

HABIBMETRO

ANNUAL REPORT

2020



[Subsidiary of Habib Bank AG Zurich]



هَذَا فَضْلُكَ

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

Mohsin A. Nathani

DIRECTORS

Anjum Z. Iqbal

Firasat Ali

Hamza Habib

Mohomed Bashir

Muhammad H. Habib

Rashid Ahmed Jafer

Tahira Raza

BOARD COMMITTEES

AUDIT

Anjum Z. Iqbal

Hamza Habib

Rashid Ahmed Jafer

CREDIT

Anjum Z. Iqbal

Mohamedali R. Habib

Mohsin A. Nathani

Muhammad H. Habib

HUMAN RESOURCE & REMUNERATION

Firasat Ali

Mohsin A. Nathani

Tahira Raza

COMPANY SECRETARY

Ather Ali Khan

REGISTERED OFFICE

Ground Floor, Spencer's Building,

I. I. Chundrigar Road,

Karachi – 74200, Pakistan.

INFORMATION TECHNOLOGY

Anjum Z. Iqbal

Firasat Ali

Mohsin A. Nathani

RISK & COMPLIANCE

Anjum Z. Iqbal

Firasat Ali

Mohsin A. Nathani

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

Mohamedali R. Habib is a graduate in Business Management – Finance from Clark University, USA. He holds a Post Graduate Diploma in General Management from Stanford – National University of Singapore. Mohamedali has worked a decade in the corporate sector and almost three decades in the banking sector. He is currently serving as the Group CEO of Habib Bank AG Zurich.



Mr. Muhammad H. Habib
Director

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



Mr. Mohsin Ali Nathani
President & CEO

Mohsin Ali Nathani holds an MBA degree from Institute of Business Administration, Karachi. He is a seasoned corporate banker with over 25 years of banking experience, covering Asia, Middle East and Levant regions. He is serving as the President & CEO of HABIBMETRO Bank since 2018. Previously, Mohsin has served as the CEO of Standard Chartered UAE and Standard Chartered Pakistan Limited. Prior to that, he managed Barclays Bank Pakistan as their Country Head and Managing Director. He is currently on the Board of Directors of I-Care Pakistan and Abbott Laboratories. He is also the Vice President of Swiss Business Council. He has previously served as a Director of CDC, Kidney Centre; and as a trustee in the IBA Endowment Fund.



Mr. Anjum Z. Iqbal
Director

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

Anjum is a Non-Executive Director on the Board of Habib Metropolitan Bank Limited since October 2016. Earlier, he remained President and Chief Executive Officer of HabibMetro during 2009 and 2012.



Mr. Rashid Ahmed Jafer
Director

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. Rashid is a fellow member of the Institute of Chartered Accountants of Pakistan (ICAP) and enjoys an expertise in statutory audit.

OUR BOARD OF DIRECTORS



Mr. Mohomed Bashir
Director

Mohomed Bashir holds a fellow membership of Chartered Institute of Management Accountants (C.I.M.A), UK. Presently, Bashir is the Chief Executive of Gul Ahmed Textile Ltd., and also holds directorship of Gul Ahmed Energy Ltd, Safe Mix Concrete Products (Pvt.) Ltd., Gul Ahmed Holdings (Pvt.) Ltd., GTM (Europe) Ltd., UK, Gul Ahmed International Ltd., (FZC) UAE and Pakistan Business Council.



Mr. Firasat Ali
Director

Firasat Ali is presently the CEO of “The Centre for Change” - a think tank that caters to varied needs of change and its proper management for individuals, organizations and other pertinent segments. Firasat has served as an adviser at the USAID, UNDP and various government/private organizations.



Mr. Hamza Habib
Director

Hamza Habib graduated from Babson College in Wellesley, Massachusetts (USA) in 2009, with a Bachelor of Science in Business Management. He is a Certified Director from Pakistan Institute of Corporate Governance.

Hamza became 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 11 years banking experience.



Ms. Tahira Raza
Director

Tahira Raza is a Master in Business Administration (MBA) in Banking and Finance from the Institute of Business Administration (IBA), and is a banking diploma holder from the Institute of Bankers Pakistan (IBP). She has an experience of over four decades in the banking industry of Pakistan. Previously, Tahira has served as the President and Chief Executive Officer of First Women Bank Limited.

OUR MANAGEMENT

Ahmed Shah Durrani
Group Executive
Retail Bank

Yawer Gulani
Head of Systems,
Policies & Procedures

Khurram Shahzad Khan
Group Executive Corporate
& Transaction Banking

Muhammad Umer Ghufraan
Head of Credit

Zulfiqar Alavi
Chief Risk Officer

Syed Intikhab Hussain Rizvi
Country Treasurer



Najeeb Gilani
Head of Internal Audit

Syed Abu Tufail
Head of Information Technology

Fuzail Abbas
Group Executive /
Chief Financial Officer

OUR MANAGEMENT

Asad Ali
Head of Human
Resources

Haris Ahmed
Joint Head
Commercial North

Mohammad Khan
Head of Islamic Banking

Syed Hasnain
Haider Rizvi
Head of Compliance & Legal

Sheeza Ahmed
Head of Marketing &
Corporate Communications



Mohsin Ali Nathani
President & Chief Executive

Arif Durvesh
Joint Head
Commercial South

Wahid Younus Dada
Group Executive Operations
& Remedial Management

CHAIRMAN'S REVIEW



Dear Shareholders,

On behalf of the directors of Habib Metropolitan Bank, it gives me immense 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 2020. 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	23,538,498
Provisions and write offs - net	(3,501,713)
Profit before tax	20,036,785
Taxation	(8,028,589)
Profit after tax	12,008,196
Un-appropriated profit brought forward	19,059,758
Transfer from surplus on revaluation of non-banking assets - net of tax	3,461
Other comprehensive income	64,314
Profit available for appropriation	31,135,729
Appropriations:	
Transfer to Statutory Reserve	(2,401,639)
Cash dividend (Rs. 2.50 per share) - 2019	(2,619,579)
Interim Cash dividend (Rs. 2.00 per share) - 2020	(2,095,663)
	(7,116,881)
Un-appropriated profit carried forward	24,018,848

The Directors are pleased to propose a final cash dividend of Rs. 2.50 per share (25%) for the year under review. This is in addition to the interim cash dividend of Rs. 2.00 per share (20%) already paid. This cumulates cash dividend of Rs. 4.50 per share (45%) for the year 2020.

During the year, the COVID-19 emerged as a global pandemic forcing the world into a lockdown situation and restricting economic activities of almost all the countries. The pandemic also impacted Pakistan. However, situation started to stabilize in the last quarter of the year with business activity showing signs of improvement. We hope that this enhanced activity continues into 2021.

By the Grace of Allah, your Bank continued to make steady progress. The total assets crossed Rs. 1 trillion and gross advances increased to Rs. 331.5 billion at year-end with 18% growth. Bank's deposits increased to Rs. 681 billion as compared to Rs. 612 billion at the end of previous year.

HabibMetro posted profit before taxation of Rs. 20.04 billion for the year 2020. The performance translates into after tax earnings of Rs. 11.46 per share.

At year-end, HabibMetro's equity stands at Rs. 57.65 billion, with a capital adequacy level of 16.79% against the required 11.50%.

The primary role of the Board is to set the overall strategy for the Bank and to enhance its long-term strategic value. The Board is aligned with the overall governance structure required for the effective oversight of the business, risk & control framework, determination of Bank's level of risk tolerance through different policies and documents, operational, regulatory and compliance; and financial performance of the Bank. The composition of the Board has been established to ensure the availability of a pool of resource with relevant knowledge and experience to manage the strategic objectives of the Bank. It comprises of three independent directors 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 control, robust risk management process and compliance with regulatory requirements. The Board also ensures that good corporate governance policies and practices are implemented within the Bank. In the course of discharging its responsibilities, the Board acts in good faith, with due diligence and care, and in the best interests of the Bank and its shareholders.

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 loyal and valued customers, and staff members for their devotion and diligence especially during these challenging times of COVID.

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

On behalf of the Board

MOHAMEDALI R. HABIB
Chairman

Karachi: 22 February 2021

DIRECTORS' REPORT TO THE SHAREHOLDERS

Dear Shareholders,

On behalf of the Board, it gives me great pleasure to present to you the annual financial statements of Habib Metropolitan Bank Limited (HabibMetro), for the financial year ended 31 December 2020.

ECONOMIC AND BANKING REVIEW

The year 2020 was overshadowed by the COVID-19 and the consequent healthcare, social and economic impacts of the pandemic. Much of the year was spent battling the challenges presented by the Coronavirus, with some momentum being witnessed in Pakistan's economy in the last two months of the year.

The economy witnessed a recovery since July and picked up pace towards the end of the year. Large Scale Manufacturing increased by 7.4 percent year-on-year in over six months of FY21, against a contraction of 5.3 percent during the same period last year.

After remaining close to 9 percent in September 2020 and October 2020, headline inflation fell to 8.3 percent in November 2020 and further to 8 percent in December 2020, the lowest since June 2019, primarily due to declining food inflation.

The current account posted a surplus of USD 1.1 billion in the first half of FY21, compared to a deficit of over USD 2 billion during the same period last year. This improvement has been mainly driven by workers' remittances, which have remained above USD 2 billion month on month during the current fiscal year. Exports have also recovered to their pre-COVID monthly level of around USD 2 billion, since September 2020. However, the current account registered a deficit of USD 662 million in December 2020 after five consecutive months of surplus, as the trade deficit rose due to an increase in imports of machinery and industrial raw material, in line with the pick-up in economic activity. At the same time, wheat and sugar imports also increased to close demand and supply gaps in the domestic market. SBP's foreign exchange reserves rose to USD 13 billion, their highest level since December 2017.

Fiscal discipline remained within the year's budget with no fresh government borrowing from the SBP. Healthy growth in revenues contributed to the curtailment of fiscal deficit, despite higher interest payments and COVID-related public spending. FBR revenue collections during H1-FY21 increased by 5 percent year-on-year.

Private sector credit has seen an encouraging uptick, driven by a continued rise in consumer and fixed investment loans on the back of the SBP's refinance facilities. Most economic indicators point towards continued improvement in business and investor sentiment.

Augmenting by 22.2 percent year-on-year, the banking sector's deposit base managed decent growth and amounted to Rs. 17.88 trillion at the end December 2020; meanwhile, advances grew by 4.1 percent and stood at Rs. 8.5 trillion, while investments increased by 31.2 percent to be closed at Rs. 11.55 trillion.

The State Bank of Pakistan (SBP) reduced the policy rate by cumulative 625 basis points in 2020 (versus increase of 325 basis points during 2019). In its Monetary Policy Statement of 22nd January 2021, the SBP decided to keep the policy rate unchanged at 7 percent to continue providing support for economic recovery and financial stability.

BANK'S PERFORMANCE DURING THE YEAR

By the Grace of Allah, HabibMetro's operating profit for the year increased by over 100 percent amounting to Rs. 23,538 million compared to Rs. 11,644 million at 2019 year end. This is a result of strong performance on core interest margins. However, due to higher provisioning, profit before tax resulted in an increase of 78 percent amounting to Rs 20,037 million compared to Rs. 11,238 million of previous year, which translates into after tax earnings per share of Rs. 11.46.

Total non-fund income increase by a healthy 31 percent and amounted to Rs. 9,650 million while the Bank's cost to income ratio improved to 39 percent compared to 53 percent in the corresponding period last year.

Investments increased by 30 percent and amounted to Rs. 584,532 million compared to Rs. 448,910 million at 31 December 2019. Deposits grew by 11 percent and Net Advances increased by 18 percent over 31 December 2019 and stood at Rs. 680,956 million and Rs. 312,167 million respectively.

During the period under review, and in line with the strategy, the Bank's current deposits increased by 26 percent during the year to Rs. 220,621 million, which resulted in an increased CA mix of 32.4 percent in overall deposits.

The Bank's Net Equity stands at Rs. 57,648 million (inclusive of surplus on revaluation of assets of Rs. 3,165 million) with a strong capital adequacy level of 16.79 percent.

COMMITMENTS

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

CREDIT RATING

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

ENHANCED REACH TO OUR CUSTOMERS

HabibMetro enhanced its outreach by adding 14 new branches in 2020. 6 new cities were added as the Bank increased its footprint to 406 branches in 139 cities across Pakistan.

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

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

ALTERNATIVE DELIVERY CHANNELS

The bank has evolved in digital service offerings and has constantly been working on enhancing customer experience. In 2020, the Bank installed 28 new Automated Teller Machines (ATMs), including 2 offsite ATMs. Hence, the total number of ATMs reaching to 436 across the country till year end. Debit Cards portfolio has been completely converted to EMV and NFC (tap & pay) enabled Debit Cards. Furthermore, bank's mobile app & web banking has been enhanced with self-registration capability through which bank has witnessed an exponential onboarding in customer registrations in 2020. Various new features and billers have also been added over the portal. Value added features such as SMS Alerts and e-statements are on constant performance updates. New transactions and information has been incorporated over both value added services Products.

HUMAN RESOURCES

The total strength of the HabibMetro family has grown to 5,603 during the year. The Bank continued to cater to the training needs of its human resource by conducting in-house courses as well as sending staff for external trainings.

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

CORPORATE SOCIAL RESPONSIBILITY

Being a conscientious corporate citizen, your Bank acknowledges its corporate social responsibilities and continues to make regular contributions to a host of non-profit/social organizations. The Bank, during the year, extended assistance in three major areas i.e. COVID-19 relief, health care, education and welfare spending for the under-privileged. These voluntary contributions amounted to Rs. 118.852 million.

There was increased focus on CSR and staff engagement activities during the year. The Bank executed a timely response for COVID-19 relief with a contribution of Rs. 20 million by the Bank and staff toward the PM's COVID-19 Relief Fund, ration distribution across the country and donations to various hospitals for capacity building.

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

Your Bank continues to be one of the nation's leading taxpayers with more than Rs. 5.5 billion paid as direct taxes to the Government of Pakistan during the year 2020. Furthermore, an additional amount of about Rs. 15.1 billion comprising indirect tax and withholding income tax deductions for the exchequer was collected through the Bank's network.

GREEN BANKING INITIATIVES

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

In order to align the Bank with regulatory expectations, HabibMetro has put in place a Green Banking Policy, and has bifurcated its efforts in the following three areas:

- **Environmental Risk Management**

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

- **Business Facilitation**

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

• Own Impact Reduction

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

CUSTOMER GRIEVANCES HANDLING

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

In 2020, total 24,786 complaints were received in the Bank. The average resolution time of complaints was 5.6 working days (except Visa/POS & F&F related complaints) whereas the overall average resolution time of complaint was 9 working days. The bank also conducts detailed root cause analysis to identify the gaps and improve processes, products and services on continuous basis.

CORPORATE GOVERNANCE

BOARD MEETINGS

Details of the meetings of the Board of Directors and its Sub-Committees held during the year 2020 and the attendance by each director / committee member are given as under:

Name of Directors	Board of Directors	Audit Committee	Credit Committee	Human Resource & Remuneration Committee	Risk & Compliance Committee	Information & Technology Committee
Mr. Mohamedali R. Habib	4/4	–	6/6	–	–	–
Mr. Ali S. Habib *	0/2	1/2	–	–	–	–
Mr. Anjum Z. Iqbal	4/4	4/4	6/6	–	4/4	2/2
Mr. Firasat Ali	4/4	1/1	–	2/2	4/4	2/2
Mr. Hamza Habib ****	1/1	–	–	–	–	–
Mr. Mohamed Bashir	4/4	–	–	–	–	–
Mr. Muhammad H. Habib	4/4	–	6/6	–	–	–
Mr. Sohail Hasan **	1/1	1/1	–	–	–	–
Mr. Tariq Ikram **	1/1	–	–	1/1	–	–
Mr. Rashid Ahmed Jafer ***	2/2	2/2	–	–	–	–
Ms. Tahira Raza ***	2/2	–	–	1/1	2/2	–
Mr. Mohsin A. Nathani	4/4	–	6/6	2/2	4/4	2/2
Meetings held	4	4	6	2	4	2

* Mr. Ali S. Habib passed away on 17 April 2020

** Mr. Sohail Hasan and Mr. Tariq Ikram stand retired on 31 March 2020

*** Mr. Rashid Ahmed Jafer and Ms. Tahira Raza have been elected on 31 March 2020

**** Mr. Hamza Habib has been appointed on 30 June 2020

CHANGES IN THE BOARD OF DIRECTORS

During 2020, election of directors was held where Mr. Sohail Hasan and Mr. Tariq Ikram did not offer themselves for election as directors, hence they stand retired and in their place Mr. Rashid Ahmed Jafer and Ms. Tahira Raza were elected. Due to the sad demise of Mr. Ali S. Habib in April 2020, the fallen vacant position was filled in by Mr. Hamza Habib.

BOARD REMUNERATION POLICY

The remuneration policy of non-executive directors including independent directors has been approved by the shareholders of the Bank at the 28th Annual General Meeting prepared 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 for 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, for the purpose of attending meetings or engagements related to bank's business, will be eligible for travelling, boarding and lodging expenses including ancillary expenses.

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

COMPOSITIONS OF THE BOARD AND BOARD COMMITTEES

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

PATTERN OF SHAREHOLDING

The pattern of shareholdings as on 31 December 2020 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, retire 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 of KPMG Taseer Hadi and Co., Chartered Accountants as auditors of the Bank for the year ending 31 December 2021.

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

	2020	2019	2018	2017	2016	2015
Shareholders' Equity	57,648	44,238	37,002	40,498	39,670	36,828
Paid-up capital	10,478	10,478	10,478	10,478	10,478	10,478
Total assets	1,017,572	859,771	673,396	660,666	538,007	502,433
Deposits	680,956	611,869	543,578	508,104	429,932	402,671
Advances	312,167	263,948	226,690	174,319	142,962	132,647
Investments	584,532	448,910	346,666	396,637	314,619	292,779
Profit pre-tax	20,037	11,238	10,074	9,129	10,334	12,539
Profit post-tax	12,008	6,583	6,161	5,509	6,119	7,656
Earnings per share (Rs)	11.46	6.28	5.88	5.26	5.84	7.31
Cash dividend (%) - final	25	25	20	30	30	20
- interim	20	-	-	-	-	20
No. of staff	5,603	5,192	4,841	4,719	4,597	4,277
No. of branches/sub branches	406	392	352	320	307	276

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

- Provident Fund Rs. 3,986.010 million as at 31 December 2020
- Gratuity Fund Rs. 1,600.641 million as at 31 December 2020

RISK MANAGEMENT

STATEMENT ON RISK MANAGEMENT FRAMEWORK

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

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

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

CREDIT RISK

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

MARKET / LIQUIDITY RISK

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

STRESS TESTING

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

OPERATIONAL RISK

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

CONTINUITY RISK

The Bank has an operational Business Continuity Plan in place that reduces the risk of an operational shut down owing to an unfortunate event. The plan is based on a rigorous bank wide business impact analysis exercise. As a part of a contingency arrangement, the bank has developed multiple BCP Sites along with a capacity for staff to work from home in a pandemic like situation.

INFORMATION TECHNOLOGY RISK

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

COMPLIANCE

Your Bank continued to strengthen compliance oversight across its network during the year that included enhancing stringent Know Your Customer (KYC) & Anti Money Laundering (AML) / Combating Financing of Terrorism (CFT) / 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. It is also involved in developing and maintaining a regulatory library 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.

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's state of the art Transaction Monitoring System (TMS) facilitates in monitoring activities that may be related to Money Laundering (ML) / Terrorism Financing (TF) through the Bank's channels, products and services. The TMS monitors out-of-pattern transactions and reviews different transactional activity through multiple AML / CFT scenarios embedded in the core banking system. In addition, the Bank has a robust Customer Due Diligence (CDD) process that allows the Bank to document/update each profile of customer and conduct comprehensive CDD as per regulatory requirements. In order to efficiently report Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs) to the Financial Monitoring Unit (FMU), the process of reporting is automated through goAML application.

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. SBP's Framework for Managing Risks of Trade Based Money Laundering and Terrorist Financing is also being implemented to mitigate risks in trade transactions. In addition, a dedicated CFT Desk is in place which focuses on mitigation of TF risk in the Bank. Inquiries from Law Enforcement Agencies (LEAs) are also facilitated through this unit. In order to ensure compliance of UNSC resolutions and that bank's services are not extended to proscribed individuals and entities, systems processes & controls are monitored and upgraded from time to time.

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

Every effort within the Risk Management function contributes to the overall control culture of the organization specifically from the risk perspective. In addition, the Internal Control Unit (ICU) working as a part of the Risk Management team of the Bank is responsible for implementing and maintaining a sound system of operational internal controls to ensure efficiency and effectiveness. These efforts are a component of the overall Internal Control ambit of operations, compliance with 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 subcommittees for oversight of the overall Risk Management Framework which meet at regular intervals to ensure adequacy of governance.

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

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

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 as adopted by SBP. The Board Audit Committee comprises of independent directors and is chaired by an independent director.

Reporting directly to the Board Audit Committee, Internal Audit pro-actively follows a risk based approach to auditing branches, operational areas and key activities of the Bank, 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 management and the 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

With the ease in inflationary pressures, it is expected that average inflation will remain within the previously announced range of 7-9 percent for FY21 and trend toward the 5-7 percent target range over the medium term.

