

HABIBMETRO

THIRD QUARTER ACCOUNTS

2019



[Subsidiary of Habib Bank AG Zurich]

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هَذَا فَضْلُكَ

OUR VISION

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



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CORPORATE INFORMATION

BOARD OF DIRECTORS

CHAIRMAN

Mohamedali R. Habib

PRESIDENT & CHIEF EXECUTIVE OFFICER

Mohsin A. Nathani

DIRECTORS

Ali S. Habib

Anjum Z. Iqbal

Firasat Ali

Mohomed Bashir

Muhammad H. Habib

Sohail Hasan

Tariq Ikram

BOARD COMMITTEES

AUDIT

Ali S. Habib

Anjum Z. Iqbal

Sohail Hasan

CREDIT

Anjum Z. Iqbal

Mohamedali R. Habib

Mohsin A. Nathani

Muhammad H. Habib

HUMAN RESOURCE & REMUNERATION

Firasat Ali

Mohsin A. Nathani

Tariq Ikram

COMPANY SECRETARY

Ather Ali Khan

REGISTERED OFFICE

Ground Floor, Spencer's Building,

I. I. Chundrigar Road,

Karachi – 74200, Pakistan.

INFORMATION TECHNOLOGY

Anjum Z. Iqbal

Firasat Ali

Mohsin A. Nathani

RISK & COMPLIANCE

Anjum Z. Iqbal

Firasat Ali

Mohsin A. Nathani

SHARE REGISTRAR

CDC Share Registrar Services Limited

CDC House, 99-B, Block-B

S.M.C.H.S., Main Shahra-e-Faisal

Karachi - 74400.

DIRECTORS' REVIEW

On behalf of the Board of Directors of Habib Metropolitan Bank, I am pleased to present the un-audited accounts for the nine months ended 30th September 2019.

The economy is currently going through a rebalancing phase with a slowdown in growth driven by: PKR devaluation, higher interest rates, cuts in subsidies and development spending, and increased taxation. The slowdown is more pronounced in industries such as automobiles, cement and steel. This trend is also reflected in Large-scale Manufacturing, which contracted (more than expected) by 3.6 percent in FY19. Private sector credit also contracted by 1.3 percent in July-August FY20 depicting effects of the previous monetary tightening.

The current account improved significantly with a sizeable reduction of 32 percent (or 1.5 percent of GDP) in its deficit during FY19. Export volumes have been growing; however, growth in export dollar proceeds has been less pronounced due to declining prices. Exports have yet to show any material gains from the PKR depreciation in the past two years. The current account improvement is heavily skewed towards import contraction - a reflection of curtailed domestic demand - while key sources of external income continue to perform below expectations.

GDP growth is expected at around 3.5 percent in FY20. The recent macro-economic developments, including stabilization of the exchange rate, reserve accumulation, and narrowing current account deficit all point to a gradual stabilization of the economy. Fiscal deficit increased to 8.9 percent of GDP in FY19, which was higher than expected - however, the fiscal performance in the first three months of FY20 has been largely encouraging, with tax revenues up by 14 percent YoY.

The current account improvement, together with the disbursement of the IMF program related inflows and activation of the Saudi oil facility, boosted the SBP's foreign exchange reserves from USD 7 billion to USD 8.5 billion in the quarter under review. It seems there will be a significant reliance on private capital inflows, including international capital markets, to boost the Country's reserves going forward.

Inflation continued to accelerate and touched a seven-year high in September, by increasing to 12.5 percent (from 11.6 percent in August). However, inflation is expected to average at 11 - 12 percent in FY20.

The State Bank of Pakistan, at its meeting on 16th September 2019, decided to leave the policy rate unchanged at 13.25 percent.

By the Grace of Allah, HabibMetro continues to maintain its performance. The Bank's investments, advances and deposits grew to Rs. 479,238 million, Rs. 260,114 million and Rs. 600,898 million respectively as at 30th September 2019. The Bank posted a profit before tax of Rs. 8,716 million

for the nine months ended 30th September 2019, as against Rs. 7,339 million for the corresponding period last year, an increase of 18.8 percent. The profit after tax for the nine months ended 30th September 2019 was Rs. 5,008 million which translates into earnings per share of Rs. 4.78.

The Bank continues to enjoy AA+ (Double A Plus) ratings for Long Term, and A1+ (A one plus) ratings for Short Term by the Pakistan Credit Rating Agency Limited (PACRA) for the eighteenth consecutive year. These ratings denote a high credit quality, with a low expectation of credit risk, and a strong capacity for timely payment of financial commitments.

With a network of 371 branches in 120 cities across Pakistan, including 31 Islamic banking branches, and 221 Islamic banking windows, 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 Card and nationwide ATM network.

In the end, I would like to take this opportunity to place on record our sincere gratitude to the Ministry of Finance, the State Bank of Pakistan, and the Securities and Exchange Commission of Pakistan for their continued support and guidance. I would also like to thank our valued customers for their trust and support. Lastly, I would like to thank the staff of HabibMetro for their unwavering dedication and hard work.

On behalf of the Board

MOHSIN A. NATHANI

President & Chief Executive Officer

Karachi: 24 October 2019

بینک مسلسل اٹھارہ سال سے پاکستان کریڈٹ ریٹنگ ایجنسی لمیٹڈ (PACRA) کی جانب سے AA+ (ڈبل اے پلس) برائے طویل مدتی اور A1+ (اے ون پلس) برائے قلیل مدتی ریٹنگ حاصل کر رہا ہے جو اعلیٰ کریڈٹ کے معیار، کریڈٹ رسک کی کمی اور مالیاتی وعدوں کی بروقت ادائیگی کی مستحکم صلاحیت ظاہر کرتی ہے۔

پاکستان بھر میں 120 شہروں میں 371 شاخوں بشمول 31 اسلامک بینکنگ کی شاخوں اور 221 اسلامک بینکنگ ونڈوز کے ساتھ حبیب میٹرو بہترین اور مکمل بینکاری خدمات اور پروڈکٹس فراہم کرتا ہے۔ ان میں خصوصی تجارتی مالیاتی پروڈکٹس اور بہت سے دوسرے پروڈکٹس اور خدمات جیسے محفوظ SMS اور ویب اینڈ مو بائل بینکنگ سروسز، دنیا بھر میں قابل قبول ویزا کارڈ اور ملکی سطح پر اپنے کسٹمرز کیلئے ATM نیٹ ورک شامل ہیں۔

آخر میں اس موقع پر میں صدقِ دل سے وزارتِ مالیات، اسٹیٹ بینک آف پاکستان اور سیکیورٹیز اینڈ ایکسچینج کمیشن آف پاکستان کے تعاون اور ہدایات کیلئے شکر گزار ہوں۔ میں اپنے محترم اور قابلِ قدر کسٹمرز کا بھی ان کے اعتماد اور معاونت پر شکریہ ادا کرتا ہوں۔ میں حبیب میٹرو کے اسٹاف کا بھی مشکور ہوں جنہوں نے مستقل طور پر محنت اور جانفشانی سے کام کیا۔

منجانب پورڈ

محسن اے۔ ناٹھانی
صدر و چیف ایگزیکٹو آفیسر

کراچی: 24 اکتوبر 2019

ڈائریکٹرز ریویو

میں نہایت مسرت کے ساتھ حبیب میٹرو پولیٹن بینک کے بورڈ آف ڈائریکٹرز کی جانب سے 30 ستمبر 2019 کو ختم ہونے والی تیسری سہ ماہی کیلئے غیر آڈٹ شدہ اکاؤنٹس پیش کر رہا ہوں۔

