

Silkbank Limited
Condensed interim financial statements
For the six months ended June 30, 2020

Director's Report as of June 30th, 2020

Dear Shareholders,

We are pleased to present the financial statements of the Bank for the half year ended June 30th, 2020.

Economic Review

The outbreak of COVID-19 pandemic exposed Pakistan's economy to new risks just as the economy had started showing signs of recovery. The economic activity during H1-FY20 remained low, but Foreign Director Investments, Foreign Local Investments, and Current Account Deficit had gradually started improving. However, the arrival of COVID-19 pandemic led to country-wide lockdown resulting in reduced business activity and consumer spending. In order to address the adverse impact of lockdown on economy, the government announced a stimulus package of Rs 1.13 trillion (approx. USD 7.00 bn). SBP also took drastic measures to keep monetary system afloat through monetary and quantitative easing; the policy rate was reduced by 625 basis points to 7%. SBP also reduced the Special Cash Reserve Requirement to 10% from 15% on FE-25 deposits of the banks and Capital Conservation Buffer (CCB) from 2.50% to 1.50% which provided additional cushion to the monetary system. Moreover, SBP also unveiled a comprehensive relief package to help households and businesses to manage their finances amidst COVID-19 disruption.

The countrywide lockdown resulted in the government missing the GDP growth target and, witnessed negative GDP growth rate of 0.38% for the first time in 68 years. Similarly, Federal Board of Revenue tax collection in FY-20 ended up at Rs. 3.9 trillion against the revised target of Rs. 4.8 trillion. The fiscal deficit for FY-20 stood at 8.1% against the target of 7.1%. However, the current account deficit during FY-20 decreased by 78% YoY to USD 2.96 billion largely due to reduction in imports and also due to growth in remittances. The country's FX reserves strengthened and stood at USD 17.9 billion in June-20 due to inflows of USD 1.7 billion from the World Bank, Asian Development Bank and Asian Infrastructure Investment Bank and USD 1.3 billion loan from China. However, the increase in exports, remittances and Foreign Director Investments remain imperative to build sustainable foreign exchange reserves.

Banking Sector

A cumulative cut of 625 basis points in policy rate during H2-FY20 from 13.25% to 7% has enabled the commercial banks to record higher Net Interest Income (NNI) and to realize one-off capital gain on government securities. However, the cut in policy rates will result in narrowing spreads which will put pressure on NNI of the banks in coming years. On the positive side, the decrease in interest rate will increase private sector credit which previously had been subdued due to higher financing cost; the Credit to Private Sector (CDS) witnessed a net increase of Rs. 196 billion during FY-20 as compared to net increase of Rs. 693 billion during FY-19. Further, the banks deposit during FY-20 increased by 12% YoY to Rs. 16.2 trillion while advances grew by mere 1.03% to Rs. 8.2 trillion. The increase in deposit due to high interest rates has pushed down the deposit to advances (ADR) ratio to 50.54% while the Investment to Deposit Ratio (IDR) ratio inched up to 66% at the end of FY-20.

Silkbank Limited

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Website: www.silkbank.com.pk

Financial Performance:

The Bank has posted a profit before tax of Rs 3,179 million and after-tax Profit of Rs. 1,886 million for the period ended June 30th, 2020.

During this period, total deposits of the Bank grew by Rs. 8.4 billion to Rs. 157.26 billion and gross advances decreased by Rs. 4.34 billion.

Summarized financial performance of Silkbank Limited for the Half Year ended June 30th, 2020 is as follows:

	Rs in 'million'
Profit before tax	3,179
Tax - Current	(180)
Prior	-
Deferred	<u>(1,113)</u>
Profit after tax	<u>1,886</u>
	Rupee
Earnings per share – Basic and Diluted.	0.21

Business Performance:

Branch Banking:

Branch Banking remains one of the most critical businesses for the Bank, serving over 200,427 customers contributing more than 57% of the Bank's deposit base. Total deposit as at June 30th, 2020 stood at approximately Rs. 90.6 billion, overall deposit growth of approximately Rs. 2.8 billion. This growth was realized through the addition of Rs. 5 billion in core accounts while shedding some expensive institutional / non-core deposits. The Current Account grew by Rs. 3.3 billion.

Branch Banking has successfully launched a new current account product, namely Business Value Account (BVA) plus, for businessmen and entities. The enhancement in the existing Business Value Account improved our competitive edge along with highlighting unique features associated with this current account making it first of a kind in the market. The soft launch of BVA plus has gained attention from customers giving confidence to our sales staff to effectively promote it further.

On the Digital front, Debit Card activation through Silkbank Digital Channels was introduced to provide customers with the convenience of activating their cards anywhere, anytime through Silkmobile application and Silkbank ATMs without going through the hassle of calling the call center. In addition to this, an enhancement in fund transfers from Rs. 250,000 to Rs. 500,000 on Silkmobile and Silkdirect was introduced to facilitate our customers. These digital initiatives immensely helped in increasing digital transactions from 20% in December'19 to 32% in June 2020.

Furthermore, Branch banking ensured that the safety of customers and staff remains its priority at branch premises. Branch staff was equipped with essential safety gear and branches were disinfected for maximum wellbeing of both staff and customers.

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ADC Business:

Silkbank VISA Debit Card (“VDC”) continued to show strong growth during the period. VDC usage over Point of Sales (POS) during Q2, 2020 recorded a spend of Rs. 258.03 million against 68,912 transactions. The highest POS monthly spend of Rs. 94.02 million was recorded during June 2020. Alternate Distribution and e-delivery channels added value to the product offering of the Bank and enhanced the reach and accessibility of its banking services.

Bancassurance:

Bancassurance business continued its momentum during the period ended June 30, 2020 and generated a revenue income of Rs. 25.54 million. Policy cancellation remains under control and stood at 1% during the period reflecting the quality of sales. “Participation from All” is a continue process which is supporting the business to generate maximum number of applications through branches.

Consumer Banking:

Consumer Banking Division has always placed the utmost priority on providing customers an unrivalled customer experience. During Q2, 2020, the entire country was badly affected by COVID-19 pandemic and lockdowns in major business hubs. Economic activity was stifled, which had an adverse effect on our business. In these troubled times, the Bank enacted a strategy which focused on providing relief to Bank’s customers with the help of innovative new features and initiatives. New relief installment plan and principal deferment plan were introduced in accordance with the SBP instructions, to help customers facing repayment pressure, while initiatives like digital repayment solutions were also introduced to help customer facing mobility limitations.

Despite the suppressed economic activity and reduced customer confidence, we successfully acquired 7,058 fresh accounts including Personal Loan, Ready Line and Credit Cards. With the entire industry experiencing reduction in Ending Net Receivables (ENR), Silkbank launched multiple initiatives to rejuvenate ENR and have been successful in recouping most of the ENR erosion experienced during the quarter. Total Consumer Banking ENR currently stood at Rs. 18 billion and the Bank has retained its market share of 38% in consumer assets and its position as one of the leading fresh credit card issuers in the market.

Unsecured:**Personal Loans:**

Keeping in mind the return on capital employed of every product and economic outlook, the Bank took a decision to temporarily shift the focus from personal installment loan fresh acquisition to other products for the first half of the year 2020.

However, to facilitate our existing portfolio of personal installment loan customers with unparallel customer experience various initiatives were taken throughout the 2nd quarter. To help lessen the financial burden SBP relief package was offered to customers with the options of principal deferment and rescheduling / restructuring of the loan. Apart from this multiple pay early and get rewarded promotions were launched where customers were incentivized to make monthly payments before the due date by offering 100% cashback.

At the end of Q2, 2020 the Personal Installment Loan portfolio stood at ENR of Rs 5.8 billion with an active customer base of 23,113 customers.