The SBP's projection for Private sector growth is slightly above 2 percent in FY21 whereas current account deficit for FY21 is projected to remain below 1 percent of GDP.

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

ACKNOWLEDGEMENTS

In April 2020, the Bank's Director and member Board Audit Committee Mr. Ali S. Habib passed away. The Board expressed profound grief and offered condolence to the family. The Board also wished to place on record their appreciation for the invaluable contribution made by Mr. Ali S. Habib during his association with the bank, as a Director. The board greatly benefited from his experience and guidance. While Mr. Ali S. Habib's absence will be felt greatly in the years to come, his legacy will continue to inspire all of us.

In conclusion, I would like to place on record our sincere gratitude to the Ministry of Finance, the SBP, and the Securities and Exchange Commission of Pakistan for their continued support and guidance to the Bank. I would also like to thank our valued customers for the trust and patronage that they continue to extend to us. Lastly, I would like to acknowledge the unwavering dedication of the staff of HabibMetro Bank, who continue to work tirelessly to provide uninterrupted financial services in these uncertain times. Their efforts enable the Bank to grow from strength to strength.

On behalf of the Board

MOHSIN A. NATHANI

President & Chief Executive Officer

MOHAMEDALI R. HABIB

Chairman

Karachi: 22 February 2021

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 2020 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. BAC also recommends to the BOD, appointment, re-appointment, removal and remuneration of external auditors as well as for the head of internal audit function.

Board Credit Committee (BCC)

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

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

- recommending Risk Management Policies, approve Compliance Program and ensure development of Compliance Risk Strategy and allied policies including AML / CFT and review implementation thereof.
- review adequacy of compliance monitors and thresholds for transaction monitoring.
- evaluate significant observations / issues raised in the SBP inspection reports and review the actions taken in this regard.
- reviewing and approving Risk Appetite including risk limits and triggers as well as ensuring independence of Risk and Control Functions.

-
- reviewing and assessing the Bank's Capital 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 Shari'ah Compliance Functions and Shari'ah Board (SB)

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

Appointment of the Shari'ah Board Members

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

Profile of Shari'ah Board Members

Mufti Muhammad Zubair Usmani - Chairman & Member

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

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

Mufti Ibrahim Essa - Member

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

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

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

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

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

Key Terms of Reference of Shari'ah Board

The Shari'ah Board (SB) shall be empowered to consider, decide and supervise all Shari'ah related matters, develop a comprehensive Shari'ah compliance framework for all areas of operations and shall review and approve all the procedure manuals, product programs structures, process flows, related agreements, marketing advertisements, sales illustrations and brochures so that they are in conformity with the rules and principles of Shari'ah. The SB shall have at all reasonable times unhindered access to all books of accounts, records, documents and information from all sources including professional advisors and IBI's employees in the due discharge of its duties,

considering the importance and binding nature of decisions, rulings and fatawa given by SB, it shall rigorously deliberate on the issue placed before it for consideration before giving any decision / fatawa.

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

The SB shall not delegate any of its roles and responsibilities as prescribed in the Shari'ah 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 Shari'ah Advisory Committee of the SBP.

Shari'ah Board meetings held during the year

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

Remuneration Policy

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

Scope, objective and governance of remuneration policy

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

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

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

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

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

Performance measurement of MRTs and MRCs

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

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

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

The deferred pay will be subject to claw back clause that permits the Bank to cancel or reduce, all or part of the amount of an unvested variable compensation award, due to 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 2020

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 Director	Mr. Firasat Ali Mr. Rashid Ahmed Jafer Ms. Tahira Raza
Non-Executive Director	Mr. Anjum Z. Iqbal Mr. Hamza Habib Mr. Mohamedali R. Habib Mr. Mohomed Bashir Mr. Muhammad H. Habib
President / CEO	Mr. Mohsin A. Nathani

3. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Bank.
4. The Bank has prepared a Code of Conduct and has ensured that appropriate steps have been taken to disseminate it throughout the Bank along with its supporting policies and procedures.
5. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Bank. The Board has ensured that complete record of particulars of the significant policies along with their date of approval or updating is maintained by the Bank.
6. All the powers of the Board have been duly exercised and decisions on relevant matters have been taken by Board / shareholders as empowered by the relevant provisions of the Act and the Regulations.
7. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose. The Board has complied with the requirements of Act and the Regulations with respect to frequency, recording and circulating minutes of meeting of Board.
8. The Board 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. The Board has approved appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit, including their remuneration and term and conditions of employment and complied with relevant requirements of the Regulations.
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 Mr. Anjum Z. Iqbal	Chairman Member	Independent Director Non-Executive Director
Human Resources & Remuneration Committee	Ms. Tahira Raza Mr. Firasat Ali Mr. Mohsin A. Nathani	Chairperson Member Member	Independent Director Independent Director President & Chief Executive
Risk & Compliance Committee	Mr. Anjum Z. Iqbal Mr. Firasat Ali Mr. Mohsin A. Nathani Ms. Tahira Raza	Chairman Member Member Member	Non-Executive Director Independent Director President & Chief Executive Independent Director
Credit Committee	Mr. Muhammad H. Habib Mr. Anjum Z. Iqbal Mr. Mohamedali R. Habib Mr. Mohsin A. Nathani	Chairman Member Member Member	Non-Executive Director Non-Executive Director Non-Executive Director President & Chief Executive
IT Committee	Mr. Anjum Z. Iqbal Mr. Firasat Ali Mr. Mohsin A. Nathani	Chairman Member Member	Non-Executive Director Independent Director President & Chief Executive

* Mr. Hamza Habib appointed on 16 February 2021 as Member of Board Audit committee to fill the casual vacancy occurred due to sad demise of Mr. Ali S Habib.

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, 2020
Human Resources & Remuneration Committee	Two meetings were held during the financial year ended December 31, 2020
Risk & Compliance Committee	Four meetings were held during the financial year ended December 31, 2020
Credit Committee	Six meetings were held during the financial year ended December 31, 2020
IT Committee	Two meetings were held during the financial year ended December 31, 2020

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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 or all their partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan and that they and the partners of the firm involved in the audit are not a close relative (spouse, parent, dependent and non-dependent children) of the chief executive officer, chief financial officer, head of internal audit, company secretary or director of the Bank.
17. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Act, these Regulations or any other regulatory requirement and the auditors have confirmed that they have observed IFAC guidelines in this regard.
18. We confirm that all requirements of regulations 3, 6, 7, 8, 27 (refer para 12 above), 32, 33 and 36 of the Regulations have been complied with.

On behalf of the Board

MOHSIN A. NATHANI

President & Chief Executive Officer

Karachi: 22 February 2021

MOHAMEDALI R. HABIB

Chairman

INDEPENDENT AUDITOR'S REVIEW REPORT

To the Shareholders 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 2020 in accordance with the requirements of regulation 36 of the Regulations.

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

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the requirements contained in the Regulations as applicable to the Bank for the year ended 31 December 2020.

Further, we highlight an instance of non-compliance with the requirement of the Regulations as reflected in paragraph 12 of the Statement of Compliance in respect of the appointment of a member of the Board Audit Committee who was appointed subsequent to the year end to fill a casual vacancy.

Karachi: 6 March 2021

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 27 May 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 2020, management considers that, the existing system of internal controls, including ICFR, is adequate and has been effectively implemented and monitored.

NAJEEB GILANI
Head of Internal Audit

SYED HASNAIN HAIDER RIZVI
Head of Compliance

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President and CEO

Karachi: 22 February 2021

REPORT OF SHARI'AH BOARD

FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

By the Grace of Allah Almighty, the Shari'ah Board (SB) held 4 meetings during the year to review various concepts, products, processes, transactions and their Shari'ah Compliance, referred by the Resident Shari'ah Board Member (RSBM). Further, all the process flows regarding financing facilities approved by the RSBM have also been ratified by the SB.

Thus, to form our opinion as expressed in this report, the SB of the Bank carried out reviews, on test check basis, of each class of transactions, the relevant documentation and process flows. Further, the Shari'ah Board has also reviewed the periodical reports of RSBM, Shari'ah Compliance Department (SCD) and Internal Shari'ah Audit Division (ISA). The external Shari'ah Audit Report for the year 2019 has also been reviewed by the SB whereas the external Shari'ah Audit for the year 2020 is in process.

Based on the above, SB is of the view that:

- i. HabibMetro Sirat has complied with Shari'ah rules and principles in the light of fatawa, rulings and guidelines issued by its Shari'ah Board.
- ii. HabibMetro Sirat has complied with directives, regulations, instructions and guidelines related to Shari'ah compliance issued by the SBP in accordance with the rulings of SBP's Shari'ah Advisory Committee.
- iii. HabibMetro Sirat has a comprehensive mechanism in place to ensure Shari'ah compliance in their overall operations.
- iv. HabibMetro Sirat has a well-defined system in place, sound enough to ensure that any earnings realized from sources or by means prohibited by Shari'ah have been credited to charity account and are being properly utilized.
- v. HabibMetro Sirat has complied with the SBP instructions on profit & loss distribution and Pool management, and an Automated Pool Management System is in place to ensure transparency in the calculation of income, expenses and profit distribution.
- vi. The management has arranged number of trainings for the staff of Islamic Banking as well as for the staff of conventional branches and Islamic Banking Windows (IBWs). Also, SB and SCD has conducted specific product wise training for the staff members of Islamic Banking Branches (IBBs).
- vii. The level of awareness, capacity and sensitization of the staff, management and the BOD in appreciating the importance of Shari'ah compliance in the products and processes of the Bank, is satisfactory.
- viii. The SB has been provided adequate resources enabling it to discharge its duties effectively.
- ix. As required by the SB, the Shari'ah Compliance Department (SCD) carried out reviews on test check basis, of each class of transactions, the relevant documentation and process flows. SCD actively monitored various activities like client's business cycle and internal control via random visits at branch & clients' premises and developed / revised 278 transaction related process flows during the year.
- x. As suggested last year;
 - a) Three e-Learning Modules have been launched during the year on Islamic Banking concepts for capacity building of the staff at Islamic Banking Branches and Islamic Banking Windows.

-
- b) Shari'ah compliant Provident Fund facility has been implemented for the Islamic Banking Staff with the consultation of Human Resource Division.
- xi. In order to further enhance the scope and controls of Islamic Banking, the Shari'ah Board recommends the following:
- a) Explore new areas of business including Builder Financing & Low cost House Financing to build up asset size of HabibMetro Sirat.
- b) Increase the footprint of HabibMetro Sirat in terms of new branches as well as through the conversion of existing conventional branches of the Bank.

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

MUFTI MUHAMMAD ZUBAIR ASHRAF USMANI

Chairman Shari'ah Board

MUFTI ABDUL SATTAR LAGHARI

Resident Shari'ah Board Member

MUFTI MUHAMMAD IBRAHIM ESSA

Shari'ah Board Member

Karachi: 22 February 2021

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 2020 and the unconsolidated profit and loss account, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated cash flow statement for the year then ended, along with unaudited certified returns received from the branches except for 28 branches which have been audited by us and notes to the unconsolidated financial statements, including a summary of significant accounting policies and other explanatory information and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the unconsolidated statement of financial position, the unconsolidated profit and loss account, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated cash flow statement together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan, and, give the information required by the Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at 31 December 2020 and of the profit, other comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

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

Key Audit Matters

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

Following are the Key Audit Matters:

S. No.	Key Audit Matters	How the matter was addressed in our audit
1	PROVISION AGAINST LOANS AND ADVANCES	
	<p>Refer to note 10 to the unconsolidated financial statements and the accounting policies in note 4.5 to the unconsolidated financial statements.</p> <p>The Bank's advances to the customers represent 30.67% of its total assets as at 31 December 2020 and are stated net of provision at Rs. 312.16 billion.</p>	<p>Our audit procedures to verify provision against advances, amongst others, included the following:</p> <ul style="list-style-type: none"> Reviewed the design and tested the operating effectiveness of key controls established by the Bank to identify loss events and for determining the extent of provisioning required against non-performing loans.

S. No.	Key Audit Matters	How the matter was addressed in our audit
	<p>The provision against loans and advances was identified as a key audit matter in our audit as it involves a considerable degree of management judgment and compliance with the Prudential Regulations (PRs) issued by the State Bank of Pakistan.</p>	<p>The testing of controls included testing of:</p> <ul style="list-style-type: none"> - Process over the correct classification of non-performing advances on time based criteria; - controls over monitoring of advances with higher risk of default and correct classification of non-performing advances on subjective criteria; - controls over accurate computation and recording of provisions; and - controls over the governance and approval process related to provisions, including continuous reassessment by the management. <ul style="list-style-type: none"> • In accordance with the regulatory requirement, we sampled and tested at least sixty percent of the total advances portfolio and performed the following substantive procedures for sample loan accounts: <ul style="list-style-type: none"> - verified repayments of loan / mark-up installments and checked that non-performing loans have been correctly classified and categorized based on the number of days overdue; and - examined watch list accounts and, based on review of the individual facts and circumstances, discussions with management and our assessment of financial conditions of the borrowers, formed a judgement as to whether classification of these accounts as performing was appropriate. • Checked the accuracy of the provision made against non-performing advances by recomputing the provision amount after considering the benefit of forced sales value, if any, in accordance with the criteria prescribed under the PRs. • Where the management has not identified indicators displaying impairment, reviewed the credit history, account movement, financial ratios, report on security maintained and challenged the management's assessment based on our view of the credit from the review of credit file.
2	VALUATION OF INVESTMENTS	
	<p>The carrying value of investments held by the Bank amounted to Rs. 584.53 billion, which constitutes 57.4% of the Bank's total assets as at 31 December 2020.</p> <p>Significant portion of the investments comprise of equity, debt and government securities.</p>	<p>Our audit procedures to verify valuation of investments, amongst others, included the following:</p> <ul style="list-style-type: none"> • Assessed the design and tested operating effectiveness of the relevant controls in place relating to valuation of investments;

S. No.	Key Audit Matters	How the matter was addressed in our audit
	<p>Investments are carried at cost or fair value in accordance with the Bank's accounting policy relating to their measurement. Provision against investments is made based on the stated impairment policy of the Bank.</p> <p>We identified assessing the carrying value of the investment as a key audit matter because of its significance to the financial statements and because assessing the key impairment assumptions involves a significant degree of management judgment.</p>	<ul style="list-style-type: none"> • Checked on a test basis the valuation of investments in the portfolio, as recorded in the general ledger, to supporting documents, externally quoted market prices and break-up values including the significant and prolonged decline in fair value of equity investments for impairment; • Obtained independent confirmations for verifying the existence of the investment portfolio as at 31 December 2020 and reconciled it with the books and records of the Bank. Where such confirmations were not available, alternate procedures were performed; and • Evaluated the Bank's assessment of available for sale and held to maturity financial assets for any additional impairment in accordance with the relevant accounting standards as applicable in Pakistan and performed an independent assessment of the assumptions and conclusions.

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the unconsolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the unconsolidated financial statements, including the disclosures, and whether the unconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements:

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

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

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

Other Matter

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

Karachi: 6 March 2021

KPMG Taseer Hadi & Co.
Chartered Accountants

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Note	2020	2019
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks	6	54,694,603	70,713,603
Balances with other banks	7	1,990,862	2,061,606
Lendings to financial institutions	8	1,000,000	22,197,303
Investments	9	584,531,633	448,909,727
Advances	10	312,166,805	263,948,473
Fixed assets	11	9,033,002	8,306,783
Intangible assets	12	89,690	66,462
Deferred tax assets	13	1,156,509	3,712,435
Other assets	14	52,909,079	39,854,208
		<u>1,017,572,183</u>	<u>859,770,600</u>
LIABILITIES			
Bills payable	15	15,421,002	11,739,383
Borrowings	16	201,722,849	144,462,232
Deposits and other accounts	17	680,955,712	611,869,248
Liabilities against assets subject to finance lease		—	—
Sub-ordinated debts		—	—
Deferred tax liabilities		—	—
Other liabilities	18	61,824,409	47,462,207
		<u>959,923,972</u>	<u>815,533,070</u>
NET ASSETS		<u>57,648,211</u>	<u>44,237,530</u>
REPRESENTED BY			
Share capital	19	10,478,315	10,478,315
Reserves		19,986,241	17,584,517
Surplus / (deficit) on revaluation of assets - net of tax	20	3,164,807	(2,885,060)
Unappropriated profit		24,018,848	19,059,758
		<u>57,648,211</u>	<u>44,237,530</u>
CONTINGENCIES AND COMMITMENTS	21		

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

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

TAHIRA RAZA
Director

RASHID AHMED JAFER
Director

MOHAMEDALI R. HABIB
Chairman

UNCONSOLIDATED PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020	2019
		Rupees in '000	
Mark-up / return / interest earned	23	76,123,412	72,206,339
Mark-up / return / interest expensed	24	(47,360,682)	(54,815,387)
Net mark-up / interest income		28,762,730	17,390,952
Non mark-up / interest income			
Fee and commission income	25	5,375,779	5,252,351
Dividend income		185,969	90,123
Foreign exchange income		4,086,904	3,116,980
Income / (loss) from derivatives		—	—
(Loss) / gain on securities	26	(44,339)	(1,164,918)
Other income	27	45,963	52,555
Total non mark-up / interest income		9,650,276	7,347,091
Total income		38,413,006	24,738,043
Non mark-up / interest expenses			
Operating expenses	28	14,321,741	12,754,190
Workers' welfare fund		456,500	238,000
Other charges	29	96,267	101,813
Total non mark-up / interest expenses		(14,874,508)	(13,094,003)
Profit before provisions		23,538,498	11,644,040
Provisions and write offs - net	30	(3,501,713)	(406,169)
Extra ordinary / unusual items		—	—
Profit before taxation		20,036,785	11,237,871
Taxation	31	(8,028,589)	(4,654,390)
Profit after taxation		12,008,196	6,583,481
		Rupees	
Basic and diluted earnings per share	32	11.46	6.28

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

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

TAHIRA RAZA
Director

RASHID AHMED JAFER
Director

MOHAMEDALI R. HABIB
Chairman

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
	Rupees in '000	
Profit after taxation	12,008,196	6,583,481
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	85	28
Movement in surplus / deficit on revaluation of investments - net of tax	6,053,328	2,642,626
	6,053,413	2,642,654
Items that will not be reclassified to profit and loss in subsequent periods:		
Remeasurement gain / (loss) on defined benefit obligations - net of tax	64,314	56,262
Movement in surplus on revaluation of non-banking assets - net of tax	-	48,840
	64,314	105,102
Total comprehensive income	18,125,923	9,331,237

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

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

TAHIRA RAZA
Director

RASHID AHMED JAFER
Director

MOHAMEDALI R. HABIB
Chairman

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Reserves						Surplus / (deficit) on revaluation			
	Share capital	Exchange translation reserve	Share premium	Statutory reserve	Special reserve	Revenue reserve	Investments	Non-banking assets	Un-appropriated profit	Total
Rupees in '000										
Opening balance as at 1 January 2019	10,478,315	–	2,550,985	11,976,447	240,361	1,500,000	(5,753,117)	179,461	15,829,504	37,001,956
Profit after taxation	–	–	–	–	–	–	–	–	6,583,481	6,583,481
Other comprehensive income - net of tax	–	28	–	–	–	–	2,642,626	48,840	56,262	2,747,756
Total comprehensive income	–	28	–	–	–	–	2,642,626	48,840	6,639,743	9,331,237
Transfer to statutory reserve	–	–	–	1,316,696	–	–	–	–	(1,316,696)	–
Transfer from surplus on revaluation of assets to unappropriated profit - net of tax	–	–	–	–	–	–	–	(2,870)	2,870	–
Transactions with owners, recorded directly in equity										
Cash dividend (Rs.2.00 per share) for the year ended 31 December 2018	–	–	–	–	–	–	–	–	(2,095,663)	(2,095,663)
Balance as at 31 December 2019	10,478,315	28	2,550,985	13,293,143	240,361	1,500,000	(3,110,491)	225,431	19,059,758	44,237,530
Profit after taxation	–	–	–	–	–	–	–	–	12,008,196	12,008,196
Other comprehensive income - net of tax	–	85	–	–	–	–	6,053,328	–	64,314	6,117,727
Total comprehensive income	–	85	–	–	–	–	6,053,328	–	12,072,510	18,125,923
Transfer to statutory reserve	–	–	–	2,401,639	–	–	–	–	(2,401,639)	–
Transfer from surplus on revaluation of assets to unappropriated profit - net of tax	–	–	–	–	–	–	–	(3,461)	3,461	–
Transactions with owners, recorded directly in equity										
Cash dividend (Rs. 2.50 per share) for the year ended 31 December 2019	–	–	–	–	–	–	–	–	(2,619,579)	(2,619,579)
Interim dividend (Rs. 2.00 per share) for the year ended 31 December 2020	–	–	–	–	–	–	–	–	(2,095,663)	(2,095,663)
Balance as at 31 December 2020	10,478,315	113	2,550,985	15,694,782	240,361	1,500,000	2,942,837	221,970	24,018,848	57,648,211

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

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

TAHIRA RAZA
Director

RASHID AHMED JAFER
Director

MOHAMEDALI R. HABIB
Chairman

UNCONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020	2019
		Rupees in '000	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		20,036,785	11,237,871
Less: Dividend income		(185,969)	(90,123)
		19,850,816	11,147,748
Adjustments			
Depreciation on operating fixed assets	11.2	1,070,006	974,613
Depreciation on right-of-use assets	11.2	808,337	769,693
Depreciation on non-banking assets	14.1.1	18,428	11,236
Amortization	12	59,365	93,299
Mark-up / interest expensed on lease liability against right-of-use assets	24	581,334	443,504
Provisions and write-offs excluding recovery of written off bad debts	30	3,518,278	423,508
Net gain on sale of fixed assets	27	(22,259)	(16,473)
Provision against workers' welfare fund		456,500	238,000
Provision against compensated absences		107,917	82,448
		6,597,906	3,019,828
		26,448,722	14,167,576
(Increase) / decrease in operating assets			
Lendings to financial institutions		21,197,303	(10,212,508)
Advances		(53,551,304)	(37,626,365)
Other assets (excluding current taxation, dividend and non-banking assets)		2,297,066	(4,448,306)
		(30,056,935)	(52,287,179)
Increase / (decrease) in operating liabilities			
Bills payable		3,681,619	(434,024)
Borrowings from financial institutions		57,047,689	92,198,529
Deposits and other accounts		69,086,464	68,291,738
Other liabilities (excluding current taxation)		(3,062,891)	7,626,638
		126,752,881	167,682,881
		123,144,668	129,563,278
Payment against compensated absences		(86,735)	(64,895)
Income tax paid		(5,889,830)	(4,296,604)
		117,168,103	125,201,779
Net cash flow from operating activities			
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(129,538,878)	(98,403,719)
Net investments in held-to-maturity securities		3,056,478	169,475
Dividend received		183,363	90,123
Investments in fixed assets		(1,434,871)	(1,498,141)
Investments in intangible assets		(82,593)	(38,319)
Proceeds from sale of fixed assets		28,817	22,377
Effect of translation of net investment in an offshore branch		85	28
		(127,787,599)	(99,658,176)
Net cash used in investing activities			
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid		(4,692,544)	(2,093,622)
Payment of lease liability against right-of-use assets		(990,632)	(883,660)
		(5,683,176)	(2,977,282)
Net cash used in financing activities			
Increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		68,670,191	46,103,870
Cash and cash equivalents at end of the year	33	52,367,519	68,670,191

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

FUZAIL ABBAS Chief Financial Officer	MOHSIN A. NATHANI President & Chief Executive Officer	TAHIRA RAZA Director	RASHID AHMED JAFER Director	MOHAMEDALI R. HABIB Chairman
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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 376 (2019: 362) branches, including 32 (2019: 31) Islamic banking branches and an offshore branch (Karachi Export Processing Zone branch), and 30 (2019: 30) sub branches in Pakistan. The Bank is a subsidiary of Habib Bank AG Zurich - Switzerland (the holding company with 51% shares in the Bank) which is incorporated in Switzerland.

