



HABIB METROPOLITAN BANK LTD.

[Subsidiary of Habib Bank AG Zurich]

Consolidated Accounts for the nine months
ended 30 September 2019
(Un-audited)

CONSOLIDATED CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2019

| | Note | 30 September 2019 (Un-Audited) | 31 December 2018 (Audited) |
|---|------|--------------------------------------|----------------------------------|
| Rupees in '000 | | | |
| ASSETS | | | |
| Cash and balances with treasury banks | 6 | 55,116,228 | 48,177,307 |
| Balances with other banks | 7 | 2,290,881 | 1,916,548 |
| Lendings to financial institutions | 8 | 17,207,303 | 11,984,795 |
| Investments | 9 | 474,290,762 | 341,284,168 |
| Advances | 10 | 269,923,982 | 236,112,844 |
| Fixed assets | 11 | 7,945,837 | 3,947,862 |
| Intangible assets | 12 | 112,718 | 163,645 |
| Deferred tax assets | 13 | 4,901,162 | 5,821,468 |
| Other assets | 14 | 32,332,862 | 29,430,740 |
| | | 864,121,735 | 678,839,377 |
| LIABILITIES | | | |
| Bills payable | 15 | 9,988,067 | 12,173,407 |
| Borrowings | 16 | 168,473,204 | 53,008,774 |
| Deposits and other accounts | 17 | 600,541,717 | 542,839,457 |
| Liabilities against assets subject to finance lease | | — | — |
| Sub-ordinated debts | | — | — |
| Deferred tax liabilities | | — | — |
| Other liabilities | 18 | 40,806,398 | 30,365,389 |
| | | 819,809,386 | 638,387,027 |
| NET ASSETS | | 44,312,349 | 40,452,350 |
| REPRESENTED BY | | | |
| Share capital | | 10,478,315 | 10,478,315 |
| Reserves | | 17,391,319 | 16,371,428 |
| (Deficit) / surplus on revaluation of assets - net of tax | 19 | (4,650,876) | (5,562,129) |
| Unappropriated profit | | 17,930,482 | 15,950,329 |
| | | 41,149,240 | 37,237,943 |
| Non-controlling interest | | 3,163,109 | 3,214,407 |
| | | 44,312,349 | 40,452,350 |
| CONTINGENCIES AND COMMITMENTS | 20 | | |

The annexed notes 1 to 38 form an integral part of these consolidated condensed interim financial statements.

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

SOHAIL HASAN
Director

MOHOMED BASHIR
Director

MOHAMEDALI R. HABIB
Chairman

CONSOLIDATED CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)

FOR THE QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 2019

| | Note | 30 September 2019 | | 30 September 2018 | |
|--|------|-------------------|-------------------|-------------------|-------------------|
| | | Quarter ended | Nine months ended | Quarter ended | Nine months ended |
| Rupees in '000 | | | | | |
| Mark-up / return / interest earned | 22 | 20,599,560 | 51,619,340 | 10,943,600 | 30,974,859 |
| Mark-up / return / interest expensed | 23 | (16,158,956) | (38,305,982) | (6,868,598) | (18,923,417) |
| Net mark-up / interest income | | 4,440,604 | 13,313,358 | 4,075,002 | 12,051,442 |
| NON MARK-UP / INTEREST INCOME | | | | | |
| Fee and commission income | 24 | 1,166,378 | 3,617,428 | 901,238 | 2,780,435 |
| Dividend income | | 20,780 | 66,619 | 17,340 | 68,130 |
| Foreign exchange income | | 1,321,760 | 2,680,476 | 387,092 | 1,126,667 |
| Income / (loss) from derivatives | | — | — | — | — |
| (Loss) / gain on securities | 25 | (145,663) | (865,344) | 11,424 | 93,383 |
| Other income | 26 | 106,983 | 317,489 | 81,807 | 485,720 |
| Total non mark-up / interest income | | 2,470,238 | 5,816,668 | 1,398,901 | 4,554,335 |
| Total Income | | 6,910,842 | 19,130,026 | 5,473,903 | 16,605,777 |
| NON MARK-UP / INTEREST EXPENSES | | | | | |
| Operating expenses | 27 | 3,318,996 | 9,599,945 | 2,903,296 | 8,611,001 |
| Workers welfare fund | | 64,309 | 177,985 | 49,289 | 148,269 |
| Other charges | 28 | 10,045 | 51,340 | 370 | 15,172 |
| Total non-mark-up / interest expenses | | (3,393,350) | (9,829,270) | (2,952,955) | (8,774,442) |
| Profit before provisions | | 3,517,492 | 9,300,756 | 2,520,948 | 7,831,335 |
| (Provisions) / reversal and write offs - net | 29 | (402,764) | (295,907) | 132,035 | (297,097) |
| Extra ordinary / unusual items | | — | — | — | — |
| PROFIT BEFORE TAXATION | | 3,114,728 | 9,004,849 | 2,652,983 | 7,534,238 |
| Taxation | 30 | (1,193,841) | (3,724,221) | (1,008,420) | (2,815,780) |
| PROFIT AFTER TAXATION | | 1,920,887 | 5,280,628 | 1,644,563 | 4,718,458 |
| PROFIT ATTRIBUTABLE TO: | | | | | |
| Equity shareholders of the holding company | | 1,841,613 | 5,042,615 | 1,587,796 | 4,542,522 |
| Non-controlling interest | | 79,274 | 238,013 | 56,767 | 175,936 |
| | | 1,920,887 | 5,280,628 | 1,644,563 | 4,718,458 |
| Rupees | | | | | |
| Basic and diluted earnings per share | 31 | 1.76 | 4.81 | 1.52 | 4.34 |

The annexed notes 1 to 38 form an integral part of these consolidated condensed interim financial statements.

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Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

SOHAIL HASAN
Director

MOHOMED BASHIR
Director

MOHAMEDALI R. HABIB
Chairman

CONSOLIDATED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)

FOR THE QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 2019

| | 30 September 2019 | | 30 September 2018 | |
|--|-------------------|-------------------|-------------------|-------------------|
| | Quarter ended | Nine months ended | Quarter ended | Nine months ended |
| | Rupees in '000 | | | |
| Profit after taxation | 1,920,887 | 5,280,628 | 1,644,563 | 4,718,458 |
| Other comprehensive income | | | | |
| Items that may be reclassified to profit and loss in subsequent periods: | | | | |
| Movement in deficit on revaluation of investments - net of tax | 1,443,760 | 880,920 | (1,442,335) | (3,240,848) |
| Items that will not be reclassified to profit and loss in subsequent periods: | | | | |
| Remeasurement gain / (loss) on defined benefit obligations - net of tax | 34,187 | 50,605 | 16,150 | 678 |
| Total comprehensive income | 3,398,834 | 6,212,153 | 218,378 | 1,478,288 |
| Equity share holders of the holding company | 3,346,141 | 6,006,960 | 85,784 | 1,251,093 |
| Non-controlling interest | 52,693 | 205,193 | 132,594 | 227,195 |
| | 3,398,834 | 6,212,153 | 218,378 | 1,478,288 |

The annexed notes 1 to 38 form an integral part of these consolidated condensed interim financial statements.

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MOHSIN A. NATHANI
President &
Chief Executive Officer

SOHAIL HASAN
Director

MOHOMED BASHIR
Director

MOHAMEDALI R. HABIB
Chairman

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

| | Reserves | | | | | Surplus / (deficit) on revaluation | | Un-appro- priated profit | Sub- Total | Non- controlling interest | Total |
|--|------------------|------------------|----------------------|--------------------|--------------------|---------------------------------------|---------------------------|--------------------------------|---------------|---------------------------------|-------------|
| | Share capital | Share premium | Statutory reserve | Special reserve | Revenue reserve | Investments | Non- banking assets | | | | |
| | Rupees in '000 | | | | | | | | | | |
| Balance as at 1 January 2018 | 10,478,315 | 2,550,985 | 10,832,685 | 240,361 | 1,500,000 | 778,330 | 182,331 | 14,159,430 | 40,722,437 | 3,140,212 | 43,862,649 |
| Profit after taxation | - | - | - | - | - | - | - | 4,542,522 | 4,542,522 | 175,936 | 4,718,458 |
| Other comprehensive income - net of tax | - | - | - | - | - | (3,291,195) | - | (234) | (3,291,429) | 51,259 | (3,240,170) |
| Total comprehensive income for the period | - | - | - | - | - | (3,291,195) | - | 4,542,288 | 1,251,093 | 227,195 | 1,478,288 |
| Transfer to statutory reserve | - | - | 921,393 | - | - | - | - | (921,393) | - | - | - |
| Transfer from surplus on revaluation of assets to unappropriated profit - net of tax | - | - | - | - | - | - | (2,003) | 2,003 | - | - | - |
| Transactions with owners, recorded directly in equity | | | | | | | | | | | |
| Cash dividend (Rs. 3.00 per share) for the year ended 31 December 2017 | - | - | - | - | - | - | - | (3,143,494) | (3,143,494) | - | (3,143,494) |
| Profit distribution by First Habib Modaraba (Rs. 1.25 per certificate) for the period ended 30 June 2018 | - | - | - | - | - | - | - | - | - | (226,800) | (226,800) |
| Profit distribution by Habib Metropolitan Modaraba (Rs. 0.10 per certificate) for the period ended 30 June 2018 | - | - | - | - | - | - | - | - | - | (900) | (900) |
| Balance as at 30 September 2018 | 10,478,315 | 2,550,985 | 11,754,078 | 240,361 | 1,500,000 | (2,512,865) | 180,328 | 14,638,834 | 38,830,036 | 3,139,707 | 41,969,743 |
| Profit after taxation | - | - | - | - | - | - | - | 1,637,255 | 1,637,255 | 65,192 | 1,702,447 |
| Other comprehensive income - net of tax | - | - | - | - | - | (3,228,725) | - | (623) | (3,229,348) | 9,508 | (3,219,840) |
| Total comprehensive income for the period | - | - | - | - | - | (3,228,725) | - | 1,636,632 | (1,592,093) | 74,700 | (1,517,393) |
| Transfer to statutory reserve | - | - | 326,004 | - | - | - | - | (326,004) | - | - | - |
| Transfer from surplus on revaluation of assets to unappropriated profit - net of tax | - | - | - | - | - | - | (867) | 867 | - | - | - |
| Balance as at 31 December 2018 | 10,478,315 | 2,550,985 | 12,080,082 | 240,361 | 1,500,000 | (5,741,590) | 179,461 | 15,950,329 | 37,237,943 | 3,214,407 | 40,452,350 |
| Profit after taxation | - | - | - | - | - | - | - | 5,042,615 | 5,042,615 | 238,013 | 5,280,628 |
| Other comprehensive income - net of tax | - | - | - | - | - | 913,401 | - | 50,944 | 964,345 | (32,820) | 931,525 |
| Total comprehensive income for the period | - | - | - | - | - | 913,401 | - | 5,093,559 | 6,006,960 | 205,193 | 6,212,153 |
| Transfer to statutory reserve | - | - | 1,019,891 | - | - | - | - | (1,019,891) | - | - | - |
| Transfer from surplus on revaluation of assets to unappropriated profit - net of tax | - | - | - | - | - | - | (2,148) | 2,148 | - | - | - |
| Transactions with owners, recorded directly in equity | | | | | | | | | | | |
| Cash dividend (Rs. 2.00 per share) for the year ended 31 December 2018 | - | - | - | - | - | - | - | (2,095,663) | (2,095,663) | - | (2,095,663) |
| Profit distribution by First Habib Modaraba (Rs. 1.40 per certificate) for the period ended 30 June 2019 | - | - | - | - | - | - | - | - | - | (254,016) | (254,016) |
| Profit distribution by Habib Metropolitan Modaraba (Rs. 0.275 per certificate) for the period ended 30 June 2019 | - | - | - | - | - | - | - | - | - | (2,475) | (2,475) |
| Balance as at 30 September 2019 | 10,478,315 | 2,550,985 | 13,099,973 | 240,361 | 1,500,000 | (4,828,189) | 177,313 | 17,930,482 | 41,149,240 | 3,163,109 | 44,312,349 |

The annexed notes 1 to 38 form an integral part of these consolidated condensed interim financial statements.