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Ready Line:

At Consumer Assets, the primary goal was to provide customers an exceptional and personalized services which include smooth and hassle-free banking experience in all circumstances. Keeping in mind the lockdown situation and challenges posted due to COVID-19, various promotions were launched with the objective to provide safe transactional environment and to lessen the financial burden placed on customers during this tough economic phase.

Customers were encouraged to stay at home and use digital channels for day to day transactions. A promotion on utility bill payments through digital mediums was launched with the incentive to win 100% cash back against the bill amount without any cap.

In addition to the above, the Bank continued with successful 50% mark-up waiver on first two bills promotion for new customers. During the lockdown, a priority shift in customers behavior was observed where the focus shifted from meeting financial commitments to meeting household expenditures. Working on this, a Pay early and get rewarded promotion was launched offering customers a chance to become 1 of 100 lucky winners to win 100% mark-up waiver via cashback. In order to qualify customers were simply asked to make bill payments within the due date. The promotion was a big hit and we decided to repeat this for another month. In addition to this internal system developments were made in timely manner enabling customers to benefit from relief programs offered by SBP.

Similarly spend based promotions were launched to stabilize ENR. The Bank closed Q2 with Ready Line ENR of Rs. 7.3 billion and a total customer base of 48,933 customers.

Credit Cards:

The aftermath of COVID-19 pandemic and subsequent lockdowns in major cities of Pakistan continued to wreak havoc on the economy during most of Q2, 2020. This had a detrimental effect on all businesses in the country and restricted mobility of customers and the prevailing uncertainty also had an adverse effect on credit card KPIs. Total fresh acquisition for the quarter was 1,744 cards, which increased the cards in force (CIF) to 162,389 cards. Total spending on Silkbank Credit Cards was Rs. 4.1 billion during Q2, 2020, while ENR was Rs. 4.9 billion as at June 30th, 2020.

As fresh sales were restricted, we shifted our focus towards enhancing credit card value proposition and took several key initiatives to facilitate our customers during these troubled times. One of the major initiatives was enabling credit card repayments via other bank ADC & OTC services, which was supplemented by credit card repayment campaigns and customer education drives. The strategy paid dividends as customers showed an over whelming response and appreciated the feature, which was further evidenced by Silkbank becoming one of the top 3 banks in terms of credit card repayment volumes via digital channels. Furthermore, we also launched easy BTF facility, through which customers can conveniently transfer their outstanding from other bank cards by using the BTF facility on Silkmobile, a one of a kind features in Pakistan.

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In addition to these, we also launched a host of tactical spend campaigns on e-commerce and groceries which rejuvenated spend towards the end of the quarter. Outbound Units also played a vital part by booking fresh supplementary cards and value added facilities. SSU (Spend Stimulation Unit) facilitated customer relief and deferment requests and booked long term ENR volume. Silkbank Credit Card Alliances played an instrumental role by keeping customers engaged with enticing new Flexible Installment Plan (FIP) offers and discount offers on online merchants and other strategic offerings.

Emaan Islamic Banking (Emaan)

Despite adverse macro-economic circumstances, Emaan Islamic showed significant growth in the deposit book. Emaan deposit base grew by Rs. 5,990 million reflecting 18% positive change versus last year taking total deposit base to Rs. 39,265 million with CASA - deposit ratio of 83:17. Advances book stood at Rs. 7,756 million at end of half year ended June 30th, 2020.

Treasury

The Treasury of the Bank outperformed this year earning a gain of Rs 5,560 million on their instrument in GoP securities.

Anticipating rate cut due to reducing inflation and actions relating to COVID-19 pandemic, the Bank took a prudent decision to build an optimal Investment portfolio during 1HCY20 by accumulating GoP securities, specially PIBs. The 625-basis points policy rate cut from March to June 2020 resulted in realization of a remarkable capital gain on our Investment portfolio.

Compliance with Minimum Capital Requirement (MCR) and Capital Adequacy Ratio (CAR)

As at June 30, 2020, the equity of the Bank stood at Rs. 12.44 billion excluding surplus on revaluation of assets. This includes share capital (net of losses and discount on shares) of Rs. 11.62 billion. By virtue of the same, the Capital Adequacy Ratio (CAR) of the Bank is 8.36%.

Furthermore, the Board has given certain targets to the management that will ensure improvement in all key ratios of the Bank in 2020.

The Bank is committed to adhere to the given targets and is confident of reaching capital compliant by December 31, 2020.

Credit Rating

The long-term entity rating of the Bank is A- (Single A Minus) and the short-term rating is A-2 (A-Two) as determined by "JCR VIS" Credit Rating Company Limited. The outlook on the assigned rating is "Stable".

Future Outlook

The Bank's progress in 2019 was curtailed due to decline in real estate prices on account of the economic situation of the country.

As a result, the Bank classified the Real Estate loans, with a concrete recovery plan in place. The SBP, during its last inspection, had also identified a security shortfall in the real estate portfolio of the Bank. However, with the support of SBP, the shortfall so identified has been more than adequately covered through additional collateral valued by SBP nominated valuers.

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The Bank expects substantial payment against these loans in 2020, which would make these accounts regular and improve the bottom line of the Bank.

Additionally, the Board has required the management to make efforts to revive, the mortgage assets business for further growth in the consumer banking business. Most importantly, the Bank will increasingly emphasize on its human capital by strengthening “a pay for performance culture” and improved succession planning process.

In order to provide a platform to cater to the unbanked population, the Bank has piloted the launch of SMS banking to increase its outreach.

The Bank is committed to continuing with measures to improve productivity in line with the future strategy.

With the successful implementation of the strategies outlined by the Board, your Directors are hopeful that the profitable growth of the Bank will continue in the years to come.


Acknowledgement

We once again take this opportunity to express our deepest gratitude to our customers and business partners for their continued support and trust, and our sincere appreciation to the State Bank of Pakistan for their guidance and cooperation. We are also equally thankful to our associates, staff and colleagues for their committed services, and look forward to their continued support.

**For and on Behalf of the Board of
Silkbank Limited**



Nabeel Anjum Malik
Acting President & CEO



Khalid Aziz Mirza
Chairman

Karachi, September 30, 2020

SILKBANK LIMITED
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2020

	Note	June 30, 2020 Un-audited	December 31, 2019 Audited
Rupees in '000			
ASSETS			
Cash and balances with treasury banks	8	11,593,227	11,838,682
Balances with other banks	9	969,331	1,168,163
Lendings to financial institutions	10	7,134,660	18,101,837
Investments	11	133,219,338	36,245,350
Advances	12	100,934,836	105,374,947
Fixed assets	13	5,436,647	5,910,389
Intangible assets	14	225,157	217,077
Deferred tax assets	15	3,677,702	4,864,227
Other assets	16	23,479,367	19,737,679
Assets held for sale	17	2,229,729	2,229,729
		288,899,994	205,688,080
LIABILITIES			
Bills payable	18	1,912,055	2,483,658
Borrowings	19	106,168,700	31,973,231
Deposits and other accounts	20	157,256,079	148,853,513
Liabilities against assets subject to finance lease		-	-
Subordinated debt	21	2,206,218	2,125,418
Deferred tax liabilities		-	-
Other liabilities	22	8,560,011	9,480,373
		276,103,063	194,916,193
NET ASSETS		12,796,931	10,771,887
REPRESENTED BY			
Shareholders' equity			
Share capital - net	23	23,431,374	23,431,374
Reserves		820,890	820,890
Surplus on revaluation of assets - net of tax	24	358,797	256,510
Accumulated loss		(11,814,130)	(13,736,887)
		12,796,931	10,771,887
CONTINGENCIES AND COMMITMENTS	25		

The annexed notes 1 to 45 form an integral part of these condensed interim financial statements. *sim*


 Chief Financial Officer


 Acting President & Chief Executive Officer


 Director


 Director


 Director

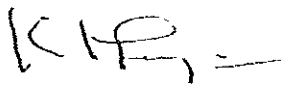
SILKBANK LIMITED
CONDENSED INTERIM PROFIT AND LOSS ACCOUNT - UNAUDITED
FOR THE HALF YEAR ENDED JUNE 30, 2020