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

2. BASIS OF PRESENTATION

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

2.2 Statement of Compliance

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

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

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

The SBP vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement" and IAS 40 "Investment Property" for banking companies till further instructions. Further, according to a notification of the Securities and Exchange Commission of Pakistan (SECP) through S.R.O. No. 411 (1) / 2008 dated 28 April 2008, IFRS 7 "Financial Instruments: Disclosures" has not been made applicable for banks. Further, SBP has directed all banks to implement IFRS 9, Financial Instruments, with effect from 01 January 2021 vide BPRD Circular No. 04 of 2019 dated 23 October 2019. 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 unconsolidated financial statements of the Bank. The SBP through BPRD Circular Letter No. 4 dated 25 February 2015, has deferred the applicability of IFAS 3 till further instructions and prescribed the Banks to prepare their annual and periodical financial statements as per existing prescribed formats issued vide BPRD Circular 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 2020 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.

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

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 1 January 2021:

- IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation – the effective date of the standard has been extended to annual periods beginning on or after 1 January 2021 vide SBP circular 4 dated 23 October 2019. IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. The standard includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. According to SBP circular referred to above, the Banks were required to have a parallel run of IFRS 9 from 1 January 2020, which was subsequently extended to commence for periods beginning 1 July 2020 vide SBP's BPRD Circular Letter No. 15 of 2020. As per the directives of the SBP, Banks were required to prepare pro-forma financial statements including the impact of IFRS 9 for the year ended 31 December 2019 and submit the same to the State Bank of Pakistan.

During the year, the Bank continued to report its impact assessments to the SBP for reporting periods falling under the parallel run, which were based on certain estimates and assumptions considered in the absence of uniform implementation guidelines. The Bank has estimated the impact of adoption of IFRS 9 on the financial statements of the Bank on the date of initial application, which shall be finalised post issuance of and subject to standardisation of implementation guidelines and approaches, from the State Bank of Pakistan. However, the Bank does not expect a material additional charge on its unconsolidated financial statements upon implementation.

- COVID-19 - Related Rent Concessions (Amendment to IFRS 16) - the International Accounting Standards Board (the Board) has issued amendments to IFRS 16 (the amendments) to provide practical relief for lessees in accounting for rent concessions. The amendments are effective for periods beginning on or after 1 June 2020, with earlier application permitted. Under the standard's previous requirements, lessees assess whether rent concessions are lease modifications and, if so, apply the specific guidance on accounting for lease modifications. This generally involves remeasuring the lease liability using the revised lease payments and a revised discount rate. In light of the effects of the COVID-19 pandemic, and the fact that many lessees are applying the standard for the first time in their financial statements, the Board has provided an optional practical expedient for lessees. Under the practical expedient, lessees are not required to assess whether eligible rent concessions are lease modifications, and instead are permitted to account for them as if they were not lease modifications. Rent concessions are eligible for the practical expedient if they occur as a direct consequence of the COVID-19 pandemic and if all the following criteria are met:
 - the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
 - any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
 - there is no substantive change to the other terms and conditions of the lease.

The above amendment is not likely to have any effect on the Bank's unconsolidated financial statements.

- Interest Rate Benchmark Reform - Phase 2 which amended IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 is applicable for annual financial periods beginning on or after 1 January 2021, with earlier application permitted. The amendments introduce a practical expedient to account for modifications of financial assets or financial liabilities if a change results directly from IBOR reform and occurs on an 'economically equivalent' basis. In these cases, changes will be accounted for by updating the effective interest rate. A similar practical expedient will apply under IFRS 16 for lessees when accounting for lease modifications required by IBOR reform. The amendments also allow a series of exemptions from the regular, strict rules around hedge accounting for hedging relationships directly affected by the interest rate benchmark reforms. The amendments apply retrospectively with earlier application permitted. Hedging relationships previously discontinued solely because of changes resulting from the reform will be reinstated if certain conditions are met. The amendment is not likely to have any effect on the Bank's unconsolidated financial statements.
- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37) effective for the annual period beginning on or after 1 January 2022 amends IAS 1 by mainly adding paragraphs which clarifies what comprise the cost of fulfilling a contract. Cost of fulfilling a contract is relevant when determining whether a contract is onerous. An entity is required to apply the amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Restatement of comparative information is not required, instead the amendments require an entity to recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application. The amendment is not likely to have any effect on the Bank's unconsolidated financial statements.

Annual Improvements to IFRS standards 2018-2020:

The following annual improvements to IFRS standards 2018-2020 are effective for annual reporting periods beginning on or after 1 January 2022:

- IAS 41 - The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) effective for the annual period beginning on or after 1 January 2022, clarifies that sales proceeds and cost of items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management e.g. when testing etc., are recognized in profit or loss in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of IAS 2. The standard also removes the requirement of deducting the net sales proceeds from cost of testing. An entity shall apply those amendments retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.
- Reference to the Conceptual Framework (Amendments to IFRS 3) - Reference to the Conceptual Framework, issued in May 2020, amended paragraphs 11, 14, 21, 22 and 23 of and added paragraphs 21A, 21B, 21C and 23A to IFRS 3. An entity shall apply those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Earlier application is permitted if at the same time or earlier an entity also applies all the amendments made by Amendments to References to the Conceptual Framework in IFRS Standards, issued in March 2018.

- Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) - In response to concerns regarding temporary accounting mismatches and volatility, and increased costs and complexity, the Board issued amendments to IFRS 4 Insurance Contracts in 2017. The two optional solutions raised some considerations which required detailed analysis and management judgement. On the issue of IFRS 17 (Revised) Insurance Contracts in June 2020, the end date for applying the two options under the IFRS 4 amendments was extended to 1 January 2023, aligned with the effective date of IFRS 17.
- Classification of liabilities as current or non-current (Amendments to IAS 1) effective for the annual period beginning on or after 1 January 2022. These amendments in the standards have been added to further clarify when a liability is classified as current. The standard also amends the aspect of classification of liability as non-current by requiring the assessment of the entity's right at the end of the reporting period to defer the settlement of liability for at least twelve months after the reporting period. An entity shall apply those amendments retrospectively in accordance with IAS 8.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) - The amendment amends accounting treatment on loss of control of business or assets. The amendments also introduce new accounting for less frequent transaction that involves neither cost nor full step-up of certain retained interests in assets that are not businesses. The effective date for these changes has been deferred indefinitely until the completion of a broader review.

The above amendments are not likely to have any effect on the Bank's unconsolidated financial statements.

2.5 Critical Accounting Estimates and Judgements

The preparation of these unconsolidated financial statements in conformity with approved accounting standards requires management to make judgements, 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:

- Classification of investments (note 4.4.2)
- Valuation and impairment of available-for-sale equity investments (note 4.4.3)
- Provision against non-performing loans and advances (note 4.5.1) and debt securities classified as investments (note 4.4.3)
- Depreciation and amortisation (note 4.6.2)
- Right-of-use assets (note 4.6.3) and related lease liability (note 4.14)
- Taxation (note 4.11)
- Defined benefit plan (note 4.13.1)
- Compensated absences (note 4.13.2)
- 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, 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, 4.8 and 4.9 respectively.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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

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

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

4.4 Investments

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

4.4.2 Other investments are classified as follows:

Held-for-trading

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

Held-to-maturity

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

Available-for-sale

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

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

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

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

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

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

Provision for impairment in the value of available-for-sale and held-to-maturity securities (other than 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

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

Diminishing musharaka

In 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 periodic profit payment agreement for the utilization of the Bank's mushariki share by the customer. Income from these transactions are recorded on an accrual basis.

Istisna

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

Al-bai

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

Murabaha

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

4.6 Fixed assets

4.6.1 Capital work-in-progress

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

4.6.2 Property and equipment

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

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

Subsequent 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.

4.6.3 Right-of-use assets

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

4.7 Intangible assets

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

4.8 Non-banking assets

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

4.9 Derivative financial instruments

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

4.10 Provisions

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

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

4.11 Taxation

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

4.11.1 Current

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

4.11.2 Deferred

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

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

The Bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of assets and actuarial gain / losses recognised in other comprehensive income, which is adjusted against the related deficit / surplus.

4.12 Deposits

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

4.13 Employees' benefits

4.13.1 Retirement benefits

Defined benefit plan

The Bank operates an approved funded gratuity scheme for all its permanent employees. Retirement benefits are payable to the members of the scheme on the completion of prescribed qualifying period of service under the scheme. Contribution is made in accordance with the actuarial recommendation. The actuarial valuation is carried out annually as at the statement of financial position date using the "Projected Unit Credit Actuarial Cost Method".

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

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

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 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.

- Interest or mark-up recoverable on classified loans and advances and investments is recognised on receipt basis. Interest / return / mark-up on classified rescheduled / restructured loans and advances and investments is recognised as permitted by the regulations of the SBP.
- Dividend income is recognised when the Bank's right to receive the dividend is established.
- Gains and losses on sale of investments are recognised in the profit and loss account.
- Income on bills discounted are recognised over the period of the bill.

4.15.2 Lease financing / Ijarah contracts

Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Unrealised income on classified leases is recognised on receipt basis. Rental income on ijarah executed by the Islamic Banking branches are accounted for under IFAS 2 (refer note 4.5) is recognised in the profit and loss account on a time proportion basis.

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

4.15.3 Fees, commission and brokerage

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

4.16 Off setting

Financial assets and financial liabilities are set off and the net amount is reported in the 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.

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	2020	2019
		Rupees in '000	
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		7,695,676	7,400,310
Foreign currencies		1,039,893	1,289,049
		<u>8,735,569</u>	<u>8,689,359</u>
With State Bank of Pakistan in			
Local currency current accounts	6.1	27,378,376	37,267,692
Foreign currency current account	6.2	83,730	64,248
Foreign currency deposit accounts			
– cash reserve account	6.3	5,306,457	5,663,551
– special cash reserve account	6.4	10,176,561	16,348,050
		<u>42,945,124</u>	<u>59,343,541</u>
With National Bank of Pakistan in			
Local currency current accounts		2,613,310	2,558,634
Prize bonds			
		400,600	122,069
		<u>54,694,603</u>	<u>70,713,603</u>

- 6.1** These accounts are maintained to comply with the statutory cash reserve requirements.
- 6.2** This represents US Dollar collection / settlement account maintained with SBP.
- 6.3** This represents account maintained with the SBP to comply with the Cash Reserve requirement against foreign currency deposits.
- 6.4** This represents account maintained with the SBP to comply with the Special Cash Reserve requirement against foreign currency deposits. The return on this account is declared by the SBP on a monthly basis and, as at 31 December 2020, carries mark-up at the rate of 0% (2019: 0.70%) per annum.

7. BALANCES WITH OTHER BANKS

	Note	2020	2019
		Rupees in'000	
In Pakistan			
In current accounts		171,108	146,324
In deposit accounts	7.1	4,696	310,468
		<u>175,804</u>	<u>456,792</u>
Outside Pakistan			
In current accounts	7.2	1,815,058	1,604,814
		<u>1,990,862</u>	<u>2,061,606</u>

- 7.1** These carry mark-up rates of 5.50% (2019: 11.25%) per annum.
- 7.2** These include balances in current accounts of Rs. 98,181 thousand (2019: Rs. 111,070 thousand) with branches of the holding company.

8. LENDINGS TO FINANCIAL INSTITUTIONS

Bai muajjal receivable with the State Bank of Pakistan		—	7,507,303
Letters of placement		—	7,500,000
Musharaka placements	8.2	1,000,000	7,190,000
		<u>1,000,000</u>	<u>22,197,303</u>

8.1 Particulars of lendings

In local currency - unsecured	<u>1,000,000</u>	<u>22,197,303</u>
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- 8.2** These carry profit / return rate of 7.50% (2019: 8.00% to 12.15%) per annum with maturity upto 5 January 2021 (2019: 3 February 2020).

9. INVESTMENTS

9.1 Investments by types

	2020				2019			
	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	529,525,794	-	4,726,542	534,252,336	401,765,140	-	(4,916,665)	396,848,475
Shares	1,049,902	(377,389)	245,600	918,113	682,760	(333,784)	106,775	455,751
Non-government debt securities	10,654,678	(120,551)	(438,347)	10,095,780	9,383,743	(130,559)	(39,636)	9,213,548
Mutual funds	30,140	(9,647)	6,086	26,579	29,702	(9,647)	9,656	29,711
Real estate investment trust	387,869	-	(12,440)	375,429	387,869	-	54,499	442,368
	541,648,383	(507,587)	4,527,441	545,668,237	412,249,214	(473,990)	(4,785,371)	406,989,853
Held-to-maturity securities								
Federal government securities	34,358,396	-	-	34,358,396	36,089,874	-	-	36,089,874
Non-government debt securities	3,675,000	-	-	3,675,000	5,000,000	-	-	5,000,000
	38,033,396	-	-	38,033,396	41,089,874	-	-	41,089,874
Subsidiaries	830,000	-	-	830,000	830,000	-	-	830,000
Total Investments	580,511,779	(507,587)	4,527,441	584,531,633	454,169,088	(473,990)	(4,785,371)	448,909,727

9.2 Investment in subsidiaries - incorporated in Pakistan

	Holding %	Assets	Liabilities	Revenue	Profit / (loss) after tax	Total comprehensive income
Rupees in '000						
2020						
Habib Metropolitan Financial Services Limited	100%	485,236	149,069	71,350	9,570	13,332
Habib Metropolitan Modaraba Management Company (Private) Limited	100%	504,842	16,210	82,597	38,887	40,958
Habib Metro Modaraba	60%	334,384	15,829	42,336	19,339	19,339
2019						
Habib Metropolitan Financial Services Limited	100%	465,069	139,995	55,961	4,240	2,496
Habib Metropolitan Modaraba Management Company (Private) Limited	100%	469,823	19,147	80,139	40,475	27,519
Habib Metro Modaraba	60%	327,753	7,537	45,446	25,927	25,927

9.3 Investments by segments

	2020				2019			
	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	344,341,247	–	627,033	344,968,280	269,483,603	–	(98,941)	269,384,662
Pakistan investment bonds	200,184,041	–	4,775,398	204,959,439	164,762,723	–	(4,817,724)	159,944,999
Ijarah sukuk	15,750,214	–	(675,889)	15,074,325	–	–	–	–
Bai muajjal	3,608,688	–	–	3,608,688	3,608,688	–	–	3,608,688
	563,884,190	–	4,726,542	568,610,732	437,855,014	–	(4,916,665)	432,938,349
Shares								
Listed companies	915,387	(298,318)	245,600	862,669	548,245	(254,713)	106,775	400,307
Unlisted companies	134,515	(79,071)	–	55,444	134,515	(79,071)	–	55,444
	1,049,902	(377,389)	245,600	918,113	682,760	(333,784)	106,775	455,751
Non-government debt securities								
Listed								
Term finance certificates	2,925,652	(70,403)	(28,542)	2,826,707	3,212,414	(70,403)	(46,556)	3,095,455
Sukuk certificates / bonds	7,637,674	–	(409,499)	7,228,175	5,908,168	–	2,901	5,911,069
Unlisted								
Term finance certificates	21,138	(21,138)	–	–	29,697	(21,138)	–	8,559
Sukuk certificates / bonds	70,214	(29,010)	(306)	40,898	233,464	(39,018)	4,019	198,465
Certificates of investment	3,675,000	–	–	3,675,000	5,000,000	–	–	5,000,000
	14,329,678	(120,551)	(438,347)	13,770,780	14,383,743	(130,559)	(39,636)	14,213,548
Mutual funds								
Open end	13,191	–	5,113	18,304	12,753	–	5,820	18,573
Close end	16,949	(9,647)	973	8,275	16,949	(9,647)	3,836	11,138
	30,140	(9,647)	6,086	26,579	29,702	(9,647)	9,656	29,711
Real estate investment trust	387,869	–	(12,440)	375,429	387,869	–	54,499	442,368
Subsidiaries								
Habib Metropolitan Financial Services Limited	300,000	–	–	300,000	300,000	–	–	300,000
Habib Metropolitan Modaraba Management Company (Private) Limited	350,000	–	–	350,000	350,000	–	–	350,000
Habib Metro Modaraba	180,000	–	–	180,000	180,000	–	–	180,000
	830,000	–	–	830,000	830,000	–	–	830,000
Total investments	<u>580,511,779</u>	<u>(507,587)</u>	<u>4,527,441</u>	<u>584,531,633</u>	<u>454,169,088</u>	<u>(473,990)</u>	<u>(4,785,371)</u>	<u>448,909,727</u>

	2020	2019
	Rupees in '000	
9.3.1 Investments given as collateral against repo borrowing		
Federal government securities		
Market treasury bills	9,217,825	81,790,898
Pakistan investment bonds	82,695,225	7,415,475
	<u>91,913,050</u>	<u>89,206,373</u>

9.4 Provision for diminution in value of investments

9.4.1	Opening balance	473,990	417,991
	Charge for the year	183,314	63,868
	Reversal for the year	(10,008)	(7,869)
	Net charge for the year	173,306	55,999
	Reversal on disposal	(139,709)	—
	Closing balance	<u>507,587</u>	<u>473,990</u>

9.4.2 Particulars of provision against debt securities

Category of classification	2020		2019	
	Non-performing investments	Provision	Non-performing investments	Provision
	Rupees in '000			
Domestic				
Substandard	—	—	—	—
Doubtful	—	—	—	—
Loss	120,551	120,551	130,550	130,559
	<u>120,551</u>	<u>120,551</u>	<u>130,550</u>	<u>130,559</u>

9.5 Quality of available for sale securities

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

Federal government securities - Government guaranteed

	2020	2019
	Cost	
	Rupees in '000	
Market treasury bills	344,341,247	269,483,603
Pakistan investment bonds	169,434,333	132,281,537
Ijarah sukuk	15,750,214	—
	<u>529,525,794</u>	<u>401,765,140</u>

Shares

Listed companies

Automobile assembler	—	20,091
Automobile engineering, parts and accessories	15,167	58,036
Cement	136,689	81,811
Commercial banks	372,856	96,357
Food and agriculture	195,918	96,202
Investment banks / investment company / securities companies	94,359	94,360
Oil and gas exploration, marketing and utility companies	70,144	71,134
Transport	30,254	30,254
	<u>915,387</u>	<u>548,245</u>

	2020		2019	
	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	19,320	35,000	17,710
Society for World Wide Inter Bank Financial Telecommunication (Swift)	10,630	48,240	10,630	42,544
Pakistan Corporate Restructuring Company Limited *	27,524	27,524	27,524	27,524
	<u>134,515</u>	<u>95,084</u>	<u>134,515</u>	<u>87,778</u>

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

Non-government debt securities

	Note	2020	2019
		Cost	Cost
		Rupees in '000	
Listed			
AAA		1,398,400	998,800
AA+		142,835	472,835
AA		599,514	306,276
A+		249,500	249,550
AA		695,000	1,344,550
A		700,000	600,000
A-		35,713	171,428
Unrated		6,742,364	4,977,143
		<u>10,563,326</u>	<u>9,120,582</u>
Unlisted			
AAA		60,714	121,429
A+		–	102,535
Unrated		30,638	39,197
		<u>91,352</u>	<u>263,161</u>
Mutual funds - listed			
Unrated		30,140	29,702
Real estate investment trust - listed			
AAA (rr)		387,869	387,869
		<u>387,869</u>	<u>387,869</u>

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

Federal government securities - Government guaranteed

Pakistan investment bonds	30,749,708	32,481,186
Bai muajjal	3,608,688	3,608,688
	<u>34,358,396</u>	<u>36,089,874</u>

Non-government debt securities

Certificate of investments - unlisted

Unrated	9.6.1	<u>3,675,000</u>	<u>5,000,000</u>
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9.6.1 This represents certificates of musharaka carrying expected profit rate ranging from 7.15% to 7.60% (2019: 13.35%) per annum with maturity upto 30 March 2021 (2019: 30 March 2020).