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

SOHAIL HASAN
Director

MOHOMED BASHIR
Director

MOHAMEDALI R. HABIB
Chairman

CONSOLIDATED CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

| | Note | 30 September 2019 | 30 September 2018 |
|---|------|----------------------|----------------------|
| | | Rupees in '000 | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before taxation | | 9,004,849 | 7,534,238 |
| Less: Dividend income | | (66,619) | (68,130) |
| | | 8,938,230 | 7,466,108 |
| Adjustments | | | |
| Depreciation on operating fixed assets | | 728,393 | 616,653 |
| Depreciation on right-of-use assets | | 561,306 | — |
| Depreciation on non-banking assets | | 8,411 | 8,958 |
| Amortization | | 76,292 | 94,855 |
| Mark-up / return / interest expensed on lease liability against right-of-use assets | | 326,915 | — |
| Provisions and write offs excluding recovery of written off bad debts | 29 | 303,240 | 347,718 |
| Unrealized loss on securities - held-for-trading | 25 | 4,035 | — |
| Net gain on sale of fixed assets | 26 | (13,263) | (3,210) |
| Net gain on sale of non-banking assets | 26 | — | (202,282) |
| Net gain on sale of non-current assets held-for-sale | 26 | — | (35,042) |
| Provision against workers welfare fund | | 177,985 | 148,269 |
| Provision against compensated absences | | 49,183 | 61,623 |
| Provision against defined benefit plan | | 132,287 | 116,125 |
| | | 2,354,784 | 1,153,667 |
| | | 11,293,014 | 8,619,775 |
| (Increase) / decrease in operating assets | | | |
| Lendings to financial institutions | | (5,222,508) | 318,263 |
| Advances | | (34,055,647) | (22,987,462) |
| Other assets (excluding current taxation and including non-banking assets) | | (2,662,138) | 941,590 |
| | | (41,940,293) | (21,727,609) |
| Increase / (decrease) in operating liabilities | | | |
| Bills payable | | (2,185,340) | (7,944,229) |
| Borrowings from financial institutions | | 115,183,190 | 24,513,293 |
| Deposits and other accounts | | 57,702,260 | (1,276,948) |
| Other liabilities (excluding current taxation) | | 5,571,983 | (638,843) |
| | | 176,272,093 | 14,653,273 |
| | | 145,624,814 | 1,545,439 |
| Payment against compensated absences | | (35,511) | (39,323) |
| Contribution paid to defined benefit plan | | (2,629) | (1,209) |
| Income tax paid | | (3,116,526) | (2,297,059) |
| | | (3,116,526) | (2,297,059) |
| Net cash flow (used in) / generated from operating activities | | 142,470,148 | (792,152) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Net investments in held-for-trading securities | | (21,728,733) | — |
| Net investments in available-for-sale securities | | (110,143,134) | 4,890,307 |
| Net investments in held-to-maturity securities | | 181,638 | 5,219,851 |
| Dividend received | | 60,723 | 63,832 |
| Investments in fixed assets | | (1,112,632) | (564,312) |
| Investments in intangibles assets | | (25,365) | (14,819) |
| Proceeds from sale of fixed assets | | 18,474 | 14,522 |
| Proceeds from sale of non-banking assets | | — | 600,000 |
| Proceeds from sale of non-current assets held-for-sale | | — | 250,000 |
| Net cash flow generated from / (used in) investing activities | | (132,749,029) | 10,459,381 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividend paid | | (2,094,517) | (3,127,679) |
| Payment of lease liability against right-of-use assets | | (594,588) | — |
| Net cash used in financing activities | | (2,689,105) | (3,127,679) |
| Increase in cash and cash equivalents | | 7,032,014 | 6,539,550 |
| Cash and cash equivalents at beginning of the year | | 46,905,159 | 41,673,028 |
| Cash and cash equivalents at end of the year | | 53,937,173 | 48,212,578 |

The annexed notes 1 to 38 form an integral part of these consolidated condensed interim financial statements.

| | | | | |
|-------------------------|--|---------------------|-----------------------|----------------------------|
| FUZAIL ABBAS | MOHSIN A. NATHANI | SOHAIL HASAN | MOHOMED BASHIR | MOHAMEDALI R. HABIB |
| Chief Financial Officer | President & Chief Executive Officer | Director | Director | Chairman |

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

1. STATUS AND NATURE OF BUSINESS

The Group comprises of Habib Metropolitan Bank Limited (the holding company), Habib Metropolitan Financial Services Limited and Habib Metropolitan Modaraba Management Company (Private) Limited (wholly owned subsidiary companies) and First Habib Modaraba and Habib Metro Modaraba (Managed by Habib Metropolitan Modaraba Management Company (Private) Limited).

Holding Company

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 341 (31 December 2018: 322) branches, including 31 (31 December 2018: 31) Islamic banking branches and a branch at Karachi Export Processing Zone, and 30 (31 December 2018: 30) sub branches in Pakistan. The Bank is a subsidiary of Habib Bank AG Zurich - Switzerland (the holding company with 51% shares in the Bank) which is incorporated in Switzerland. The registered office of the holding company is situated at Spencer's Building, I.I. Chundrigar Road, Karachi.

Subsidiary Companies

Habib Metropolitan Financial Services Limited - 100% holding

Habib Metropolitan Financial Services Limited was incorporated in Pakistan on 28 September 2007 as a public limited company under the Companies Ordinance, 1984 (now Companies Act, 2017). The registered office of the subsidiary company is located at 1st Floor, GPC 2, Block 5, Khekashan Clifton, Karachi. The subsidiary company is a corporate member of the Pakistan Stock Exchange Limited and engaged in equity brokerage services.

Habib Metropolitan Modaraba Management Company (Private) Limited - 100% holding

Habib Metropolitan Modaraba Management Company (Private) Limited (Modaraba management company) was incorporated in Pakistan on 1 June 2015 as a private limited under the Companies Ordinance, 1984 (now Companies Act, 2017) and Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. The registered office of the subsidiary company is located at 6th Floor, HBZ Plaza, I.I. Chundrigar Road, Karachi.

First Habib Modaraba - 10% holding

First Habib Modaraba is a perpetual, multi-purpose modaraba having its registered office at 6th Floor, HBZ Plaza, I.I. Chundrigar Road, Karachi. It is listed on the Pakistan Stock Exchange and engaged in the business of leasing (Ijarah), Musharaka, Murabaha financing and other related business.

Habib Metro Modaraba - 70% holding

Habib Metro Modaraba (HMM) which is a perpetual, multi-purpose modaraba having its registered office at 6th Floor, HBZ Plaza, I.I. Chundrigar Road, Karachi. HMM's primary business activities are residual value car financing and provision of finance for solar power solutions on the basis of ijarah / rental / musharaka or any other approved modes of financing. The holding company and the Modaraba Management Company own 60% and 10% of the certificates of HMM respectively.

2. BASIS OF PRESENTATION

- 2.1** These consolidated condensed interim financial statements comprise the financial statements of the holding company and its subsidiary companies. The financial statements of the subsidiary companies have been prepared for the same reporting period as the holding company using consistent accounting policies.

2.2 Statement of Compliance

2.2.1 These consolidated condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:

- International Accounting Standard (IAS) 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan, as are notified under the Companies Act, 2017;
- Provisions of and directives issued under the Banking Companies Ordinance, 1962 and the Companies Act, 2017; and
- Directives issued by the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan (SECP).

Whenever the requirements of the Banking Companies Ordinance, 1962, the Companies Act, 2017 or the directives issued by the SBP and the SECP differ with the requirements of the IAS 34 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 consolidated 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 Banks. 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.

2.2.2 The disclosures made in these consolidated condensed interim financial statements have been based on a format prescribed by the SBP vide BPRD Circular Letter No. 5 dated 22 March 2019 and IAS 34, Interim Financial Reporting. They do not include all the disclosures required for annual financial statements, and these consolidated condensed interim financial statements should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

3. SIGNIFICANT ACCOUNTING POLICY

The significant accounting policies and method of computation adopted in the preparation of these consolidated condensed interim financial statements are consistent with those applied in the preparation of the audited consolidated financial statements of the Group for the year ended 31 December 2018 except for changes explained in note 3.1 to these financial statements.

3.1 Amendments to approved accounting standards that are effective in the current period

3.1.1 IFRS 16 'Leases' (effective for annual period beginning on or after 1 January 2019). The impact of adoption of IFRS 16 is given in note 3.2 to these financial statements.

3.1.2 In addition, as mentioned in note 2.2.2 above, the disclosures and the presentations in the condensed interim financial statements are on a format prescribed by the State Bank of Pakistan vide BPRD Circular Letter No.5 dated 22 March 2019 and IAS 34, "Interim Financial Reporting". Earlier upto 30 September 2018, the disclosures and presentations were in accordance with the format prescribed by the State Bank of Pakistan vide BSD Circular Letter No. 2 dated 12 May 2004 and BPRD Circular Letter No. 5 dated 29 February 2016 and IAS 34 "Interim Financial Reporting". However the adoption of the new format has only resulted in certain additional disclosures and presentations. Corresponding figures have also been so presented.

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

3.2 Adoption of International Financial Reporting Standards (IFRS) 16 - Leases

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

The significant judgments in the implementation were determining if a contract contained a lease, and the determination of whether the Group is reasonably certain that it will exercise extension options present in lease contracts. The significant estimates were the determination of incremental borrowing rates. The weighted average discount rate applied to lease liabilities on the transition date 1 January 2019 was 13.24 percent.

The impact of IFRS 16 on the Group is primarily where the Group is a lessee in property lease contracts. The Group has elected to adopt simplified approach on transition and has not restated comparative information. On 1 January 2019, the Group recognized a lease liability, being the remaining lease payments, including extension options where renewal is reasonably certain, discounted using the Group's incremental borrowing rate at the date of initial application. The corresponding right-of-use asset recognized is the amount of the lease liability adjusted by prepaid or accrued lease payments related to those leases. The balance sheet has increased as a result of the recognition of lease liability and right-to-use assets as of 1 January 2019 was Rs. 3,487,447 thousand with no adjustment to retained earnings. The asset is presented in 'Fixed Assets' and the liability is presented in 'Other liabilities'. Also in relation to those leases under IFRS 16, the Group has recognized depreciation and interest costs, instead of operating lease expenses.