معیشت موجودہ طور پر گرتھ میں سست روی کے ساتھ ایک ری ہیلنگ کے مرحلے سے گزر رہی ہے جس کے عوامل پاک روپے کی قدر میں کمی، بلند شرح سود، سبسڈیز اور ترقیاتی اخراجات میں کمی اور اضافی ٹیکسیشن ہے۔ یہ سست روی صنعتوں مثلاً آٹوموبائل، سیمنٹ اور اسٹیل میں زیادہ نمایاں ہے۔ یہ رجحان بڑے پیمانے پر مینوفیکچرنگ میں بھی نظر آتا ہے جہاں کمی (توقع سے زیادہ) مالی سال 2019 میں 3.6 فیصد رہی۔ نجی شعبے کے کریڈٹ میں بھی گزشتہ مالیاتی سخت نظم و ضبط کے اثرات واضح رہے اور جولائی - اگست مالی سال 2020 میں 1.3 فیصد کمی ہوئی۔

مالی سال 2019 کے دوران کرنٹ اکاؤنٹ خسارہ 32 فیصد (جی ڈی پی کا 1.5 فیصد) کی نمایاں کمی کے ساتھ واضح طور پر بہتر ہوا۔ برآمدات حجم میں اضافہ ہوا تاہم نرخوں میں کمی کے باعث برآمداتی ڈالر ترسیلات میں نمایاں اضافہ نہیں دیکھا گیا۔ گزشتہ 2 سالوں میں پاک روپے کی قدر میں کمی برآمدات میں ابھی تک کوئی واضح اضافہ نہیں دکھائی۔ درآمدات میں کمی، جو کہ مقامی طلب میں کمی کی عکاسی کرتا ہے، کرنٹ اکاؤنٹ میں بہتری کا باعث ہے، جبکہ بیرونی آمدنی کے کلیدی وسائل کی کارکردگی توقع سے کم رہی۔

جی ڈی پی گرتھ مالی سال 2020 میں لگ بھگ 3.5 فیصد پر رہنے کا امکان ہے۔ حالیہ میکرو اکنامک پیشرفت بشمول زرمبادلہ کی شرح میں استحکام، ذخائر میں اضافہ اور کرنٹ اکاؤنٹ خسارے میں کمی معیشت کی تدریجی استحکام کی جانب اشارہ کرتے ہیں۔ مالیاتی خسارہ مالی سال 2019 میں توقع سے زائد بڑھ کر جی ڈی پی کا 8.9 فیصد ہو گیا۔ تاہم مالیاتی کارکردگی مالی سال 2020 کے پہلے 3 ماہ میں خاصی حوصلہ افزاء رہی جس میں ٹیکس ریوینوز سال بہ سال 14 فیصد بڑھ گئے۔

کرنٹ اکاؤنٹ میں بہتری کے ساتھ آئی ایم اے پروگرام سے متعلق ان فلووز اور سعودی تیل کی سہولت کی فعالیت نے ایس بی بی کے غیر ملکی زرمبادلہ کے ذخائر کو زیر جائزہ سہ ماہی کے دوران 7 بلین امریکی ڈالر سے بڑھا کر 8.5 بلین امریکی ڈالر پر پہنچا دیا۔ بظاہر مستقبل میں قومی ذخائر کو فروغ دینے کیلئے نجی سرمائے کے ان فلووز اور عالمی کیپیٹل مارکیٹ پر زیادہ انحصار کرنا ہوگا۔

افراط زر کی شرح مسلسل بڑھتے ہوئے تیسری گزشتہ 7 سال کی بلند ترین سطح 12.5 فیصد (اگست میں 11.6 فیصد) تک پہنچ گئی۔ تاہم افراط زر مالی سال 2020 میں متوقع طور پر 11-12 فیصد کی اوسط پر رہے گا۔

اسٹیٹ بینک آف پاکستان نے 16 ستمبر 2019 کے اجلاس میں پالیسی ریٹ کو 13.25 فیصد کی شرح پر برقرار رکھا۔

اللہ تعالیٰ کے فضل و کرم سے حبیب میٹرو نے اپنی کارکردگی کا تسلسل برقرار رکھا۔ 30 ستمبر 2019 کو بینک کی سرمایہ کاری، ایڈوانسز اور ڈپازٹس بڑھ کر بالترتیب 479,238 ملین روپے، 260,114 ملین روپے اور 600,898 ملین روپے ہو گئے۔ 30 ستمبر 2019 کو ختم ہونے والی تیسری سہ ماہی کیلئے بینک کا قبل از ٹیکس منافع 8,716 ملین روپے رہا جو کہ گزشتہ سال کی اسی مدت کے قبل از ٹیکس منافع 7,339 ملین روپے سے 18.8 فیصد زائد ہے۔ 30 ستمبر 2019 کو ختم ہونے والی تیسری سہ ماہی کیلئے بعد از ٹیکس منافع 5,008 ملین روپے رہا جو کہ فی شخص آمدنی کے تناسب سے 4.78 روپے بنتا ہے۔

UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2019

	Note	30 September 2019 (Un-Audited)	31 December 2018 (Audited)
Rupees in '000			
ASSETS			
Cash and balances with treasury banks	6	55,115,940	48,177,009
Balances with other banks	7	1,555,680	1,115,557
Lendings to financial institutions	8	17,207,303	11,984,795
Investments	9	479,238,130	346,665,904
Advances	10	260,114,446	226,689,617
Fixed assets	11	7,895,445	3,899,579
Intangible assets	12	70,737	121,442
Deferred tax assets	13	4,903,038	5,821,182
Other assets	14	32,082,007	28,920,696
		858,182,726	673,395,781
LIABILITIES			
Bills payable	15	9,988,067	12,173,407
Borrowings	16	166,958,063	51,347,381
Deposits and other accounts	17	600,897,960	543,577,510
Liabilities against assets subject to finance lease		—	—
Sub-ordinated debts		—	—
Deferred tax liabilities		—	—
Other liabilities	18	39,447,674	29,295,527
		817,291,764	636,393,825
NET ASSETS		40,890,962	37,001,956
REPRESENTED BY			
Share capital		10,478,315	10,478,315
Reserves		17,269,481	16,267,793
(Deficit) / surplus on revaluation of assets - net of tax	19	(4,650,557)	(5,573,656)
Unappropriated profit		17,793,723	15,829,504
		40,890,962	37,001,956
CONTINGENCIES AND COMMITMENTS	20		

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

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

SOHAIL HASAN
Director

MOHOMED BASHIR
Director

MOHAMEDALI R. HABIB
Chairman

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

FOR THE QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 2019

	Note	30 September 2019		30 September 2018	
		Quarter ended	Nine months ended	Quarter ended	Nine months ended
Rupees in '000					
Mark-up / return / interest earned	22	20,411,548	51,085,549	10,780,954	30,562,758
Mark-up / return / interest expensed	23	(16,130,213)	(38,198,685)	(6,812,767)	(18,810,669)
Net mark-up / interest income		4,281,335	12,886,864	3,968,187	11,752,089
NON MARK-UP / INTEREST INCOME					
Fee and commission income	24	1,167,434	3,600,917	894,216	2,757,475
Dividend income		20,779	56,948	17,341	60,509
Foreign exchange income		1,321,760	2,680,476	387,092	1,126,667
Income / (loss) from derivatives		—	—	—	—
(Loss) / gain on securities	25	(144,323)	(863,057)	10,376	97,499
Other income	26	107,234	312,937	86,446	481,035
Total non mark-up / interest income		2,472,884	5,788,221	1,395,471	4,523,185
Total income		6,754,219	18,675,085	5,363,658	16,275,274
NON MARK-UP / INTEREST EXPENSES					
Operating expenses	27	3,262,454	9,439,750	2,856,048	8,480,569
Workers welfare fund		62,000	172,000	48,000	144,000
Other charges	28	10,045	51,340	370	15,172
Total non-mark-up / interest expenses		(3,334,499)	(9,663,090)	(2,904,418)	(8,639,741)
Profit before provisions		3,419,720	9,011,995	2,459,240	7,635,533
(Provisions) / reversal and write offs - net	29	(402,764)	(295,907)	132,900	(296,237)
Extra ordinary / unusual items		—	—	—	—
PROFIT BEFORE TAXATION		3,016,956	8,716,088	2,592,140	7,339,296
Taxation	30	(1,184,115)	(3,707,648)	(1,008,805)	(2,808,729)
PROFIT AFTER TAXATION		1,832,841	5,008,440	1,583,335	4,530,567
Rupees					
Basic and diluted earnings per share	31	1.75	4.78	1.51	4.32