9.6.2 The market value of securities classified as held-to-maturity is Rs. 37,980,796 thousand (2019: 39,168,228 thousand).

10. ADVANCES

	Note	Performing		Non-Performing		Total	
		2020	2019	2020	2019	2020	2019
		Rupees in '000					
Loans, cash credits, running finances, etc.	10.1	215,387,833	199,539,259	13,444,761	14,554,885	228,832,594	214,094,144
Islamic financing and related assets		56,661,899	22,193,648	822,665	853,946	57,484,564	23,047,594
Bills discounted and purchased		40,130,792	41,598,380	5,034,630	2,124,307	45,165,422	43,722,687
Advances - gross		312,180,524	263,331,287	19,302,056	17,533,138	331,482,580	280,864,425
Provision against advances							
- specific		—	—	(16,417,607)	(15,294,415)	(16,417,607)	(15,294,415)
- general		(2,898,168)	(1,621,537)	—	—	(2,898,168)	(1,621,537)
		(2,898,168)	(1,621,537)	(16,417,607)	(15,294,415)	(19,315,775)	(16,915,952)
Advances - net of provisions		309,282,356	261,709,750	2,884,449	2,238,723	312,166,805	263,948,473

10.1 Includes net investment in finance lease as disclosed below:

	2020			2019		
	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	69,424	142,617	212,041	79,406	73,554	152,960
Residual value	91,255	33,780	125,035	87,725	17,898	105,623
Minimum lease payments	160,679	176,397	337,076	167,131	91,452	258,583
Financial charges for future periods	(18,118)	(22,926)	(41,044)	(16,524)	(13,294)	(29,818)
Present value of minimum lease payments	142,561	153,471	296,032	150,607	78,158	228,765

10.2 Particulars of advances – gross

	2020	2019
Rupees in '000		
In local currency	296,313,201	239,106,297
In foreign currencies	35,169,379	41,758,128
	331,482,580	280,864,425

- 10.3** Advances include Rs. 19,302,056 thousand (2019 : Rs. 17,533,138 thousand) which have been placed under non-performing status as detailed below:

Category of classification	2020		2019	
	Non-performing loans	Provision	Non-performing loans	Provision
Rupees in '000				
Domestic				
Substandard	14,200	–	433,980	76,611
Doubtful	5,386,811	2,539,062	628,533	273,742
Loss	13,901,045	13,878,545	16,470,625	14,944,062
	<u>19,302,056</u>	<u>16,417,607</u>	<u>17,533,138</u>	<u>15,294,415</u>

10.4 Particulars of provision against advances

Note	2020			2019		
	Specific	General	Total	Specific	General	Total
Rupees in '000						
Opening balance	15,294,415	1,621,537	16,915,952	15,324,500	1,236,190	16,560,690
Charge for the year	4,413,921	1,276,631	5,690,552	1,179,540	385,347	1,564,887
Reversals for the year	(2,594,580)	–	(2,594,580)	(1,197,378)	–	(1,197,378)
Net charge / (reversal)						
for the year	1,819,341	1,276,631	3,095,972	(17,838)	385,347	367,509
Amount written off	(696,149)	–	(696,149)	(12,247)	–	(12,247)
Closing balance	<u>16,417,607</u>	<u>2,898,168</u>	<u>19,315,775</u>	<u>15,294,415</u>	<u>1,621,537</u>	<u>16,915,952</u>

- 10.4.1** Reversal includes Rs. 1,869,992 thousand settled through debt property swap resulting in reduction of non-performing advances by Rs. 2,237,000 thousand.

- 10.4.2** General provision includes provision of Rs. 2,915 thousand (2019: Rs. 3,410 thousand) made against consumer portfolio and Rs. 17 thousand (2019: Rs. 55 thousand) made against small enterprises (SEs) portfolio as required by the Prudential Regulations issued by the SBP.

10.4.3 Particulars of provision against advances

	2020			2019		
	Specific	General	Total	Specific	General	Total
Rupees in '000						
In local currency	15,968,899	2,898,168	18,867,067	14,877,139	1,621,537	16,498,676
In foreign currencies	448,708	–	448,708	417,276	–	417,276
	<u>16,417,607</u>	<u>2,898,168</u>	<u>19,315,775</u>	<u>15,294,415</u>	<u>1,621,537</u>	<u>16,915,952</u>

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

During the current year, the Bank availed additional forced sale value (FSV) benefit under BSD Circular No. 1 of 21 October 2011. This has resulted in reduction of provision against non-performing loans and advances by Rs. 156,904 thousand (2019: 315,348 thousand). Further, as of 31 December 2020, had the benefit of FSVs (including those availed in prior years) not been taken by the Bank, the specific provision against non-performing advances would have been higher by Rs. 156,904 thousand (2019: Rs. 1,598,972 thousand) and accumulated profit would have been lower by Rs. 101,988 thousand (2019: Rs. 1,039,332 thousand). This amount of Rs. 101,988 thousand (2019: Rs. 1,039,332 thousand) is not available for distribution of cash and stock dividend to the shareholders and bonus to employees.

	Note	2020	2019
		Rupees in '000	
10.5 Particulars of write offs			
10.5.1 Against provisions	10.4	696,149	12,247
Directly charged to profit and loss account		—	—
		<u>696,149</u>	<u>12,247</u>
10.5.2 Write offs of Rs. 500,000/- and above		696,149	12,247
Write offs of below Rs. 500,000/-		—	—
		<u>696,149</u>	<u>12,247</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 2020 is enclosed as Annexure I.

11. FIXED ASSETS

Capital work-in-progress	11.1	684,335	343,734
Property and equipment	11.2	8,348,667	7,963,049
		<u>9,033,002</u>	<u>8,306,783</u>
11.1 Capital work-in-progress			
Civil works	11.1.1	481,194	243,323
Advance to suppliers		203,141	100,411
		<u>684,335</u>	<u>343,734</u>

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

11.2 Property and equipment

	2020									
	Freehold land	Leasehold land	Building / office premises on freehold land	Building / office premises on leasehold land	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Lease hold improvement	Right-of-use assets	Total
	Rupees in '000									
At 1 January 2020										
Cost	59,871	99,340	356,349	2,708,026	523,008	3,454,715	131,604	3,072,168	4,595,835	15,000,916
Accumulated depreciation	–	(2,300)	(192,361)	(973,263)	(301,844)	(2,400,643)	(42,890)	(2,354,873)	(769,693)	(7,037,867)
Net book value	<u>59,871</u>	<u>97,040</u>	<u>163,988</u>	<u>1,734,763</u>	<u>221,164</u>	<u>1,054,072</u>	<u>88,714</u>	<u>717,295</u>	<u>3,826,142</u>	<u>7,963,049</u>
Year ended December 2020										
Opening net book value	59,871	97,040	163,988	1,734,763	221,164	1,054,072	88,714	717,295	3,826,142	7,963,049
Additions	–	–	–	2,573	105,495	564,540	55,457	365,623	–	1,093,688
Additions to right-of-use assets	–	–	–	–	–	–	–	–	1,176,249	1,176,249
Exchange rate adjustments	–	–	–	468 *	113 *	–	1 *	–	–	582
Disposals	–	–	–	–	(262)	(1,106)	(5,190)	–	–	(6,558)
Depreciation charge	–	(1,309)	(12,161)	(105,381)	(66,943)	(545,347)	(30,548)	(308,317)	(808,337)	(1,878,343)
Closing net book value	<u>59,871</u>	<u>95,731</u>	<u>151,827</u>	<u>1,632,423</u>	<u>259,567</u>	<u>1,072,159</u>	<u>108,434</u>	<u>774,601</u>	<u>4,194,054</u>	<u>8,348,667</u>
At 31 December 2020										
Cost	59,871	99,340	356,349	2,711,067	623,748	3,965,950	176,523	3,437,791	5,772,084	17,202,723
Accumulated depreciation	–	(3,609)	(204,522)	(1,078,644)	(364,181)	(2,893,791)	(68,089)	(2,663,190)	(1,578,030)	(8,854,056)
Net book value	<u>59,871</u>	<u>95,731</u>	<u>151,827</u>	<u>1,632,423</u>	<u>259,567</u>	<u>1,072,159</u>	<u>108,434</u>	<u>774,601</u>	<u>4,194,054</u>	<u>8,348,667</u>
Rate of depreciation (percentage)	<u>–</u>	<u>1.49</u>	<u>4</u>	<u>4</u>	<u>15</u>	<u>25</u>	<u>20</u>	<u>20</u>		

* This represents exchange rate adjustments of fixed assets in EPZ operations

	2019									
	Freehold land	Leasehold land	Building / office premises on freehold land	Building / office premises on leasehold land	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Lease hold improvement	Right-of-use assets	Total
	Rupees in '000									
At 1 January 2019										
Cost	–	7,488	352,783	2,532,621	454,610	2,799,097	89,533	2,873,685	3,975,777	13,085,594
Accumulated depreciation	–	(1,789)	(180,200)	(874,466)	(246,991)	(1,953,305)	(23,295)	(2,072,652)	–	(5,352,698)
Net book value	<u>–</u>	<u>5,699</u>	<u>172,583</u>	<u>1,658,155</u>	<u>207,619</u>	<u>845,792</u>	<u>66,238</u>	<u>801,033</u>	<u>3,975,777</u>	<u>7,732,896</u>
Year ended December 2019										
Opening net book value	–	5,699	172,583	1,658,155	207,619	845,792	66,238	801,033	3,975,777	7,732,896
Additions	–	91,852	–	175,405	71,990	710,260	48,878	198,483	–	1,296,868
Additions to right-of-use assets	–	–	–	–	–	–	–	–	620,058	620,058
Disposals	–	–	–	–	(141)	(1,157)	(4,606)	–	–	(5,904)
Depreciation charge	–	(511)	(12,161)	(98,797)	(58,304)	(500,823)	(21,796)	(282,221)	(769,693)	(1,744,306)
Other adjustments / transfers	59,871*	–	3,566*	–	–	–	–	–	–	63,437
Closing net book value	<u>59,871</u>	<u>97,040</u>	<u>163,988</u>	<u>1,734,763</u>	<u>221,164</u>	<u>1,054,072</u>	<u>88,714</u>	<u>717,295</u>	<u>3,826,142</u>	<u>7,963,049</u>
At 31 December 2019										
Cost	59,871	99,340	356,349	2,708,026	523,008	3,454,715	131,604	3,072,168	4,595,835	15,000,916
Accumulated depreciation	–	(2,300)	(192,361)	(973,263)	(301,844)	(2,400,643)	(42,890)	(2,354,873)	(769,693)	(7,037,867)
Net book value	<u>59,871</u>	<u>97,040</u>	<u>163,988</u>	<u>1,734,763</u>	<u>221,164</u>	<u>1,054,072</u>	<u>88,714</u>	<u>717,295</u>	<u>3,826,142</u>	<u>7,963,049</u>
Rate of depreciation (percentage)	<u>–</u>	<u>1.49</u>	<u>4</u>	<u>4</u>	<u>15</u>	<u>25</u>	<u>20</u>	<u>20</u>		

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

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

	2020	2019
	Rupees in '000	
Furniture and fixture	164,563	112,804
Electrical, office and computer equipment	1,814,345	1,392,282
Vehicles	7,625	7,568
Lease hold improvement	1,974,581	1,738,980

11.2.2 Details of fixed assets disposed-off to related parties during the year ended 31 December 2020

Particulars	Cost	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	Rupees in '000				
Vehicle	24	17	17	As per HR policy	Mr. Usman Nurul Abedin (Ex-employee)
Vehicle	18	15	15	As per HR policy	Mr. Shahid Salim (Ex-employee)
Vehicle	17	16	1,608	As per HR policy	Mr. Irfan Azim Butt (Ex-employee)
Vehicle	2,505	2,236	2,236	As per HR policy	Mr. Taimur Arif (Employee)
Vehicle	17	16	1,570	As per HR policy	Mr. Mian Ulfat Hussain (Employee)
Vehicle	18	17	1,193	As per HR policy	Mr. Muhammad Kamran Zafar (Ex-employee)
Vehicle	17	15	1,570	As per HR policy	Mr. Waseem Qaiser (Ex-employee)
Vehicle	17	10	1,013	As per HR policy	Mr. Tariq Siddiq Mirza (Ex-employee)
Vehicle	16	15	1,525	As per HR policy	Mr. Asifullah Siddiqui (Ex-employee)
Vehicle	18	10	1,008	As per HR policy	Mr. Syed Ammar Yasir Bukhari (Employee)
Vehicle	1,734	575	1,032	As per HR policy	Mr. Ali Akbar Somjee (Ex-employee)
Vehicle	815	—	330	As per HR policy	Mr. Mohammad Yousuf Khan (Employee)
Vehicle	1,944	857	857	As per HR policy	Mr. Asad Ali Aziz Dharamsey (Ex-employee)
Vehicle	19	16	16	As per HR policy	Ms. Mirat Majeed Khan (Ex-employee)
Vehicle	16	14	998	As per HR policy	Mr. Muhammad Saleem (Ex-employee)
Vehicle	23	13	1,305	As per HR policy	Mr. Fuzail Abbas (Employee)
Vehicle	24	19	19	As per HR policy	Mr. Asim Imtiaz Basraa (Ex-employee)
Vehicle	17	10	899	As per HR policy	Mr. Muhammad Arif Majeed (Ex-employee)

12. INTANGIBLE ASSETS

At 1 January

	2020	2019
	Rupees in '000	
Cost	464,314	425,995
Accumulated amortisation	(397,852)	(304,553)
Net book value	66,462	121,442
Opening net book value	66,462	121,442

Additions:

- directly purchased	82,593	38,319
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Amortisation charge	(59,365)	(93,299)
Closing net book value	89,690	66,462

At 31 December

Cost	546,907	464,314
Accumulated amortisation	(457,217)	(397,852)
Net book value	89,690	66,462
Rate of amortisation (percentage)	33.3	33.3
Useful life in years	3	3

12.1 The cost of fully amortised intangible assets (computer software) still in use is Rs. 400,434 thousand (2019: Rs. 263,561 thousand).

13. DEFERRED TAX ASSETS

	Balance as at 1 January 2019	Recognised in profit & loss account	Recognised in other comprehensive income	Balance as at 31 December 2019	Recognised in profit & loss account	Recognised in other comprehensive income	Balance as at 31 December 2020
Rupees in '000							
Deductable temporary differences on:							
Provision for diminution in value of investments	146,297	19,600	–	165,897	11,758	–	177,655
Provision against advances and off - balance sheet	2,746,495	(722,031)	–	2,024,464	530,991	–	2,555,455
Provision against other assets	–	–	–	–	87,150	–	87,150
Accelerated tax depreciation	(143,516)	71,683	–	(71,833)	106,426	–	34,593
Deferred liability on defined benefit plan	70,706	–	(30,294)	40,412	–	(34,631)	5,781
	2,819,982	(630,748)	(30,294)	2,158,940	736,325	(34,631)	2,860,634
Taxable temporary differences							
Surplus on revaluation of non-banking assets	(96,632)	1,545	(26,298)	(121,385)	1,864	–	(119,521)
Surplus / (deficit) on revaluation of investments	3,097,832	–	(1,422,952)	1,674,880	–	(3,259,484)	(1,584,604)
	3,001,200	1,545	(1,449,250)	1,553,495	1,864	(3,259,484)	(1,704,125)
Net deferred tax asset	5,821,182	(629,203)	(1,479,544)	3,712,435	738,189	(3,294,115)	1,156,509

Note 2020 2019
Rupees in '000

14. OTHER ASSETS

Income / mark-up / profit accrued in local currency - net of provision		10,049,786	12,529,140
Income / mark-up / profit accrued in foreign currencies - net of provision		11,630	43,085
Advances, deposits, advance rent and other prepayments		207,175	225,452
Advance taxation (payments less provision)		–	647,808
Non-banking assets acquired in satisfaction of claim	14.1	2,641,141	417,244
Branch adjustment account		41	58
Mark-to-market gain on forward foreign exchange contracts		4,718,094	4,458,787
Acceptances		34,998,772	20,971,205
Receivable from the SBP against encashment of government securities		11,990	55,080
Stationery and stamps on hand		101,678	88,551
Others		286,281	280,982
		53,026,588	39,717,392
Provision against other assets	14.2	(459,000)	(210,000)
Other assets (net of provision)		52,567,588	39,507,392
Surplus on revaluation of non-banking assets acquired in satisfaction of claims	20.1	341,491	346,816
		52,909,079	39,854,208

	2020	2019
	Rupees in '000	
14.1 Market value of non-banking assets acquired in satisfaction of claims	3,249,798	764,060
Non-banking assets acquired in satisfaction of claims have been revalued by independent professional valuers. The revaluations were carried out by M/s Akbani & Javed Associates, M/s Fairwater Property Valuers & Surveyors Private Limited and Joseph Lobo Private Limited.		
	2020	2019
	Rupees in '000	
14.1.1 Non-banking assets acquired in satisfaction of claims		
Opening balance	764,060	763,598
Addition	2,237,000	–
Revaluation	–	106,386
Transfer to fixed assets	–	(63,437)
Reversal of surplus on transfer to fixed asset	–	(31,251)
Depreciation	(18,428)	(11,236)
Closing balance	2,982,632	764,060
14.2 Movement in provision held against other assets		
Opening balance	210,000	210,000
Charge for the year	249,000	–
Reversal for the year	–	–
	249,000	–
Closing balance	459,000	210,000
15. BILLS PAYABLE		
In Pakistan	15,337,849	11,541,474
Outside Pakistan	83,153	197,909
	15,421,002	11,739,383

	Note	2020	2019
Rupees in '000			
16. BORROWINGS			
Secured			
Borrowings from the State Bank of Pakistan			
Under export refinance scheme		64,704,959	36,842,480
Under long term financing facility - renewable energy scheme		982,960	884,970
Under long term financing facility - locally manufactured plant and machinery scheme		14,832,149	10,466,484
Under refinance for payment of wages and salaries		20,810,171	–
Under temporary economic refinance facility		4,173,416	–
Under long term financing facility - for storage of agricultural produce scheme		256,481	–
	16.2	105,760,136	48,193,934
Repurchase agreement borrowings (Repo)	16.3	91,644,767	89,397,739
Due against bills rediscounting		–	2,765,541
		197,404,903	140,357,214
Unsecured			
Overdrawn nostro accounts		4,317,946	4,105,018
		201,722,849	144,462,232
16.1 Particulars of borrowings in respect of currencies			
In local currency		197,404,903	137,591,673
In foreign currencies		4,317,946	6,870,559
		201,722,849	144,462,232

16.2 These carry mark-up rates ranging between 0% to 4.5% (2019: 2.00% to 4.50%) per annum which is payable quarterly or upon maturity of loans, whichever is earlier.

16.3 These carry mark-up rates ranging between 6.15% to 7.05% (2019: 12.75% to 13.36%) per annum having maturity upto 4 January 2021 (2019: 24 January 2020) and are secured against investments mentioned in note 9.3.1.

17. DEPOSITS AND OTHER ACCOUNTS

	2020			2019		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
	Rupees in '000					
Customers						
Current accounts	185,076,754	32,854,065	217,930,819	146,378,657	26,743,116	173,121,773
Savings deposits	158,741,477	23,866,671	182,608,148	135,390,427	19,016,742	154,407,169
Term deposits	211,496,123	41,495,660	252,991,783	165,375,671	55,096,182	220,471,853
Others	13,702,059	1,791	13,703,850	10,525,924	979	10,526,903
	<u>569,016,413</u>	<u>98,218,187</u>	<u>667,234,600</u>	<u>457,670,679</u>	<u>100,857,019</u>	<u>558,527,698</u>

Financial institutions

Current deposits	1,631,604	1,058,671	2,690,275	1,354,816	1,019,552	2,374,368
Savings deposits	7,271,627	–	7,271,627	46,908,562	–	46,908,562
Term deposits	3,754,307	4,903	3,759,210	4,058,620	–	4,058,620
	<u>12,657,538</u>	<u>1,063,574</u>	<u>13,721,112</u>	<u>52,321,998</u>	<u>1,019,552</u>	<u>53,341,550</u>
	<u>581,673,951</u>	<u>99,281,761</u>	<u>680,955,712</u>	<u>509,992,677</u>	<u>101,876,571</u>	<u>611,869,248</u>

	2020	2019
	Rupees in '000	

17.1 Composition of deposits

Individuals	288,049,370	252,753,562
Government (Federal and Provincial)	36,953,109	21,440,428
Public sector entities	45,775,408	57,514,775
Banking companies	3,251,614	5,194,956
Non-banking financial institutions	10,469,498	48,146,594
Private sector	<u>296,456,713</u>	<u>226,818,933</u>
	<u>680,955,712</u>	<u>611,869,248</u>

17.2 This includes eligible deposits of Rs. 314,714,312 thousand (2019: Rs. 249,447,294 thousand) which are covered under deposit protection mechanism as required by the Deposit Protection Corporation circular no. 4 of 2018.