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

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

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

| | 30 September 2019 |
|--|--|
| | Rupees in '000 |
| Impact on Statement of Financial Position | |
| Increase in fixed assets - right-of-use assets | 3,618,941 |
| Decrease in other assets - advances, deposits, advance rent and other prepayments | (229,446) |
| Increase in other assets - advance taxation | 83,707 |
| | 3,473,202 |
| Increase in other liabilities - lease liability against right-of-use assets | (3,604,128) |
| Decrease in net assets | (130,926) |
| | Nine months ended 30 September 2019 |
| | Rupees in '000 |
| Impact on Profit and Loss account | |
| Increase in mark-up expense - lease liability against right-of-use assets | (326,915) |
| (Increase) / decrease in administrative expenses: | |
| - Depreciation on right-of-use assets | (561,306) |
| - Rent expense | 673,588 |
| Decrease in profit before tax | (214,633) |
| Decrease in tax | 83,707 |
| Decrease in profit after tax | (130,926) |

3.2.2 In view of the application of above IFRS, the Group's accounting policy for right-of-use assets and its related lease liability is as follows:

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

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

3.3 Standards, interpretations of and amendments to accounting and reporting standards as applicable in Pakistan that are not yet effective in the current year.

There are various standards, interpretations and amendments to accounting and reporting standards as applicable in Pakistan that are not effective in the current year. These are not likely to have material effect on the Group's financial statements except for the following:

IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 July 2018 and 1 January 2019 respectively). IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on the recognition and derecognition of financial instruments from IAS 39. The Securities and Exchange Commission of Pakistan vide its notification dated 14 February 2019 modified the effective date for implementation of IFRS 9 as 'reporting period / year ending on or after 30 June 2019 (earlier application is permitted)'. However, the SBP vide its circular dated 23 October 2019 has advised its implementation date from 1 January 2021. Accordingly, the requirements of IFRS-9 have not been considered in the preparation of these financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The basis for accounting estimates adopted in the preparation of these consolidated condensed interim financial statements are the same as that applied in the preparation of the audited consolidated financial statements for the year ended 31 December 2018.

5. FINANCIAL RISK MANAGEMENT

The financial risk management objectives and policies adopted by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2018.

| | Note | 30 September 2019 (Un-Audited) | 31 December 2018 (Audited) |
|--|------|--------------------------------------|----------------------------------|
| <hr/> | | | |
| | | Rupees in '000 | |
| 6. CASH AND BALANCES WITH TREASURY BANKS | | | |
| In hand | | | |
| Local currency | | 8,402,502 | 7,657,684 |
| Foreign currencies | | 1,804,718 | 2,013,643 |
| | | <u>10,207,220</u> | <u>9,671,327</u> |
| With State Bank of Pakistan in | | | |
| Local currency current account | | 21,594,800 | 20,272,479 |
| Foreign currency current account | | 20,395 | 244,068 |
| Foreign currency deposit accounts | | | |
| – cash reserve account | | 5,539,244 | 4,151,971 |
| – special cash reserve account | | 16,393,533 | 12,370,079 |
| | | <u>43,547,972</u> | <u>37,038,597</u> |
| With National Bank of Pakistan in | | | |
| Local currency current account | | 1,141,132 | 1,443,318 |
| National Prize Bonds | | 219,904 | 24,065 |
| | | <u>55,116,228</u> | <u>48,177,307</u> |
| 7. BALANCES WITH OTHER BANKS | | | |
| In Pakistan | | | |
| In current accounts | | 86,526 | 94,703 |
| In deposit accounts | | 1,119,621 | 1,008,359 |
| | | <u>1,206,147</u> | <u>1,103,062</u> |
| Outside Pakistan | | | |
| In current accounts | | 1,084,734 | 813,486 |
| | | <u>2,290,881</u> | <u>1,916,548</u> |
| 8. LENDINGS TO FINANCIAL INSTITUTIONS | | | |
| Call money lendings | | – | 3,000,000 |
| Repurchase agreement lendings (Reverse Repo) | | – | 4,184,795 |
| Bai-muajjal receivable with the State Bank of Pakistan | 8.1 | 7,507,303 | – |
| Letter of placement | | – | 3,800,000 |
| Musharaka placement | 8.2 | 9,700,000 | 1,000,000 |
| | | <u>17,207,303</u> | <u>11,984,795</u> |

8.1 These will mature upto 18 March 2020 and the maturity amount is Rs. 8,286,578 thousand.

8.2 These placements carrying rates ranging between 10.45% to 12.75% per annum with maturity upto 31 October 2019.

9. INVESTMENTS

9.1 Investments by types

| | 30 September 2019 (Un-Audited) | | | | 31 December 2018 (Audited) | | | |
|--------------------------------------|--------------------------------|--------------------------------|------------------------|--------------------|-----------------------------|--------------------------------|------------------------|--------------------|
| | Cost / amortised cost | Provision for diminution | Surplus / (deficit) | Carrying value | Cost / amortised cost | Provision for diminution | Surplus / (deficit) | Carrying value |
| | Rupees in '000 | | | | | | | |
| Held-for-trading securities | | | | | | | | |
| Federal government securities | 21,728,733 | — | (4,035) | 21,724,698 | — | — | — | — |
| Available-for-sale securities | | | | | | | | |
| Federal government securities | 418,433,300 | — | (7,401,194) | 411,032,106 | 307,914,359 | — | (8,965,828) | 298,948,531 |
| Shares | 864,396 | (333,784) | 33,080 | 563,692 | 885,410 | (273,810) | 104,095 | 715,695 |
| Non-government debt securities | 4,676,941 | (133,291) | (20,616) | 4,523,034 | 5,031,734 | (138,428) | 16,532 | 4,909,838 |
| Mutual funds | 417,571 | (9,647) | (38,403) | 369,521 | 417,571 | (5,753) | 38,937 | 450,755 |
| | 424,392,208 | (476,722) | (7,427,133) | 416,488,353 | 314,249,074 | (417,991) | (8,806,264) | 305,024,819 |
| Held-to-maturity securities | | | | | | | | |
| Federal government securities | 36,077,711 | — | — | 36,077,711 | 36,259,349 | — | — | 36,259,349 |
| Total Investments | <u>482,198,652</u> | <u>(476,722)</u> | <u>(7,431,168)</u> | <u>474,290,762</u> | <u>350,508,423</u> | <u>(417,991)</u> | <u>(8,806,264)</u> | <u>341,284,168</u> |

30 September 2019 31 December 2018
(Un-Audited) (Audited)
———— Rupees in '000 ————

9.1.1 Investments given as collateral

Federal government securities

| | | |
|---------------------------|--------------------|-------------------|
| Market treasury bills | 114,309,332 | 3,443,636 |
| Pakistan investment bonds | 8,254,200 | 9,165,995 |
| | <u>122,563,532</u> | <u>12,609,631</u> |

9.2 Provision for diminution in value of investments

| | | |
|----------------------------------|----------------|----------------|
| 9.2.1 Opening balance | 417,991 | 537,372 |
| Charge for the period / year | 63,868 | 100,021 |
| Reversal for the period / year | (5,137) | (14,442) |
| Net charge for the period / year | 58,731 | 85,579 |
| Reversal on disposal | — | (198,028) |
| Investment written-off | — | (6,932) |
| Closing balance | <u>476,722</u> | <u>417,991</u> |

9.2.2 Particulars of provision against debt securities

| | 30 September 2019 (Un-Audited) | | 31 December 2018 (Audited) | |
|-----------------------------------|--------------------------------|----------------|----------------------------|-----------|
| | Non-performing investments | Provision | Non-performing investments | Provision |
| | Rupees in '000 | | | |
| Category of classification | | | | |
| Domestic | | | | |
| Substandard | - | - | - | - |
| Doubtful | - | - | - | - |
| Loss | 133,291 | 133,291 | 138,428 | 138,428 |
| | 133,291 | 133,291 | 138,428 | 138,428 |

Exposure amounting to Rs. 25,677 thousand (31 December 2018: Rs. 59,913 thousand) relating to term finance certificates of Pakistan International Airlines Corporation Limited, which is government guaranteed script, has not been classified as non-performing investment as per the relaxation given by the SBP.

- 9.3** The market value of securities classified as held-to-maturity is Rs. 33,122,397 thousand (31 December 2018: Rs. 32,847,389 thousand).

10. ADVANCES

| | Note | Performing | | Non-Performing | | Total | |
|---|------|--------------------------------|----------------------------|--------------------------------|----------------------------|--------------------------------|----------------------------|
| | | 30 September 2019 (Un-Audited) | 31 December 2018 (Audited) | 30 September 2019 (Un-Audited) | 31 December 2018 (Audited) | 30 September 2019 (Un-Audited) | 31 December 2018 (Audited) |
| | | Rupees in '000 | | | | | |
| Loans, cash credits, running finances, etc. | | | | | | | |
| In Pakistan | | 194,537,089 | 172,288,376 | 14,426,304 | 14,710,168 | 208,963,393 | 186,998,544 |
| Islamic financing and related assets | 10.1 | 31,573,515 | 27,084,790 | 877,407 | 503,972 | 32,450,922 | 27,588,762 |
| Bills discounted and purchased | | 43,168,195 | 35,620,461 | 2,134,424 | 2,465,767 | 45,302,619 | 38,086,228 |
| Advances - gross | | 269,278,799 | 234,993,627 | 17,438,135 | 17,679,907 | 286,716,934 | 252,673,534 |
| Provision against non-performing advances | | | | | | | |
| - specific | | - | - | (15,127,712) | (15,324,500) | (15,127,712) | (15,324,500) |
| - general | | (1,665,240) | (1,236,190) | - | - | (1,665,240) | (1,236,190) |
| | | (1,665,240) | (1,236,190) | (15,127,712) | (15,324,500) | (16,792,952) | (16,560,690) |
| Advances - net of provisions | | 267,613,559 | 233,757,437 | 2,310,423 | 2,355,407 | 269,923,982 | 236,112,844 |

- 10.1** It includes loans and advances of First Habib Modaraba and Habib Metro Modaraba amounting to Rs. 9,620,942 thousand and Rs. 188,594 thousand respectively. Furthermore, it includes the Islamic banking operations of the holding company amounting to Rs. 22,641,386 thousand as disclosed in note 36.3 to these consolidated condensed interim financial statements.