	Note	Quarter ended		Half year ended	
		June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Rupees in '000					
Mark-up / return / profit / interest earned	27	6,088,064	4,933,954	11,818,352	9,549,836
Mark-up / return / profit / interest expensed	28	(5,305,448)	(3,215,951)	(10,951,324)	(6,076,277)
Net Mark-up / return / profit / interest income		782,616	1,718,003	867,028	3,473,559
NON MARK-UP / INTEREST INCOME					
Fee and commission income	29	483,653	552,825	1,087,109	1,057,416
Dividend income		-	3,425	-	3,425
Foreign exchange income / (loss)		91,783	(820,418)	(504,907)	(741,342)
(Loss) / income from derivatives		(18,283)	996,669	722,819	1,026,583
Gain / (loss) on securities	30	4,641,802	(22,880)	5,563,979	(39,908)
Other income / (loss)	31	(6,660)	(72,148)	51,622	47,254
Total non-markup / interest income		5,192,295	637,473	6,920,622	1,353,428
Total Income		5,974,911	2,355,476	7,787,650	4,826,987
NON MARK-UP / INTEREST EXPENSES					
Operating expenses	32	(1,760,448)	(1,936,131)	(3,587,288)	(3,838,901)
Workers Welfare Fund		(64,890)	(2,955)	(64,890)	(5,186)
Other charges	33	(4,876)	(14,325)	(17,235)	(125,092)
Total non-markup / interest expenses		(1,820,214)	(1,953,411)	(3,669,413)	(3,969,179)
Profit before provisions, extra ordinary / unusual item and taxation		4,154,697	402,065	4,118,237	857,808
Provisions and write offs - net	34	(82,020)	(257,262)	(938,632)	(603,680)
Extra ordinary / unusual items		-	-	-	-
PROFIT BEFORE TAXATION		4,072,677	144,803	3,179,605	254,128
Taxation	35	(1,605,717)	(96,762)	(1,293,146)	(137,297)
PROFIT AFTER TAXATION		2,466,960	48,041	1,886,459	116,831
Rupee					
Basic and Diluted Earnings Per Share	36	0.27	0.01	0.21	0.01

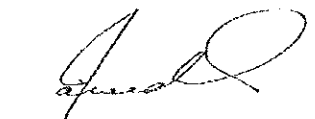
The annexed notes 1 to 45 form an integral part of these condensed interim financial statements.


 Chief Financial Officer


 Acting President & Chief Executive Officer


 Director


 Director


 Director

SILKBANK LIMITED

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME - UNAUDITED


FOR THE HALF YEAR ENDED JUNE 30, 2020

	Quarter ended		Half year ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	Rupees in '000			
Profit after tax for the period	2,466,960	48,041	1,886,459	116,831
Other comprehensive income / (loss)				
Items that may be reclassified to profit and loss account in subsequent periods:				
Movement in surplus / (deficit) on revaluation of investments - net of tax	(1,843,285)	(24,773)	104,767	42,737
Items that will not be reclassified to profit and loss account in subsequent periods:				
Remeasurement gain on defined benefit obligations - net of tax	33,191	10,413	33,191	10,413
Movement in surplus on revaluation of fixed assets - net of tax	(581)	(582)	(1,162)	(1,163)
Movement in surplus on revaluation of non-banking assets - net of tax	(1,318)	-	(1,318)	-
	31,292	9,831	30,711	9,250
Total comprehensive income	654,967	33,099	2,021,937	188,818


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Chief Financial Officer


Acting President & Chief Executive Officer


Director


Director


Director

SILKBANK LIMITED
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY - UNAUDITED
FOR THE HALF YEAR ENDED JUNE 30, 2020


	Share Capital	Surplus / (deficit) on revaluation of		Capital Reserve	Revenue Reserve	Total Equity
		Investments	Fixed / Non Banking Assets	Statutory Reserve*	Accumulated Loss	
Rupees in '000						
Balance as at January 01, 2019 - Audited	23,431,374	(144,910)	76,703	820,890	(9,797,310)	14,386,747
Profit after taxation for the half year ended June 30, 2019 - Un-audited	-	-	-	-	116,831	116,831
Other comprehensive income / (loss) - net of tax - Un-audited	-	42,737	(1,163)	-	10,413	51,987
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation- net of tax	-	-	-	-	1,789	1,789
Balance as at June 30, 2019 - Un-audited	23,431,374	(102,173)	75,540	820,890	(9,668,277)	14,557,354
Loss after taxation for the half year ended December 31, 2019 - Un-audited	-	-	-	-	(4,069,834)	(4,069,834)
Other comprehensive income / (loss) - net of tax - Un-audited	-	284,899	(1,756)	-	(1,477)	281,666
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation- net of tax	-	-	-	-	1,790	1,790
Transfer from surplus on revaluation of non-banking assets on account of disposal of assets - net of tax	-	-	-	-	911	911
Balance as at December 31, 2019 - Audited	23,431,374	182,726	73,784	820,890	(13,736,887)	10,771,887
Profit after taxation for the half year ended June 30, 2020 - Un-audited	-	-	-	-	1,886,459	1,886,459
Other comprehensive income / (loss) - net of tax - Un-audited	-	104,767	(2,480)	-	33,191	135,478
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation- net of tax	-	-	-	-	1,789	1,789
Transfer from surplus on revaluation of non-banking assets on account of disposal of assets- net of tax	-	-	-	-	1,318	1,318
Balance as at June 30, 2020 - Un-audited	23,431,374	287,493	71,304	820,890	(11,814,130)	12,796,931

* Statutory reserves represent amount set aside as per requirements of section 21 of the Banking Companies Ordinance, 1962. *SM*


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 Acting President & Chief Executive Officer


 Director


 Director


 Director

SILKBANK LIMITED
CONDENSED INTERIM CASH FLOW STATEMENT - UNAUDITED
FOR THE HALF YEAR ENDED JUNE 30, 2020

	Note	June 30, 2020	June 30, 2019
		Rupees in '000	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		3,179,605	254,128
Less: Dividend income		-	(3,425)
		<u>3,179,605</u>	<u>250,703</u>
Adjustments:			
Depreciation on fixed assets	32	204,983	214,170
Depreciation on right-of-use assets	32	336,689	-
Depreciation on non-banking assets acquired in satisfaction of claims	32	32,273	34,577
Amortization of Intangible assets	32	38,166	30,699
Amortization of premium on investments - net		(290,893)	23,196
Finance charge on lease liability against right-of-use assets	28	224,324	-
Provisions against loans & advances	34	827,669	691,244
Gain on sale of fixed assets	31	(341)	(589)
Unrealized (gain) / loss on revaluation of investments - held-for-trading	30	(9,368)	406
Share of profit from associate	31	(8,665)	(406)
Loss on sale of non-banking assets acquired in satisfaction of claims	31	25,751	192,632
Provision against other assets - net	34	180,000	-
Write offs against fixed assets	34	813	2,080
		<u>1,561,411</u>	<u>1,188,009</u>
		<u>4,741,016</u>	<u>1,438,712</u>
Decrease / (Increase) in operating assets			
Lendings to financial institutions		10,967,177	(5,091,425)
Net investments in held-for-trading securities		(8,072,756)	8,081,719
Advances		3,612,442	(8,612,160)
Other assets (excluding advance taxation)		(4,038,646)	(3,480,681)
		<u>2,468,218</u>	<u>(9,102,547)</u>
(Decrease) / increase in operating liabilities			
Bills payable		(571,603)	(1,216,702)
Borrowings		74,195,469	(13,747,386)
Deposits		8,402,566	15,612,346
Other liabilities (excluding current taxation)		(753,699)	2,873,738
		<u>81,272,733</u>	<u>3,521,996</u>
		<u>88,481,967</u>	<u>(4,141,839)</u>
Income tax paid		(269,239)	(390,913)
Net cash flow generated from / (used in) operating activities		<u>88,212,728</u>	<u>(4,532,752)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net investment in available-for-sale securities		(88,431,135)	11,954,359
Net investment in held-to-maturity securities		-	(257,658)
Dividend received		-	3,425
Net investment in fixed assets and intangible assets		(131,315)	(237,649)
Proceeds on disposal of non-banking assets acquired in satisfaction of claims		191,203	228,500
Proceeds on disposal of fixed assets		16,667	22,693
Net cash flow (used in) / generated from Investing activities		<u>(88,354,580)</u>	<u>11,713,670</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Receipts / (repayments) of subordinated debts		80,800	(200)
Payment of finance lease obligation		-	(2,273)
Payment of lease liability against right-of-use assets		(383,235)	-
Net cash flow used in financing activities		<u>(302,435)</u>	<u>(2,473)</u>
(Decrease) / increase in cash and cash equivalents		<u>(444,287)</u>	<u>7,178,445</u>
Cash and cash equivalents at the beginning of the period		13,006,845	9,181,561
Cash and cash equivalents at the end of the period	37	<u>12,562,558</u>	<u>16,360,006</u>