	Note	2020	2019
		Rupees in '000	
18. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		7,786,278	9,633,242
Mark-up / return / interest payable in foreign currencies		348,217	396,052
Unearned commission and income on bills discounted		307,572	200,295
Accrued expenses		1,146,965	819,184
Current taxation (provision less payments)		2,229,140	–
Acceptances		34,998,772	20,971,205
Unclaimed dividend		90,955	68,257
Mark to market loss on forward foreign exchange contracts		5,949,494	7,716,740
Provision for compensated absences		247,599	226,417
Payable to defined benefit plan	35.4	13,568	112,513
Provision against off-balance sheet obligations	18.1	113,716	113,716
Workers' welfare fund	18.3	1,616,689	1,160,189
Charity fund balance		–	2,137
Excise duty payable		1,575	907
Locker deposits		875,074	817,043
Advance against diminishing musharaka		2,541	90,548
Advance rental for ijarah		1,610	1,859
Security deposits against leases / ijarah		202,596	205,188
Sundry creditors		951,415	425,001
Lease liability against right-of-use assets	18.3	4,593,901	3,826,950
Withholding tax / duties		290,044	400,373
Others		56,688	274,391
		<u>61,824,409</u>	<u>47,462,207</u>

18.1 Provision against off-balance sheet obligations

Opening balance	113,716	113,716
Charge for the year	–	–
Closing balance	<u>113,716</u>	<u>113,716</u>

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

18.2 Lease liability against right-of-use assets

Not later than 1 year	526,807	546,321
Later than one and less than five years	2,334,042	1,952,547
Over five years	<u>1,733,052</u>	<u>1,328,082</u>
	<u>4,593,901</u>	<u>3,826,950</u>

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.

19. SHARE CAPITAL

19.1 Authorised capital

2020 (Number of shares)	2019		2020	2019
			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 (2019: 534,394 thousand) ordinary shares of Rs. 10/- each (51% holding).

	Note	2020	2019
		Rupees in '000	

20. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS

Surplus / (deficit) on revaluation of			
– Non-banking assets acquired in satisfaction of claims	20.1	341,491	346,816
– Available-for-sale securities	9.1	4,527,441	(4,785,371)
		4,868,932	(4,438,555)
Less: Deferred tax on surplus / (deficit) on revaluation of			
– Non-banking assets acquired in satisfaction of claims	20.1	119,521	121,385
– Available-for-sale securities		1,584,604	(1,674,880)
		(1,704,125)	1,553,495
		<u>3,164,807</u>	<u>(2,885,060)</u>

20.1 Non-banking assets acquired in satisfaction of claims

Surplus on revaluation as at 1 January		346,816	276,093
Revaluation of non-banking assets during the year - net of deferred tax		–	69,151
Reversal of surplus on transfer to fixed assets - net of deferred tax		–	(20,311)
Transferred to unappropriated profit in respect incremental depreciation during the year - net of deferred tax		(3,461)	(2,870)
Related deferred tax liability on revaluation of non-banking assets		–	37,235
Related deferred tax liability on reversal of surplus on transfer to fixed assets		–	(10,937)
Related deferred tax liability on incremental depreciation		(1,864)	(1,545)
		(5,325)	70,723
Surplus on revaluation as at 31 December		341,491	346,816
Less: Related deferred tax liability on:			
Revaluation as at 1 January		121,385	96,632
Revaluation of non-banking assets during the year		–	37,235
Reversal of surplus on transfer to fixed assets		–	(10,937)
Incremental depreciation during the year		(1,864)	(1,545)
		(1,864)	24,753
Related deferred tax liability		119,521	121,385
		<u>221,970</u>	<u>225,431</u>

	Note	2020	2019
		Rupees in '000	
21. CONTINGENCIES AND COMMITMENTS			
Guarantees	21.1	89,902,458	81,881,337
Commitments	21.2	598,093,837	661,159,612
Other contingent liabilities	21.3	2,733,563	25,646,157
		<u>690,729,858</u>	<u>768,687,106</u>
21.1 Guarantees			
Financial guarantees		42,197,620	27,956,898
Performance guarantees		27,904,956	40,518,388
Other guarantees		19,799,882	13,406,051
		<u>89,902,458</u>	<u>81,881,337</u>
21.2 Commitments			
Documentary credits and short-term trade-related transactions:			
Letters of credit		160,321,521	119,552,974
Commitments in respect of:			
Forward exchange contracts	21.2.1	435,798,001	538,997,600
Forward lendings	21.2.2	1,681,802	2,168,630
Acquisition of operating fixed assets		292,513	440,408
		<u>598,093,837</u>	<u>661,159,612</u>
21.2.1 Commitments in respect of forward exchange contracts			
Purchase		245,157,873	290,279,554
Sale		190,640,128	248,718,046
		<u>435,798,001</u>	<u>538,997,600</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:			
	Note	2020	2019
		Rupees in '000	
Commitments in respect of syndicate financing		<u>1,681,802</u>	<u>2,168,630</u>
21.3 Other contingent liabilities			
Claims against bank not acknowledged as debt		2,627,507	25,540,101
Foreign Exchange repatriation case	21.3.1	106,056	106,056
		<u>2,733,563</u>	<u>25,646,157</u>

21.3.1 Foreign Exchange repatriation case

While adjudicating Foreign Exchange repatriation cases of exporters, the Foreign Exchange Adjudicating Court of the State Bank of Pakistan has adjudicated a penalty of Rs. 106,056 thousand arbitrarily on the Bank. The Bank has filed appeals before the Appellate Board and Constitutional Petition in the Honorable High Court of Sindh against the said judgement. The Honorable High Court has granted relief to 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 "income from dealing in foreign currencies". Mark to market gains and losses on these contracts are recorded on the statement of financial position under "other assets / other liabilities".

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

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

	2020	2019
	Rupees in '000	
23. MARK-UP / RETURN / INTEREST EARNED		
Loans and advances	21,812,916	27,044,339
Investments	52,569,118	39,840,552
Lending with financial institutions	1,698,197	5,109,655
Balance with other banks	43,181	211,793
	<u>76,123,412</u>	<u>72,206,339</u>

24. MARK-UP / RETURN / INTEREST EXPENSED

Deposits	31,743,665	40,145,138
Borrowings	10,984,755	7,842,581
Cost of foreign currency swaps against foreign currency deposits	4,050,928	6,384,164
Lease liability against right-of-use assets	581,334	443,504
	<u>47,360,682</u>	<u>54,815,387</u>

	2020	2019
	Rupees in '000	
25. FEE & COMMISSION INCOME		
Branch banking customer fees	538,793	534,921
Credit related fees	43,173	83,570
Card related fees	255,715	387,020
Commission on trade	3,736,723	3,600,276
Commission on guarantees	526,817	419,584
Commission on remittances including home remittances	43,441	30,936
Commission on bancassurance	149,178	116,069
Others	81,939	79,975
	<u>5,375,779</u>	<u>5,252,351</u>
26. (LOSS) / GAIN ON SECURITIES		
Realised		
Federal Government Securities	(411,874)	(1,258,271)
Shares	124,765	-
Term finance certificate, sukuk certificates and bonds	4,952	-
Mutual Funds	237,818	93,353
	<u>(44,339)</u>	<u>(1,164,918)</u>
27. OTHER INCOME		
Rent on properties	10,779	32,023
Gain on sale of fixed assets - net	22,259	16,473
Gain on sale of ijarah assets - net	11,703	360
Staff notice period and other recoveries	1,222	3,699
	<u>45,963</u>	<u>52,555</u>

	Note	2020	2019
		Rupees in '000	
28. OPERATING EXPENSES			
Total compensation expense	28.1	6,558,440	5,773,561
Property expense			
Rent & taxes		338,870	332,015
Insurance		5,683	4,223
Utilities cost		432,436	422,380
Security (including guards)		456,782	388,522
Repair & maintenance (including janitorial charges)		366,437	289,865
Depreciation on owned fixed assets		427,168	393,691
Depreciation on right-of-use assets		808,337	769,693
		<u>2,835,713</u>	<u>2,600,389</u>
Information technology expenses			
Software maintenance		204,904	115,991
Hardware maintenance		165,035	147,513
Depreciation		191,696	155,349
Amortisation		59,365	93,299
Network charges		<u>217,584</u>	<u>200,344</u>
		838,584	712,496
Other operating expenses			
Directors' fees and allowances		11,380	17,268
Fees and allowances to Shariah Board		9,936	9,768
Legal & professional charges		126,231	159,667
Outsourced services costs	34.1	289,850	265,247
Travelling & conveyance		207,498	249,067
Operating lease rental		–	10,319
NIFT clearing charges		68,750	71,592
Depreciation		451,142	425,573
Depreciation - non-banking assets		18,428	11,236
Training & development		13,553	27,361
Postage & courier charges		89,119	94,591
Communication		106,036	100,323
Subscription		186,584	150,022
Repair & maintenance		128,192	99,471
Brokerage & commission		229,149	131,032
Stationery & printing		245,962	268,196
Marketing, advertisement & publicity		182,850	107,409
Management fee		491,460	400,105
Insurance		593,059	531,759
Donations	28.2	118,852	94,177
Covid-19 expenses	28.3	40,534	–
Auditors' remuneration	28.4	8,821	12,891
Others		471,618	430,670
		<u>4,089,004</u>	<u>3,667,744</u>
		<u>14,321,741</u>	<u>12,754,190</u>
28.1 Total compensation expense			
Managerial remuneration			
i) Fixed		5,082,330	4,485,413
ii) Variable - cash bonus / awards		668,925	556,682
Charge for defined benefit plan		168,071	169,954
Contribution to defined contribution plan		216,071	193,928
Charge for compensated absences		107,917	82,448
Rent & house maintenance		26,989	24,777
Conveyance		265,964	240,022
EOBI		22,173	20,337
		<u>6,558,440</u>	<u>5,773,561</u>

	2020	2019
	Rupees in '000	
28.2 Donations paid in excess of Rs. 500,000 to a single party during the year are as follows:		
DONEE		
Habib University Foundation	22,000	20,000
The Citizens Foundation	19,100	18,300
Memon Health and Education Foundation (Memon Medical Institute)	12,500	—
Prime Minister's COVID-19 Relief Fund -2020	10,000	—
The Indus Hospital	8,750	8,500
Karachi Relief Trust	6,950	—
Jafaria Disaster Cell Welfare Organization	2,560	—
SIUT Trust	2,500	2,500
Khoja (Pirhai) Shia Isna Asheri Jamat (KPSIAJ)	2,300	—
Akhuwat Foundation	2,250	—
Al-Khidmat Foundation Pakistan	2,250	—
Institute of Business Administration	1,720	937
Lady Dufferin Hospital	1,200	1,000
Abbas-e-Alamdar Hostel	1,100	1,100
Alleviate Addiction Suffering Trust	1,000	1,000
Coach Emad Foundation	1,000	—
Fatimiyah Education Network	1,000	1,000
MBJ Health Association	1,000	1,000
Mohamedali Habib Welfare Trust	1,000	2,000
People's Primary Healthcare Initiative (PPHI) Balochistan	1,000	—
The Layton Rehmatulla Benevolent Trust	1,000	1,000
The Patients Behbud Society for AKUH	1,000	—
Al-Sayyeda Benevolent Trust	960	1,960
Habib Medical Trust	960	1,960
Habib Poor Fund	960	960
RahmatBai Habib Food & Clothing Trust	960	960
RahmatBai Habib Widows & Orphan Trust	960	960
The Hunar Foundation	900	5,000
All Pakistan Women's Association	716	—
All Pakistan Women's Association Raana Liaquat Craftsmen Welfare Project	600	—
Pakistan Memon Educational & Welfare Society	600	600
Network of Organizations Working with Persons with Disabilities Pakistan	550	—
AL-Mustafa Welfare Society Trust	540	—
Developments in Literacy	—	1,500
Habib Public School	—	800
Karwan-e-Hayat Institute For Mental Health	—	1,500
Masoomen Hospital Trust	—	1,000
Patients' Aid Foundation	—	8,500
SOS Childrens Villages of Pakistan	—	585
The National Institute of Child Health	—	600
The Society for the Rehabilitation of Special Children	—	900

None of the directors, executives and their spouses had interest in the donations disbursed during the year 2020, except for donations paid to :

Name of Donee	Directors	Interest in Donee as
Habib University Foundation	Mr. Mohomed Bashir Mr. Mohamedali R. Habib Mr. Muhammad H. Habib	Member of the Board of Directors Member of the Board of Directors Member of the Board of Directors
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

28.3 Covid-19 expenses

This represents expenses relating to testing and other precautionary measures taken due to Covid-19.

28.4 Auditors' remuneration

	Note	2020	2019
		Rupees in '000	
Audit fee		2,750	2,650
Review of half yearly financial statements		1,000	950
Fee for other statutory certifications		2,175	5,489
Fee for the audit of employee funds		150	135
Special certifications		1,350	1,275
Sales tax and out-of-pocket expenses on above services		1,396	2,392
		<u>8,821</u>	<u>12,891</u>

29. OTHER CHARGES

Penalties imposed by the SBP	<u>96,267</u>	<u>101,813</u>
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30. PROVISIONS & WRITE OFFS - NET

Provision for diminution in value of investments - net	9.4.1	173,306	55,999
Provision against loan & advances - net	10.4	3,095,972	367,509
Provision against other assets - net	14.2	249,000	-
Recovery of written off bad debts		(16,565)	(17,339)
		<u>3,501,713</u>	<u>406,169</u>

31. TAXATION

Current		8,766,778	3,724,641
Prior year		-	300,546
Deferred	13	(738,189)	629,203
		<u>8,028,589</u>	<u>4,654,390</u>

31.1 Income tax assessments of the Bank have been finalised up to the tax year 2020 (corresponding to the accounting year ended 31 December 2019). 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 Relationship between tax expense and accounting profit

	2020	2019
	Rupees in '000	
Profit before tax	<u>20,036,785</u>	<u>11,237,871</u>
Tax at the applicable tax rate of 35%	<u>7,012,875</u>	<u>3,933,255</u>
Super tax at applicable rate of 4%	<u>801,471</u>	<u>449,515</u>
Prior years taxation - super tax	<u>-</u>	<u>300,546</u>
Others	<u>214,243</u>	<u>(28,926)</u>
Tax charge for the year	<u>8,028,589</u>	<u>4,654,390</u>

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

32. BASIC AND DILUTED EARNINGS PER SHARE

	Note	2020	2019
		Rupees in '000	
Profit after taxation		<u>12,008,196</u>	<u>6,583,481</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>11.46</u>	<u>6.28</u>
		Rupees in '000	

33. CASH AND CASH EQUIVALENTS

Cash and balances with treasury banks	6	<u>54,694,603</u>	70,713,603
Balances with other banks	7	<u>1,990,862</u>	2,061,606
Overdrawn nostro accounts	16	<u>(4,317,946)</u>	<u>(4,105,018)</u>
		<u>52,367,519</u>	<u>68,670,191</u>

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

	2020		
	Other liabilities	Equity	
		Reserves	Unappropriated profit
	Rupees in '000		
Balance as at 1 January	47,462,207	17,584,517	19,059,758
Changes from financing cash flows			
Dividend paid	–	–	(4,692,544)
Liability-related other changes			
- Cash based	(3,062,891)	–	–
- Non-cash based	17,402,395	–	–
- Dividend payable	22,698	–	(22,698)
Transfer of profit to statutory reserve	–	2,401,639	(2,401,639)
Total liability related other charges	14,362,202	2,401,639	(2,424,337)
Equity related other changes	–	85	12,075,971
Balance as at 31 December	61,824,409	19,986,241	24,018,848

	2019		
	Other liabilities	Equity	
		Reserves	Unappropriated profit
	Rupees in '000		
Balance as at 1 January	29,295,527	16,267,793	15,829,504
Changes from financing cash flows			
Dividend paid	–	–	(2,093,622)
Liability-related other changes			
- Cash based	7,626,638	–	–
- Non-cash based	10,538,001	–	–
- Dividend payable	2,041	–	(2,041)
Transfer of profit to statutory reserve	–	1,316,696	(1,316,696)
Total liability related other charges	18,166,680	1,316,696	(1,318,737)
Equity related other changes	–	28	6,642,613
Balance as at 31 December	47,462,207	17,584,517	19,059,758

34. STAFF STRENGTH

	2020	2019
	Number	
Permanent	4,436	4,211
Temporary / on contractual basis	378	193
Bank's own staff strength at end of the year	4,814	4,404

34.1 In addition to the above, 789 (2019: 788) employees of outsourcing services companies were assigned to the Bank as at 31 December 2020 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 subject to a maximum of 24 last drawn basic salary. The minimum qualifying period for eligibility under the plan is five years of continuous service.

	2020	Number	2019
35.2 Number of employees under the scheme			
Gratuity fund	4,408		4,200

35.3 Principal actuarial assumptions

The latest actuarial valuation was carried out on 31 December 2020 using "Projected Unit Credit Actuarial Cost Method". The main assumptions used for the actuarial valuation were as follows:

	2020	2019
Discount rate - percent per annum	10.25	12.75
Expected rate of return on plan assets - percent per annum	12.25	13.75
Expected long term rate of salary increase - percent per annum	9.75	11.75
Mortality rates (for death in service)	Adjusted SLIC 2001- 2005	Adjusted SLIC 2001- 2005

	Note	2020	2019
		Rupees in '000	
35.4 Reconciliation of payable to defined benefit plan			
Fair value of plan assets	35.6	1,600,641	1,372,614
Present value of defined benefit obligation	35.5	(1,614,209)	(1,485,127)
Payable		(13,568)	(112,513)

35.5 Movement in payable to defined benefit plan

Obligations at the beginning of the year	1,485,127	1,413,897
Current service cost	154,555	143,112
Interest cost	174,610	183,810
Benefits due but not paid (payables)	(4,362)	(7,716)
Benefits paid by the Bank	(115,123)	(146,479)
Re-measurement gain	(80,598)	(101,497)
Obligations at the end of the year	1,614,209	1,485,127

35.6 Movement in fair value of plan assets

Fair value at the beginning of the year	1,372,614	1,214,825
Interest income on plan assets	161,094	156,968
Contribution by the Bank - net	168,071	169,954
Benefits paid	(115,123)	(146,479)
Benefits due but not paid	(4,362)	(7,716)
Re-measurements: net return on plan assets over interest income loss	35.8.2 18,347	(14,938)
Fair value at the end of the year	1,600,641	1,372,614

	Note	2020	2019
		Rupees in '000	
35.7 Movement in payable under defined benefit schemes			
Opening balance		112,513	199,072
Charge for the year		168,071	169,954
Contribution by the Bank - net		(168,071)	(169,954)
Re-measurement loss / (gain) recognised in OCI			
during the year	35.8.2	(98,945)	(86,559)
Closing balance		13,568	112,513
35.8 Charge for defined benefit plans			
35.8.1 Cost recognised in profit and loss			
Current service cost		154,555	143,112
Net interest on defined benefit asset		13,516	26,842
		168,071	169,954
35.8.2 Re-measurements recognised in OCI during the year			
Gain on obligation			
– Financial assumptions		(4,168)	(2,829)
– Experience adjustment		(76,430)	(98,668)
		(80,598)	(101,497)
Return on plan assets over interest income		(18,347)	14,938
Total re-measurements recognised in OCI		(98,945)	(86,559)
35.9 Components of plan assets			
Cash and cash equivalents	35.9.1	174,460	353,688
Term deposit certificates	35.9.1	150,000	–
Federal government securities			
Defense saving certificates		960,159	770,000
Special saving certificates		43,038	–
Pakistan investment bonds		272,984	248,926
		1,600,641	1,372,614

35.9.1 The amount represents balance which is deposited with the branches of the Bank. Further, the funds primarily invest in Government securities which do not carry any credit risk. These are subject to interest rate risk based on market movements. These risks are regularly monitored by the Trustees of the employees' 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:

	2020 Rupees in '000
1 % increase in discount rate	(158,135)
1 % decrease in discount rate	185,197
1% increase in expected future increment in salary	185,710
1% decrease in expected future increment in salary	(161,390)
10% increase in expected withdrawal rate	737
10% decrease in expected withdrawal rate	(763)
1% increase in expected mortality rate	891
1% decrease in expected mortality rate	(217)

Although the analysis does not take account of the full distribution of expected cash flows, it does provide an approximation of the sensitivity of the assumptions shown.

