421	3,617,508	720,628	9,040,557	6,446,156	4,748,356	65	11,194,577
Al-bai	2,796,402	-	1,800,750	4,597,152	570,156	-	-	570,156
Diminishing musharaka:								
Islamic long term financing facility	3,895,893	-	-	3,895,893	3,647,937	487,014	-	4,134,951
Islamic refinance scheme for payment of wages and salaries	-	93,534	-	93,534	13,980	93,534	-	107,514
Islamic financing facility for storage of agricultural produce	614,449	-	-	614,449	541,619	187,668	-	729,287
Islamic temporary economic refinance facility	12,564,438	-	-	12,564,438	11,652,266	2,026,743	-	13,679,009
Islamic financing facility for renewable energy	565,892	-	-	565,892	295,833	370,554	-	666,387
Islamic export refinance								
Murabaha	-	-	-	-	152,000	32,000	-	184,000
Working capital musharaka	10,344,359	-	-	10,344,359	12,188,026	-	-	12,188,026
Salam	-	-	-	-	-	75,000	-	75,000
Istisna	(175,888)	5,971,218	87,824	5,883,154	865,116	6,470,395	-	7,335,511
Al-bai	-	-	1,840,566	1,840,566	596,059	-	-	596,059
Gross Islamic financing and related assets	99,983,970	10,264,164	4,449,768	114,697,902	90,842,832	16,078,813	65	106,921,710
Provision against non-performing Islamic financings								
- Specific	(542,991)	-	-	(542,991)	(295,151)	-	-	(295,151)
- General	(12,664)	-	-	(12,664)	(12,653)	-	-	(12,653)
	(555,655)	-	-	(555,655)	(307,804)	-	-	(307,804)
Islamic financing and related assets - net of provision	99,428,315	10,264,164	4,449,768	114,142,247	90,535,028	16,078,813	65	106,613,906

3.1 Ijarah

	2023						
	Cost			Accumulated Depreciation			Book value as at 31 Dec 2023
	As at 1 Jan 2023	Additions / (deletions)	As at 31 Dec 2023	As at 1 Jan 2023	Charge for the year / (deletions)	As at 31 Dec 2023	
	Rupees in '000						
Plant & Machinery	336,502	– (43,963)	292,539	121,846	79,272 (46,063)	152,293	140,246
Vehicles	809,128	75,170 (95,750)	788,548	110,332	65,219 (22,753)	155,560	632,988
Total	1,145,630	(64,543)	1,081,087	232,178	75,675	307,853	773,234
	2022						
	Cost			Accumulated Depreciation			Book value as at 31 Dec 2022
	As at 1 Jan 2022	Additions / (deletions)	As at 31 Dec 2022	As at 1 Jan 2022	Charge for the year / (deletions)	As at 31 Dec 2022	
	Rupees in '000						
Plant & Machinery	258,496	134,223 (56,218)	336,502	100,200	44,059 (22,413)	121,846	214,656
Vehicles	594,743	251,332 (36,946)	809,128	95,534	23,490 (8,692)	110,332	698,796
Total	853,239	292,391	1,145,630	195,734	36,444	232,178	913,452

Future ijarah payments receivable

	2023				2022			
	Not later than 1 year	Later than 1 year & less than 5 years	Over 5 years	Total	Not later than 1 year	Later than 1 year & less than 5 years	Over 5 years	Total
	Rupees in '000							
Ijarah rental receivables	<u>239,681</u>	<u>335,847</u>	<u>17,457</u>	<u>592,985</u>	<u>238,647</u>	<u>309,856</u>	<u>22,365</u>	<u>570,868</u>