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

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

SOHAIL HASAN
Director

MOHOMED BASHIR
Director

MOHAMEDALI R. HABIB
Chairman

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

FOR THE QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 2019

	30 September 2019		30 September 2018	
	Quarter ended	Nine months ended	Quarter ended	Nine months ended
	Rupees in '000			
Profit after taxation	1,832,841	5,008,440	1,583,335	4,530,567
Other comprehensive income				
Items that may be reclassified to profit and loss in subsequent periods:				
Movement in deficit on revaluation of investments - net of tax	1,480,245	925,247	(1,453,591)	(3,286,748)
Items that will not be reclassified to profit and loss in subsequent periods:				
Remeasurement gain / (loss) on defined benefit obligations - net of tax	34,564	50,982	16,151	(335)
Total comprehensive income	3,347,650	5,984,669	145,895	1,243,484

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

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

SOHAIL HASAN
Director

MOHOMED BASHIR
Director

MOHAMEDALI R. HABIB
Chairman

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

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

	Reserves					Surplus / (deficit) on revaluation		Un- appropriated profit	Total
	Share capital	Share premium	Statutory reserve	Special reserve	Revenue reserve	Investments	Non- banking assets		
	Rupees in '000								
Balance as at 1 January 2018	10,478,315	2,550,985	10,744,330	240,361	1,500,000	759,367	182,331	14,042,566	40,498,255
Profit after taxation	-	-	-	-	-	-	-	4,530,567	4,530,567
Other comprehensive income - net of tax	-	-	-	-	-	(3,286,748)	-	(335)	(3,287,083)
Total comprehensive income for the period	-	-	-	-	-	(3,286,748)	-	4,530,232	1,243,484
Transfer to statutory reserve	-	-	906,113	-	-	-	-	(906,113)	-
Transfer from surplus on revaluation of assets to unappropriated profit - net of tax	-	-	-	-	-	-	(2,003)	2,003	-
Transactions with owners, recorded directly in equity									
Cash dividend (Rs. 3.00 per share) for the year ended 31 December 2017	-	-	-	-	-	-	-	(3,143,494)	(3,143,494)
Balance as at 30 September 2018	10,478,315	2,550,985	11,650,443	240,361	1,500,000	(2,527,381)	180,328	14,525,194	38,598,245
Profit after taxation	-	-	-	-	-	-	-	1,630,017	1,630,017
Other comprehensive income - net of tax	-	-	-	-	-	(3,225,736)	-	(570)	(3,226,306)
Total comprehensive income for the period	-	-	-	-	-	(3,225,736)	-	1,629,447	(1,596,289)
Transfer to statutory reserve	-	-	326,004	-	-	-	-	(326,004)	-
Transfer from surplus on revaluation of assets to unappropriated profit - net of tax	-	-	-	-	-	-	(867)	867	-
Balance as at 31 December 2018	10,478,315	2,550,985	11,976,447	240,361	1,500,000	(5,753,117)	179,461	15,829,504	37,001,956
Profit after taxation	-	-	-	-	-	-	-	5,008,440	5,008,440
Other comprehensive income - net of tax	-	-	-	-	-	925,247	-	50,982	976,229
Total comprehensive income for the period	-	-	-	-	-	925,247	-	5,059,422	5,984,669
Transfer to statutory reserve	-	-	1,001,688	-	-	-	-	(1,001,688)	-
Transfer from surplus on revaluation of assets to unappropriated profit - net of tax	-	-	-	-	-	-	(2,148)	2,148	-
Transactions with owners, recorded directly in equity									
Cash dividend (Rs. 2.00 per share) for the year ended 31 December 2018	-	-	-	-	-	-	-	(2,095,663)	(2,095,663)
Balance as at 30 September 2019	10,478,315	2,550,985	12,978,135	240,361	1,500,000	(4,827,870)	177,313	17,793,723	40,890,962

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

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

SOHAIL HASAN
Director

MOHOMED BASHIR
Director

MOHAMEDALI R. HABIB
Chairman

UNCONSOLIDATED CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

	Note	30 September 2019	30 September 2018
Rupees in '000			
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		8,716,088	7,339,296
Less: Dividend income		(56,948)	(60,509)
		8,659,140	7,278,787
Adjustments			
Depreciation on operating fixed assets		718,733	605,547
Depreciation on right-of-use assets		561,306	-
Depreciation on non-banking assets		8,411	8,958
Amortization		76,070	94,761
Mark-up / return / interest expensed on lease liability against right-of-use assets		326,915	-
Provisions and write offs excluding recovery of written off bad debts	29	303,240	346,858
Unrealized loss on securities - held-for-trading	25	4,035	-
Net gain on sale of fixed assets	26	(13,263)	(2,897)
Net gain on sale of non-banking assets	26	-	(202,282)
Net gain on sale of non-current assets held-for-sale	26	-	(35,042)
Provision against workers welfare fund		172,000	144,000
Provision against compensated absences		49,183	61,623
Provision against defined benefit plan		130,388	113,058
		2,337,018	1,134,584
		10,996,158	8,413,371
(Increase) / decrease in operating assets			
Lendings to financial institutions		(5,222,508)	318,263
Advances		(33,669,338)	(21,899,718)
Other assets (excluding current taxation)		(2,938,612)	941,078
		(41,830,458)	(20,640,377)
Increase / (decrease) in operating liabilities			
Bills payable		(2,185,340)	(7,944,229)
Borrowings from financial institutions		115,329,442	25,597,322
Deposits and other accounts		57,320,450	(1,511,086)
Other liabilities (excluding current taxation)		5,540,194	(381,182)
		176,004,746	15,760,825
		145,170,446	3,533,819
Payment against compensated absences		(35,511)	(39,323)
Income tax paid		(3,082,923)	(2,237,229)
		142,052,012	1,257,267
Net cash flows from operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in held-for-trading securities		(21,728,733)	-
Net investments in available-for-sale securities		(110,164,440)	4,906,070
Net investments in held-to-maturity securities		681,638	3,169,851
Dividend received		51,052	116,211
Investments in fixed assets		(1,100,865)	(530,448)
Investments in intangibles assets		(25,365)	(14,705)
Proceeds from sale of fixed assets		18,474	12,894
Proceeds from sale of non-banking assets		-	600,000
Proceeds from sale of non-current assets held-for-sale		-	250,000
		(132,268,239)	8,509,873
Net cash flows from investing activities			
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(2,091,371)	(3,127,167)
Payment of lease liability against right-of-use assets		(594,588)	-
		(2,685,959)	(3,127,167)
Net cash flows from financing activities			
Increase in cash and cash equivalents		7,097,814	6,639,973
Cash and cash equivalents at beginning of the period		46,103,870	41,571,637
Cash and cash equivalents at end of the period		53,201,684	48,211,610

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

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

SOHAIL HASAN
Director

MOHOMED BASHIR
Director

MOHAMEDALI R. HABIB
Chairman

NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

1. STATUS AND NATURE OF BUSINESS

Habib Metropolitan Bank Limited (the Bank) was incorporated in Pakistan on 3 August 1992, as a public limited company, under the Companies Ordinance, 1984 (now Companies Act, 2017) and is engaged in commercial banking and related services. Its shares are listed on the Pakistan Stock Exchange. The Bank operates 341 (31 December 2018: 322) branches, including 31 (31 December 2018: 31) Islamic banking branches and a branch at Karachi Export Processing Zone, and 30 (31 December 2018: 30) sub branches in Pakistan. The Bank is a subsidiary of Habib Bank AG Zurich - Switzerland (the holding company with 51% shares in the Bank) which is incorporated in Switzerland.