10.2 Particulars of advances - gross

| | 30 September 2019 (Un-Audited) | 31 December 2018 (Audited) |
|-----------------------|--------------------------------------|----------------------------------|
| | Rupees in '000 | |
| In local currency | 254,259,732 | 223,055,631 |
| In foreign currencies | 32,457,202 | 29,617,903 |
| | <u>286,716,934</u> | <u>252,673,534</u> |

10.3 Advances include Rs. 17,438,135 thousand (31 December 2018: Rs. 17,679,907 thousand) which have been placed under non-performing status as detailed below:

| | 30 September 2019 (Un-Audited) | | 31 December 2018 (Audited) | |
|-----------------------------------|--------------------------------|-------------------|----------------------------|-------------------|
| | Non-performing loans | Provision | Non-performing loans | Provision |
| | Rupees in '000 | | | |
| Category of classification | | | | |
| Domestic | | | | |
| Substandard | 294,066 | 31,929 | 259,378 | 17,562 |
| Doubtful | 853,426 | 343,534 | 127,952 | 2,136 |
| Loss | 16,290,643 | 14,752,249 | 17,292,577 | 15,304,802 |
| | <u>17,438,135</u> | <u>15,127,712</u> | <u>17,679,907</u> | <u>15,324,500</u> |

10.4 Particulars of provision against advances

| | 30 September 2019 (Un-Audited) | | | 31 December 2018 (Audited) | | |
|---|--------------------------------|------------------|-------------------|----------------------------|------------------|-------------------|
| | Specific | General | Total | Specific | General | Total |
| | Rupees in '000 | | | | | |
| Opening balance | 15,324,500 | 1,236,190 | 16,560,690 | 16,168,582 | 257,841 | 16,426,423 |
| Charge for the period / year | 876,170 | 429,050 | 1,305,220 | 936,036 | 978,349 | 1,914,385 |
| Reversal for the period / year | (1,060,711) | — | (1,060,711) | (1,482,574) | — | (1,482,574) |
| Net charge / (reversal) for the period / year | (184,541) | 429,050 | 244,509 | (546,538) | 978,349 | 431,811 |
| Amount written-off | (12,247) | — | (12,247) | (297,544) | — | (297,544) |
| Closing balance | <u>15,127,712</u> | <u>1,665,240</u> | <u>16,792,952</u> | <u>15,324,500</u> | <u>1,236,190</u> | <u>16,560,690</u> |

10.4.1 General provision includes provision of Rs. 5,109 thousand (31 December 2018: Rs. 5,134 thousand) made against consumer portfolio and Rs. 102 thousand (31 December 2018: Rs. 35 thousand) made against small enterprises (SEs) portfolio as required by the Prudential Regulation issued by the SBP.

10.4.2 Particulars of provision against advances

| | 30 September 2019 (Un-Audited) | | | 31 December 2018 (Audited) | | |
|-----------------------|--------------------------------|------------------|-------------------|----------------------------|------------------|-------------------|
| | Specific | General | Total | Specific | General | Total |
| | Rupees in '000 | | | | | |
| In local currency | 14,706,354 | 1,665,240 | 16,371,594 | 14,952,295 | 1,236,190 | 16,188,485 |
| In foreign currencies | 421,358 | — | 421,358 | 372,205 | — | 372,205 |
| | <u>15,127,712</u> | <u>1,665,240</u> | <u>16,792,952</u> | <u>15,324,500</u> | <u>1,236,190</u> | <u>16,560,690</u> |

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

During the current period, the holding company availed additional forced sale value (FSV) benefit under BSD Circular No. 1 of 21 October 2011. This has resulted in reduction of provision against non-performing loans and advances by Rs. 172,139 thousand (31 December 2018: 628,190 thousand). Further, as of 30 September 2019, had the benefit of FSVs (including those availed into previous years) not been taken by the holding company, the specific provision against non-performing advances would have been higher by Rs. 1,663,160 thousand (31 December 2018: Rs. 2,096,898 thousand) and accumulated profit would have been lower by Rs. 1,081,054 thousand (31 December 2018: Rs. 1,362,983 thousand). This amount of Rs.1,081,054 thousand (31 December 2018: Rs.1,362,983 thousand) is not available for distribution of cash and stock dividend to the shareholders and bonus to employees.

| | Note | 30 September 2019 (Un-Audited) | 31 December 2018 (Audited) |
|--|-------|--|----------------------------------|
| Rupees in '000 | | | |
| 11. FIXED ASSETS | | | |
| Capital work-in-progress | 11.1 | 297,211 | 142,460 |
| Property and equipment | | 4,029,685 | 3,805,402 |
| Right-of-use assets | 3.2.1 | 3,618,941 | — |
| | | 7,945,837 | 3,947,862 |
| 11.1 Capital work-in-progress | | | |
| Civil works | | 195,286 | 22,739 |
| Equipment | | 85,085 | 110,420 |
| Advance to suppliers | | 16,840 | 9,301 |
| | | 297,211 | 142,460 |
| Nine months ended | | | |
| | | 30 September 2019 (Un-Audited) | 30 September 2018 |
| Rupees in '000 | | | |
| 11.2 Additions to fixed assets | | | |
| The following additions have been made to fixed assets during the period: | | | |
| Capital work-in-progress | | 154,751 | 63,905 |
| Property and equipment | | | |
| Leasehold land | | 91,851 | — |
| Building on leasehold land | | 158,523 | — |
| Furniture and fixture | | 48,628 | 41,143 |
| Electrical office and computer equipment | | 525,753 | 230,083 |
| Vehicles | | 33,378 | 58,174 |
| Lease hold improvement | | 99,748 | 171,007 |
| | | 957,881 | 500,407 |
| Total | | 1,112,632 | 564,312 |
| 11.3 Disposal of fixed assets | | | |
| The net book value of fixed assets disposed off during the period is as follows: | | | |
| Furniture and fixture | | 93 | 152 |
| Electrical office and computer equipment | | 588 | 1,295 |
| Vehicles | | 4,530 | 7,578 |
| Lease hold improvement | | — | 2,287 |
| Total | | 5,211 | 11,312 |

12. INTANGIBLE ASSETS

Computer software
Management rights

| 30 September 2019 (Un-Audited) | 31 December 2018 (Audited) |
|--------------------------------------|----------------------------------|
| Rupees in '000 | |
| 71,118 | 122,045 |
| 41,600 | 41,600 |
| 112,718 | 163,645 |

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

Additions:

- directly purchased

| 30 September 2019 (Un-Audited) | 30 September 2018 (Audited) |
|--------------------------------------|-----------------------------------|
| Rupees in '000 | |
| 25,365 | 14,819 |

13. DEFERRED TAX ASSETS

Deductible temporary differences

Provision for diminution in value of investments
Provision for non-performing and off - balance sheet
Provision against other assets
Deficit on revaluation of investments
Deferred liability on defined benefit plan
Others

| | |
|------------------|------------------|
| 166,853 | 146,297 |
| 2,267,544 | 2,746,495 |
| 198 | 198 |
| 2,599,622 | 3,097,834 |
| 43,739 | 71,680 |
| 672 | 1,494 |
| 5,078,628 | 6,063,998 |

Taxable temporary differences

Surplus on revaluation of non-banking assets
Accelerated depreciation

| | |
|------------------|------------------|
| (95,476) | (96,632) |
| (81,990) | (145,898) |
| (177,466) | (242,530) |
| 4,901,162 | 5,821,468 |

Net deferred tax asset

| | Note | 30 September 2019 (Un-Audited) | 31 December 2018 (Audited) |
|--|------|--------------------------------------|----------------------------------|
| Rupees in '000 | | | |
| 14. OTHER ASSETS | | | |
| Income / mark-up / profit accrued in local currency - net of provision | | 10,146,195 | 8,244,570 |
| Income / mark-up / profit accrued in foreign currencies - net of provision | | 25,169 | 29,916 |
| Advances, deposits, advance rent and other prepayments | | 582,916 | 765,427 |
| Advance taxation (payments less provision) | | 322,760 | 537,724 |
| Non-banking assets acquired in satisfaction of claims | | 482,398 | 487,505 |
| Branch adjustment account | | – | 63 |
| Mark to market gain on forward foreign exchange contracts | | 4,750,396 | 4,206,429 |
| Acceptances | | 15,195,057 | 14,429,148 |
| Receivable from the SBP against encashment of government securities | | 373,631 | 114,055 |
| Advance against vehicles for diminishing musharaka | | – | 78,126 |
| Stationery and stamps on hand | | 72,099 | 62,789 |
| Dividend receivable | | 6,665 | 769 |
| Others | | 313,465 | 408,804 |
| | | 32,270,751 | 29,365,325 |
| Provision against other assets | 14.1 | (210,678) | (210,678) |
| Other assets (net of provision) | | 32,060,073 | 29,154,647 |
| Surplus on revaluation of non-banking assets acquired in satisfaction of claims | 19 | 272,789 | 276,093 |
| | | 32,332,862 | 29,430,740 |
| 14.1 Provision held against other assets | | | |
| Operational loss | | 210,000 | 210,000 |
| Other receivable | | 678 | 678 |
| | | 210,678 | 210,678 |
| 15. BILLS PAYABLE | | | |
| In Pakistan | | 9,988,067 | 12,173,407 |

| | Note | 30 September 2019 (Un-Audited) | 31 December 2018 (Audited) |
|--|------|--------------------------------------|----------------------------------|
| Rupees in '000 | | | |
| 16. BORROWINGS | | | |
| Secured | | | |
| Borrowings from the State Bank of Pakistan | | | |
| Under export refinance scheme | | 30,882,339 | 24,196,093 |
| Under long term financing facility - renewable energy | | 924,452 | 962,784 |
| Under long term financing facility - locally manufactured plant and machinery | | 9,221,158 | 6,730,915 |
| | | 41,027,949 | 31,889,792 |
| Repurchase agreement borrowings (Repo) | 16.1 | 122,460,178 | 12,658,729 |
| Due against bills rediscounting | | — | 3,310,164 |
| | | 163,488,127 | 47,858,685 |
| Unsecured | | | |
| Call borrowing | | — | 300,000 |
| Certificate of investment | | 1,290,141 | 1,411,393 |
| Murabaha financing | | 225,000 | 250,000 |
| Overdrawn nostro accounts | | 3,464,243 | 3,183,003 |
| Overdrawn local bank accounts | | 5,693 | 5,693 |
| | | 4,985,077 | 5,150,089 |
| | | 168,473,204 | 53,008,774 |