	Note	2023	2022
Rupees in '000			
3.2 Murabaha			
Murabaha financing	3.2.1	4,061,236	5,812,875
Advances for Murabaha		58,969	124,591
		<u>4,120,205</u>	<u>5,937,466</u>
3.2.1 Murabaha receivable - gross	3.2.2	4,472,147	6,206,469
Less: Deferred murabaha income	3.2.4	(149,821)	(222,346)
Profit receivable shown in other assets		(261,090)	(171,248)
Murabaha financings		<u>4,061,236</u>	<u>5,812,875</u>
3.2.2 The movement in murabaha financing during the year is as follows:			
Opening balance		6,206,469	6,359,206
Sales during the year		13,444,533	17,066,707
Adjusted during the year		(15,178,855)	(17,219,444)
Closing balance		<u>4,472,147</u>	<u>6,206,469</u>
3.2.3 Murabaha sale price		13,444,533	17,066,707
Murabaha purchase price		(12,469,470)	(16,169,290)
		<u>975,063</u>	<u>897,417</u>
3.2.4 Deferred murabaha income			
Opening balance		222,346	137,450
Arising during the year		975,063	897,417
Less: recognised during the year		(1,047,588)	(812,521)
Closing balance		<u>149,821</u>	<u>222,346</u>

4. FIXED ASSETS

Fixed assets include right-of-use assets of Rs. 2,026,102 thousand (2022: 615,872 thousand) and other liabilities include related lease liability of Rs. 2,143,764 thousand (2022: Rs. 710,395 thousand).

5. DUE FROM HEAD OFFICE

Inter-branch transactions are made on Qard basis.

6. DEPOSITS

	2023			2022		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
Rupees in '000						
Customers						
Current deposits	50,023,527	8,088,995	58,112,522	29,171,602	5,494,270	34,665,872
Savings deposits	51,846,017	839,208	52,685,225	36,367,260	1,548,820	37,916,080
Term deposits	26,267,238	5,723,385	31,990,623	25,253,027	3,620,178	28,873,205
Others	3,204,413	—	3,204,413	2,474,491	—	2,474,491
	<u>131,341,195</u>	<u>14,651,588</u>	<u>145,992,783</u>	<u>93,266,380</u>	<u>10,663,268</u>	<u>103,929,648</u>
Financial Institutions						
Current deposits	61,371	—	61,371	118,177	249	118,426
Savings deposits	1,716,548	—	1,716,548	1,650,927	—	1,650,927
Term deposits	135,000	—	135,000	1,538,000	—	1,538,000
	<u>1,912,919</u>	<u>—</u>	<u>1,912,919</u>	<u>3,307,104</u>	<u>249</u>	<u>3,307,353</u>
	<u>133,254,114</u>	<u>14,651,588</u>	<u>147,905,702</u>	<u>96,573,484</u>	<u>10,663,517</u>	<u>107,237,001</u>

	2023	2022
	Rupees in '000	
6.1 Composition of deposits		
- Individuals	67,672,393	46,588,779
- Government / Public Sector Entities	6,157,392	3,678,886
- Banking Companies	3,377	3,224
- Non-Banking Financial Institutions	2,087,163	3,304,129
- Private Sector	71,985,377	53,661,983
	<u>147,905,702</u>	<u>107,237,001</u>

6.2 Particulars of deposits and other accounts

- In local currency	133,254,114	96,573,484
- In foreign currencies	14,651,588	10,663,517
	<u>147,905,702</u>	<u>107,237,001</u>

6.3 This includes eligible deposits of Rs. 75,762,440 thousand which are covered under shariah compliant deposit protection mechanism as required by the Deposit Protection Corporation circular no 5 of 2018.

	2023	2022
	Rupees in '000	

7. OTHER LIABILITIES

These include charity funds, details of which are given below:

Charity fund

Opening balance	254	4
Additions during the period		
Received from customers on account of delayed payment	448	250
	448	250
Payments / utilization during the period		
Health	(300)	-
	(300)	-
Closing balance	<u>402</u>	<u>254</u>

Charity paid to any single entity does not exceeds Rs 500,000.