The annexed notes 1 to 45 form an integral part of these condensed interim financial statements. 552


 Chief Financial
 Officer


 Acting President & Chief
 Executive Officer

Director

Director

Director

SILKBANK Limited

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS - UNAUDITED **FOR THE HALF YEAR ENDED JUNE 30, 2020**

1 STATUS AND NATURE OF BUSINESS

Silkbank Limited ("the Bank") was incorporated in Pakistan on April 04, 1994 as a public limited company under the Companies Act, 2017. The Bank commenced commercial operations on May 7, 1995. The Bank's shares are quoted on Pakistan Stock Exchange Limited. The Bank is engaged in banking services as described in the Banking Companies Ordinance, 1962. The Bank operates through 123 branches (December 31, 2019: 123 branches) including 30 (December 31, 2019: 30) Islamic banking branches in Pakistan. The Bank's registered office is located at Silkbank Building, 13-L, F-7 Markaz, Islamabad. The short-term and long-term credit ratings of the Bank rated by JCR-VIS Credit Rating Company Limited in June 2019 are 'A-2' and 'A-' respectively.

Major shareholders of the Bank as on June 30, 2020 are Sinthos Capital (comprising of Mr. Shaukat Tarin, Mr. Sadeq Sayeed and Mr. Azmat Tarin), Arif Habib Corporation Limited, International Finance Corporation (IFC), Nomura European Investment Limited, Bank Muscat S.A.O.G and Mr. Zulqarnain Nawaz Chatta / Mr. Zubair Nawaz Chatta of Gourmet Group.

As at June 30 2020, the equity of the Bank is Rs. 12.44 billion excluding surplus on revaluation of assets. This includes share capital (net of losses and discount on shares) of Rs. 11.62 billion against the Minimum Capital Requirement (MCR) of Rs. 10 billion as prescribed by State Bank of Pakistan (SBP). Further, the Capital Adequacy Ratio (CAR) of the Bank is 8.36% (December 31, 2019: 5.81%) against the minimum CAR requirement of SBP of 11.50% (2019: 12.50%). Consequently, the Bank is non-compliant with CAR at June 30, 2020 end which can expose the Bank to regulatory actions under the Banking laws.

Further SBP has allowed to treat the general provision held against consumer financing as part of Common Equity Tier I instead of Tier II for the purpose of CAR calculation. In case such relaxation has not been provided to the Bank, CAR would have been lower by 0.19%.

The management of the Bank has taken following steps to improve the financial position of the Bank and to meet the requirement for CAR as per the plan submitted by the Bank to the regulator.

1. The Bank has initiated the process of a Rights issue in order to inject further capital.
2. The Bank has been making continuous efforts for recovery of its Non-Performing Loans as a result of which it has recovered Rs. 757 million during the period; and
3. The Bank expects substantial upside as a result of creation of an Islamic Development REIT Fund with the assistance of a potential investor, subject to approval of SBP for resolution of major issued of NonNon Banking Assets (NBA) disposal and settlement of specified Non Performing Loans portfolio.

Sponsors/Directors are of the opinion that, taking into account the above mentioned plans and measures, the Bank would meet with the requirement of CAR as enumerated by the regulator.

2 BASIS OF PREPARATION

- 2.1 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the SBP has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by the banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these condensed interim financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.
- 2.2 The Islamic banking branches of the Bank have complied with the requirements set out under the Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP) and notified under the provisions of the Companies Act, 2017 except for the adoption of IFAS-3 'Profit & Loss Sharing on Deposits' as disclosed in note 3.4.
- 2.3 The financial results of the Islamic banking branches have been included in these condensed interim financial statements for reporting purposes, after eliminating material inter-branch transactions / balances. Key financial figures of the Islamic banking branches are disclosed in note 42 to these condensed interim financial statements.

3 STATEMENT OF COMPLIANCE

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

- The accounting standards comprise of such International Financial Reporting Standards (IFRS) 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 (ICAP), as are notified under the Companies Act, 2017;
- Provisions of and directives issued under the Banking Companies Ordinance, 1962 and the Companies Act, 2017;
- Directives issued by the SBP and the Securities and Exchange Commission of Pakistan ("SECP") from time to time.

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

- 3.2** The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. Further, the SECP has deferred the applicability of IFRS 7 'Financial Instruments: Disclosures' on banks through S.R.O. 411(1) / 2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these condensed interim financial statements. However, Investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.
- 3.3** IFRS 8, 'Operating Segments' is effective for the Bank's accounting periods beginning on or after January 1, 2009. All banking companies in Pakistan are required to prepare their quarterly & half-yearly financial statements in line with the format prescribed under BPRD Circular Letter No. 05 of 2019 dated March 22, 2019, 'Format of Interim Financial Statements' (as updated from time to time), effective from the accounting year ended December 31, 2019. The management of the Bank believes that as the SBP has defined the segment categorization in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these condensed interim financial statements is based on the requirements laid down by the SBP.
- 3.4** The State Bank of Pakistan through BPRD Circular No. 04 of 2015 dated February 25, 2015 has deferred applicability of IFAS-3 for Profit & Loss Sharing on Deposits (IFAS-3) Issued by the ICAP and notified by the SECP, vide their SRO No. 571 of 2013 dated June 12, 2013 for Institutions offering Islamic Financial Services (IFS). The standard will result in certain new disclosures in the condensed interim financial statements of the Bank.
- 3.5** The disclosures made in these condensed interim financial statements are limited based on the format prescribed by the SBP vide BPRD circular letter No. 5 dated March 22, 2019 and International Accounting Standard (IAS) 34, 'Interim Financial Reporting' and do not include all the information required in the annual financial statements. Accordingly, these condensed interim financial statements should be read in conjunction with the annual financial statements of the Bank for the year ended December 31, 2019.

4 BASIS OF MEASUREMENT

These condensed interim financial statements have been prepared under the historical cost convention, except that certain fixed assets and non-banking assets acquired in satisfaction of claims are stated at revalued amounts less accumulated depreciation and accumulated impairment losses (where applicable) and certain investments and derivative financial instruments have been measured at fair value and net obligations in respect of defined benefit scheme are carried at their present value.

These condensed interim financial statements have been prepared in Pakistani Rupee which is the functional and presentation currency of the Bank. The amounts are rounded off to the nearest thousand rupee, unless otherwise stated.

5 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation adopted for the preparation of these condensed interim financial statements are consistent with those followed in the preparation of the annual financial statements of the Bank for the year ended December 31, 2019 except mentioned below.