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

2. BASIS OF PRESENTATION

2.1 These unconsolidated condensed interim 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

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

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

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

The Securities and Exchange Commission of Pakistan (SECP) has notified Islamic Financial Accounting Standard (IFAS) 3, 'Profit and Loss Sharing on Deposits' issued by the Institute of Chartered Accountants

of Pakistan. IFAS 3 shall be followed with effect from the financial periods beginning on or after 1 January 2014 in respect of accounting for transactions relating to 'Profit and Loss Sharing on Deposits' as defined by the said standard. The standard has resulted in certain new disclosures in the financial statements of the Bank. The SBP through BPRD Circular Letter No. 4 dated 25 February 2015, has deferred the applicability of IFAS 3 till further instructions and prescribed the Banks to prepare their annual and periodical financial statements as per existing prescribed formats.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

3.1.1 IFRS 16 became effective for annual reporting period commencing on or after 1 January 2019. The impact of the adoption of IFRS 16 is given in note 3.2 to these financial statements.

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

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

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

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

The significant judgments in the implementation were determining if a contract contained a lease, and the determination of whether the Bank is reasonably certain that it will exercise extension options present in lease contracts. The significant estimates were the determination of incremental borrowing rates. The weighted average discount rate applied to lease liabilities on the transition date 1 January 2019 was 13.23 percent.

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

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

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

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

**30 September
2019**

Rupees in '000

Impact on Statement of Financial Position

Increase in fixed assets - right-of-use assets	3,618,941
Decrease in other assets - advances, deposits and other prepayments	(229,446)
Increase in other assets - taxation	83,707
	3,473,202
Increase in other liabilities - lease liability against right-of-use assets	(3,604,128)
Decrease in net assets	(130,926)

**Nine months
ended
30 September
2019**

Rupees in '000

Impact on Profit and Loss account

Increase in mark-up expense - lease liability against right-of-use assets	(326,915)
(Increase) / decrease in administrative expenses:	
- Depreciation on right-of-use assets	(561,306)
- Rent expense	673,588
Decrease in profit before tax	(214,633)
Decrease in tax	83,707
Decrease in profit after tax	(130,926)

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

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.

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

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

5. FINANCIAL RISK MANAGEMENT

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

	Note	30 September 2019 (Un-Audited)	31 December 2018 (Audited)
Rupees in '000			
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		8,402,467	7,657,613
Foreign currencies		1,804,718	2,013,643
		10,207,185	9,671,256
With State Bank of Pakistan in			
Local currency current account		21,594,547	20,272,252
Foreign currency current account		20,395	244,068
Foreign currency deposit accounts			
– cash reserve account		5,539,244	4,151,971
– special cash reserve account		16,393,533	12,370,079
		43,547,719	37,038,370
With National Bank of Pakistan in			
Local currency current account		1,141,132	1,443,318
National Prize Bonds		219,904	24,065
		55,115,940	48,177,009
7. BALANCES WITH OTHER BANKS			
In Pakistan			
In current accounts		86,039	94,005
In deposit accounts		384,907	208,066
		470,946	302,071
Outside Pakistan			
In current accounts		1,084,734	813,486
		1,555,680	1,115,557
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings		–	3,000,000
Repurchase agreement lendings (Reverse Repo)		–	4,184,795
Bai-muajjal receivable with the State Bank of Pakistan	8.1	7,507,303	–
Letter of placement		–	3,800,000
Musharaka placements	8.2	9,700,000	1,000,000
		17,207,303	11,984,795

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

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

9. INVESTMENTS

9.1 Investments by types

	30 September 2019 (Un-Audited)				31 December 2018 (Audited)			
	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
	Rupees in '000							
Held-for-trading securities								
Federal government securities	21,728,733	–	(4,035)	21,724,698	–	–	–	–
Available-for-sale securities								
Federal government securities	418,335,187	–	(7,401,186)	410,934,001	307,815,954	–	(8,965,814)	298,850,140
Shares	655,236	(333,784)	32,713	354,165	655,236	(273,810)	59,396	440,822
Non-government debt securities	4,601,941	(133,291)	(20,616)	4,448,034	4,956,734	(138,428)	16,532	4,834,838
Mutual funds	417,571	(9,647)	(38,403)	369,521	417,571	(5,753)	38,937	450,755
	424,009,935	(476,722)	(7,427,492)	416,105,721	313,845,495	(417,991)	(8,850,949)	304,576,555
Held-to-maturity securities								
Federal government securities	36,077,711	–	–	36,077,711	36,259,349	–	–	36,259,349
Non-government debt securities	4,500,000	–	–	4,500,000	5,000,000	–	–	5,000,000
	40,577,711	–	–	40,577,711	41,259,349	–	–	41,259,349
Subsidiaries	830,000	–	–	830,000	830,000	–	–	830,000
Total Investments	<u>487,146,379</u>	<u>(476,722)</u>	<u>(7,431,527)</u>	<u>479,238,130</u>	<u>355,934,844</u>	<u>(417,991)</u>	<u>(8,850,949)</u>	<u>346,665,904</u>

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

9.1.1 Investments given as collateral

Federal government securities

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

9.2 Provision for diminution in value of investments

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

9.2.2 Particulars of provision against debt securities

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

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

9.3 The market value of securities classified as held-to-maturity is Rs. 37,622,397 thousand (31 December 2018: Rs. 37,847,389 thousand).

10. ADVANCES

	Performing		Non-Performing		Total	
	30 September 2019 (Un-Audited)	31 December 2018 (Audited)	30 September 2019 (Un-Audited)	31 December 2018 (Audited)	30 September 2019 (Un-Audited)	31 December 2018 (Audited)
Rupees in '000						
Loans, cash credits, running finances, etc.						
In Pakistan	194,537,089	172,320,248	14,426,304	14,710,168	208,963,393	187,030,416
Islamic financing and related assets	21,763,979	17,629,691	877,407	503,972	22,641,386	18,133,663
Bills discounted and purchased	43,168,195	35,620,461	2,134,424	2,465,767	45,302,619	38,086,228
Advances - gross	259,469,263	225,570,400	17,438,135	17,679,907	276,907,398	243,250,307
Provision against non-performing advances						
- specific	-	-	(15,127,712)	(15,324,500)	(15,127,712)	(15,324,500)
- general	(1,665,240)	(1,236,190)	-	-	(1,665,240)	(1,236,190)
	(1,665,240)	(1,236,190)	(15,127,712)	(15,324,500)	(16,792,952)	(16,560,690)
Advances - net of provisions	257,804,023	224,334,210	2,310,423	2,355,407	260,114,446	226,689,617

10.1 Particulars of advances - gross

	30 September 2019 (Un-Audited)	31 December 2018 (Audited)
Rupees in '000		
In local currency	244,450,196	213,632,404
In foreign currencies	32,457,202	29,617,903
	276,907,398	243,250,307

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

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

10.3 Particulars of provision against advances

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

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

10.3.2 Particulars of provision against advances

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

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

During the current period, 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. 172,139 thousand (31 December 2018: 628,190 thousand). Further, as of 30 September 2019, had the benefit of FSVs (including those availed into previous years) not been taken by the Bank, the specific provision against non-performing advances would have been higher by Rs. 1,663,160 thousand (31 December 2018: Rs. 2,096,898 thousand) and accumulated profit would have been lower by Rs. 1,081,054 thousand (31 December 2018: Rs. 1,362,983 thousand). This amount of Rs. 1,081,054 thousand (31 December 2018: Rs. 1,362,983 thousand) is not available for distribution of cash and stock dividend to the shareholders and bonus to employees.