35.11 Expected contributions to be paid to the fund in the next financial year

167,295

35.12 Expected charge for the next financial year

167,295

35.13 Maturity profile

The weighted average duration of the obligation is 10 years

35.14 Funding Policy

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

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

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

36. DEFINED CONTRIBUTION PLAN

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

Number of the members participating in the fund at the end of the year 30 June 2020 as per accounts are 3,743 (30 June 2019: 3,567).

37. COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

37.1 Total compensation expense

	2020						
	Chairman	Directors Executives	Non- executives	Members Shari'ah Board	President & Chief Executive Officer	Key management personnel	Other material risk taker / controller
	Rupees in '000						
Fees	-	-	4,450	-	-	-	-
Managerial remuneration							
Fixed	-	-	-	9,936	115,929	287,550	478,747
Charge for defined benefit plan	-	-	-	135	3,162	9,042	13,672
Contribution to defined contribution plan	-	-	-	192	4,500	12,870	17,359
Utilities	189	-	-	-	1,360	-	-
Travelling	728	-	-	-	-	-	-
Others	6,013	-	-	-	-	-	-
	<u>6,930</u>	<u>-</u>	<u>4,450</u>	<u>10,263</u>	<u>124,951</u>	<u>309,462</u>	<u>509,778</u>
Number of persons	<u>1</u>	<u>-</u>	<u>7</u>	<u>3</u>	<u>1</u>	<u>18</u>	<u>92</u>
2019							
	Chairman	Directors Executives	Non- executives	Members Shari'ah Board	President & Chief Executive Officer	Key management personnel	Other material risk taker / controller
	Rupees in '000						
Fees	-	-	4,250	-	-	-	-
Managerial remuneration							
Fixed	-	-	-	9,768	103,050	295,281	386,867
Charge for defined benefit plan	-	-	-	188	4,686	12,931	16,291
Contribution to defined contribution plan	-	-	-	165	4,500	12,447	14,349
Utilities	1,895	-	-	-	1,198	-	-
Travelling	5,224	-	-	-	-	-	-
Others	5,899	-	-	-	46	-	-
	<u>13,018</u>	<u>-</u>	<u>4,250</u>	<u>10,121</u>	<u>113,480</u>	<u>320,659</u>	<u>417,507</u>
Number of persons	<u>1</u>	<u>-</u>	<u>5</u>	<u>3</u>	<u>1</u>	<u>21</u>	<u>79</u>

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

37.1.2 In addition to above, bonus paid to the chief executive and executives of the Bank amounted to Rs. 25,000 thousand (2019: Rs. 25,000 thousand) and Rs. 75,962 thousand (2019: Rs. 36,500 thousand) respectively.

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

		2020				
		Meeting fees and allowances paid				
Sr. no.	Name of director	For Board meetings	For Board committees			Total amount paid
			Audit	Information technology	Human resource & remuneration	
			Rupees in '000			
1	Mohamedali R. Habib	–	–	–	–	–
2	Ali S. Habib	–	300	–	–	300
3	Anjum Z. Iqbal	–	–	–	–	–
4	Firasat Ali	500	100	250	200	1,500
5	Mohomed Bashir	500	–	–	–	500
6	Muhammed H. Habib	–	–	–	–	–
7	Sohail Hasan	100	450	–	–	550
8	Tariq Ikram	100	–	–	150	250
9	Rashid Ahmed Jafer	300	350	–	–	650
10	Tahira Raza	300	–	–	150	700
11	Mohsin A. Nathani	–	–	–	–	–
		1,800	1,200	250	500	4,450

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

37.3 Remuneration paid to Shari'ah Board Members

	2020			2019		
	Chairman	Resident member	Non-resident members	Chairman	Resident member	Non-resident members
	Rupees in '000					
Managerial remuneration						
Fixed	3,000	5,136	1,800	3,050	4,868	1,850
Variable - cash bonus	-	300	-	-	-	-
Charge for defined benefit plan	-	135	-	-	188	-
Contribution to defined contribution plan	-	192	-	-	165	-
	<u>3,000</u>	<u>5,763</u>	<u>1,800</u>	<u>3,050</u>	<u>5,221</u>	<u>1,850</u>
Total number of person	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

38. FAIR VALUE MEASUREMENTS

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

38.1 Fair value of financial assets

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

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

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

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

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

2020					
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	534,252,336	-	534,252,336	-	534,252,336
Sukuk certificates and bonds	7,269,073	-	7,269,073	-	7,269,073
Ordinary shares of listed companies	862,669	862,669	-	-	862,669
Mutual funds - open end	18,304	-	18,304	-	18,304
- close end	8,275	8,275	-	-	8,275
Real estate investment trust	375,429	375,429	-	-	375,429
Listed term finance certificates	2,826,707	-	2,826,707	-	2,826,707
Unlisted term finance certificates	-	-	-	-	-
Financial assets - disclosed but not measured at fair value					
- Investments					
- Held-to-maturity securities					
Federal government securities	34,358,396	-	-	-	-
Certificates of investments	3,675,000	-	-	-	-
- Subsidiaries					
Ordinary shares of listed companies	180,000	-	-	-	-
Ordinary shares of unlisted companies	650,000	-	-	-	-
- Available-for-sale securities					
Ordinary shares of unlisted companies	55,444	-	-	-	-
	<u>584,531,633</u>	<u>1,246,373</u>	<u>544,366,420</u>	<u>-</u>	<u>545,612,793</u>
Off-balance sheet financial instruments measured at fair value					
- Forward purchase of foreign exchange contracts	<u>245,157,873</u>	<u>-</u>	<u>241,170,544</u>	<u>-</u>	<u>241,170,544</u>
- Forward sale of foreign exchange contracts	<u>190,640,128</u>	<u>-</u>	<u>187,884,199</u>	<u>-</u>	<u>187,884,199</u>
2019					
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	396,848,475	-	396,848,475	-	396,848,475
Sukuk certificates and bonds	6,109,534	-	6,109,534	-	6,109,534
Ordinary shares of listed companies	400,307	400,307	-	-	400,307
Mutual funds - open end	18,573	-	18,573	-	18,573
- close end	11,138	11,138	-	-	11,138
Real estate investment trust	442,368	442,368	-	-	442,368
Listed term finance certificates	3,095,455	-	3,095,455	-	3,095,455
Unlisted term finance certificates	8,559	-	8,559	-	8,559
Financial assets - disclosed but not measured at fair value					
- Investments					
- Held-to-maturity securities					
Federal government securities	36,089,874	-	-	-	-
Certificates of investments	5,000,000	-	-	-	-
- Subsidiaries					
Ordinary shares of listed companies	180,000	-	-	-	-
Ordinary shares of unlisted companies	650,000	-	-	-	-
- Available-for-sale securities					
Ordinary shares of unlisted companies	55,444	-	-	-	-
	<u>448,909,727</u>	<u>853,813</u>	<u>406,080,596</u>	<u>-</u>	<u>406,934,409</u>
Off-balance sheet financial instruments measured at fair value					
- Forward purchase of foreign exchange contracts	<u>303,454,611</u>	<u>-</u>	<u>283,969,816</u>	<u>-</u>	<u>283,969,816</u>
- Forward sale of foreign exchange contracts	<u>260,497,060</u>	<u>-</u>	<u>245,666,261</u>	<u>-</u>	<u>245,666,261</u>

39. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	31 December 2020			
	Trade & sales	Retail banking	Commercial banking	Total
	Rupees in '000			
Profit and Loss				
Net mark-up / return / profit	40,844,573	(13,433,229)	1,351,386	28,762,730
Inter segment revenue - net	(34,665,155)	24,106,346	10,558,809	-
Non mark-up / return / interest income	22,936	19,290	9,608,050	9,650,276
Total income	6,202,354	10,692,407	21,518,245	38,413,006
Segment direct expenses	(314,782)	-	-	(314,782)
Inter segment expense allocation	-	(4,211,129)	(10,348,597)	(14,559,726)
Total expenses	(314,782)	(4,211,129)	(10,348,597)	(14,874,508)
Provisions	(173,306)	(9,581)	(3,318,826)	(3,501,713)
Profit before tax	5,714,266	6,471,697	7,850,822	20,036,785
Balance Sheet				
Cash and bank balances	1,815,058	23,136,227	31,734,180	56,685,465
Investments	584,531,633	-	-	584,531,633
Net inter segment lending	-	284,961,421	179,393,498	464,354,919
Lendings to financial institutions	1,000,000	-	-	1,000,000
Advances - performing	-	3,625,775	308,554,749	312,180,524
Advances - non-performing	-	27,203	19,274,853	19,302,056
Provision against advances	-	(16,089)	(19,299,686)	(19,315,775)
Others	9,743,974	2,650,754	50,793,552	63,188,280
Total assets	597,090,665	314,385,291	570,451,146	1,481,927,102
Borrowings	95,962,712	-	105,760,137	201,722,849
Deposits and other accounts	-	288,049,370	392,906,342	680,955,712
Net inter segment borrowing	464,354,919	-	-	464,354,919
Others	6,170,146	9,742,895	61,332,370	77,245,411
Total liabilities	566,487,777	297,792,265	559,998,849	1,424,278,891
Equity	30,602,888	16,593,026	10,452,297	57,648,211
Total equity and liabilities	597,090,665	314,385,291	570,451,146	1,481,927,102
Contingencies and commitments	435,798,001	-	254,931,857	690,729,858

	31 December 2019			
	Trade & sales	Retail banking	Commercial banking	Total
	Rupees in '000			
Profit and Loss				
Net mark-up / return / profit	31,733,207	(16,441,905)	2,099,650	17,390,952
Inter segment revenue - net	(27,969,643)	20,677,098	7,292,545	–
Non mark-up / return / interest income	(1,112,787)	402,732	8,057,146	7,347,091
Total income	2,650,777	4,637,925	17,449,341	24,738,043
Segment direct expenses	(239,064)	–	–	(239,064)
Inter segment expense allocation	–	(3,703,167)	(9,151,772)	(12,854,939)
Total expenses	(239,064)	(3,703,167)	(9,151,772)	(13,094,003)
Provisions	(55,999)	(6,095)	(344,075)	(406,169)
Profit before tax	2,355,714	928,663	7,953,494	11,237,871
Balance Sheet				
Cash and bank balances	1,408,736	29,210,677	42,155,796	72,775,209
Investments	448,909,727	–	–	448,909,727
Net inter segment lending	–	240,325,478	117,585,753	357,911,231
Lendings to financial institutions	22,197,303	–	–	22,197,303
Advances - performing	–	3,416,247	259,915,040	263,331,287
Advances - non-performing	–	14,728	17,518,410	17,533,138
Provision against advances	–	(18,138)	(16,897,814)	(16,915,952)
Others	13,083,500	2,467,871	36,388,517	51,939,888
Total assets	485,599,266	275,416,863	456,665,702	1,217,681,831
Borrowings	96,270,129	–	48,192,103	144,462,232
Deposits and other accounts	–	252,753,562	359,115,686	611,869,248
Net inter segment borrowing	357,911,231	–	–	357,911,231
Others	7,937,392	8,725,655	42,538,543	59,201,590
Total liabilities	462,118,752	261,479,217	449,846,332	1,173,444,301
Equity	23,480,514	13,937,646	6,819,370	44,237,530
Total equity and liabilities	485,599,266	275,416,863	456,665,702	1,217,681,831
Contingencies and commitments	538,997,600	–	229,689,506	768,687,106

40. 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 and on substantially the same terms as for comparable transactions with person of similar standing. Contributions in respect of charge for employees' retirement benefits are made in accordance with actuarial valuation and terms of contribution plan. Salaries and allowances of the key management personnel are in accordance with the terms of their employment. Other transactions are at agreed terms.

Detail of transactions with related parties are as follows:

	2020						
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	Rupees in '000						
Balances with other banks							
In current accounts	98,181	-	112,889	-	-	-	211,070
Investments							
Opening balance	-	5,830,000	-	-	-	-	5,830,000
Investment made during the year	-	5,425,000	-	-	-	-	5,425,000
Investment redeemed / disposed off during the year	-	(8,750,000)	-	-	-	-	(8,750,000)
Closing balance	-	2,505,000	-	-	-	-	2,505,000
Advances							
Opening balance	-	-	4,097,808	222,737	-	-	4,320,545
Addition during the year	-	-	37,290,389	14,326	-	-	37,304,715
Repaid during the year	-	-	(36,751,851)	(41,125)	-	-	(36,792,976)
Closing balance	-	-	4,636,346	195,938	-	-	4,832,284
Other Assets							
Mark-up / return / interest receivable	-	16,386	6,592	-	-	-	22,978
Prepayments / advance deposits / other receivables	468	-	2,872	-	-	-	3,340
	468	16,386	9,464	-	-	-	26,318
Borrowings							
Opening balance	-	-	-	-	-	-	-
Borrowings during the year	-	-	-	-	-	-	-
Repaid during the year	-	-	-	-	-	-	-
Closing balance	-	-	-	-	-	-	-
Deposits							
Opening balance	529,172	577,491	11,263,025	262,708	785,494	911,553	14,329,443
Received during the year	18,649,846	130,889,225	1,656,353,576	1,339,687	2,195,407	3,443,908	1,812,871,649
Withdrawn during the year	(18,965,712)	(130,705,021)	(1,657,957,481)	(1,319,800)	(2,319,671)	(2,771,510)	(1,814,039,195)
Closing balance	213,306	761,695	9,659,120	282,595	661,230	1,583,951	13,161,897
Other liabilities							
Mark-up / return / interest payable	-	3,210	140,921	1,241	3,844	18,043	167,259
Management fee payable for technical and consultancy services *	204,497	-	-	-	-	-	204,497
Insurance and other liabilities	-	-	11,821	-	730	13,568	26,119
	204,497	3,210	152,742	1,241	4,574	31,611	397,875
Contingencies and commitments							
Transaction-related contingent liabilities	-	-	8,729,159	-	-	-	8,729,159
Trade-related contingent liabilities	-	-	2,027,205	-	-	-	2,027,205
	-	-	10,756,364	-	-	-	10,756,364

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

	2019					
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans
	Rupees in '000					
Balances with other banks						
In current accounts	111,070	-	79,224	-	-	190,294
Investments						
Opening balance	-	5,830,000	-	-	-	5,830,000
Investment made during the year	-	19,700,000	-	-	-	19,700,000
Investment redeemed / disposed off during the year	-	(19,700,000)	-	-	-	(19,700,000)
Closing balance	-	5,830,000	-	-	-	5,830,000
Advances						
Opening balance	-	31,606	2,787,011	115,507	-	2,934,124
Addition during the year	-	-	35,108,556	133,279	-	35,241,835
Repaid during the year	-	(31,606)	(33,797,759)	(26,049)	-	(33,855,414)
Closing balance	-	-	4,097,808	222,737	-	4,320,545
Other assets						
Mark-up / return / interest receivable	-	97,528	14,298	-	-	111,826
Prepayments / advance deposits / other receivables	-	-	5,604	-	-	5,604
	-	97,528	19,902	-	-	117,430
Borrowings						
Opening balance	8,823	-	-	-	-	8,823
Borrowings during the year	-	-	-	-	-	-
Repaid during the year	(8,823)	-	-	-	-	(8,823)
Closing balance	-	-	-	-	-	-
Deposits						
Opening balance	396,056	972,640	16,332,024	163,874	731,175	22,257,375
Received during the year	12,533,574	132,621,300	1,567,384,846	1,869,293	2,171,678	1,724,825,974
Withdrawn during the year	(12,400,458)	(133,016,449)	(1,572,453,845)	(1,770,459)	(2,117,359)	(1,732,753,906)
Closing balance	529,172	577,491	11,263,025	262,708	785,494	14,329,443
Other liabilities						
Mark-up / return / interest payable	-	4,558	369,452	2,960	6,541	568,494
Management fee payable for technical and consultancy services *	188,163	-	-	-	-	188,163
Insurance & other payables	-	-	6,332	-	-	118,845
	188,163	4,558	375,784	2,960	6,541	1,259,013
Contingencies & commitments						
Transaction-related contingent liabilities	-	-	8,166,062	-	-	8,166,062
Trade-related contingent liabilities	-	-	1,387,860	-	-	1,387,860
	-	-	9,553,922	-	-	9,553,922

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

Transactions during the period

	2020						
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	Rupees in '000						
Income							
Mark-up / return / interest earned	–	186,143	113,460	12,551	–	–	312,154
Fee and commission income	3,253	775	301,008	–	100	–	305,136
Dividend income	–	12,600	–	–	–	–	12,600
Rent income	5,616	4,323	–	–	–	–	9,939
Expense							
Mark-up / return / interest expensed	–	56,375	916,025	18,568	62,855	112,602	1,166,425
Commission / brokerage / bank charges expense	668	217	1,210	–	–	–	2,095
Salaries and allowances	–	–	–	527,681	–	–	527,681
Directors' fees	–	–	–	–	11,380	–	11,380
Charge to defined benefit plan	–	–	–	–	–	168,071	168,071
Contribution to defined contribution plan	–	–	–	–	–	216,071	216,071
Rent expenses	–	–	14,662	–	–	–	14,662
Insurance premium expenses	–	–	10,642	–	–	–	10,642
Maintenance, electricity, stationery & entertainment	6,970	–	82,656	–	–	–	89,626
Management fee expense for technical and consultancy services *	491,460	–	–	–	–	–	491,460
Donation	–	–	24,920	–	–	–	24,920
Professional / other charges	–	–	2,149	–	–	–	2,149

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

Transactions during the period

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

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

41. CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

	2020	2019
	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	54,230,203	43,786,789
Eligible Additional Tier 1 (ADT 1) capital	—	—
Total eligible tier 1 capital	54,230,203	43,786,789
Eligible tier 2 capital	5,841,005	1,621,537
Total eligible capital (tier 1 + tier 2)	60,071,208	45,408,326
Risk Weighted Assets (RWAs):		
Credit risk	302,514,003	267,526,564
Market risk	1,202,170	1,694,641
Operational risk	54,096,766	42,106,000
Total	357,812,939	311,327,205
Common equity tier 1 capital adequacy ratio	15.16%	14.06%
Tier 1 capital adequacy ratio	15.16%	14.06%
Total capital adequacy ratio	16.79%	14.59%
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%	12.50%
The Bank 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	54,230,203	43,786,789
Total exposures	1,300,017,087	1,093,901,591
Leverage ratio	4.17%	4.00%
Liquidity Coverage Ratio (LCR):		
Total high quality liquid assets	417,225,257	343,412,746
Total net cash outflow	184,000,188	174,022,506
Liquidity coverage ratio	227%	197%
Net Stable Funding Ratio (NSFR):		
Total available stable funding	611,485,655	494,729,185
Total required stable funding	303,443,125	290,546,266
Net stable funding ratio	202%	170%

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

42. RISK MANAGEMENT

Risk management aspects are embedded in the Bank's strategy, organization structure and processes. The Bank has adopted a cohesive risk management structure for credit, 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.

42.1 Credit Risk

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

As per Basel II methodology the gross credit risk weighted exposure incorporating relevant credit conversion factor is Rs. 302,514,003 thousand (2019: Rs. 267,526,564 thousand) as depicted in note 41.