5.1 Change in Accounting Policies

Disposal of Non Banking Assets (NBA)

During the period ended June 30, 2020, the Bank changed its accounting policy to derecognize Non-Banking Assets (NBA) from the basis of recovery of 50% of total sale consideration to "at least 40% to 50% of total sale consideration", to apply the more realistic approach related to sale of NBAs.

During the period ended June 30, 2020, management commissioned a detailed survey on previous sale transactions of NBAs which provide detailed information and the behavior of the payment made by the buyers for sale of NBAs on the basis of which management conclude that the limit of 50% should be replaced by at least 40% to 50%.

After assessing the impacts of the change in accounting policy, the Bank's management concluded that there is no impact on prior year amounts because the said change in accounting policy does not negate to derecognize NBAs previously recorded. Therefore, management concluded that it should apply new policy prospectively from the start of 2020.

5.2 Impact of COVID-19

COVID-19 will impact banks in Pakistan on a number of fronts including increase in overall credit risk pertaining to the loans and advances portfolio, reduced fee income due to overall slowdown in economic activity, continuity of business operations, slow down of the real estate sector resulting in delays in disposal of non banking assets and associated activities and managing cyber security threat as a significant number of the Bank staff is working from home and an ever increasing number of customers are also being encouraged to use digital channels. Further, the decline in the discount rate regime during the period positively impacted the investments through capital gains on Government Securities.

The Bank's risk management policies continue to be similar as disclosed in the financial statements for the year ended December 31, 2019 except for the following additional considerations due to the prevalent COVID-19 pandemic.

The State Bank of Pakistan (SBP) has responded to the crisis by cutting the policy rate by 625 basis points since beginning of the year to 7 percent in June 2020 and by introducing certain regulatory measures to maintain banking system soundness and to sustain economic activity. These include (i) reducing the capital conservation buffer by 100 basis points to 1.5 percent; (ii) The existing regulatory retail portfolio limit of Rs. 125 million has been enhanced to Rs. 180 million; (iii) relaxing the debt burden ratio for consumer loans from 50 percent to 60 percent; (iv) allowing banks to defer borrowers' principal loan repayments by one year or restructure / reschedule loans for borrowers who require relief of principal repayment exceeding one year and / or mark-up with no reflection on credit history; and (v) relaxing regulatory criteria for restructured/rescheduled loans for borrowers who require relief beyond the extension of principal repayment for one year or more.

The Risk Management function of the Bank is regularly conducting assessment of the credit portfolio to identify borrowers most likely to be affected due to changes in the business and economic environment. The Bank has further strengthened its credit review procedures in light of the prevalent COVID-19 pandemic. In addition the Bank is continuously reviewing the entire portfolio, to identify accounts susceptible to higher risk, resulting from the COVID-19 outbreak... This will be a continuous process till the effect of the pandemic is minimized.

The Bank expects that borrowers in general will be impacted by this pandemic. Since many of these borrowers have already come forward to avail the SBP granted deferment / restructuring & rescheduling relief, the full effect of the economic stress is difficult to predict given the uncertain economic environment and the uncertainty regarding the possible duration of the pandemic.

The Bank is fully aware of the risks associated with COVID-19 and is regularly conducting assessments of portfolios and operations to ensure that risks are best minimized.

5.3 Standards, Interpretations of and amendments to accounting and reporting standards that are effective in the year 2020

As referred to in note 4.3 to the Bank's financial statements for the year ended December 31, 2019, there are certain standards, amendments and interpretations that are effective for the annual period beginning on or after January 1, 2020. These are considered either not to be relevant or not to have any significant impact on the Bank's condensed interim financial statements.

5.4 Standards, Interpretations of and amendments to accounting and reporting standards that are not yet effective

The following new standards and interpretations of and amendments to existing accounting and reporting standards will be effective from the dates mentioned below against the respective standard, interpretation or amendment:

Standard, Interpretation or Amendment	Effective date (Annual periods beginning on or after)
IFRS 9 - Financial Instruments: Classification and Measurement	January 01, 2021

The SBP through BPRD Circular Letter no. 4 dated October 23, 2019, the applicability of IFRS 9 to banks in Pakistan has been deferred to accounting periods beginning on or after January 1, 2021.

IFRS 9: 'Financial Instruments' addresses recognition, classification, measurement and derecognition of financial assets and financial liabilities. The standard has also introduced a new impairment model for financial assets which requires recognition of impairment charge based on an 'Expected Credit Losses' (ECL) approach rather than the 'incurred credit losses' approach as currently followed. The ECL has impact on all assets of the Bank which are exposed to credit risk. The Bank is in the process of assessing the full impact of this standard.

There are certain new and amended standards and interpretations as referred to in note 4.3 to the Bank's financial statements for the year ended December 31, 2019, that are mandatory for the Bank's accounting periods beginning on or after July 1, 2020 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these condensed interim financial statements.

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The basis and methods used for critical accounting estimates and judgments adopted in these condensed interim financial information are same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2019.

7 FINANCIAL RISK MANAGEMENT

The Bank's financial risk management objectives and policies are consistent with those disclosed in the annual financial statements for the year ended December 31, 2019.

The Bank's activities are exposed to a variety of financial risks i.e. market risk, credit risks and liquidity risks. The condensed interim financial statements do not include all risk management information and are disclosed in the annual financial statements, thus should be read in conjunction with the annual financial statements for the year ended December 31, 2019.

There have been no material changes to our policies and practices regarding risk management and governance as described in annual financial statements for the year ended December 31, 2019 except for certain additions in the criteria to address significant risks emanating from the retail portfolio to ensure that relevant indicators relating to likelihood of default, are being captured in a timely manner under the current situation.

		June 30, 2020 Un-audited	December 31, 2019 Audited
	Note	Rupees In '000	
8 CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		1,933,959	1,677,165
Foreign currencies		1,796,830	1,094,328
		3,730,789	2,771,493
With State Bank of Pakistan in			
Local currency current accounts	8.1	6,317,225	6,784,412
Foreign currency current accounts		585,945	685,106
Foreign currency deposit accounts	8.2	818,781	1,276,607
		7,721,951	8,746,125
With National Bank of Pakistan in			
Local currency current accounts		124,594	198,679
National Prize Bonds		15,893	122,385
		<u>11,593,227</u>	<u>11,838,682</u>
8.1	Deposits with the SBP are maintained to comply with the statutory requirements of the SBP issued from time to time (section 22 of the Banking Companies Ordinance, 1962).		
8.2	This represents account maintained with the SBP to comply with Special Cash Reserve requirement (FE-25 scheme, as prescribed by the SBP). It carries interest rates Nil (December 31, 2019: 0.70%).		
		June 30, 2020 Un-audited	December 31, 2019 Audited
		Rupees In '000	
9 BALANCES WITH OTHER BANKS			
In Pakistan			
In current accounts		304,162	105,487
In deposit account		71	68
		304,223	105,555
Outside Pakistan			
In current accounts		665,108	1,062,608
		<u>969,331</u>	<u>1,168,163</u>
10 LENDINGS TO FINANCIAL INSTITUTIONS			
Repurchase agreement lendings (Reverse repo)		3,362,467	13,751,114
Foreign placement		977,550	900,748
Bai Muajjal receivable from State Bank of Pakistan		2,794,643	3,449,975
		<u>7,134,660</u>	<u>18,101,837</u>