	Note	30 September 2019 (Un-Audited)	31 December 2018 (Audited)
		Rupees in '000	
11. FIXED ASSETS			
Capital work-in-progress	11.1	297,211	142,460
Property and equipment		3,979,293	3,757,119
Right-of-use assets	3.2.1	3,618,941	—
		<u>7,895,445</u>	<u>3,899,579</u>

11.1 Capital work-in-progress

Civil works	195,286	22,739
Equipment	85,085	110,420
Advance to suppliers	16,840	9,301
	<u>297,211</u>	<u>142,460</u>

Nine months ended

30 September 2019 (Un-Audited)	30 September 2018
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11.2 Additions to fixed assets

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

Capital work-in-progress (transfer to fixed assets) / additions - net	154,751	63,905
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Property and equipment

Leasehold land	91,851	—
Building on leasehold land (civil works)	158,523	—
Furniture and fixture	47,957	35,903
Electrical office and computer equipment	522,212	221,236
Vehicles	28,422	49,187
Lease hold improvement	97,149	160,217
	<u>946,114</u>	<u>466,543</u>
Total	<u>1,100,865</u>	<u>530,448</u>

11.3 Disposal of fixed assets

The net book value of fixed assets disposed off during the period is as follows:

Furniture and fixture	93	152
Electrical office and computer equipment	588	1,247
Vehicles	4,530	6,311
Lease hold improvement	—	2,287
Total	<u>5,211</u>	<u>9,997</u>

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

12. INTANGIBLE ASSETS

Computer software	70,737	121,442
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12.1 The following additions have been made to intangible assets during the period:

	Nine months ended	
	30 September 2019	30 September 2018
	(Un-Audited)	
	Rupees in '000	
Additions:		
- directly purchased	25,365	14,705

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

13. DEFERRED TAX ASSETS

Deductible temporary differences

Provision for diminution in value of investments	166,853	146,297
Provision for non-performing loans and advances and off - balance sheet items	2,267,544	2,746,495
Deficit on revaluation of investments	2,599,622	3,097,832
Deferred liability on defined benefit plan	43,255	70,706
	5,077,274	6,061,330

Taxable temporary differences

Surplus on revaluation of non-banking-assets	(95,476)	(96,632)
Accelerated depreciation	(78,760)	(143,516)
	(174,236)	(240,148)
Net deferred tax asset	4,903,038	5,821,182

	Note	30 September 2019 (Un-Audited)	31 December 2018 (Audited)
		Rupees in '000	
14. OTHER ASSETS			
Income / mark-up / profit accrued in local currency		10,217,578	8,308,015
Income / mark-up / profit accrued in foreign currencies		25,169	29,916
Advances, deposits and other prepayments		448,414	554,859
Advance taxation (payments less provision)		144,148	376,391
Non-banking assets acquired in satisfaction of claims		482,398	487,505
Branch adjustment account		—	63
Mark to market gain on forward foreign exchange contracts		4,750,396	4,206,429
Acceptances		15,195,057	14,429,148
Receivable from the SBP against encashment of government securities		373,631	114,055
Stationery and stamps on hand		71,608	62,236
Dividend receivable		6,665	769
Others		304,154	285,217
		32,019,218	28,854,603
Provision against other assets - operational loss		(210,000)	(210,000)
Other assets (net of provision)		31,809,218	28,644,603
Surplus on revaluation of non-banking assets acquired in satisfaction of claims	19	272,789	276,093
		32,082,007	28,920,696
15. BILLS PAYABLE			
In Pakistan		9,988,067	12,173,407

	Note	30 September 2019 (Un-Audited)	31 December 2018 (Audited)
———— Rupees in '000 ————			
16. BORROWINGS			
Secured			
Borrowings from the State Bank of Pakistan			
Under export refinance scheme		30,882,339	24,196,093
Under long term financing facility - renewable energy		924,452	962,784
Under long term financing facility - locally manufactured plant and machinery		9,221,158	6,730,915
		41,027,949	31,889,792
Repurchase agreement borrowings (Repo)	16.1	122,460,178	12,658,729
Due against bills rediscounting		—	3,310,164
		163,488,127	47,858,685
Unsecured			
Call borrowing		—	300,000
Overdrawn nostro accounts		3,464,243	3,183,003
Overdrawn local bank accounts		5,693	5,693
		3,469,936	3,488,696
		166,958,063	51,347,381

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

17. DEPOSITS AND OTHER ACCOUNTS

	30 September 2019 (Un-Audited)			31 December 2018 (Audited)		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
———— Rupees in '000 ————						
Customers						
Current accounts (non-remunerative)	141,665,777	28,486,041	170,151,818	120,665,276	23,351,234	144,016,510
Savings deposits	127,784,695	19,666,371	147,451,066	122,955,979	17,173,301	140,129,280
Term deposits	170,400,684	56,849,640	227,250,324	179,727,186	43,693,831	223,421,017
Others	9,160,453	988	9,161,441	7,984,099	906	7,985,005
	449,011,609	105,003,040	554,014,649	431,332,540	84,219,272	515,551,812
Financial institutions						
Current deposits (non-remunerative)	925,304	910,504	1,835,808	1,492,887	942,405	2,435,292
Savings deposits	39,481,706	—	39,481,706	24,280,076	70	24,280,146
Term deposits	5,561,000	4,797	5,565,797	1,306,000	4,260	1,310,260
	45,968,010	915,301	46,883,311	27,078,963	946,735	28,025,698
	494,979,619	105,918,341	600,897,960	458,411,503	85,166,007	543,577,510

	Note	30 September 2019 (Un-Audited)	31 December 2018 (Audited)
———— Rupees in '000 ————			
18. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		8,729,899	6,492,116
Mark-up / return / interest payable in foreign currencies		574,747	362,013
Unearned commission and income on bills discounted		217,322	190,533
Accrued expenses		869,955	692,845
Acceptances		15,195,057	14,429,148
Unclaimed dividend		70,508	66,216
Branch adjustment account		43	—
Mark to market loss on forward foreign exchange contracts		6,180,300	3,549,157
Provision for compensated absences		222,536	208,864
Deferred liability on defined benefit plan		251,024	199,072
Provision against off-balance sheet obligations	18.1	113,716	113,716
Workers' welfare fund		1,094,189	922,189
Charity fund		4,817	291
Excise duty payable		1,355	1,003
Locker deposits		804,939	764,223
Advance against diminishing musharaka		68,745	23,310
Advance rental for ijarah		2,003	2,259
Security deposits against leases / ijarah		213,581	212,178
Sundry creditors		463,752	413,750
Lease liability against right-of-use assets	3.2.1	3,604,128	—
Withholding tax / duties		278,066	289,241
Others		486,992	363,403
		<u>39,447,674</u>	<u>29,295,527</u>
18.1 Provision against off-balance sheet obligations			
Opening balance		113,716	113,716
Charge for the period / year		—	—
Closing balance		<u>113,716</u>	<u>113,716</u>
The above represents provision against certain letters of credit and guarantee.			
19. (DEFICIT) / SURPLUS ON REVALUATION OF ASSETS			
(Deficit) / surplus on revaluation of			
- Non-banking assets		272,789	276,093
- Available-for-sale securities	9.1	(7,427,492)	(8,850,949)
		<u>(7,154,703)</u>	<u>(8,574,856)</u>
Less: Deferred tax on (deficit) / surplus on revaluation of			
- Non-banking assets		95,476	96,632
- Available-for-sale securities		(2,599,622)	(3,097,832)
		<u>2,504,146</u>	<u>3,001,200</u>
		<u>(4,650,557)</u>	<u>(5,573,656)</u>