16.1 These carry mark-up rates ranging between 13.25% to 13.86% per annum and will mature upto 10 October 2019.

17. DEPOSITS AND OTHER ACCOUNTS

| | 30 September 2019 (Un-Audited) | | | 31 December 2018 (Audited) | | |
|--|--------------------------------|--------------------------|-------------|----------------------------|--------------------------|-------------|
| | In local currency | In foreign currencies | Total | In local currency | In foreign currencies | Total |
| Rupees in '000 | | | | | | |
| Customers | | | | | | |
| Current accounts (non-remunerative) | 141,665,741 | 28,486,041 | 170,151,782 | 120,602,372 | 23,351,234 | 143,953,606 |
| Saving deposits | 127,782,563 | 19,666,371 | 147,448,934 | 122,954,951 | 17,173,301 | 140,128,252 |
| Term deposits | 170,289,684 | 56,849,640 | 227,139,324 | 179,602,186 | 43,693,831 | 223,296,017 |
| Others | 9,160,453 | 988 | 9,161,441 | 7,984,099 | 906 | 7,985,005 |
| | 448,898,441 | 105,003,040 | 553,901,481 | 431,143,608 | 84,219,272 | 515,362,880 |
| Financial institutions | | | | | | |
| Current deposits (non-remunerative) | 885,240 | 910,504 | 1,795,744 | 1,489,569 | 942,405 | 2,431,974 |
| Saving deposits | 39,303,695 | — | 39,303,695 | 24,109,273 | 70 | 24,109,343 |
| Term deposits | 5,536,000 | 4,797 | 5,540,797 | 931,000 | 4,260 | 935,260 |
| | 45,724,935 | 915,301 | 46,640,236 | 26,529,842 | 946,735 | 27,476,577 |
| | 494,623,376 | 105,918,341 | 600,541,717 | 457,673,450 | 85,166,007 | 542,839,457 |

| | Note | 30 September 2019 (Un-Audited) | 31 December 2018 (Audited) |
|---|-------|--------------------------------------|----------------------------------|
| | | Rupees in '000 | |
| 18. OTHER LIABILITIES | | | |
| Mark-up / return / interest payable in local currency | | 8,782,166 | 6,520,736 |
| Mark-up / return / interest payable in foreign currencies | | 573,469 | 362,013 |
| Unearned commission and income on bills discounted | | 217,322 | 190,533 |
| Accrued expenses | | 1,060,479 | 785,163 |
| Acceptances | | 15,195,057 | 14,429,148 |
| Unclaimed dividend | | 365,362 | 107,725 |
| Branch adjustment account | | 43 | — |
| Mark to market loss on forward foreign exchange contracts | | 6,180,300 | 3,549,157 |
| Provision for compensated absences | | 222,536 | 208,864 |
| Deferred liability on defined benefit plan | | 253,251 | 202,404 |
| Provision against off-balance sheet obligations | 18.1 | 113,716 | 113,716 |
| Workers' welfare fund | | 1,129,773 | 952,940 |
| Charity fund balance | | 4,817 | 291 |
| Excise duty payable | | 1,355 | 1,003 |
| Locker deposits | | 804,939 | 764,223 |
| Advance against diminishing musharaka | | 142,085 | 98,166 |
| Advance rental for ijarah | | 2,003 | 2,259 |
| Security deposits against leases / ijarah | | 661,426 | 657,958 |
| Sundry creditors | | 720,752 | 694,963 |
| Lease liability against right-of-use assets | 3.2.1 | 3,604,128 | — |
| Withholding tax / duties | | 278,259 | 339,235 |
| Others | | 493,160 | 384,892 |
| | | <u>40,806,398</u> | <u>30,365,389</u> |
| 18.1 Provision against off-balance sheet obligations | | | |
| Opening balance | | 113,716 | 113,716 |
| Charge for the period / year | | — | — |
| Closing balance | | <u>113,716</u> | <u>113,716</u> |
| The above represents provision against certain letters of credit and guarantee. | | | |
| 19. (DEFICIT) / SURPLUS ON REVALUATION OF ASSETS | | | |
| (Deficit) / surplus on revaluation of | | | |
| - Non-banking assets | | 272,789 | 276,093 |
| - Available-for-sale securities | 9.1 | <u>(7,427,133)</u> | <u>(8,806,264)</u> |
| | | <u>(7,154,344)</u> | <u>(8,530,171)</u> |
| Less: Deferred tax on (deficit) / surplus on revaluation of | | | |
| - Non-banking assets | | 95,476 | 96,632 |
| - Available-for-sale securities | | <u>(2,599,623)</u> | <u>(3,097,834)</u> |
| | | <u>2,504,147</u> | <u>3,001,202</u> |
| | | <u>(4,650,197)</u> | <u>(5,528,969)</u> |
| Surplus / (deficit) pertaining to non-controlling interest | | <u>(679)</u> | <u>(33,160)</u> |
| | | <u>(4,650,876)</u> | <u>(5,562,129)</u> |

| | Note | 30 September 2019 (Un-Audited) | 31 December 2018 (Audited) |
|--|--------|--------------------------------------|----------------------------------|
| | | Rupees in '000 | |
| 20. CONTINGENCIES AND COMMITMENTS | | | |
| Guarantees | 20.1 | 61,111,096 | 53,215,390 |
| Commitments | 20.2 | 527,906,772 | 323,117,101 |
| Other contingent liabilities | 20.3 | 25,401,940 | 24,476,694 |
| | | 614,419,808 | 400,809,185 |
| 20.1 Guarantees | | | |
| Financial Guarantees | | 6,142,234 | 3,931,150 |
| Performance Guarantees | | 33,821,293 | 32,514,435 |
| Other guarantees | | 21,147,569 | 16,769,805 |
| | | 61,111,096 | 53,215,390 |
| 20.2 Commitments | | | |
| Documentary credits and short-term trade-related transactions: | | | |
| Letters of credit | | 72,440,289 | 89,700,969 |
| Commitments in respect of: | | | |
| Forward exchange contracts | 20.2.1 | 451,310,301 | 230,915,612 |
| Operating leases | 20.2.2 | – | 99,427 |
| Forward lendings | 20.2.3 | 4,050,541 | 2,267,933 |
| Acquisition of operating fixed assets | | 105,641 | 133,160 |
| | | 527,906,772 | 323,117,101 |
| 20.2.1 Commitments in respect of forward exchange contracts | | | |
| Purchase | | 252,804,090 | 136,568,523 |
| Sale | | 198,506,211 | 94,347,089 |
| | | 451,310,301 | 230,915,612 |
| 20.2.2 Commitments in respect of operating leases | | | |
| Not later than one year | | – | 99,427 |
| Later than one year and not later than five years | | – | – |
| | | – | 99,427 |

20.2.3 Commitments in respect of forward lendings

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

| | Note | 30 September 2019 (Un-Audited) | 31 December 2018 (Audited) |
|---|------|--|----------------------------------|
| | | Rupees in '000 | |
| Commitments in respect of syndicate financing | | 3,668,630 | 1,887,433 |
| Commitments in respect of financing transaction | | 381,911 | 380,500 |
| | | <u>4,050,541</u> | <u>2,267,933</u> |

20.3 Other contingent liabilities

| | | | |
|--|--------|--------------------------|-------------------|
| Claims against bank not acknowledged as debt | | 25,295,884 | 24,370,638 |
| Foreign exchange repatriation case | 20.3.1 | 106,056 | 106,056 |
| | | <u>25,401,940</u> | <u>24,476,694</u> |

20.3.1 Foreign exchange repatriation case

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

21. DERIVATIVE FINANCIAL INSTRUMENTS

The holding company 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 holding company's policy, these contracts are reported on their fair value at the statement of financial position date. The gains and losses from revaluation of these contracts are included under "income from dealing in foreign currencies". Unrealised 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 holding company's customers to protect from unfavourable movements in foreign currencies. The Bank hedges such exposures in the inter-bank foreign exchange market.

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

| | | Nine months ended | |
|--|-------------------|----------------------|----------------------|
| | | 30 September 2019 | 30 September 2018 |
| | | (Un-Audited) | |
| | | Rupees in '000 | |
| 22. MARK-UP / RETURN / INTEREST EARNED | | | |
| Loans and advances | 20,078,791 | 9,498,457 | |
| Investments | 27,031,074 | 20,763,287 | |
| Lending with financial institutions | 4,417,387 | 703,485 | |
| Balance with other banks | 92,088 | 9,630 | |
| | <u>51,619,340</u> | <u>30,974,859</u> | |
| 23. MARK-UP / RETURN / INTEREST EXPENSED | | | |
| Deposits | 28,693,236 | 14,644,681 | |
| Borrowings | 5,034,394 | 3,288,865 | |
| Foreign currency swap cost | 4,251,437 | 989,871 | |
| Lease liability against right-of-use assets | 326,915 | — | |
| | <u>38,305,982</u> | <u>18,923,417</u> | |
| 24. FEE & COMMISSION INCOME | | | |
| Branch banking customer fees | 194,907 | 190,738 | |
| Credit related fees | 42,425 | 33,662 | |
| Card related fees | 273,444 | 195,955 | |
| Commission on trade | 2,602,323 | 1,926,588 | |
| Commission on guarantees | 330,943 | 265,736 | |
| Commission on remittances including home remittances | 21,313 | 22,495 | |
| Commission on bancassurance | 77,174 | 58,349 | |
| Others | 74,899 | 86,912 | |
| | <u>3,617,428</u> | <u>2,780,435</u> | |
| 25. (LOSS) / GAIN ON SECURITIES | | | |
| Realised | | | |
| Federal government securities | (877,169) | 19,227 | |
| Shares | (2,287) | 106 | |
| Mutual funds | 18,147 | 74,050 | |
| Unrealised - held-for-trading | | | |
| Federal government securities | (4,035) | — | |
| | <u>(865,344)</u> | <u>93,383</u> | |
| 26. OTHER INCOME | | | |
| Rent on properties | 22,838 | 19,837 | |
| Gain on sale of fixed assets - net | 13,263 | 3,210 | |
| Recovery of charges from customers | 207,864 | 155,645 | |
| Incidental and service charges | 70,703 | 66,505 | |
| Gain on sale of ijarah assets - net | 148 | 485 | |
| Gain on sale of non-banking assets | — | 202,282 | |
| Gain on sale of non-current assets held-for-sale - net | — | 35,042 | |
| Staff notice period and other recoveries | 2,673 | 2,714 | |
| | <u>317,489</u> | <u>485,720</u> | |

Nine months ended

30 September 2019 30 September 2018

(Un-Audited)

— Rupees in '000 —

27. OPERATING EXPENSES

Total compensation expense **4,446,027** 4,168,518

Property expense

| | | |
|----------------------|------------------|-----------|
| Rent & taxes | 242,404 | 799,911 |
| Insurance | 3,159 | 2,088 |
| Utilities cost | 306,674 | 260,957 |
| Security | 367,144 | 324,571 |
| Repair & maintenance | 278,516 | 288,100 |
| Depreciation | 856,338 | 261,764 |
| | 2,054,235 | 1,937,391 |

Information technology expenses

| | | |
|----------------------|----------------|---------|
| Software maintenance | 81,900 | 25,587 |
| Hardware maintenance | 108,146 | 101,623 |
| Depreciation | 112,053 | 80,250 |
| Amortisation | 76,292 | 94,855 |
| Network charges | 145,401 | 119,819 |
| | 523,792 | 422,134 |