11 INVESTMENTS

11.1 Investments by type:	June 30, 2020 - Un-audited				December 31, 2019 - 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								
Market Treasury Bills	8,076,171	-	9,358	8,085,529	-	-	-	-
Shares								
Listed	-	-	-	-	2,150	-	1,266	3,416
	8,076,171	-	9,358	8,085,529	2,150	-	1,266	3,416
Available-for-sale securities								
Federal Government Securities								
Market Treasury Bills	-	-	-	-	3,536,303	-	(597)	3,535,706
Pakistan Investment Bonds	119,667,675	-	447,487	120,115,162	29,007,986	-	76,368	29,084,354
GOP Ijarah Sukuks	3,946,342	-	(24,423)	3,921,919	2,272,265	-	4,735	2,277,000
Shares - Listed								
Ordinary Shares	187,128	-	(23,078)	164,050	487,526	-	202,955	690,481
Preference Shares	299,999	-	42,897	342,896	-	-	-	-
Shares - Unlisted								
Unlisted Ordinary Shares	5,680	(5,680)	-	-	5,680	(5,680)	-	-
Non Government Debt Securities								
Sukuks - Listed	116,667	-	292	116,959	229,699	-	(2,345)	227,354
Term Finance Certificates - Listed	75,496	-	(877)	74,619	37,500	-	-	37,500
Term Finance Certificates - Unlisted	8,780	(8,780)	-	-	8,780	(8,780)	-	-
	124,307,767	(14,460)	442,298	124,735,605	35,585,739	(14,460)	281,116	35,852,395
Held-to-maturity securities								
Shares repurchase (fully provided)	74,910	(74,910)	-	-	74,910	(74,910)	-	-
Other Federal Government Securities	257,658	-	-	257,658	257,658	-	-	257,658
	332,568	(74,910)	-	257,658	332,568	(74,910)	-	257,658
Associates								
SPI Insurance Company Limited	140,546	-	-	140,546	131,881	-	-	131,881
Total Investments	132,857,052	(89,370)	451,656	133,219,338	36,052,338	(89,370)	282,382	36,245,350

11.2 Investments by segments:	June 30, 2020 - Un-audited				December 31, 2019 - 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								
Market Treasury Bills	8,076,171	-	9,358	8,085,529	3,536,303	-	(597)	3,535,706
Pakistan Investment Bonds	119,667,675	-	447,487	120,115,162	29,007,986	-	76,368	29,084,354
GOP Ijarah Sukuks	3,946,342	-	(24,423)	3,921,919	2,272,265	-	4,735	2,277,000
Bai Muajjal	257,658	-	-	257,658	257,658	-	-	257,658
	131,947,846	-	432,422	132,380,268	35,074,212	-	80,506	35,154,718
Shares								
Ordinary shares - Listed	187,128	-	(23,078)	164,050	489,676	-	204,221	693,897
Preference shares - Listed	299,999	-	42,897	342,896	-	-	-	-
Ordinary shares - Unlisted	5,680	(5,680)	-	-	5,680	(5,680)	-	-
	492,807	(5,680)	19,819	506,946	495,356	(5,680)	204,221	693,897
Non Government Debt Securities								
Sukuks - Listed	116,667	-	292	116,959	229,699	-	(2,345)	227,354
Term Finance Certificates - Listed	75,496	-	(877)	74,619	37,500	-	-	37,500
Term Finance Certificates - Unlisted	8,780	(8,780)	-	-	8,780	(8,780)	-	-
	200,943	(8,780)	(585)	191,678	275,979	(8,780)	(2,345)	264,854
Shares repurchase (fully provided)	74,910	(74,910)	-	-	74,910	(74,910)	-	-
Associates								
SPI Insurance Company Limited	140,546	-	-	140,546	131,881	-	-	131,881
Total Investments	132,857,052	(89,370)	451,656	133,219,338	36,052,338	(89,370)	282,382	36,245,350

	June 30, 2020 Un-audited	December 31, 2019 Audited
	Rupees in '000	
11.2.1 Investments given as collateral		
Market Treasury Bills	8,069,537	-
Pakistan Investment Bonds	97,449,459	21,753,482
	<u>105,518,996</u>	<u>21,753,482</u>

11.3 Provision for diminution in value of investments

	June 30, 2020	December 31, 2019
11.3.1 Opening balance	89,370	89,370
Charge / (reversals)		
Charge for the period / year	-	-
Reversals for the period / year	-	-
Amounts written off	-	-
Closing balance	<u>89,370</u>	<u>89,370</u>

11.3.2 Particulars of provision against debt securities

Category of classification	June 30, 2020 - Un-audited		December 31, 2019 - Audited	
	Non Performing Investments	Provision	Non Performing Investments	Provision
	Rupees in '000			
Domestic	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	83,690	83,690	83,690	83,690
Total	<u>83,690</u>	<u>83,690</u>	<u>83,690</u>	<u>83,690</u>

11.4 The market value of securities classified as held-to-maturity is Rs. 258 million (December 31, 2019: Rs. 258 million).

12 ADVANCES

	Performing		Non Performing		Total	
	June 30, 2020 Un-audited	December 31, 2019 Audited	June 30, 2020 Un-audited	December 31, 2019 Audited	June 30, 2020 Un-audited	December 31, 2019 Audited
	Rupees in '000					
Loans, cash credits, running finances, etc.	67,231,996	71,248,276	32,600,152	11,976,290	99,832,148	83,224,566
Islamic financing and related assets	4,993,565	5,252,194	2,792,558	22,749,660	7,786,123	28,001,854
Bills discounted and purchased	271,740	1,007,349	3,113	3,113	274,853	1,010,462
Advances - gross	<u>72,497,301</u>	<u>77,507,819</u>	<u>35,395,823</u>	<u>34,729,063</u>	<u>107,893,124</u>	<u>112,236,882</u>
Provision against advances						
- Specific	-	-	6,266,261	6,077,627	6,266,261	6,077,627
- General	692,027	784,308	-	-	692,027	784,308
	<u>692,027</u>	<u>784,308</u>	<u>6,266,261</u>	<u>6,077,627</u>	<u>6,958,288</u>	<u>6,861,935</u>
Advances - net of provision	<u>71,805,274</u>	<u>76,723,511</u>	<u>29,129,562</u>	<u>28,651,436</u>	<u>100,934,836</u>	<u>105,374,947</u>

12.1 Particulars of advances (Gross)

	June 30, 2020 Un-audited	December 31, 2019 Audited
In local currency	107,893,124	112,236,882
In foreign currencies	-	-
	<u>107,893,124</u>	<u>112,236,882</u>

12.2 Advances include Rs. 35,396 million (December 31, 2019: Rs. 34,729 million) which have been placed under non-performing status as detailed below:

Category of classification - specific	June 30, 2020 - Un-audited		December 31, 2019 - Audited	
	Non Performing Loans	Provision	Non Performing Loans	Provision
	Rupees in '000			
Domestic	796,293	116,817	1,543,094	196,926
Substandard	1,623,715	238,026	4,911,888	516,582
Doubtful	32,975,816	5,911,418	28,274,081	5,364,119
Loss	-	-	-	-
Total	<u>35,395,823</u>	<u>6,266,261</u>	<u>34,729,063</u>	<u>6,077,627</u>

12.3 Particulars of provision against advances:

Note	June 30, 2020 - Un-audited			December 31, 2019 - Audited		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Opening balance	6,077,627	784,308	6,861,935	4,524,443	687,723	5,212,166
Charge for the period / year	1,648,849	-	1,648,849	2,728,584	96,585	2,825,169
Reversals for the period / year	(728,899)	(92,281)	(821,180)	(189,953)	-	(189,953)
	919,950	(92,281)	827,669	2,538,631	96,585	2,635,216
Amounts written off	(731,316)	-	(731,316)	(985,447)	-	(985,447)
Closing balance	<u>6,266,261</u>	<u>692,027</u>	<u>6,958,288</u>	<u>6,077,627</u>	<u>784,308</u>	<u>6,861,935</u>

- 12.3.1** SBP vide various circulars has amended Prudential Regulations in respect of provisioning against non-performing advances under which the benefit of Forced Sale Value (FSV) has been allowed for plant and machinery under charge, pledged stock and mortgaged residential, commercial and industrial properties (land and building only) held as collateral against non-performing advances upto five years from the date of classification.
- 12.3.2** As of June 30, 2020, the Bank has availed FSV benefits against all non performing advances. Had the benefit not been taken by the Bank, profit after tax would have been reverted and loss after tax would have been Rs.16,055 million (December 31, 2019: loss after tax would have been higher by Rs. 5,738 million), which shall not be available for payment of cash or stock dividend / bonus to employees.
- 12.3.3** As per Prudential Regulation for consumer financing issued by the SBP, percentage of reserve is linked to non-performing loans to gross loans ratio. Consequently, the general provisioning on consumer financing is maintained at 4% (December 31, 2019: 4%) of unsecured portfolio of the Bank.