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

Centralized Credit and Trade processing 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	2020				
	JCR-VIS	PACRA	S & P	Fitch	Moody's
Corporate	✓	✓	–	–	–
Banks	✓	✓	✓	✓	✓
Sovereigns	–	–	–	–	–
SME's	✓	✓	–	–	–
Securitisation	–	–	–	–	–
Others	–	–	–	–	–

Credit exposures subject to Standardised Approach

Exposures	Rating category	2020			2019		
		Amount outstanding	Deduction CRM	Net amount	Amount outstanding	Deduction CRM	Net amount
		Rupees in '000					
Corporate	1	74,715,478	10,548,924	64,166,554	48,542,726	8,924,191	39,618,535
	2	67,176,686	2,828,384	64,348,302	68,285,049	1,868,457	66,416,592
	3,4	23,092,796	–	23,092,796	19,722,344	–	19,722,344
	5,6	–	–	–	–	–	–
Claims on banks with original maturity of 3 months or less		4,335,289	–	4,335,289	23,300,848	–	23,300,848
Retail		21,501,313	6,107,997	15,393,316	19,295,388	5,602,152	13,693,236
Public sector entities	1	4,775,386	76,669	4,698,717	17,665,277	8,440,349	9,224,928
	2,3	3,143,087	30,269	3,112,818	3,464,113	1,542	3,462,571
Others		704,806,689	33,999,791	670,806,898	565,876,583	9,185,000	556,691,583
Unrated		211,146,481	37,775,007	173,371,474	170,709,695	30,672,028	140,037,667

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

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

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

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

42.1.1 Lendings to financial institutions

Credit risk by public / private sector	Gross lendings		Non-performing lendings		Provision held	
	2020	2019	2020	2019	2020	2019
	Rupees in '000					
Public / government	-	7,507,303	-	-	-	-
Private	1,000,000	14,690,000	-	-	-	-
	<u>1,000,000</u>	<u>22,197,303</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

42.1.2 Investment in debt securities

Credit risk by industry sector	Gross investments		Non-performing investments		Provision held	
	2020	2019	2020	2019	2020	2019
	Rupees in '000					
Chemical and pharmaceuticals	19,510	29,518	19,510	29,518	19,510	29,518
Electronics and electrical appliances	21,138	21,138	21,138	21,138	21,138	21,138
Financial	6,967,075	8,603,802	-	-	-	-
Power (electricity), gas, water, sanitary	6,319,908	5,101,187	-	-	-	-
Textile	9,500	9,500	9,500	9,500	9,500	9,500
Transport, storage and communication	70,403	78,962	70,403	70,403	70,403	70,403
Others	569,094,529	433,438,349	-	-	-	-
	<u>582,502,063</u>	<u>447,282,456</u>	<u>120,551</u>	<u>130,559</u>	<u>120,551</u>	<u>130,559</u>

Credit risk by public / private sector

Public / government	568,610,732	432,938,349	-	-	-	-
Private	13,891,331	14,344,107	120,551	130,559	120,551	130,559
	<u>582,502,063</u>	<u>447,282,456</u>	<u>120,551</u>	<u>130,559</u>	<u>120,551</u>	<u>130,559</u>

42.1.3 Advances

Credit risk by industry sector	Gross advances		Non-performing advances		Provision held	
	2020	2019	2020	2019	2020	2019
	Rupees in '000					
Agriculture, forestry, hunting and fishing	2,775,037	2,368,885	-	-	-	-
Automobile and transportation equipment	3,694,954	3,471,183	1,652,549	1,444,991	1,541,763	1,444,991
Cement	7,518,838	5,289,187	-	-	-	-
Chemicals and pharmaceuticals	22,562,747	18,368,431	381,169	429,050	375,685	345,391
Commercial trade	13,276,673	11,332,539	669,160	501,070	545,084	266,839
Commodity finance	33,999,791	9,185,000	-	-	-	-
Construction and real estate	3,666,550	3,436,882	54,958	46,430	46,430	42,929
Electronics and electrical appliances	8,650,277	8,461,996	293,307	293,478	293,307	288,478
Financial	845,909	1,397,031	-	-	-	-
Footwear and leather garments	1,399,583	1,420,120	11,907	11,907	11,907	11,907
Individuals	4,140,745	3,944,467	27,174	11,788	24,115	11,788
Mining and quarrying	81,708	49,545	-	-	-	-
Power (electricity), gas, water, sanitary	28,399,781	38,001,377	4,827,644	75,210	2,451,427	75,210
Services	6,688,335	5,432,362	172,490	174,541	96,521	139,889
Sugar	3,736,259	4,747,632	136,880	146,080	136,880	124,523
Textile	137,491,931	113,430,549	8,941,521	12,409,593	8,838,999	11,080,487
Transport, storage and communication	1,119,326	1,734,049	26,483	26,483	26,483	-
Others	51,434,136	48,793,190	2,106,814	1,962,517	2,029,006	1,461,983
	<u>331,482,580</u>	<u>280,864,425</u>	<u>19,302,056</u>	<u>17,533,138</u>	<u>16,417,607</u>	<u>15,294,415</u>
Credit risk by public / private sector	Gross advances		Non-performing advances		Provision held	
	2020	2019	2020	2019	2020	2019
	Rupees in '000					
Public / government	45,540,908	32,057,987	-	-	-	-
Private	285,941,672	248,806,438	19,302,056	17,533,138	16,417,607	15,294,415
	<u>331,482,580</u>	<u>280,864,425</u>	<u>19,302,056</u>	<u>17,533,138</u>	<u>16,417,607</u>	<u>15,294,415</u>

	2020	2019
	Rupees in '000	
42.1.4 Contingencies and commitments		
Credit risk by industry sector		
Agriculture, forestry, hunting and fishing	1,001,984	336,282
Automobile and transportation equipment	17,211,428	10,982,211
Cement	4,170,698	12,563,953
Chemicals and pharmaceuticals	21,641,181	20,531,217
Commercial trade	31,057,379	25,885,499
Construction & real estate	3,886,987	4,869,468
Electronics and electrical appliances	6,060,560	7,862,823
Financial	436,459,177	387,158,308
Footwear and leather garments	745,812	372,394
Mining and quarrying	59,966	54,670
Power (electricity), gas, water, sanitary	26,697,842	37,927,077
Services	28,936,900	4,724,870
Sugar	409,520	2,746,965
Textile	60,064,857	195,274,548
Transport, storage and communication	1,426,968	4,549,841
Others	50,898,599	52,846,980
	<u>690,729,858</u>	<u>768,687,106</u>
Credit risk by public / private sector		
Public / government	117,924,237	139,699,890
Private	572,805,621	628,987,216
	<u>690,729,858</u>	<u>768,687,106</u>

42.1.5 Concentration of advances

The bank top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs. 103,000,262 thousand (2019: 120,682,204 thousand) are as following:

Funded	76,560,921	61,315,041
Non-Funded	26,439,341	59,367,163
Total Exposure	<u>103,000,262</u>	<u>120,682,204</u>

The sanctioned limits against these top 10 exposures aggregated to Rs 144,497,273 thousand (2019: 145,090,292 thousand).

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

42.1.6 Advances - province / region-wise disbursement & utilization

Province / region	2020						
	Disburse-ments	Utilization					AJK including Gilgit-Baltistan
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	
		Rupees in '000					
Punjab	127,846,475	123,859,922	3,726,069	–	–	260,484	–
Sindh	200,662,881	7,276,142	184,282,902	401,398	8,702,439	–	–
KPK including FATA	744,344	–	–	744,344	–	–	–
Balochistan	16,499	–	–	–	16,499	–	–
Islamabad	1,901,247	14,998	–	–	–	1,886,249	–
AJK including Gilgit-Baltistan	311,134	–	–	–	–	–	311,134
	<u>331,482,580</u>	<u>131,151,062</u>	<u>188,008,971</u>	<u>1,145,742</u>	<u>8,718,938</u>	<u>2,146,733</u>	<u>311,134</u>

Province / region	2019						
	Disburse-ments	Utilization					AJK including Gilgit-Baltistan
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	
		Rupees in '000					
Punjab	96,815,965	96,129,429	583,128	–	–	103,408	–
Sindh	179,384,861	9,769,759	167,112,157	–	2,502,945	–	–
KPK including FATA	557,432	–	–	557,432	–	–	–
Balochistan	13,738	–	–	–	13,738	–	–
Islamabad	3,779,706	14,865	–	–	–	3,764,841	–
AJK including Gilgit-Baltistan	312,723	–	–	–	–	–	312,723
	<u>280,864,425</u>	<u>105,914,053</u>	<u>167,695,285</u>	<u>557,432</u>	<u>2,516,683</u>	<u>3,868,249</u>	<u>312,723</u>

42.2 Market risk

Market Risk is the risk of loss in earnings and capital due to adverse changes in interest rates, foreign exchange rates, equity prices and market conditions. The COVID-19 impacted global economies and regulators around the world have announced various fiscal and economic measures to mitigate its impact. The Government and the State Bank of Pakistan have also taken various fiscal and regulatory measures and reforms. The major step taken by SBP was to reduce the policy rate by 625bps to sustain economic activities.

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

Market risk can be categorised into interest rate risk, foreign exchange risk and equity position risk.

42.2.1 Balance sheet split by trading and banking books

	2020			2019		
	Banking book	Trading book	Total	Banking book	Trading book	Total
Rupees in '000						
Cash and balances with treasury banks	54,694,603	–	54,694,603	70,713,603	–	70,713,603
Balances with other banks	1,990,862	–	1,990,862	2,061,606	–	2,061,606
Lendings to financial institutions	1,000,000	–	1,000,000	22,197,303	–	22,197,303
Investments	584,531,633	–	584,531,633	448,909,727	–	448,909,727
Advances	312,166,805	–	312,166,805	263,948,473	–	263,948,473
Fixed assets	9,033,002	–	9,033,002	8,306,783	–	8,306,783
Intangible assets	89,690	–	89,690	66,462	–	66,462
Deferred tax assets	1,156,509	–	1,156,509	3,712,435	–	3,712,435
Other assets	52,909,079	–	52,909,079	39,854,208	–	39,854,208
	<u>1,017,572,183</u>	<u>–</u>	<u>1,017,572,183</u>	<u>859,770,600</u>	<u>–</u>	<u>859,770,600</u>

42.2.2 Foreign exchange risk

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

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

	2020			
	Foreign currency assets	Foreign currency liabilities	Off-balance sheet items	Net foreign currency exposure
Rupees in '000				
United States Dollar	47,714,184	(92,864,697)	45,324,956	174,443
Euro	3,533,052	(3,828,412)	340,020	44,660
Great Britain Pound	1,120,241	(5,976,637)	4,867,204	10,808
Asian Currency Unit	629,113	(1,011,354)	–	(382,241)
Japanese Yen	84,600	(112)	(61,992)	22,496
Arab Emirates Dirham	195,539	(16)	(195,814)	(291)
Canadian Dollar	39,485	–	(18,824)	20,661
Australian Dollar	20,206	–	(12,329)	7,877
Saudi Riyal	8,301	–	–	8,301
Chinese Yuan	287,302	–	(300,121)	(12,819)
Other currencies	45,037	–	(16,763)	28,274
	<u>53,677,060</u>	<u>(103,681,228)</u>	<u>49,926,337</u>	<u>(77,831)</u>

	2019			
	Foreign currency assets	Foreign currency liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
United States Dollar	60,775,646	(99,687,924)	39,500,303	588,025
Euro	3,826,292	(2,485,074)	(1,296,276)	44,942
Great Britain Pound	926,582	(5,700,743)	4,772,001	(2,160)
Asian Currency unit	421,701	(1,000,283)	–	(578,582)
Japanese Yen	79,473	(117)	(78,403)	953
Arab Emirates Dirham	130,230	(16)	(107,710)	22,504
Canadian Dollar	34,861	–	(17,803)	17,058
Australian Dollar	28,507	–	(17,899)	10,608
Saudi Riyal	5,807	–	–	5,807
Other Currencies	329,531	(688)	(268,256)	60,587
	<u>66,558,630</u>	<u>(108,874,845)</u>	<u>42,485,957</u>	<u>169,742</u>

	2020		2019	
	Banking book	Trading book	Banking book	Trading book
	Rupees in '000			
Impact of 1% change in foreign exchange rates on				
- Profit and loss account	(506)	–	(1,103)	–
- Other comprehensive income	–	–	–	–

42.2.3 Equity position risk

Equity position risk arises due to adverse movements in equity prices. The Bank's policy is to take equity position in high dividend yield scripts. The Bank as a policy does not enter into any kind of proprietary equity trades. Equity position risk of the Bank is mitigated through portfolio and scrip limits advised by the 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.

	2020		2019	
	Banking book	Trading book	Banking book	Trading book
	Rupees in '000			
Impact of 5% change in equity prices on				
- Profit and loss account	(22,970)	–	(8,150)	–
- Other comprehensive income	(17,537)	–	(19,599)	–

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

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

	2020				2019	
	Banking book	Trading book	Rupees in '000		Banking book	Trading book
Impact of 1% change in interest rates on						
– Profit and loss account						
– Other comprehensive income	(2,955,348)					(3,222,348)

42.2.5 Mismatch of interest rate sensitive assets and liabilities

	2020									
	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	Non-interest bearing financial instruments
Assets										
Cash and balances with treasury banks	0.00%	10,176,561	-	-	-	-	-	-	-	44,518,042
Balances with other banks	5.50%	1,990,862	-	-	-	-	-	-	-	1,986,166
Lendings to financial institutions	7.50%	1,000,000	-	-	-	-	-	-	-	-
Investments	5.95% to 13.39%	91,028,688	182,732,579	117,265,728	38,362,954	69,388,688	-	63,462,925	19,752,914	2,537,157
Advances	0.5% to 19%	312,166,805	244,383,921	16,251,009	1,439,959	19,762,576	2,064,436	3,649,470	9,148,362	-
Other assets		50,076,553	-	-	-	-	-	-	-	50,076,553
		1,004,460,456	427,116,500	133,516,737	39,802,913	89,151,264	2,064,436	67,112,395	28,901,276	99,117,918
Liabilities										
Bills payable		-	-	-	-	-	-	-	-	15,421,002
Borrowings	0% to 7.05%	104,684,574	42,596,447	15,930,709	729,775	19,549,526	1,600,497	3,358,008	8,800,575	4,319,120
Deposits and other accounts	0.25% to 16.67%	181,877,158	66,060,410	160,265,927	28,465,497	2,262,186	2,546,948	5,132,638	20,000	234,324,948
Other liabilities		58,005,143	-	-	-	-	-	-	-	58,005,143
		956,104,706	108,656,857	176,196,636	29,195,272	21,811,712	4,147,445	8,490,646	8,820,575	312,070,213
On-balance sheet gap		48,355,750	318,459,643	(42,679,899)	10,607,641	67,339,552	(2,083,009)	58,621,749	20,080,701	(212,952,295)

On-balance sheet financial instruments

Assets

Cash and balances with treasury banks	0.00%
Balances with other banks	5.50%
Lendings to financial institutions	7.50%
Investments	5.95% to 13.39%
Advances	0.5% to 19%
Other assets	

Liabilities

Bills payable	
Borrowings	0% to 7.05%
Deposits and other accounts	0.25% to 16.67%
Other liabilities	

Off-balance sheet financial instruments

Off-balance sheet financial instruments

Commitments in respect of:	
Forward foreign exchange contracts	
Syndicate financing	
Letters of credit	
Acquisition of fixed assets	

Off-balance sheet gap

Total yield / interest risk sensitivity gap	
Cumulative yield / interest risk sensitivity gap	

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

42.3 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, and Change Risk Assessment. 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.

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. 4,327,741 thousand (2019: Rs. 3,368,480 thousand).

42.4 Liquidity risk

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

Governance of liquidity risk management

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 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.

Liquidity position of the bank remained strong in spite of approving deferment requests of principal & restructured loan, in line with the SBP directives. HabibMetro'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.

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

2020

		Rupees in '000													
Total		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															
Balances with other banks															
Lendings to financial institutions															
54,694,603	54,694,603	-	-	-	-	-	-	-	-	-	-	-	-	-	
1,990,862	1,990,862	-	-	-	-	-	-	-	-	-	-	-	-	-	
1,000,000	-	1,000,000	-	-	-	-	-	-	-	-	-	-	-	-	
584,531,633	1,707,157	2,500,000	41,654,853	46,426,730	92,038,997	82,657,251	65,323,816	34,890,274	3,608,688	69,389,296	52,062,743	64,190,237	28,081,591		
312,166,805	43,068,890	1,824,136	3,209,066	10,693,816	86,346,370	47,111,880	52,810,672	15,058,162	4,275,218	23,761,096	5,670,257	9,325,769	9,011,473		
9,033,002	27,036	162,213	189,249	459,604	158,706	158,706	480,563	469,649	469,649	1,780,244	890,469	1,047,651	2,739,263		
89,690	131	787	918	2,229	4,065	4,065	12,195	12,195	12,195	40,910	-	-	-		
1,156,509	16,959	101,756	118,715	288,307	250,798	250,797	163,116	108,329	108,329	(13,221)	(104,620)	(131,416)	(1,340)		
52,909,079	1,451,462	8,708,774	10,160,236	24,674,860	389,403	389,403	254,451	1,985,677	1,985,677	1,511,029	717,516	678,634	1,957		
1,017,572,183	102,957,100	14,297,666	55,333,037	82,545,546	179,188,339	130,572,102	119,044,813	52,524,286	10,459,756	96,469,354	59,236,365	75,110,875	39,832,944		
		Rupees in '000													
Total		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	
Liabilities															
Bills payable															
Borrowings															
Deposits and other accounts															
Liabilities against assets subject to finance lease															
Sub-ordinated debts															
Deferred tax liabilities															
Other liabilities															
15,421,002	15,421,002	-	-	-	-	-	-	-	-	-	-	-	-	-	
201,722,849	13,521,002	82,444,525	13,038,167	667,989	41,928,458	15,930,709	48,041,248	12,311,496	729,775	19,549,526	1,600,497	3,358,008	8,954,193		
680,955,712	428,364,703	29,125,871	14,435,147	56,449,001	34,309,520	31,802,954	48,041,248	12,311,496	16,360,602	2,056,161	2,549,278	5,129,731	20,000		
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
61,824,409	1,493,808	8,962,847	10,456,654	25,394,732	247,378	247,377	471,826	2,681,203	2,681,203	2,077,783	2,329,944	2,782,487	1,997,167		
959,923,972	458,800,515	120,533,243	24,891,801	94,881,900	35,224,887	73,978,789	64,443,783	14,992,699	19,771,580	23,683,470	6,479,719	11,270,226	10,971,360		
57,648,211	(355,843,415)	(106,235,577)	30,441,236	(12,336,354)	143,963,452	56,593,313	54,601,030	37,531,587	(9,311,824)	72,785,884	52,756,646	63,840,649	28,861,584		
Net assets															
Share capital															
Reserves															
Surplus on revaluation of assets															
Unappropriated profit															
10,478,315	19,986,241	3,164,807	24,018,848	57,648,211											
10,478,315	19,986,241	3,164,807	24,018,848	57,648,211											

2019

[illegible]

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

2020

	Rupees in '000									
	Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
Assets										
Cash and balances with treasury banks	54,694,603	54,694,603	-	-	-	-	-	-	-	-
Balances with other banks	1,990,862	1,990,862	-	-	-	-	-	-	-	-
Lendings to financial institutions	1,000,000	1,000,000	-	-	-	-	-	-	-	-
Investments	584,531,633	92,288,740	174,696,248	65,323,816	38,498,962	69,389,296	52,062,743	64,190,237	27,251,591	830,000
Advances	312,166,805	58,795,908	133,458,250	52,810,672	19,333,380	23,761,096	5,670,257	9,325,769	9,011,473	-
Fixed assets	9,033,002	838,102	317,412	480,563	939,298	1,780,244	890,469	1,047,651	1,418,151	1,321,112
Intangible assets	89,690	4,065	8,130	12,195	24,390	40,910	-	-	-	-
Deferred tax assets	1,156,509	525,737	501,595	163,116	216,658	(13,221)	(104,620)	(131,416)	(4,574)	3,234
Other assets	52,909,079	44,995,333	778,806	254,451	3,971,354	1,511,029	717,516	678,634	1,956	-
	1,017,572,183	255,133,350	309,760,441	119,044,813	62,984,042	96,469,354	59,236,365	75,110,875	37,678,597	2,154,346
Liabilities										
Bills payable	15,421,002	15,421,002	-	-	-	-	-	-	-	-
Borrowings	201,722,849	109,003,694	42,596,447	15,930,709	729,775	19,549,526	1,600,497	3,358,008	8,800,575	153,618
Deposits and other accounts	680,955,712	146,590,460	108,480,878	260,195,690	92,096,203	65,892,895	2,546,948	5,132,638	20,000	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Sub-ordinated debts	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	61,824,409	46,308,041	494,755	471,826	5,362,406	2,077,783	2,329,944	2,782,487	1,991,929	5,238
	959,923,972	317,323,197	151,572,080	276,598,225	98,188,384	87,520,204	6,477,389	11,273,133	10,812,504	158,856
Net assets	57,648,211	(62,189,847)	158,188,361	(157,553,412)	(35,204,342)	8,949,150	52,758,976	63,837,742	26,866,093	1,995,490

43. GENERAL

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

43.2 Non adjusting event after statement of financial position date

The Board of Directors in its meeting held on 22 February 2021 has proposed a final cash dividend of Rs. 2.5 per share amounting to Rs. 2,619,579 thousand (2019: final cash dividend of Rs. 2.50 per share amounting to Rs. 2,619,579 thousand) in addition to interim dividend of Rs. 2.00 per share amounting to Rs. 2,095,663 thousand (2019: NIL) for approval by the members of the Bank in the forthcoming Annual General Meeting.

43.3 Corresponding figures

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

44. DATE OF AUTHORISATION FOR ISSUE

These unconsolidated financial statements were authorised for issue on 22 February 2021 by the Board of Directors of the Bank.