Other operating expenses

| | | |
|--------------------------------------|------------------|-----------|
| Directors' fees and allowances | 11,965 | 12,541 |
| Fees and allowances to shariah board | 7,553 | 6,312 |
| Legal & professional charges | 129,784 | 124,166 |
| Outsourced services costs | 195,112 | 174,595 |
| Travelling & conveyance | 188,697 | 131,128 |
| NIFT clearing charges | 54,469 | 53,841 |
| Depreciation | 321,308 | 274,639 |
| Depreciation - non-banking assets | 8,411 | 8,958 |
| Training & development | 20,458 | 20,597 |
| Postage & courier charges | 74,403 | 57,228 |
| Communication | 77,208 | 69,576 |
| Subscription | 117,350 | 127,900 |
| Brokerage & commission | 87,334 | 73,741 |
| Stationery & printing | 166,813 | 120,276 |
| Marketing, advertisement & publicity | 96,568 | 135,792 |
| Management fee | 297,767 | 246,852 |
| Insurance | 392,366 | 200,263 |
| Donations | 76,230 | 69,069 |
| Auditors' remuneration | 14,783 | 14,191 |
| Others | 237,312 | 161,293 |
| | 2,575,891 | 2,082,958 |
| Total | 9,599,945 | 8,611,001 |

| | | Nine months ended | |
|---|-------|----------------------|----------------------|
| | Note | 30 September 2019 | 30 September 2018 |
| | | (Un-Audited) | |
| | | Rupees in '000 | |
| 28. OTHER CHARGES | | | |
| Penalties imposed by the SBP | | 51,340 | 15,172 |
| 29. PROVISIONS & WRITE OFFS - NET | | | |
| Provision for diminution in value of investments - net | 9.2.1 | 58,731 | 55,873 |
| Provision against loan & advances - net | 10.4 | 244,509 | 333,095 |
| Reversal of provision against other assets | | - | (41,250) |
| Recovery of written off-bad debts | | (7,333) | (50,621) |
| | | 295,907 | 297,097 |
| 30. TAXATION | | | |
| Current | | 3,029,792 | 2,600,286 |
| Prior year | | 300,546 | - |
| Deferred | | 393,883 | 215,494 |
| | | 3,724,221 | 2,815,780 |
| 31. BASIC AND DILUTED EARNINGS PER SHARE | | | |
| Profit attributable to equity shareholders of the holding company | | 5,042,615 | 4,542,522 |
| | | Number in '000 | |
| Weighted average number of ordinary shares | | 1,047,831 | 1,047,831 |
| | | Rupees | |
| Basic and diluted earnings per share | | 4.81 | 4.34 |

32. FAIR VALUE MEASUREMENTS

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

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

32.1 Fair value of financial assets

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

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

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

Level 3: Fair value measurements using input for the assets or liabilities that are not based on observable market data (i.e. unobservable inputs).

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

On balance sheet financial instruments

| 30 September 2019 (Un-Audited) | | | | | |
|---|------------------------------|------------|-------------|---------|-------------|
| | Carrying / notional value | Fair value | | | |
| | | Level 1 | Level 2 | Level 3 | Total |
| Rupees in '000 | | | | | |
| Financial assets measured at fair value | | | | | |
| - Investments | | | | | |
| - Available-for-sale securities | | | | | |
| Federal government securities | 411,032,106 | - | 411,032,106 | - | 411,032,106 |
| Sukuk certificates and bonds | 1,384,346 | - | 1,384,346 | - | 1,384,346 |
| Ordinary shares of listed companies | 535,772 | 535,772 | - | - | 535,772 |
| Mutual funds and REIT certificates | 369,521 | - | 369,521 | - | 369,521 |
| Listed term finance certificates | 3,113,011 | - | 3,113,011 | - | 3,113,011 |
| Unlisted term finance certificates | 25,677 | - | 25,677 | - | 25,677 |

Financial assets not measured at fair value - disclosed but not measured at fair value

| | | | | | |
|---|--------------------|----------------|--------------------|----------|--------------------|
| - Cash and balances with treasury banks | 55,116,228 | - | - | - | - |
| - Balances with other banks | 2,290,881 | - | - | - | - |
| - Lendings to financial institutions | 17,207,303 | - | - | - | - |
| - Investments | | | | | |
| - Held-to-maturity securities | | | | | |
| Federal government securities | 36,077,711 | - | - | - | - |
| - Available-for-sale securities | | | | | |
| Ordinary shares of unlisted companies | 27,920 | - | - | - | - |
| - Advances | 269,923,982 | - | - | - | - |
| - Other assets | 30,810,578 | - | - | - | - |
| | <u>827,915,036</u> | <u>535,772</u> | <u>415,924,661</u> | <u>-</u> | <u>416,460,433</u> |

Off-balance sheet financial instruments measured at fair value

| | | | | | |
|---|--------------------|----------|--------------------|----------|--------------------|
| - Forward purchase of foreign exchange contracts | <u>250,345,084</u> | <u>-</u> | <u>250,345,084</u> | <u>-</u> | <u>250,345,084</u> |
| - Forward sale of foreign exchange contracts | <u>199,535,313</u> | <u>-</u> | <u>199,535,313</u> | <u>-</u> | <u>199,535,313</u> |

On balance sheet financial instruments

| 31 December 2018 (Audited) | | | | | | |
|--|------------------------------|------------|-------------|---------|--|-------------|
| | 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 | 298,948,531 | – | 298,948,531 | – | | 298,948,531 |
| Sukuk certificates and bonds | 1,492,667 | – | 1,492,667 | – | | 1,492,667 |
| Ordinary shares of listed companies | 687,775 | 687,775 | – | – | | 687,775 |
| Mutual funds and REIT certificates | 450,755 | – | 450,755 | – | | 450,755 |
| Listed term finance certificates | 3,357,258 | – | 3,357,258 | – | | 3,357,258 |
| Unlisted term finance certificates | 59,913 | – | 59,913 | – | | 59,913 |

Financial assets not measured at fair value

| | | | | | |
|---|--------------------|----------------|--------------------|----------|--------------------|
| - Cash and balances with treasury banks | 48,177,307 | — | — | — | — |
| - Balances with other banks | 1,916,548 | — | — | — | — |
| - Lendings to financial institutions | 11,984,795 | — | — | — | — |
| - Investments | | | | | |
| - Held-to-maturity securities | | | | | |
| Federal government securities | 36,259,349 | — | — | — | — |
| Certificates of investments | | | | | |
| - Available-for-sale securities | | | | | |
| Ordinary shares of unlisted companies | 27,920 | — | — | — | — |
| - Advances | 236,112,844 | — | — | — | — |
| - Other assets | 27,511,817 | — | — | — | — |
| | <u>666,987,479</u> | <u>687,775</u> | <u>304,309,124</u> | <u>—</u> | <u>304,996,899</u> |

**Off-balance sheet financial
instruments measured at fair value**

| | | | | | |
|---|--------------------|----------|--------------------|----------|--------------------|
| - Forward purchase of foreign exchange contracts | <u>140,141,186</u> | <u>—</u> | <u>140,141,186</u> | <u>—</u> | <u>140,141,186</u> |
| - Forward sale of foreign exchange contracts | <u>97,365,720</u> | <u>—</u> | <u>97,365,720</u> | <u>—</u> | <u>97,365,720</u> |

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

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

33. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

| | 30 September 2019 (Un-Audited) | | | |
|--|--------------------------------|----------------|--------------------|---------------|
| | Trade & Sales | Retail Banking | Commercial Banking | Total |
| | Rupees in '000 | | | |
| Profit & Loss | | | | |
| Net mark-up / return / profit | 27,043,363 | (16,976,041) | 3,246,036 | 13,313,358 |
| Inter segment revenue - net | (25,813,174) | 20,825,868 | 4,987,306 | - |
| Non mark-up / return / interest income | (608,911) | 443,280 | 5,982,299 | 5,816,668 |
| Total income | 621,278 | 4,293,107 | 14,215,641 | 19,130,026 |
| Segment direct expenses | (217,255) | - | (108,291) | (325,546) |
| Inter segment expense allocation | - | (3,387,807) | (6,115,917) | (9,503,724) |
| Total expenses | (217,255) | (3,387,807) | (6,224,208) | (9,829,270) |
| Provisions | (58,731) | (301) | (236,875) | (295,907) |
| Profit before tax | 345,292 | 904,999 | 7,754,558 | 9,004,849 |
| Balance Sheet | | | | |
| Cash & bank balances | 1,084,870 | 28,338,762 | 27,983,477 | 57,407,109 |
| Investments | 474,290,762 | - | - | 474,290,762 |
| Lendings to financial institutions | 17,207,303 | - | - | 17,207,303 |
| Advances - performing | - | 3,375,601 | 265,903,198 | 269,278,799 |
| Advances - non-performing | - | 9,947 | 17,428,188 | 17,438,135 |
| Provision against advances | - | (12,124) | (16,780,828) | (16,792,952) |
| Net inter segment lending | - | 284,252,382 | 45,062,754 | 329,315,136 |
| Others | 7,060,049 | 2,846,510 | 35,386,020 | 45,292,579 |
| Total assets | 499,642,984 | 318,811,078 | 374,982,809 | 1,193,436,871 |
| Borrowings | 125,930,114 | - | 42,543,090 | 168,473,204 |
| Subordinated debt | - | - | - | - |
| Deposits & other accounts | (128,025) | 308,961,523 | 291,708,219 | 600,541,717 |
| Net inter segment borrowing | 329,315,136 | - | - | 329,315,136 |
| Others | 213,410 | 9,849,555 | 40,731,500 | 50,794,465 |
| Total liabilities | 455,330,635 | 318,811,078 | 374,982,809 | 1,149,124,522 |
| Equity | 44,312,349 | - | - | 44,312,349 |
| Total equity & liabilities | 499,642,984 | 318,811,078 | 374,982,809 | 1,193,436,871 |
| Contingencies & commitments | 451,310,301 | - | 163,109,507 | 614,419,808 |

30 September 2018 (Un-Audited)

| | Trade & Sales | Retail Banking | Commercial Banking | Total |
|--|------------------|-------------------|-----------------------|-------------|
| | Rupees in '000 | | | |
| Profit & Loss | | | | |
| Net mark-up / return / profit | 18,958,309 | (6,140,614) | (766,253) | 12,051,442 |
| Inter segment revenue - net | (15,618,816) | 9,069,813 | 6,549,003 | — |
| Non mark-up / return / interest income | (257,955) | 261,098 | 4,551,192 | 4,554,335 |
| Total Income | 3,081,538 | 3,190,297 | 10,333,942 | 16,605,777 |
| Segment direct expenses | (182,009) | — | (142,208) | (324,217) |
| Inter segment expense allocation | — | (2,436,144) | (6,014,081) | (8,450,225) |
| Total expenses | (182,009) | (2,436,144) | (6,156,289) | (8,774,442) |
| Provisions | (55,013) | (3,080) | (239,004) | (297,097) |
| Profit before tax | 2,844,516 | 751,073 | 3,938,649 | 7,534,238 |

31 December 2018 (Audited)

| | | | | |
|------------------------------------|-------------|-------------|--------------|--------------|
| Balance Sheet | | | | |
| Cash & bank balances | 1,209,795 | 24,672,447 | 24,211,613 | 50,093,855 |
| Investments | 341,284,168 | — | — | 341,284,168 |
| Lendings to financial institutions | 11,984,795 | — | — | 11,984,795 |
| Advances - performing | — | 3,167,829 | 231,825,798 | 234,993,627 |
| Advances - non-performing | — | 6,649 | 17,673,258 | 17,679,907 |
| Provision against advances | — | (11,773) | (16,548,917) | (16,560,690) |
| Net inter segment lending | — | 254,934,343 | 48,738,775 | 303,673,118 |
| Others | 12,852,393 | 52,983 | 26,458,339 | 39,363,715 |
| Total assets | 367,331,151 | 282,822,478 | 332,358,866 | 982,512,495 |
| Borrowings | 19,457,589 | — | 33,551,185 | 53,008,774 |
| Subordinated debt | — | — | — | — |
| Deposits & other accounts | — | 279,208,331 | 263,631,126 | 542,839,457 |
| Net inter segment borrowing | 303,673,118 | — | — | 303,673,118 |
| Others | 3,748,094 | 3,614,147 | 35,176,555 | 42,538,796 |
| Total liabilities | 326,878,801 | 282,822,478 | 332,358,866 | 942,060,145 |
| Equity | 40,452,350 | — | — | 40,452,350 |
| Total equity & liabilities | 367,331,151 | 282,822,478 | 332,358,866 | 982,512,495 |
| Contingencies & commitments | 230,915,612 | — | 169,893,573 | 400,809,185 |