		June 30, 2020 Un-audited	December 31, 2019 Audited
	Note	Rupees in '000	
13	FIXED ASSETS		
	Capital work-in-progress	41,465	38,078
	Property and equipment	1,644,822	1,685,262
	Right-of-use assets	3,850,360	4,187,049
		<u>5,436,647</u>	<u>5,910,389</u>
13.1	Capital work-in-progress		
	Civil works	12,082	808
	Advances to suppliers and contractors	29,383	37,270
		<u>41,465</u>	<u>38,078</u>
		June 30, 2020 Un-audited	June 30, 2019 Un-audited
		Rupees in '000	
13.2	Additions to fixed assets		
	The following additions have been made to fixed assets during the period:		
	Capital work-in-progress	30,307	51,218
	Property and equipment		
	Furniture and fixture	3,045	11,012
	Electrical, office, and computer equipment	19,357	62,900
	Vehicles	53,813	99,143
	Leasehold Improvements	5,467	35,793
		81,682	208,848
	Total	<u>111,989</u>	<u>260,066</u>
13.3	Disposal of fixed assets		
	The net book value of fixed assets disposed off during the period is as follows:		
	Furniture and fixture	-	219
	Electrical, office, and computer equipment	111	66
	Vehicles	16,215	21,819
	Total	<u>16,326</u>	<u>22,104</u>

	June 30, 2020 Un-audited	December 31, 2019 Audited
	Rupees in '000	
14 INTANGIBLE ASSETS		
Capital work-in-progress	58,058	63,919
Software	167,099	153,158
	<u>225,157</u>	<u>217,077</u>

	June 30, 2020 Un-audited	June 30, 2019 Un-audited
	Rupees in '000	

14.1 Additions to intangible assets

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

Capital work-in-progress	17,772	19,820
Software (directly purchased)	52,107	23,632
Total	<u>69,879</u>	<u>43,452</u>

	June 30, 2020 Un-audited	December 31, 2019 Audited
	Rupees in '000	

15 DEFERRED TAX ASSETS

Deductible Temporary Differences on

- Tax losses carried forward	99,631	1,498,167
- Post retirement employee benefits	-	2,713
- Provision for diminution in value of investments	3,073	3,073
- Provision against non-performing advances	2,839,982	2,658,631
- Provision against Workers' Welfare Fund (WWF)	69,806	47,094
- Provision against other assets	269,198	216,018
- Depreciation on non-banking assets	91,228	86,113
- Unabsorbed tax depreciation	566,868	566,867
	<u>3,939,786</u>	<u>5,078,676</u>

Taxable Temporary Differences on

- Surplus on revaluation of investments	24	(154,805)	(98,390)
- Surplus on revaluation of non-banking assets	24	(2,216)	(2,216)
- Surplus on revaluation of fixed assets	24	(10,647)	(11,274)
- Post retirement employee benefits		(15,159)	-
- Accelerated tax depreciation		(79,257)	(102,569)
		<u>(262,084)</u>	<u>(214,449)</u>
		<u>3,677,702</u>	<u>4,864,227</u>

15.1 The Bank has an aggregate amount of deferred tax assets of Rs. 3,678 million (December 31, 2019: Rs. 4,864 million) which represents management's best estimate of the probable benefits expected to be realised in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in those years against taxable temporary differences relating to prior years. The Bank has prepared five years financial projections for future taxable profits, which have been approved by the Board of Directors of the Bank, to assess the recoverability of deferred tax assets. The projections involve certain key management assumptions underlying the estimation of future taxable profits. The determination of future taxable profits is most sensitive to certain key assumptions such as growth of low cost deposits, growth in high yield consumer advances, investment returns, branch expansion plans, potential provision against assets, interest rates, cost of funds and expected recoveries of classified loans. Any significant change in such assumptions may have an effect on the recoverability of the deferred tax assets. Management believes that it is probable that the Bank will be able to achieve the profits and consequently, the deferred tax asset will be fully realised in future.

	Note	June 30,	December 31,
		2020 Un-audited	2019 Audited
		Rupees in '000	
16 OTHER ASSETS			
Income / mark-up accrued in local currency - net of provision		10,255,010	5,823,852
Income / mark-up accrued in foreign currency - net of provision		8	555
Accrued rent		257,153	354,618
Advances, deposits, advance rent and other prepayments		325,458	416,787
Profit paid in advance on fixed deposits		159,660	241,151
Advance taxation (payments less provisions)		1,516,653	1,427,694
Net defined benefit assets		43,310	-
Non-banking assets	16.2	9,637,206	10,001,190
Branch adjustment account		90,335	-
Mark to market gain on forward contracts		260,733	82,843
Acceptances		825,311	1,268,440
Receivable from sale of non-banking assets acquired in satisfaction of claims		326,659	291,050
Fee receivable from Credit Card members		241,218	158,323
Others		264,398	241,861
		<u>24,203,112</u>	<u>20,308,164</u>
Less: Provision held against other assets	16.3	<u>(754,216)</u>	<u>(602,274)</u>
Other assets - net of provisions		23,448,896	19,705,890
Surplus on revaluation of non-banking assets	24	30,471	31,789
Other assets - total		<u>23,479,367</u>	<u>19,737,679</u>
		June 30,	December 31,
		2020	2019
		Un-audited	Audited
		Rupees in '000	
16.1 Market value of Non-banking assets acquired in satisfaction of claims		<u>9,101,461</u>	<u>9,438,705</u>
16.2 Non-banking assets			
- acquired in satisfaction of claims		6,013,588	6,190,224
- under agreement to sale third parties		3,573,921	3,760,949
- with buy back option with customers		49,697	50,017
		<u>9,637,206</u>	<u>10,001,190</u>
16.3 Provision held against other assets			
Non-banking assets acquired in satisfaction of claims		566,216	594,274
Others		188,000	8,000
		<u>754,216</u>	<u>602,274</u>
16.3.1 Movement in provision held against other assets			
Opening balance		602,274	623,274
Charge for the period / year		180,000	-
Reversals for the period / year		-	(21,000)
Net reversal for the period / year		180,000	(21,000)
Reversal on disposal / write off		(28,058)	-
Closing balance		<u>754,216</u>	<u>602,274</u>
16.4			
The non-banking assets acquired in satisfaction of claims (NBAs with market value) aggregating to Rs.9,101.46 million (December 31, 2019: Rs.9,439 million) are currently un-developed and have been evaluated based on the valuation reports from the valuers on Pakistan Bank' Association list of approved valuers. The Bank exposure exceeds the prescribed limit of 2.5% of aggregate advances and investments (excluding investment in Government securities) as prescribed by the SBP under regulation Debt Property Swap.			

17 **ASSETS HELD FOR SALE**

On September 10, 2015, the Bank entered into an Agreement to Sell (the Agreement) for the previous Head Office Building of the Bank against sale consideration of Rs. 2,370 million. Pursuant to the terms of the Agreement, the Bank received a down payment of Rs. 118.50 million, which is currently reported in 'other liabilities' (note 22). The remaining balance is required to be paid by the buyer within 5 years from the date of the Agreement. The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognised on the classification of the asset as held for sale. Upon request of the customer, the agreement is further extended for the period of one year

The Management considered the property to meet the criteria to be classified as held for sale at that date for the following reasons:

- i) The Property is available for immediate sale and can be sold in its current condition.
- ii) The sale is expected to be completed within the extended period
- iii) The management is committed to a plan to sell and it is unlikely that plan will be significantly changed or withdrawn.