	Note	30 September 2019 (Un-Audited)	31 December 2018 (Audited)
		Rupees in '000	
20. CONTINGENCIES AND COMMITMENTS			
Guarantees	20.1	61,111,096	53,215,390
Commitments	20.2	527,525,519	322,747,745
Other contingent liabilities	20.3	25,401,940	24,476,694
		614,038,555	400,439,829
20.1 Guarantees			
Financial guarantees		6,142,234	3,931,150
Performance guarantees		33,821,293	32,514,435
Other guarantees		21,147,569	16,769,805
		61,111,096	53,215,390
20.2 Commitments			
Documentary credits and short-term trade-related transactions:			
Letters of credit		72,440,289	89,700,969
Commitments in respect of:			
Forward exchange contracts	20.2.1	451,310,301	230,915,612
Operating leases	20.2.2	658	110,571
Forward lendings	20.2.3	3,668,630	1,887,433
Acquisition of operating fixed assets		105,641	133,160
		527,525,519	322,747,745
20.2.1 Commitments in respect of forward exchange contracts			
Purchase		252,804,090	136,568,523
Sale		198,506,211	94,347,089
		451,310,301	230,915,612
20.2.2 Commitments in respect of operating leases			
Not later than one year		658	110,571
Later than one year and not later than five years		—	—
		658	110,571

The above amount includes non-cancellable lease agreements with a Modaraba which has been duly approved by the Religious Board as Ijarah transactions. The monthly rental installments are spread over a period of 36 months. When a lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

20.2.3 Commitments in respect of forward lendings

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

	Note	30 September 2019 (Un-Audited)	31 December 2018 (Audited)
		———— Rupees in '000 ————	
Commitments in respect of syndicate financing		<u>3,668,630</u>	<u>1,887,433</u>
20.3 Other contingent liabilities			
Claims against bank not acknowledged as debt		25,295,884	24,370,638
Foreign exchange repatriation case	20.3.1	<u>106,056</u>	<u>106,056</u>
		<u>25,401,940</u>	<u>24,476,694</u>

20.3.1 Foreign exchange repatriation case

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

21. 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". Unrealised mark-to-market gains and losses due 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).

		Nine months ended	
		30 September 2019	30 September 2018
		(Un-Audited)	
		Rupees in '000	
22. MARK-UP / RETURN / INTEREST EARNED			
Loans and advances	19,253,650	9,040,955	
Investments	27,394,624	20,814,077	
Lending with financial institutions	4,417,387	703,485	
Balance with other banks	19,888	4,241	
	<u>51,085,549</u>	<u>30,562,758</u>	
23. MARK-UP / RETURN / INTEREST EXPENSED			
Deposits	28,722,263	14,663,611	
Borrowings	4,898,200	3,157,187	
Foreign currency swap cost	4,251,307	989,871	
Lease liability against right-of-use assets	326,915	–	
	<u>38,198,685</u>	<u>18,810,669</u>	
24. FEE & COMMISSION INCOME			
Branch banking customer fees	194,907	190,738	
Credit related fees	42,425	33,662	
Card related fees	273,444	195,955	
Commission on trade	2,602,323	1,926,588	
Commission on guarantees	330,943	265,736	
Commission on remittances including home remittances	21,313	22,495	
Commission on bancassurance	77,174	58,349	
Others	58,388	63,952	
	<u>3,600,917</u>	<u>2,757,475</u>	
25. (LOSS) / GAIN ON SECURITIES			
Realised			
Federal government securities	(877,169)	19,227	
Shares	–	4,222	
Mutual funds	18,147	74,050	
Unrealised - held-for-trading			
Federal government securities	(4,035)	–	
	<u>(863,057)</u>	<u>97,499</u>	
26. OTHER INCOME			
Rent on properties	26,018	20,737	
Gain on sale of fixed assets - net	13,263	2,897	
Recovery of charges from customers	207,864	155,645	
Incidental and service charges	62,971	61,233	
Gain on sale of ijarah assets - net	148	485	
Gain on sale of non-banking assets	–	202,282	
Gain on sale of non-current assets held-for-sale - net	–	35,042	
Staff notice period and other recoveries	2,673	2,714	
	<u>312,937</u>	<u>481,035</u>	

Nine months ended

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

27. OPERATING EXPENSES

Total compensation expense	4,341,260	4,072,719
Property expense		
Rent & taxes	238,633	793,795
Insurance	3,159	3,132
Utilities cost	303,348	257,124
Security	366,911	324,571
Repair & maintenance	274,110	284,799
Depreciation	856,338	261,764
	2,042,499	1,925,185
Information technology expenses		
Software maintenance	81,900	25,587
Hardware maintenance	108,146	101,623
Depreciation	112,053	80,250
Amortisation	76,070	94,761
Network charges	145,401	119,819
	523,570	422,040
Other operating expenses		
Directors' fees and allowances	11,965	12,541
Fees and allowances to Shariah Board	7,553	6,312
Legal & professional charges	119,017	115,545
Outsourced services costs	195,112	174,595
Travelling & conveyance	184,738	127,775
Operating lease rental	10,492	21,730
NIFT clearing charges	54,469	53,841
Depreciation	311,648	263,533
Depreciation - non-banking assets	8,411	8,958
Training & development	20,254	20,378
Postage & courier charges	73,647	56,548
Communication	74,657	67,152
Subscription	112,601	123,869
Brokerage & commission	87,334	76,559
Stationery & printing	163,085	116,499
Marketing, advertisement & publicity	96,568	135,792
Management fee	297,767	246,852
Insurance	389,422	198,808
Donations	75,600	68,439
Auditors' remuneration	12,264	11,971
Others	225,817	152,928
	2,532,421	2,060,625
	9,439,750	8,480,569

		Nine months ended	
	Note	30 September 2019 (Un-Audited)	30 September 2018
		Rupees in '000	
28. OTHER CHARGES			
Penalties imposed by the SBP		51,340	15,172
29. PROVISIONS & WRITE OFFS - NET			
Provision for diminution in value of investments - net	9.2.1	58,731	55,013
Provision against loan & advances - net	10.3	244,509	333,095
Reversal of provision against other assets		—	(41,250)
Recovery of written-off bad debts		(7,333)	(50,621)
		295,907	296,237
30. TAXATION			
Current		3,014,620	2,594,606
Prior year		300,546	—
Deferred		392,482	214,123
		3,707,648	2,808,729
31. BASIC AND DILUTED EARNINGS PER SHARE			
Profit after taxation		5,008,440	4,530,567
		Number in '000	
Weighted average number of ordinary shares		1,047,831	1,047,831
		Rupees	
Basic and diluted earnings per share		4.78	4.32

32. FAIR VALUE MEASUREMENTS

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

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

32.1 Fair value of financial assets

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

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

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

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

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

On balance sheet financial instruments

	30 September 2019 (Un-Audited)				
	Carrying / notional value	Fair value			Total
		Level 1	Level 2	Level 3	
	Rupees in '000				
Financial assets measured at fair value					
- Investments					
- Held-for-trading securities					
Federal government securities	21,724,698	-	21,724,698	-	21,724,698
- Available-for-sale securities					
Federal government securities	410,934,001	-	410,934,001	-	410,934,001
Sukuk certificates and bonds	1,309,346	-	1,309,346	-	1,309,346
Ordinary shares of listed companies	326,245	326,245	-	-	326,245
Mutual funds and REIT certificates	369,521	354,751	14,770	-	369,521
Listed term finance certificates	3,113,011	-	3,113,011	-	3,113,011
Unlisted term finance certificates	25,677	-	25,677	-	25,677

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

- Cash and balances with treasury banks	55,115,940	-	-	-	-
- Balances with other banks	1,555,680	-	-	-	-
- Lendings to financial institutions	17,207,303	-	-	-	-
- Investments					
- Held-to-maturity securities					
Federal government securities	36,077,711	-	-	-	-
Certificates of investments	4,500,000	-	-	-	-
- Available-for-sale securities					
Ordinary shares of unlisted companies	27,920	-	-	-	-
- Advances	260,114,446	-	-	-	-
- Other assets	30,872,650	-	-	-	-
	<u>843,274,149</u>	<u>680,996</u>	<u>437,121,503</u>	<u>-</u>	<u>437,802,499</u>