34. TRANSACTIONS WITH RELATED PARTIES

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

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

| | 30 September 2019 (Un-Audited) | | | | | |
|--|--------------------------------|-----------------|--------------------------|-------------|--------------------------|-----------------|
| | Ultimate parent company | Associates | Key management personnel | Directors | Retirement benefit plans | Total |
| | Rupees in '000 | | | | | |
| Balances with other banks | | | | | | |
| In current accounts | 156,066 | 27,920 | - | - | - | 183,986 |
| Advances | | | | | | |
| Opening balance | 890 | 2,820,520 | 115,507 | - | - | 2,936,917 |
| Addition during the period | 22 | 29,738,611 | 140,304 | - | - | 29,878,937 |
| Repaid during the period | (449) | (28,140,011) | (21,345) | - | - | (28,161,805) |
| Closing balance | 463 | 4,419,120 | 234,466 | - | - | 4,654,049 |
| Other Assets | | | | | | |
| Mark-up / return / interest accrued | - | 2,852 | - | - | - | 2,852 |
| Prepayments / advance deposits / other receivables | - | 11,645 | - | - | - | 11,645 |
| | - | 14,497 | - | - | - | 14,497 |
| Borrowings | | | | | | |
| Opening balance | 8,823 | - | - | - | - | 8,823 |
| Borrowings during the period | 470 | 7,899 | - | - | - | 8,369 |
| Settled during the period | (8,823) | - | - | - | - | (8,823) |
| Closing balance | 470 | 7,899 | - | - | - | 8,369 |
| Deposits | | | | | | |
| Opening balance | 396,056 | 16,199,005 | 163,874 | 731,175 | 3,689,624 | 21,179,734 |
| Received during the period | 9,085,040 | 1,217,808,836 | 1,375,638 | 1,784,421 | 5,247,713 | 1,235,301,648 |
| Withdrawn during the period | (9,195,702) | (1,222,846,677) | (1,169,296) | (1,770,805) | (5,394,679) | (1,240,377,159) |
| Closing balance | 285,394 | 11,161,164 | 370,216 | 744,791 | 3,542,658 | 16,104,223 |
| Other liabilities | | | | | | |
| Mark-up / return / interest payable | - | 409,883 | 2,197 | 5,377 | 793,803 | 1,211,260 |
| Management fee payable for technical and consultancy services* | 123,543 | - | - | - | - | 123,543 |
| Payable against purchase of securities | 6,094 | - | - | - | - | 6,094 |
| Other payables | - | 5,868 | - | - | 251,024 | 256,892 |
| | 129,637 | 415,751 | 2,197 | 5,377 | 1,044,827 | 1,597,789 |
| Contingencies & commitments | | | | | | |
| Transaction-related contingent liabilities | - | 8,094,505 | - | - | - | 8,094,505 |
| Trade-related contingent liabilities | - | 463,049 | - | - | - | 463,049 |
| Commitment against operating leases | - | - | - | - | - | - |
| | - | 8,557,554 | - | - | - | 8,557,554 |

* Management fee is as per the agreement with the ultimate parent company.

| | 31 December 2018 (Audited) | | | | | |
|--|-------------------------------|-----------------|--------------------------------|-------------|--------------------------------|-----------------|
| | Ultimate parent company | Associates | Key management personnel | Directors | Retirement benefit plans | Total |
| | Rupees in '000 | | | | | |
| Balances with other banks | | | | | | |
| In current accounts | 112,023 | 44,688 | – | – | – | 156,711 |
| Advances | | | | | | |
| Opening balance | 2,204 | 1,704,636 | 172,585 | – | – | 1,879,425 |
| Addition during the year | – | 74,713,838 | 47,080 | – | – | 74,760,918 |
| Repaid during the year | (1,314) | (73,597,954) | (104,158) | – | – | (73,703,426) |
| Closing balance | 890 | 2,820,520 | 115,507 | – | – | 2,936,917 |
| Other assets | | | | | | |
| Mark-up / return / interest accrued | – | 17,113 | – | – | – | 17,113 |
| Prepayments / advance deposits / other receivables | – | 6,293 | – | – | – | 6,293 |
| Receivable against purchase of securities | 9,174 | – | – | – | – | 9,174 |
| | 9,174 | 23,406 | – | – | – | 32,580 |
| Borrowings | | | | | | |
| Opening balance | – | – | – | – | – | – |
| Borrowings during the year | 8,823 | – | – | – | – | 8,823 |
| Settled during the year | – | – | – | – | – | – |
| Closing balance | 8,823 | – | – | – | – | 8,823 |
| Deposits | | | | | | |
| Opening balance | 731,705 | 21,061,604 | 168,539 | 675,958 | 2,404,120 | 25,041,926 |
| Received during the year | 8,548,305 | 1,648,037,662 | 600,685 | 2,393,366 | 6,166,560 | 1,665,746,578 |
| Withdrawn during the year | (8,883,954) | (1,652,900,261) | (605,350) | (2,338,149) | (4,881,056) | (1,669,608,770) |
| Closing balance | 396,056 | 16,199,005 | 163,874 | 731,175 | 3,689,624 | 21,179,734 |
| Other liabilities | | | | | | |
| Mark-up / return / interest payable | – | 351,586 | 1,295 | 3,205 | 633,330 | 989,416 |
| Management fee payable for technical and consultancy services * | 115,344 | – | – | – | – | 115,344 |
| Other payables | – | 6,391 | – | – | 202,404 | 208,795 |
| | 115,344 | 357,977 | 1,295 | 3,205 | 835,734 | 1,313,555 |
| Contingencies & commitments | | | | | | |
| Transaction-related contingent liabilities | – | 7,531,999 | – | – | – | 7,531,999 |
| Trade-related contingent liabilities | – | 1,999,428 | – | – | – | 1,999,428 |
| Commitment against operating leases | – | 1,681 | – | – | – | 1,681 |
| | – | 9,533,108 | – | – | – | 9,533,108 |

* Management fee is as per the agreement with the ultimate parent company.

Transactions during the period

| | For the nine months ended 30 September 2019 (Un-Audited) | | | | | |
|---|--|------------|--------------------------------|-----------|--------------------------------|-----------|
| | Ultimate parent company | Associates | Key management personnel | Directors | Retirement benefit plans | Total |
| | Rupees in '000 | | | | | |
| Income | | | | | | |
| Mark-up / return / interest earned | 23 | 103,669 | 11,173 | – | – | 114,865 |
| Fee and commission income | 6,286 | 172,195 | – | 33 | – | 178,514 |
| Rent income | 4,212 | – | – | – | – | 4,212 |
| Expense | | | | | | |
| Mark-up / return / interest expensed | – | 1,099,784 | 11,755 | 52,726 | 379,786 | 1,544,051 |
| Commission / brokerage / bank charges paid | 477 | 1,016 | – | – | – | 1,493 |
| Salaries and allowances | – | – | 330,323 | – | – | 330,323 |
| Directors' fees and allowances | – | – | – | 11,965 | – | 11,965 |
| Charge to defined benefit plan | – | – | – | – | 132,287 | 132,287 |
| Contribution to defined contribution plan | – | – | – | – | 147,694 | 147,694 |
| Operating lease rentals / rent expenses | – | 10,445 | – | – | – | 10,445 |
| Insurance premium expenses | – | 9,410 | – | – | – | 9,410 |
| Maintenance, electricity, stationery & entertainment | – | 43,071 | – | – | – | 43,071 |
| Management fee expense for technical and consultancy services * | 297,767 | – | – | – | – | 297,767 |
| Donation | – | 8,440 | – | – | – | 8,440 |
| Professional / other charges | – | 1,564 | – | – | – | 1,564 |

* Management fee is as per the agreement with the ultimate parent company.

Transactions during the period

For the nine months ended 30 September 2018 (Un-Audited)

| | Ultimate parent company | Associates | Key management personnel | Directors | Retirement benefit plans | Total |
|---|-------------------------------|------------|--------------------------------|-----------|--------------------------------|-----------|
| | Rupees in '000 | | | | | |
| Income | | | | | | |
| Mark-up / return / interest earned | 260 | 51,695 | 4,867 | — | — | 56,822 |
| Fee and commission income | 3,777 | 113,990 | — | 22 | — | 117,789 |
| Rent income | 4,212 | — | — | — | — | 4,212 |
| Expenses | | | | | | |
| Mark-up / return / interest expensed | — | 757,420 | 3,973 | 26,022 | 248,845 | 1,036,260 |
| Commission / brokerage / bank charges paid | 742 | 1,040 | — | — | — | 1,782 |
| Salaries and allowances | — | — | 204,659 | — | — | 204,659 |
| Directors' fees and allowances | — | — | — | 12,541 | — | 12,541 |
| Charge to defined benefit plan | — | — | — | — | 114,499 | 114,499 |
| Contribution to defined contribution plan | — | — | — | — | 136,042 | 136,042 |
| Operating lease rentals / rent expenses | — | 9,800 | — | — | — | 9,800 |
| Insurance premium expenses | — | 10,602 | — | — | — | 10,602 |
| Maintenance, electricity, stationery & entertainment | — | 51,887 | — | — | — | 51,887 |
| Management fee expense for technical and consultancy services * | 246,852 | — | — | — | — | 246,852 |
| Donation | — | 16,357 | — | — | — | 16,357 |
| Professional / other charges | — | 8,625 | — | — | — | 8,625 |

* Management fee is as per the agreement with the ultimate parent company.

35. CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

| | 30 September 2019 (Un-Audited) | 31 December 2018 (Audited) |
|---|--------------------------------------|----------------------------------|
| | Rupees in '000 | |
| Minimum Capital Requirement (MCR): | | |
| Paid-up capital | 10,478,315 | 10,478,315 |
| Capital Adequacy Ratio (CAR): | | |
| Eligible Common Equity Tier 1 (CET 1) capital | 40,474,872 | 34,907,701 |
| Eligible Additional Tier 1 (ADT 1) capital | — | — |
| Total eligible tier 1 capital | 40,474,872 | 34,907,701 |
| Eligible tier 2 capital | 1,665,240 | 915,322 |
| Total eligible capital (tier 1 + tier 2) | 42,140,112 | 35,823,023 |
| Risk Weighted Assets (RWAs): | | |
| Credit risk | 265,078,966 | 235,418,319 |
| Market risk | 3,052,079 | 1,571,342 |
| Operational risk | 36,732,186 | 36,732,186 |
| Total | 304,863,231 | 273,721,847 |
| CET 1 capital adequacy ratio | 13.28% | 12.75% |
| Tier 1 capital adequacy ratio | 13.28% | 12.75% |
| Total capital adequacy ratio | 13.82% | 13.09% |
| 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 | 11.90% | 11.90% |

Simple, maturity method and basic indicator approach for credit risk, market risk and operational risk exposures respectively have been used in the capital adequacy calculation.