8. ISLAMIC BANKING BUSINESS UNAPPROPRIATED PROFIT

Opening balance	2,604,686	1,481,222
Add: Islamic banking profit for the period	9,256,503	5,107,227
Less: Taxation	(4,535,686)	(2,502,541)
Less: Reserves	-	-
Less: Transferred to head office	(2,604,686)	(1,481,222)
Closing balance	<u>4,720,817</u>	<u>2,604,686</u>

	2023	2022
	Rupees in '000	
9. CONTINGENCIES AND COMMITMENTS		
Guarantees	13,819,209	9,539,409
Commitments	17,509,845	18,607,004
	<u>31,329,054</u>	<u>28,146,413</u>
10. PROFIT / RETURN EARNED		
Profit earned on:		
Financing	17,172,992	9,510,625
Investments	11,917,010	3,893,709
Placements	357,684	205,144
	<u>29,447,686</u>	<u>13,609,478</u>
11. PROFIT / RETURN EXPENSED		
Deposits and other accounts	12,935,059	6,710,743
Due to financial institutions	2,801,810	976,701
Lease liability against right-of-use assets	112,233	89,011
	<u>15,849,102</u>	<u>7,776,455</u>

12. POOL MANAGEMENT

Pools maintained by the Bank's Islamic Banking Division (IBD), their key features and risk and reward characteristics

The Bank operates general and special pools for deposits and inter-bank funds accepted / acquired under Mudaraba and Musharakah modes. Under the general deposits pools, the Bank accepts funds on Mudaraba basis from depositors (Rabb-ul-Maal) where the Bank acts as Manager (Mudarib) and invests the funds in Shariah Compliant modes of financing, investments and placements. IERS and other pools (special pools) are operated for funds acquired / accepted from the State Bank of Pakistan and other banks for Islamic Export Refinance to the Bank's customers and liquidity management respectively under the Musharakah / Mudaraba modes. Further, the Bank also contributes its equity and becomes the capital provider, wherein required.

Following pools are being managed by IBD

- General pool for local and foreign currencies for depositors
- Islamic export refinance scheme musharaka pool
- Special pool

All the Mudaraba based remunerative deposits shall be considered as an investment from Rabbul Maal in the pool, along with IBD's own share of equity, which is also commingled in the pool. The applications of these funds are on Islamic financing and related assets, Investments, and Placements for generating profits to be shared among the depositors as per the Weightage system.

The IERS Pool caters the 'Islamic Export Refinance' requirements based on the guidelines issued by the SBP.

Profits are calculated on the basis of weightages assigned to different tiers and tenors. 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).

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.

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. Provisions for non-performing accounts are borne by the mudarib. However, write-off of non-performing accounts is charged to the respective pool. 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.

The Bank managed the following general and specific pools during the year:

General Remunerative / Specific Depositor's Pools	Profit rate and weightage announcement period	Profit rate return earned	Profit sharing ratio Mudarib Share / Fee	Profit sharing ratio Rabbul Maal Share	Mudarib share	Profit rate return distributed to remunerative deposits (savings)	Percentage of Mudarib share transferred through Hiba	Amount of Mudarib Share transferred through Hiba
					(Rupees in '000)			(Rupees in '000)
General pool								
Islamic Export Refinance (IERS) Pool								
PKR Pool	Monthly	19.84%	50.00%	50.00%	4,007,220	11.21%	20.57%	613,310
USD Pool	Monthly	18.22%	80.00%	20.00%	3,883	2.89%	30.92%	885
Specific pools								
Islamic Export Refinance (IERS) Pool								
Special Pool (Saving)	Quarterly	18.49%	70.79%	29.21%	1,573,556	Nil	0.00%	-
Special Pool (TDR)	Monthly	19.63%	20.06%	79.94%	141,479	18.05%	20.61%	-
	Monthly	18.55%	6.41%	93.59%	316,865	17.28%	0.00%	-

PATTERN OF SHAREHOLDINGS

AS ON 31 DECEMBER 2023

Number of shareholders	Size of shareholding Rs. 10 each			Total shares held
328	1	to	100	6,587
338	101	to	500	121,223
252	501	to	1000	220,653
687	1001	to	5000	1,835,939
256	5001	to	10000	1,987,083
315	10001	to	15000	3,842,318
78	15001	to	20000	1,436,161
61	20001	to	25000	1,457,626
32	25001	to	30000	895,380
27	30001	to	35000	892,147
30	35001	to	40000	1,124,992
13	40001	to	45000	553,368
46	45001	to	50000	2,246,320
33	50001	to	60000	1,819,755
41	60001	to	80000	2,877,736
42	80001	to	100000	3,978,048
58	100001	to	150000	7,268,068
24	150001	to	200000	4,367,248
24	200001	to	250000	5,587,606
52	250001	to	500000	19,657,873
49	500001	to	1000000	36,307,686
19	1000001	to	1500000	22,153,840
13	1500001	to	2000000	22,221,531
20	2000001	to	3000000	45,269,342
3	3000001	to	4000000	10,379,489
20	4000001	to	10000000	124,022,013
7	10000001	to	52050000	190,907,394
1	534390001	to	534395000	534,394,054
2,869				1,047,831,480