Off-balance sheet financial instruments measured at fair value

- Forward purchase of foreign exchange contracts	250,345,084	-	250,345,084	-	250,345,084
- Forward sale of foreign exchange contracts	199,535,313	-	199,535,313	-	199,535,313

On balance sheet financial instruments

31 December 2018 (Audited)						
	Carrying / notional value	Fair value				Total
		Level 1	Level 2	Level 3		
		Rupees in '000				
Financial assets measured at fair value						
- Investments						
- Available-for-sale securities						
Federal government securities	298,850,140	–	298,850,140	–		298,850,140
Sukuk certificates and bonds	1,417,667	–	1,417,667	–		1,417,667
Ordinary shares of listed companies	412,902	412,902	–	–		412,902
Mutual funds and REIT certificates	450,755	435,855	14,900	–		450,755
Listed term finance certificates	3,357,258	–	3,357,258	–		3,357,258
Unlisted term finance certificates	59,913	–	59,913	–		59,913

Financial assets not measured at fair value

- Cash and balances with treasury banks	48,177,009	-	-	-	-
- Balances with other banks	1,115,557	-	-	-	-
- Lendings to financial institutions	11,984,795	-	-	-	-
- Investments					
- Held-to-maturity securities					
Federal government securities	36,259,349	-	-	-	-
Certificates of investments	5,000,000	-	-	-	-
- Available-for-sale securities					
Ordinary shares of unlisted companies	27,920	-	-	-	-
- Advances	226,689,617	-	-	-	-
- Other assets	27,373,549	-	-	-	-
	<u>661,176,431</u>	<u>848,757</u>	<u>303,699,878</u>	<u>-</u>	<u>304,548,635</u>

Off-balance sheet financial instruments measured at fair value

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

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

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

33. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	30 September 2019 (Un-Audited)			
	Trade & Sales	Retail Banking	Commercial Banking	Total
	Rupees in '000			
Profit & Loss				
Net mark-up / return / profit	27,024,988	(16,976,041)	2,837,917	12,886,864
Inter segment revenue - net	(25,813,174)	20,825,868	4,987,306	-
Non mark-up / return / interest income	(624,764)	443,280	5,969,705	5,788,221
Total income	587,050	4,293,107	13,794,928	18,675,085
Segment direct expenses	(178,876)	-	-	(178,876)
Inter segment expense allocation	-	(3,387,807)	(6,096,407)	(9,484,214)
Total expenses	(178,876)	(3,387,807)	(6,096,407)	(9,663,090)
Provisions	(58,731)	(301)	(236,875)	(295,907)
Profit before tax	349,443	904,999	7,461,646	8,716,088
Balance Sheet				
Cash & bank balances	1,084,733	28,338,762	27,248,125	56,671,620
Investments	479,238,130	-	-	479,238,130
Lendings to financial institutions	17,207,303	-	-	17,207,303
Advances - performing	-	3,375,601	256,093,662	259,469,263
Advances - non-performing	-	9,947	17,428,188	17,438,135
Provision against advances	-	(12,124)	(16,780,828)	(16,792,952)
Net inter segment lending	-	284,252,383	53,241,979	337,494,362
Others	6,927,808	2,846,510	35,176,909	44,951,227
Total assets	504,457,974	318,811,079	372,408,035	1,195,677,088
Borrowings	125,930,114	-	41,027,949	166,958,063
Subordinated debt	-	-	-	-
Deposits & other accounts	-	308,961,524	291,936,436	600,897,960
Net inter segment borrowing	337,494,362	-	-	337,494,362
Others	142,536	9,849,555	39,443,650	49,435,741
Total liabilities	463,567,012	318,811,079	372,408,035	1,154,786,126
Equity	40,890,962	-	-	40,890,962
Total equity & liabilities	504,457,974	318,811,079	372,408,035	1,195,677,088
Contingencies & commitments	451,310,301	-	162,728,254	614,038,555

30 September 2018 (Un-Audited)

	Trade & Sales	Retail Banking	Commercial Banking	Total
	Rupees in '000			
Profit & Loss				
Net mark-up / return / profit	18,949,556	(6,140,614)	(1,056,853)	11,752,089
Inter segment revenue - net	(15,618,816)	9,069,813	6,549,003	—
Non mark-up / return / interest income	(279,900)	261,098	4,541,987	4,523,185
Total income	3,050,840	3,190,297	10,034,137	16,275,274
Segment direct expenses	(141,494)	—	—	(141,494)
Inter segment expense allocation	—	(2,436,144)	(6,062,103)	(8,498,247)
Total expenses	(141,494)	(2,436,144)	(6,062,103)	(8,639,741)
Provisions	(55,013)	(3,080)	(238,144)	(296,237)
Profit before tax	2,854,333	751,073	3,733,890	7,339,296

31 December 2018 (Audited)

Balance Sheet				
Cash & bank balances	907,449	24,672,447	23,712,670	49,292,566
Investments	346,665,904	—	—	346,665,904
Lendings to financial institutions	11,984,795	—	—	11,984,795
Advances - performing	—	3,167,829	222,402,571	225,570,400
Advances - non-performing	—	6,649	17,673,258	17,679,907
Provision against advances	—	(11,773)	(16,548,917)	(16,560,690)
Net inter segment lending	—	254,934,343	57,085,986	312,020,329
Others	12,529,588	52,983	26,180,328	38,762,899
Total assets	372,087,736	282,822,478	330,505,896	985,416,110
Borrowings	19,457,589	—	31,889,792	51,347,381
Subordinated debt	—	—	—	—
Deposits & other accounts	—	279,208,331	264,369,179	543,577,510
Net inter segment borrowing	312,020,329	—	—	312,020,329
Others	3,607,862	3,614,147	34,246,925	41,468,934
Total liabilities	335,085,780	282,822,478	330,505,896	948,414,154
Equity	37,001,956	—	—	37,001,956
Total equity & liabilities	372,087,736	282,822,478	330,505,896	985,416,110
Contingencies & commitments	230,915,612	—	169,524,217	400,439,829

34. 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.

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

	30 September 2019 (Un-Audited)					
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans
	Rupees in '000					
Balances with other banks						
In current accounts	156,066	–	27,920	–	–	183,986
Investments						
Opening balance	–	5,830,000	–	–	–	5,830,000
Investment made during the period	–	14,700,000	–	–	–	14,700,000
Investment redeemed / disposed off during the period	–	(15,200,000)	–	–	–	(15,200,000)
Closing balance	–	5,330,000	–	–	–	5,330,000
Advances						
Opening balance	–	31,606	2,787,011	115,507	–	2,934,124
Addition during the period	–	–	29,695,639	140,304	–	29,835,943
Repaid during the period	–	(31,606)	(28,117,940)	(21,345)	–	(28,170,891)
Closing balance	–	–	4,364,710	234,466	–	4,599,176
Other assets						
Mark-up / return / interest accrued	–	83,330	2,852	–	–	86,182
Prepayments / advance deposits / other receivables	–	–	11,645	–	–	11,645
	–	83,330	14,497	–	–	97,827
Borrowings						
Opening balance	8,823	–	–	–	–	8,823
Borrowings during the period	470	–	7,899	–	–	8,369
Settled during the period	(8,823)	–	–	–	–	(8,823)
Closing balance	470	–	7,899	–	–	8,369
Deposits						
Opening balance	396,056	972,640	16,227,022	163,874	731,175	22,152,373
Received during the period	9,085,040	96,392,180	1,217,946,602	2,000,586	1,784,421	1,332,290,090
Withdrawn during the period	(9,195,702)	(96,916,512)	(1,222,974,818)	(1,868,159)	(1,770,805)	(1,337,963,847)
Closing balance	285,394	448,308	11,198,806	296,301	744,791	16,478,616
Other liabilities						
Mark-up / return / interest payable	–	3,273	410,528	2,197	5,377	793,158
Management fee payable for technical and consultancy services*	123,543	–	–	–	–	123,543
Other payables	–	–	5,868	–	–	256,892
	123,543	3,273	416,396	2,197	5,377	1,594,968
Contingencies & commitments						
Transaction-related contingent liabilities	–	–	8,094,505	–	–	8,094,505
Trade-related contingent liabilities	–	–	463,049	–	–	463,049
Commitment against operating leases	–	658	–	–	–	658
	–	658	8,557,554	–	–	8,558,212