Leverage Ratio (LR):

| | | |
|-------------------------|---------------|-------------|
| Eligible tier 1 capital | 40,474,872 | 34,907,701 |
| Total exposures | 1,028,687,630 | 830,913,057 |
| Leverage ratio | 3.93% | 4.20% |

36. ISLAMIC BANKING BUSINESS

The holding company operating 31 (31 December 2018: 31) islamic banking branches and 219 (2018: 216) islamic banking windows at the end of the period / year.

| | Note | 30 September 2019 (Un-Audited) | 31 December 2018 (Audited) |
|--|------|--------------------------------------|----------------------------------|
| | | Rupees in '000 | |
| ASSETS | | | |
| Cash and balances with treasury banks | | 3,122,081 | 3,340,608 |
| Balances with other banks | | — | — |
| Due from financial institutions | 36.1 | 17,207,303 | 1,000,000 |
| Investments | 36.2 | 9,418,034 | 21,312,705 |
| Islamic financing and related assets - net | 36.3 | 21,996,597 | 17,715,168 |
| Fixed assets | 36.4 | 568,600 | 82,121 |
| Intangible assets | | — | — |
| Due from head office | | 1,108,728 | 1,056,134 |
| Other assets | | 2,048,571 | 1,605,849 |
| Total assets | | 55,469,914 | 46,112,585 |
| LIABILITIES | | | |
| Bills payable | | 545,022 | 657,934 |
| Due to financial institutions | | 3,208,244 | 1,864,574 |
| Deposits and other accounts | 36.5 | 46,440,315 | 38,684,214 |
| Due to head office | | — | — |
| Subordinated debt | | — | — |
| Other liabilities | 36.4 | 1,605,106 | 1,473,908 |
| | | 51,798,687 | 42,680,630 |
| NET ASSETS | | 3,671,227 | 3,431,955 |
| REPRESENTED BY | | | |
| Islamic banking fund | | 3,003,909 | 3,003,472 |
| Reserves | | — | — |
| Surplus / (deficit) on revaluation of assets | | 8,435 | (17,981) |
| Unappropriated profit | 36.9 | 658,883 | 446,464 |
| | | 3,671,227 | 3,431,955 |
| CONTINGENCIES AND COMMITMENTS | | | |
| | 36.6 | | |

The profit and loss account of the Bank's islamic banking branches for the period ended 30 September 2019 is as follows:

| | Note | Nine months ended | |
|----------------------------------|------|--------------------------|-------------------|
| | | 30 September 2019 | 30 September 2018 |
| | | (Un-Audited) | |
| | | Rupees in '000 | |
| Profit / return earned | 36.7 | 3,463,791 | 1,929,054 |
| Profit / return expensed | 36.8 | (2,229,305) | (1,295,530) |
| Net profit / return | | 1,234,486 | 633,524 |
| Other income | | | |
| Fee and commission income | | 106,503 | 97,553 |
| Dividend income | | — | — |
| Foreign exchange income | | 27,953 | 21,542 |
| Income / (loss) from derivatives | | — | — |
| Gain / (loss) on securities | | 11,701 | (56) |
| Other income | | 16,319 | 12,969 |
| Total other income | | 162,476 | 132,008 |
| Total income | | 1,396,962 | 765,532 |
| Other expenses | | | |
| Operating expenses | | 511,700 | 453,191 |
| Workers welfare fund | | — | — |
| Other charges | | 85 | 107 |
| Total other expenses | | 511,785 | 453,298 |
| Profit before provisions | | 885,177 | 312,234 |
| Provisions and write offs - net | | (226,294) | (32,482) |
| Profit before taxation | | 658,883 | 279,752 |

36.1 Due from financial institutions

| | 30 September 2019 (Un-Audited) | | | 31 December 2018 (Audited) | | |
|--|---------------------------------------|------------------------------|-------------------|-----------------------------------|-----------------------|-----------|
| | In local currency | In foreign currencies | Total | In local currency | In foreign currencies | Total |
| | Rupees in '000 | | | | | |
| Unsecured | | | | | | |
| Musharaka | 9,700,000 | — | 9,700,000 | 1,000,000 | — | 1,000,000 |
| Bai-muajjal receivable from State Bank of Pakistan | 7,507,303 | — | 7,507,303 | — | — | — |
| | 17,207,303 | — | 17,207,303 | 1,000,000 | — | 1,000,000 |

36.2 Investments by segments:

| | 30 September 2019 (Un-Audited) | | | | 31 December 2018 (Audited) | | | |
|---------------------------------------|--------------------------------|--------------------------------|------------------------|-------------------|-----------------------------|--------------------------------|------------------------|-------------------|
| | Cost / amortised cost | Provision for diminution | Surplus / (deficit) | Carrying value | Cost / amortised cost | Provision for diminution | Surplus / (deficit) | Carrying value |
| Rupees in '000 | | | | | | | | |
| Federal government securities: | | | | | | | | |
| – Ijarah sukuk | – | – | – | – | 11,313,145 | – | (26,794) | 11,286,351 |
| – Bai-muajjal | 3,608,688 | – | – | 3,608,688 | 3,608,688 | – | – | 3,608,688 |
| | <u>3,608,688</u> | <u>–</u> | <u>–</u> | <u>3,608,688</u> | <u>14,921,833</u> | <u>–</u> | <u>(26,794)</u> | <u>14,895,039</u> |
| Non government debt securities | | | | | | | | |
| – Listed | 5,153,213 | – | 8,435 | 5,161,648 | 5,537,142 | – | 3,805 | 5,540,947 |
| – Unlisted | 647,698 | – | – | 647,698 | 871,711 | – | 5,008 | 876,719 |
| | <u>5,800,911</u> | <u>–</u> | <u>8,435</u> | <u>5,809,346</u> | <u>6,408,853</u> | <u>–</u> | <u>8,813</u> | <u>6,417,666</u> |
| Total investments | <u>9,409,599</u> | <u>–</u> | <u>8,435</u> | <u>9,418,034</u> | <u>21,330,686</u> | <u>–</u> | <u>(17,981)</u> | <u>21,312,705</u> |

30 September 2019 **31 December 2018**
 (Un-Audited) (Audited)
 — Rupees in '000 —

36.3 Islamic financing and related assets - net

| | | |
|--|-------------------|------------|
| Ijarah | 417,092 | 398,097 |
| Murabaha | 5,938,355 | 5,906,879 |
| Working capital musharaka | 3,313,934 | 2,533,380 |
| Diminishing musharaka | 3,926,471 | 3,532,275 |
| Istisna | 1,432,844 | 1,029,204 |
| Export refinance murabaha | 615,868 | 497,902 |
| Export refinance istisna | 89,231 | 923,713 |
| Al-bai financing | 298,411 | 316,194 |
| Advances against: | | |
| Ijarah | 955,796 | 123,988 |
| Murabaha | 91,569 | 349,302 |
| Diminishing musharaka | 1,972,454 | 596,470 |
| Istisna | 1,014,342 | 1,064,759 |
| Export refinance murabaha | 119,500 | 127,507 |
| Export refinance istisna | 1,907,934 | 326,288 |
| Inventory related to | | |
| Al-bai goods | 347,585 | 240,116 |
| Istisna goods | 200,000 | 167,589 |
| Gross Islamic financing and related assets | 22,641,386 | 18,133,663 |
| Provision against non-performing Islamic financing | (644,789) | (418,495) |
| Islamic financing and related assets - net of provision | 21,996,597 | 17,715,168 |

36.4 Fixed assets and other liabilities

At 30 September 2019, fixed assets included right-of-use assets of Rs. 496,617 thousand and other liabilities included related lease liability of Rs. 497,542 thousand more fully explained in note 3.2.1.

| 30 September 2019 | 31 December 2018 |
|------------------------------|---------------------|
| (Un-Audited) | (Audited) |
| Rupees in '000 | |

36.5 Deposits

Customers

| | | |
|------------------|-------------------|------------|
| Current deposits | 9,219,504 | 8,363,646 |
| Savings deposits | 14,644,408 | 18,287,455 |
| Term deposits | 16,123,811 | 10,834,638 |
| | 39,987,723 | 37,485,739 |

Financial Institutions

| | | |
|------------------|-------------------|------------|
| Current deposits | 3,751 | 2,054 |
| Savings deposits | 5,923,841 | 756,421 |
| Term deposits | 525,000 | 440,000 |
| | 6,452,592 | 1,198,475 |
| | 46,440,315 | 38,684,214 |

36.6 Contingencies and commitments

| | | |
|-------------|------------------|-----------|
| Guarantees | 1,312,440 | 1,893,613 |
| Commitments | 3,947,179 | 3,362,786 |
| | 5,259,619 | 5,256,399 |

Nine months ended

| 30 September 2019 | 30 September 2018 |
|------------------------------|----------------------|
| (Un-Audited) | |
| Rupees in '000 | |

36.7 Profit / return earned on financing, investments and placement

Profit earned on:

| | | |
|-------------|------------------|-----------|
| Financing | 1,390,314 | 776,324 |
| Investments | 1,493,309 | 1,075,068 |
| Placements | 580,168 | 77,662 |
| | 3,463,791 | 1,929,054 |

36.8 Profit on deposits and other dues expensed

| | | |
|---|------------------|-----------|
| Deposits and other accounts | 2,118,964 | 1,269,115 |
| Due to financial institutions | 62,556 | 26,415 |
| Discount expense on lease liability against right-of-use assets | 47,785 | — |
| | 2,229,305 | 1,295,530 |

| | 30 September 2019 (Un-Audited) | 31 December 2018 (Audited) |
|--|--------------------------------------|----------------------------------|
| | Rupees in '000 | |
| 36.9 Unappropriated profit | | |
| Opening balance | 446,464 | 283,058 |
| Add: Islamic banking profit for the period | 658,883 | 446,464 |
| Less: Transferred to head office | (446,464) | (283,058) |
| Closing balance | <u>658,883</u> | <u>446,464</u> |

37. GENERAL

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

37.2 Corresponding figures have been re-classified, re-arranged or additionally incorporated in these consolidated condensed interim financial statements wherever necessary to facilitate comparison and better presentation in accordance with the revised forms of quarterly financial statements of the Banks' issued by the SBP through its BPRD Circular letter No. 05 of 2019. Further, incremental depreciation on surplus arising on revaluation of non-banking assets of Rs. 2,148 thousand (30 September 2018 : Rs 2,003 thousand) earlier included in statement of comprehensive income has been included directly in the statement of changes in equity for a more appropriate presentation.

38. DATE OF AUTHORISATION FOR ISSUE

These consolidated condensed interim financial statements were authorised for issue on 24 October 2019 by the Board of Directors of the holding company.

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

SOHAIL HASAN
Director

MOHOMED BASHIR
Director

MOHAMEDALI R. HABIB
Chairman