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

TAHIRA RAZA
Director

RASHID AHMED JAFER
Director

MOHAMEDALI R. HABIB
Chairman

ANNEXURE "I" AS REFERRED TO IN NOTE 10.6 OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF RS. 500,000/- OR ABOVE
PROVIDED DURING THE YEAR ENDED 31 DECEMBER 2020

S. No.	Name and address of the borrower	Name of individuals / partners / directors (with CNIC / NIC Number)	Father's / Husband's Name	Outstanding liabilities at beginning of the year				Principal written-off	Interest / mark-up waived	Other financial relief provided	Total
				Principal	Interest / mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	12
				Rupees in '000							
1	Al-Abid Silk Mills Limited A/39, SITE, Manghopir Road, Karachi.	Naseem A. Sattar 42301-0840043-1 Azim Ahmed 42301-0912143-9 Zarina Naseem 42301-0829619-0 Adia Naseem 42301-0783384-4 Sadaf Nadeem 42301-0878887-8 Reena Azim 42301-0831483-6	Shaikh Abdul Sattar Naseem Ahmed Naseem Abdul Sattar Naseem Ahmed Nadeem Younus Azim Ahmed	614,279	115,152	-	729,431	451,550	115,152	-	566,702
2	Husein Industries Limited HT-8, Landhi Industrial & Trading Estate, Karachi.	Rashid L. Jamal 42201-3460928-1 Aziz L. Jamal 42201-5349185-7 Husein Jamal 42201-3073498-5 Muhammad Ali Rashid 42201-7321400-1 Aisha Bai Suleman 42201-5798749-6 Suleman Aswani 42201-7187688-3	Latif Ibrahim Jamal Latif Ibrahim Jamal Aziz L. Jamal Rashid Jamal Latif Ibrahim Jamal Haji Qasim Aswani	361,191	164,703	-	525,894	237,538	164,703	-	402,241

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				
				5	6	7	8				
1	2	3	4	Rupees in '000				9	10	11	12
3	Indus Battery Industries (Pvt) Limited / Habib Jamal & Co. F/244, S.I.T.E., Karachi.	Asad Ahmed 42201-3798740-1	Mohammad Ahmed Ismail	14,015	49,961	-	63,976	-	46,128	-	46,128
		Tahir Ahmed 42201-4203452-3	Mohammad Ismail								
		Rashid Ahmed 42201-0498734-7	Mohammad Ahmed Ismail								
		Habib Jamal 42201-4383927-1	Mohammad Ismail								
		Khuram Jamal 42201-7257154-9	Habib Jamal								
		Shamima Begum 42201-4767570-4	W/o Ahmed Ismail								
		Farnaz Ahmed 42201-9401530-2	W/o Asad Ahmed								
		Kishwer Jamal 42201-9288941-4	W/o Habib Jamal								
4	Mehran Industries D-75, situated at Survey Sheet No. 14, Survey Sheet No. 35-P/1, SITE, Karach	Muhammad Shahid Bandukda 42201-4822665-1	Haji Muhammad	92,061	53,306	-	145,367	7,061	53,306	-	60,367
		Muhammad Saleem Bandukda 42201-5159450-3	Haji Muhammad								
		Muhammad Naeem Bandukda 42201-4044055-9	Haji Muhammad								
		Muhammad Nasir Bandukda 42201-3051809-7	Haji Muhammad								
		Shehnaz Bandukda 42000-0424901-8	Mohammed Javed								
		Ambreen Shakeel	Muhammed Shakeel								

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
				Interest / mark-up			Total				
				Principal	Interest / mark-up	Others					
1	2	3	4	5	6	7	8	9	10	11	12
				Rupees in '000							
5	Asta Textile (Pvt) Limited House No. 66, Block-C, Tech Society, Canal Bank Road, Lahore.	Azra Zaidi 35202-1942679-8 Hassan Shahzad 35202-6253582-1	Muhammad Tahir Zaidi Muhammad Tahir Zaidi	3,483	2,039	-	5,522	-	-	5,706	5,706
6	Tajmahal Sports Company P.O. Box 26, Daska Road, Sialkot.	Khalid Mehmood Gundra 34603-2274140-5 Nasir Mehmood Gundra 34603-2253901-5	Ghulam Rasool Gundra Ghulam Rasool Gundra	71,822	5,360	-	77,182	-	5,360	-	5,360
7	Top Star Industries House No. 285, Defence Officer Colony, Shami Road, Peshawar.	Kamran Ishaq 1730-11284624-1 Imran Ishaq 17301-8837939-1	Muhammad Ishaq Muhammad Ishaq	5,880	1,460	-	7,340	-	1,460	-	1,460
8	Sanaulla Woollen Industries D-123, SITE, Karachi.	Muhammad Tariq Yousuf 42201-0448964-1	Muhammad Yousuf	7,044	2,961	-	10,005	-	2,961	-	2,961
				1,169,775	394,942	-	1,564,717	696,149	389,070	5,706	1,090,925

Annexure - II

ISLAMIC BANKING BUSINESS

The bank is operating 32 (2019: 31) islamic banking branches and 218 (2019: 222) islamic banking windows at the end of the year.

	Note	2020 Rupees in '000	2019
ASSETS			
Cash and balances with treasury banks		4,970,404	5,696,506
Balances with other banks		—	—
Due from financial institutions	1	1,000,000	22,197,303
Investments	2	27,627,085	14,718,222
Islamic financing and related assets - net	3	56,672,907	22,425,248
Fixed assets	4	481,094	522,276
Intangible assets		—	—
Due from head office	5	204,715	3,950,351
Other assets		3,345,634	2,825,100
		<u>94,301,839</u>	<u>72,335,006</u>
LIABILITIES			
Bills payable		786,085	718,549
Due to financial institutions		16,609,708	4,275,353
Deposits and other accounts	6	68,493,450	61,261,923
Due to head office		—	—
Subordinated debt		—	—
Other liabilities	7	2,615,582	1,980,357
		<u>88,504,825</u>	<u>68,236,182</u>
NET ASSETS		<u>5,797,014</u>	<u>4,098,824</u>
REPRESENTED BY			
Islamic banking fund		5,503,996	3,003,871
Reserves		—	—
Surplus / (deficit) on revaluation of assets		(1,085,694)	6,920
Unappropriated profit	8	1,378,712	1,088,033
		<u>5,797,014</u>	<u>4,098,824</u>
CONTINGENCIES AND COMMITMENTS	9		

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

	Note	2020	2019
		Rupees in '000	
Profit / return earned	10	5,155,549	4,967,549
Profit / return expensed	11	(3,479,601)	(3,295,510)
Net profit / return		1,675,948	1,672,039
Other income			
Fee and commission income		217,190	152,188
Dividend income		35,793	9,484
Foreign exchange income		112,680	37,581
Income / (loss) from derivatives		—	—
Gain / (loss) on securities		254,201	84,925
Other income		38,948	22,359
Total other income		658,812	306,537
Total income		2,334,760	1,978,576
Other expenses			
Operating expenses		768,786	686,601
Workers welfare fund		—	—
Other charges		605	90
Total other expenses		769,391	686,691
Profit before provisions		1,565,369	1,291,885
Provisions and write offs - net		(186,657)	(203,852)
Profit before taxation		1,378,712	1,088,033

1. Due from financial institutions

	2020			2019		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
	Rupees in '000					
Unsecured						
Musharaka	1,000,000	—	1,000,000	14,690,000	—	14,690,000
Bai muajjal receivable from State Bank of Pakistan	—	—	—	7,507,303	—	7,507,303
	<u>1,000,000</u>	<u>—</u>	<u>1,000,000</u>	<u>22,197,303</u>	<u>—</u>	<u>22,197,303</u>

2. Investments by segments:

	2020				2019			
	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	15,750,214	–	(675,889)	15,074,325	–	–	–	–
– Bai muajjal	3,608,688	–	–	3,608,688	3,608,688	–	–	3,608,688
	19,358,902	–	(675,889)	18,683,013	3,608,688	–	–	3,608,688
Non-government debt securities								
– Listed	7,178,877	–	(393,601)	6,785,276	5,378,650	–	2,901	5,381,551
– Unlisted	2,175,000	–	(16,204)	2,158,796	5,723,964	–	4,019	5,727,983
	9,353,877	–	(409,805)	8,944,072	11,102,614	–	6,920	11,109,534
Total investments	<u>28,712,779</u>	<u>–</u>	<u>(1,085,694)</u>	<u>27,627,085</u>	<u>14,711,302</u>	<u>–</u>	<u>6,920</u>	<u>14,718,222</u>

3. Islamic financing and related assets - net

	Note	2020	2019
Rupees in '000			
Ijarah	3.1	189,891	385,320
Ijarah ILTF	3.1	74,207	–
Murabaha	3.2	5,111,746	7,754,898
Working capital musharaka		25,581,844	2,642,396
Diminishing musharaka		5,328,366	3,631,076
Salam		16,874	–
Istisna		1,642,581	569,445
Diminishing musharaka - islamic long term financing facility		764,708	–
Export refinance working capital musharaka		3,191,540	–
Export refinance murabaha		1,137,138	987,965
Export refinance istisna		1,149,500	872,438
Al-bai financing		136,797	637,706
Advances against:			
Ijarah		4,772	80,714
Diminishing musharaka - islamic long term financing facility		504,848	–
Diminishing musharaka - islamic refinance scheme for payment of wages and salaries		1,683,416	–
Diminishing musharaka - islamic financing facility for storage of agricultural produce		267,878	–
Diminishing musharaka - islamic temporary economic refinance facility		1,931,320	–
Murabaha	3.2	207,331	574,988
Diminishing musharaka		217,013	1,969,374
Salam		128,500	–

	2020	2019
	Rupees in '000	
Istisna	2,152,364	993,202
Export refinance murabaha	43,565	13,165
Export refinance istisna	5,748,195	1,911,104
Export refinance salam	150,000	—
Inventory related to		
Al-bai goods	25,577	—
Al-bai goods IERF	31,773	—
Salam goods	54,000	—
Istisna goods	8,820	23,803
Gross islamic financing and related assets	57,484,564	23,047,594
Provision against non-performing islamic financings	(811,657)	(622,346)
Islamic financing and related assets - net of provision	56,672,907	22,425,248

3.1 Ijarah

	2020					
	Cost			Accumulated Depreciation		Book value
	As at 1 Jan 2020	Additions / (deletions)	As at 31 Dec 2020	As at 1 Jan 2020	Charge for the year / (deletions)	As at 31 Dec 2020
	Rupees in '000					
Plant & machinery	398,702	85,908 (220,715)	263,895	204,879	195,808 (224,381)	176,306
Vehicles	307,547	11,845 (21,544)	297,848	116,050	115,075 (109,786)	121,339
Total	706,249	(144,506)	561,743	320,929	(23,284)	297,645
						264,098

	2019					
	Cost			Accumulated Depreciation		Book value
	As at 1 Jan 2019	Additions / (deletions)	As at 31 Dec 2019	As at 1 Jan 2019	Charge for the year / (deletions)	As at 31 Dec 2019
	Rupees in '000					
Plant & machinery	384,035	56,771 (42,104)	398,702	164,345	298,431 (257,897)	204,879
Vehicles	266,906	119,052 (78,411)	307,547	88,499	108,076 (80,525)	116,050
Total	650,941	55,308	706,249	252,844	68,085	320,929
						385,320

Future ijarah payments receivable

	2020				2019			
	Not later than 1 year	Later than 1 year & less than 5 years	Over Five years	Total	Not later than 1 year	Later than 1 year & less than 5 years	Over Five years	Total
	Rupees in '000							
Ijarah rental receivables	146,823	134,963	26,120	307,906	218,540	213,392	1,167	433,099

		Note	2020	2019
			Rupees in '000	
3.2 Murabaha				
Murabaha financing	3.2.1		5,111,746	7,754,898
Advances for murabaha			207,331	574,988
			5,319,077	8,329,886
3.2.1	Murabaha receivable - gross	3.2.2	5,295,597	8,146,332
	Less: deferred murabaha income	3.2.4	(114,184)	(213,623)
	Profit receivable shown in other assets		(69,667)	(177,811)
	Murabaha financings		5,111,746	7,754,898
3.2.2	The movement in murabaha financing during the year is as follows:			
	Opening balance		8,146,332	6,104,861
	Sales during the year		13,934,339	17,401,642
	Adjusted during the year		(16,785,074)	(15,360,171)
	Closing balance		5,295,597	8,146,332
3.2.3	Murabaha sale price		13,934,339	17,401,642
	Murabaha purchase price		(13,595,026)	(16,653,493)
			339,313	748,149
3.2.4	Deferred murabaha income			
	Opening balance		213,623	111,346
	Arising during the year		339,313	748,149
	Less: recognised during the year		(438,752)	(645,872)
	Closing balance		114,184	213,623

4. Fixed assets included right-of-use assets of Rs. 426,383 thousand and other liabilities included related lease liability of Rs 480,505 thousand.

5. Due from head office

Inter-branch transactions are made on qard basis.

6. Deposits

	2020			2019		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
Rupees in '000						
Customers						
Current deposits	13,143,714	4,477,348	17,621,062	11,870,383	3,358,637	15,229,020
Savings deposits	20,017,418	1,380,064	21,397,482	20,335,790	1,516,796	21,852,586
Term deposits	25,320,737	910,889	26,231,626	18,674,999	939,335	19,614,334
	<u>58,481,869</u>	<u>6,768,301</u>	<u>65,250,170</u>	<u>50,881,172</u>	<u>5,814,768</u>	<u>56,695,940</u>

Financial institutions

Current deposits	138,324	–	138,324	851	–	851
Savings deposits	3,104,956	–	3,104,956	4,040,132	–	4,040,132
Term deposits	–	–	–	525,000	–	525,000
	<u>3,243,280</u>	<u>–</u>	<u>3,243,280</u>	<u>4,565,983</u>	<u>–</u>	<u>4,565,983</u>
	<u>61,725,149</u>	<u>6,768,301</u>	<u>68,493,450</u>	<u>55,447,155</u>	<u>5,814,768</u>	<u>61,261,923</u>

2020 2019
Rupees in '000

6.1 Composition of deposits

Individuals	28,075,432	30,921,255
Government / public sector entities	1,812,640	35,343
Banking companies	2,002,918	3,652,371
Non-banking financial institutions	1,240,362	1,072,426
Private sector	<u>35,362,098</u>	<u>25,580,528</u>
	<u>68,493,450</u>	<u>61,261,923</u>

6.2 Particulars of deposits and other accounts

In local currency	61,725,149	55,447,155
In foreign currencies	<u>6,768,301</u>	<u>5,814,768</u>
	<u>68,493,450</u>	<u>61,261,923</u>

6.3 This includes eligible deposits of Rs. 26,194,094 thousand which are covered under deposit protection mechanism as required by the Deposit Protection Corporation circular no 4 of 2018.

	2020	2019
	Rupees in '000	
7. It includes charity fund, details of which are given below:		
Charity fund		
Opening balance	2,137	291
Additions during the period		
Received from customers on account of delayed payment	105	6,663
Dividend purification amount	-	-
Other non-sharia compliant income	-	-
Profit on charity saving account	-	-
	105	6,663
Payments / utilization during the period		
Education	(650)	(1,445)
Health	(1,592)	(3,372)
	(2,242)	(4,817)
Closing balance	-	2,137
Details of charity where amounts exceeds Rs 500,000 is as follows:		
The Citizen Foundation	-	674
Afzaal Memorial Thalassemia Foundation	-	674
Anjuman Behbood-e-Samat-e-Atfal	-	674
Shaukat Khanum Memorial Trust	-	674
Society for Welfare of Patient of SIUT	-	674
The Kidney Centre	-	674
The Layton Rehmatullah Benevolent Trust	-	674
8. Unappropriated profit		
Opening balance	1,088,033	446,464
Add: islamic banking profit for the period	1,378,712	1,088,033
Less: taxation	-	-
Less: reserves	-	-
Less: transferred to head office	(1,088,033)	(446,464)
Closing balance	1,378,712	1,088,033
9. Contingencies and commitments		
Guarantees	6,333,142	4,646,271
Commitments	18,237,313	4,175,877
	24,570,455	8,822,148
10. Profit / return earned of financing, investments and placement		
Profit earned on:		
Financing	2,232,445	2,031,739
Investments	2,326,245	1,272,668
Placements	596,859	1,663,142
	5,155,549	4,967,549

	2020	2019
	Rupees in '000	
11. Profit on deposits and other dues expensed		
Deposits and other accounts	3,279,484	3,143,486
Due to financial institutions	187,480	89,196
Lease liability against right-of-use assets	12,637	62,828
	<u>3,479,601</u>	<u>3,295,510</u>

12. Pool management

Following pools are maintained by the Bank's Islamic Banking Division (IBD)

- **General pool - local currency and foreign currencies**
Deposit accepted in general pool local and foreign currency is based on modaraba. Profit distributed to depositors as per pre agreed weightages.
- **Special pool**
Deposit accepted in special pools are based on modaraba. Profit distributed to depositors as per pre agreed profit sharing ratio.
- **Islamic export refinance scheme musharaka pool**
The IERS Pool caters the 'Islamic Export Refinance' requirements based on the guidelines issued by the SBP.

Nature of general / specific pools local and foreign currencies.

- a) Consideration attached with risk and reward
 - Period, return, safety, security and liquidity of investment
 - All financing proposals under process at various stages and likely to be extended in near future
 - Expected withdrawal of deposits according to the maturities affecting the deposit base
 - Maturities of funds obtained under modaraba arrangement from head office, islamic banking financial institutions
 - Element of risk associated with different kind of investments
 - Regulatory requirement
 - Shariah compliance
- b) Priority of utilization of funds
 - Depositor funds
 - Equity funds
 - Placement / investments of other IBI
 - Mudaraba placement of Habib Metro (head office)

c) Weightages for distribution of profits

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

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

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

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

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

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

Islamic export refinance scheme musharaka pool

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

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

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

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

a) Basis of profit allocation

	From 1 January 2020 to 31 December 2020	
	Local currency	Foreign currencies
- Rabbul maal	62.24%	13.81%
- Mudarib	37.76%	86.19%

b) Charging expenses

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

c) Provisions

Specific provision amounting to Rs. 186,657 thousand (2019: 203,852 thousand) has been made during the year.

Mudarib share

	2020		2019	
	Rupees in '000	%	Rupees in '000	%
Rabbul maal	2,967,590	61.52%	3,181,614	66.57%
Mudarib	1,856,395	38.48%	1,597,827	33.43%
Distributable income	4,823,985	100.00%	4,779,441	100%

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

	2020	2019
	Rupees in '000	
Mudarib share	1,856,395	1,597,827
Hiba	150,139	184,665
Hiba percentage of mudarib share	8.09%	11.56%

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

	(% per annum)	
Profit rate earned	7.99	11.54
Profit rate distributed to depositors	5.50	7.09

PATTERN OF SHAREHOLDINGS

AS ON 31 DECEMBER 2020

Number of shareholders	Size of shareholding Rs. 10 each			Total shares held
315	1	to	100	8,249
343	101	to	500	118,555
230	501	to	1000	197,480
704	1001	to	5000	1,901,135
250	5001	to	10000	1,947,909
325	10001	to	15000	3,942,577
64	15001	to	20000	1,165,350
64	20001	to	25000	1,506,815
35	25001	to	30000	989,263
26	30001	to	35000	850,313
27	35001	to	40000	1,015,036
47	40001	to	50000	2,219,062
32	50001	to	60000	1,766,652
32	60001	to	80000	2,236,925
35	80001	to	100000	3,243,093
44	100001	to	150000	5,435,993
23	150001	to	200000	4,129,667
18	200001	to	250000	4,065,942
58	250001	to	500000	21,836,324
46	500001	to	1000000	33,788,439
12	1000001	to	1500000	13,800,084
10	1500001	to	2000000	16,585,592
18	2000001	to	3000000	42,358,368
7	3000001	to	4000000	23,667,390
14	4000001	to	10000000	79,684,990
9	10000001	to	52050000	244,976,223
1	534390001	to	534395000	534,394,054
2,789				1,047,831,480

COMBINED PATTERN OF SHAREHOLDINGS

AS ON 31 DECEMBER 2020

Categories of Shareholders	Number of Shareholders	Number of Shares held	(%)
Directors and their spouse(s) and minor children			
Anjum Z. Iqbal	1	500	0.00
Firasat Ali	1	500	0.00
Hamza Habib	1	1,000	0.00
Mohamedali R. Habib	1	1,612,524	0.15
Syeda Mohamedali R. Habib	1	805,065	0.08
Mohomed Bashir	1	16,340,985	1.56
Mohsin A. Nathani	1	2,550,000	0.24
Muhammad H. Habib	1	2,069,454	0.20
Farah Fatimah	1	1,037,157	0.10
Rashid Ahmed Jafer	1	500	0.00
Tahira Raza	1	500	0.00
Associated Companies, undertakings and related parties			
Habib Bank AG Zurich	1	534,394,054	51.00
Habib Insurance Co. Limited	1	3,243,924	0.31
Executives	3	272,500	0.03
NIT & ICP	1	38,974,607	3.72
Banks, Development Financial Institutions, Non Banking Financial Institutions	5	12,389,794	1.18
Insurance Companies	9	58,111,142	5.55
Modarabas and Mutual Funds			
First Al-Noor Modaraba	1	125	0.00
CDC - Trustee AKD Index Tracker Fund	1	112,248	0.01
CDC - Trustee APF-Equity Sub Fund	1	300,000	0.03
CDC - Trustee Atlas Stock Market Fund	1	4,839,500	0.46
CDC - Trustee First Habib Asset Allocation Fund	1	43,000	0.00
CDC - Trustee First Habib Stock Fund	1	50,000	0.00
CDC - Trustee MCB Pakistan Asset Allocation Fund	1	827,000	0.08
CDC - Trustee MCB Pakistan Stock Market Fund	1	2,546,500	0.24
CDC - Trustee NIT-Equity Market Opportunity Fund	1	406,000	0.04
CDC - Trustee Pakistan Capital Market Fund	1	179,000	0.02
CDC - Trustee Pakistan Pension Fund - Equity Sub Fund	1	340,000	0.03

Categories of Shareholders	Number of Shareholders	Number of Shares held	(%)
General Public			
a. Local	2,400	174,048,083	16.61
b. Foreign	247	4,606,349	0.44
Foreign Companies	17	99,054,499	9.45
Others	83	88,674,970	8.46
Totals	2,789	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 EXECUTIVES *

Name of Executive	Purchase	Sale
Mohsin A. Nathani - CEO	746,000	–
Wahid Yunus Dada	50,000	–
Yawar Ali Gulani	15,000	–

* The expression “Executives” means as key management and includes all executives in direct reporting to CEO.