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

31 December 2018 (Audited)

	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	Rupees in '000						
Balances with other banks							
In current accounts	112,023	—	44,688	—	—	—	156,711
Investments							
Opening balance	—	2,780,000	—	—	—	—	2,780,000
Investment made during the year	—	13,900,000	—	—	—	—	13,900,000
Investment redeemed / disposed off during the year	—	(10,850,000)	—	—	—	—	(10,850,000)
Closing balance	—	5,830,000	—	—	—	—	5,830,000
Advances							
Opening balance	—	—	1,702,532	172,585	—	—	1,875,117
Addition during the year	—	3,095,593	74,680,329	47,080	—	—	77,823,002
Repaid during the year	—	(3,063,987)	(73,595,850)	(104,158)	—	—	(76,763,995)
Closing balance	—	31,606	2,787,011	115,507	—	—	2,934,124
Other assets							
Mark-up / return / interest accrued	—	67,610	17,113	—	—	—	84,723
Prepayments / advance deposits / other receivables	—	—	6,293	—	—	—	6,293
	—	67,610	23,406	—	—	—	91,016
Borrowings							
Opening balance	—	—	—	—	—	—	—
Borrowings during the year	8,823	—	—	—	—	—	8,823
Settled during the year	—	—	—	—	—	—	—
Closing balance	8,823	—	—	—	—	—	8,823
Deposits							
Opening balance	731,705	1,081,972	21,085,764	168,539	675,958	2,379,959	26,123,897
Received during the year	8,548,305	116,852,558	1,648,137,753	600,685	2,393,366	6,066,469	1,782,599,136
Withdrawn during the year	(8,883,954)	(116,961,890)	(1,652,996,495)	(605,350)	(2,338,149)	(4,784,822)	(1,786,570,660)
Closing balance	396,056	972,640	16,227,022	163,874	731,175	3,661,606	22,152,373
Other liabilities							
Mark-up / return / interest payable	—	3,109	352,252	1,295	3,205	632,664	992,525
Management fee payable for technical and consultancy services*	115,344	—	—	—	—	—	115,344
Other payables	—	—	6,391	—	—	199,072	205,463
	115,344	3,109	358,643	1,295	3,205	831,736	1,313,332
Contingencies & commitments							
Transaction-related contingent liabilities	—	—	7,531,999	—	—	—	7,531,999
Trade-related contingent liabilities	—	—	1,999,428	—	—	—	1,999,428
Commitment against operating leases	—	11,144	—	—	—	—	11,144
	—	11,144	9,531,427	—	—	—	9,542,571

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

Transactions during the period

	For the nine months ended 30 September 2019 (Un-Audited)					
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans
	Rupees in '000					
Income						
Mark-up / return / interest earned	–	381,253	103,498	11,173	–	–
Fee and commission income	3,209	475	172,195	–	33	–
Rent income	4,212	3,180	–	–	–	–
Expense						
Mark-up / return / interest expensed	–	29,594	1,101,782	17,602	52,726	377,788
Commission / brokerage / bank charges paid	477	14	1,016	–	–	–
Salaries and allowances	–	–	–	330,323	–	–
Directors' fees and allowances	–	–	–	–	11,965	–
Charge to defined benefit plan	–	–	–	–	–	130,388
Contribution to defined contribution plan	–	–	–	–	–	145,355
Operating lease rentals / rent expenses	–	10,492	10,445	–	–	–
Insurance premium expenses	–	–	9,410	–	–	–
Maintenance, electricity, stationery & entertainment	–	–	43,071	–	–	–
Management fee expense for technical and consultancy services *	297,767	–	–	–	–	–
Donation	–	–	8,440	–	–	–
Professional / other charges	–	–	1,564	–	–	–

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

Transactions during the period

	For the nine months ended 30 September 2018 (Un-Audited)						
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	Rupees in '000						
Income							
Mark-up / return / interest earned	—	127,936	46,255	4,867	—	—	179,058
Fee and commission income	3,777	326	113,990	—	22	—	118,115
Rent income	4,212	4,015	—	—	—	—	8,227
Expenses							
Mark-up / return / interest expensed	—	18,959	758,290	3,973	26,022	247,975	1,055,219
Commission / brokerage / bank charges paid	742	10	1,040	—	—	—	1,792
Salaries and allowances	—	—	—	204,659	—	—	204,659
Directors' fees and allowances	—	—	—	—	12,541	—	12,541
Charge to defined benefit plan	—	—	—	—	—	113,058	113,058
Contribution to defined contribution plan	—	—	—	—	—	134,206	134,206
Operating lease rentals / rent expenses	—	21,730	9,800	—	—	—	31,530
Insurance premium expenses	—	—	10,602	—	—	—	10,602
Maintenance, electricity, stationery & entertainment	—	—	51,887	—	—	—	51,887
Management fee expense for technical and consultancy services *	246,852	—	—	—	—	—	246,852
Donation	—	—	16,357	—	—	—	16,357
Professional / Other charges	—	—	8,625	—	—	—	8,625

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

35. CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

	30 September 2019 (Un-Audited)	31 December 2018 (Audited)
	Rupees in '000	
Minimum Capital Requirement (MCR):		
Paid-up capital	10,478,315	10,478,315
Capital Adequacy Ratio (CAR):		
Eligible Common Equity Tier 1 (CET 1) capital	39,558,428	34,037,880
Eligible Additional Tier 1 (ADT 1) capital	—	—
Total eligible tier 1 capital	39,558,428	34,037,880
Eligible tier 2 capital	1,665,240	976,755
Total eligible capital (tier 1 + tier 2)	41,223,668	35,014,635
Risk Weighted Assets (RWAs):		
Credit risk	258,296,061	229,288,756
Market risk	3,052,079	1,571,342
Operational risk	36,087,611	36,087,611
Total	297,435,751	266,947,709
CET 1 capital adequacy ratio	13.30%	12.75%
Tier 1 capital adequacy ratio	13.30%	12.75%
Total capital adequacy ratio	13.86%	13.12%
Minimum capital requirements prescribed by SBP		
Common equity tier 1 capital adequacy ratio	6.00%	6.00%
Tier 1 capital adequacy ratio	7.50%	7.50%
Total capital adequacy ratio	11.90%	11.90%
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	39,558,428	34,037,880
Total exposures	1,022,409,349	825,364,543
Leverage ratio	3.87%	4.12%
Liquidity Coverage Ratio (LCR):		
Total high quality liquid assets	333,173,967	317,763,854
Total net cash outflow	168,509,577	125,849,179
Liquidity coverage ratio	198%	252%
Net Stable Funding Ratio (NSFR):		
Total available stable funding	479,475,526	440,145,855
Total required stable funding	262,993,345	216,434,904
Net stable funding ratio	182%	203%

36. ISLAMIC BANKING BUSINESS

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

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

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

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

36.1 Due from financial institutions

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

36.2 Investments by segments:

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

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

36.3 Islamic financing and related assets - net

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

36.4 Fixed assets and other liabilities

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

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

36.5 Deposits

Customers

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

Financial Institutions

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

36.6 Contingencies and commitments

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

Nine months ended

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

36.7 Profit / return earned on financing, investments and placement

Profit earned on:

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

36.8 Profit on deposits and other dues expensed

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

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

37. GENERAL

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

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

38. DATE OF AUTHORISATION FOR ISSUE

These unconsolidated condensed interim financial statements were authorised for issue on 24 October 2019 by the Board of Directors of the Bank.

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

SOHAIL HASAN
Director

MOHOMED BASHIR
Director

MOHAMEDALI R. HABIB
Chairman