COMBINED PATTERN OF SHAREHOLDINGS

AS ON 31 DECEMBER 2023

Categories of Shareholders	Number of Shareholders	Number of Shares held	(%)
Directors and their spouse(s) and minor children			
Mohamedali R. Habib	1	1,612,524	0.15
Ali Abbas Sikander	1	500	0.00
Hamza Habib	1	1,000	0.00
Mohomed Bashir	1	16,340,985	1.56
Muhammad H. Habib	1	2,069,454	0.20
Rashid Ahmed Jafer	1	500	0.00
Tahira Raza	1	500	0.00
Mohsin Ali Nathani	1	4,026,000	0.38
Sayedda Mohamedali Habib	1	805,065	0.08
Farah Fatima Habib	1	1,037,136	0.10
Associated Companies, undertakings and related parties			
Habib Bank AG Zurich	1	534,394,054	51.00
Habib Insurance Company Limited	1	6,705,924	0.64
Trustee Gul Ahmed Textile Mills Ltd Emp P.F	1	40,000	0.00
Trustees of UBL Fund Mngrs Ltd and Associated Coys E.G.Fund	1	6,500	0.00
Askari Bank Limited	1	2,798,000	0.27
Agriauto Industries Limited Employees Provident Fund	1	4,000	0.00
CDC - Trustee UBL Financial Sector Fund	1	85,500	0.01
Executives	5	401,750	0.04
CDC - Trustee National Investment (Unit) Trust	1	35,449,607	3.38
Banks Development Financial Institutions, Non Banking Financial Institutions.	5	14,727,619	1.41
Insurance Companies	7	18,085,480	1.73
Modarabas and Mutual Funds			
First Al-Noor Modaraba	1	125	0.00
CDC - Trustee MCB Pakistan Stock Market Fund	1	5,431,022	0.52
CDC - Trustee Pakistan Capital Market Fund	1	312,500	0.03
CDC - Trustee Atlas Stock Market Fund	1	7,292,000	0.70
CDC - Trustee AKD Index Tracker Fund	1	144,748	0.01
CDC - Trustee NBP Stock Fund	1	1,318,000	0.13

Categories of Shareholders	Number of Shareholders	Number of Shares held	(%)
CDC - Trustee APF-Equity Sub Fund	1	436,000	0.04
CDC - Trustee MCB Pakistan Asset Allocation Fund	1	410,000	0.04
CDC - Trustee Alfalah GHP Stock Fund	1	250,000	0.02
CDC - Trustee Alfalah GHP Alpha Fund	1	371	0.00
CDC - Trustee NIT-Equity Market Opportunity Fund	1	556,000	0.05
CDC - Trustee NBP Financial Sector Fund	1	192,000	0.02
CDC - Trustee HBL Financial Sector Income Fund Plan I - MT	1	5,000	0.00
CDC - Trustee MCB Pakistan Dividend Yield Plan	1	566,000	0.05
General Public			
a. Local	2,448	197,787,917	18.88
b. Foreign	251	4,739,939	0.45
Foreign Companies	18	101,570,573	9.69
Others	103	88,227,187	8.42
Totals	2,869	1,047,831,480	100.00

Share holders holding 10% or more	Shares Held	Percentage
Habib Bank AG Zurich	534,394,054	51.00

TRADE IN THE SHARES BY DIRECTORS & EXECUTIVES * (INCLUDING THEIR SPOUSE & MINOR CHILDREN)

Name of Executive	Designation	Purchase	Sale
Mohsin Ali Nathani	Director	300,000	-
Ali Abbas Sikander	Director	500	-
Wahid Yunus Dada	Executive	25,000	-

* The Expression "Executive" means as key management and includes all executives in direct reporting to CEO