The particulars of the assets to be classified as held for sale and related liabilities are as follows:

	Note	Cost	Accumulated Depreciation	Carrying Amount as at June 30, 2020
		Rupees In '000		
Leasehold land		1,886,750	-	1,886,750
Building on freehold land		622,250	259,271	362,979
		<u>2,489,000</u>	<u>259,271</u>	<u>2,229,729</u>
Liability associated with assets classified as Held for sale	22			(118,500)
Net assets				<u><u>2,111,229</u></u>
			June 30, 2020 Un-audited	December 31, 2019 Audited
			Rupees In '000	
18	BILLS PAYABLE		1,912,055	2,483,658
	In Pakistan		-	-
	Outside Pakistan		-	-
			<u>1,912,055</u>	<u>2,483,658</u>
19	BORROWINGS			
	Secured			
	Borrowings from State Bank of Pakistan under export refinance scheme		1,745,046	1,712,901
	Repurchase agreement borrowings		104,089,399	21,597,750
	Total secured		<u>106,834,445</u>	<u>23,310,651</u>
	Unsecured			
	Call borrowings		250,000	1,289,553
	Trading liability		-	6,380,152
	Overdrawn nostro accounts		84,255	992,875
	Total unsecured		<u>334,255</u>	<u>8,662,580</u>
			<u>106,168,700</u>	<u>31,973,231</u>

20 **DEPOSITS AND OTHER ACCOUNTS**

	June 30, 2020 - Un-audited			December 31, 2019 - Audited		
	In Local Currency	In Foreign currencies	Total	In Local Currency	In Foreign currencies	Total
	Rupees In '000					
Customers						
Current deposits	24,769,677	4,568,718	29,328,395	21,547,734	4,788,979	26,336,713
Saving deposits	52,060,379	2,966,381	55,026,760	45,049,599	2,569,948	47,619,547
Term deposits	52,454,313	1,942,118	54,396,431	48,458,516	2,433,754	50,892,270
Margin deposits	1,101,013	-	1,101,013	1,680,068	-	1,680,068
Call deposits	1,554,280	-	1,554,280	1,035,119	-	1,035,119
	<u>131,939,662</u>	<u>9,467,217</u>	<u>141,406,879</u>	<u>117,771,036</u>	<u>9,792,681</u>	<u>127,563,717</u>
Financial Institutions						
Current deposits	108,498	2,292	110,790	97,822	39,173	136,995
Saving deposits	14,820,021	22,002	14,842,023	17,442,933	20,229	17,463,162
Term deposits	799,590	96,797	896,387	3,600,447	89,192	3,689,639
	<u>16,728,109</u>	<u>121,091</u>	<u>16,849,200</u>	<u>21,141,202</u>	<u>148,594</u>	<u>21,289,796</u>
	<u>147,667,771</u>	<u>9,588,308</u>	<u>157,256,079</u>	<u>138,912,238</u>	<u>9,941,275</u>	<u>148,853,513</u>

	Note	June 30,	December 31,
		2020	2019
		Un-audited	Audited
		Rupees in '000	
21 SUBORDINATED DEBT			
Subordinated Term Finance Certificates	21.1	1,999,000	1,999,200
Subordinated Loan from Sponsors	21.2	207,218	126,218
		<u>2,206,218</u>	<u>2,125,418</u>

21.1 The Bank has Issued privately placed, unsecured and subordinated Term Finance Certificates (TFCs) as instruments of redeemable capital under section 66 of the Companies Act, 2017 and the Basel III guidelines issued by the SBP. The key features of the issue are as follows:

Issue amount	Rs. 2,000 million
Issue date	August 10, 2017
Maturity date	Up to 8 years from date of Issue
Rating	(BBB+) by JCR-VIS Credit Rating Company Limited (Triple B Plus)
Security	The instrument is unsecured and subordinated as to payment of principal and profit to all other indebtedness of the Bank, including deposits.
Profit payment frequency	Profit will be payable semi-annually in arrears on the outstanding principal amount and will be calculated on a 365 day year basis.
Redemption	0.14% of the Issue amount during the first 7 years and remaining 99.86% in last two equal semi-annual installments of 49.93% each.
Mark-up	6 months KIBOR plus 1.85% per annum
Call option	The Bank may call TFCs in part or in full, after 5 years from date of issue on any profit payment date, subject to SBP approval and with not less than 30 days prior notice to the Trustee and Investors. The call option once announced will be irrevocable.
Lock-in-clause	As per the lock-in requirement for Tier II issues, neither profit nor principal will be payable (even at maturity) in respect of the TFC, if such payment will result in a shortfall in the Bank's Minimum Capital Requirement (MCR) or Capital Adequacy Ratio (CAR) or results in an increase in any existing shortfall in MCR or CAR.
Loss absorbency clause	The instrument will be subject to loss absorbency and / or any other requirements under SBP's Basel III Capital Rules. Upon the occurrence of a point of non-viability event as defined by SBP's Basel III Capital Rule, the SBP may at its option, fully and permanently convert the TFCs into common shares of the Bank and / or have them immediately written off (either partially or in full). Number of shares to be issued to TFC holders at the time of conversion will be equal to the 'Outstanding Face Value of the TFCs' divided by fair value per share of the Bank's common equity on the date of trigger of the non-viability event as declared by the SBP, subject to a cap of 1,238,390,093 shares.

21.2 Due to the lock-in-clause as mentioned in note 21.1 and as per SBP instructions, the Bank has received an unsecured and interest free subordinated loan from the sponsor in order to make the payment of the instalment including profit thereon in respect of the above mentioned TFC's. Upon compliance with minimum capital requirement (CAR), this subordinated loan will be repaid to the Sponsor.

	Note	June 30,	December 31,
		2020	2019
		Un-audited	Audited
		Rupees in '000	
22 OTHER LIABILITIES			
Mark-up / return / Interest payable in local currency		1,214,813	1,041,287
Mark-up / return / Interest payable in foreign currencies		10,803	24,035
Unearned commission and income on bills discounted		57,334	54,912
Accrued expenses		476,168	377,682
Acceptances		825,311	1,268,440
Mark to market loss on forward contracts		80,567	422,803
Branch adjustment account		-	12,582
Payable to defined benefit plan - permanent staff		-	7,752
Payable to defined benefit plan - contractual staff		61,030	50,060
Provision against off-balance sheet obligations	22.1	116,012	116,012
Workers' Welfare Fund (WWF)		199,394	134,504
Advance received against future sale of non-banking assets		69,557	121,239
Advance received against future sale of asset held for sale	17	118,500	118,500
Deferred income against non-banking assets		153,657	153,657
Islamic pool management reserve		7,443	5,024
Lease liability against right-of-use assets		4,138,364	4,297,275
Non checking account		97,577	382,292
PRI remitting account		65,822	58,945
Fund received against application of Housing Scheme		90,198	149,570
Others		777,463	683,802
		<u>8,560,011</u>	<u>9,480,373</u>
22.1 Provision against off-balance sheet obligations			
Opening balance		116,012	116,012
Charge for the period / year		-	-
Reversals for the period / year		-	-
		-	-
Amount written off		-	-
Closing balance		<u>116,012</u>	<u>116,012</u>

23 SHARE CAPITAL- NET

23.1 Authorised capital

	June 30, 2020	December 31, 2019		June 30, 2020	December 31, 2019
	Un-audited	Audited		Un-audited	Audited
	Number of shares in '000			Rupees in '000	
	<u>10,500,000</u>	<u>10,500,000</u>	Ordinary shares of Rs.10 each	<u>105,000,000</u>	<u>105,000,000</u>

23.2 Issued, subscribed and paid up capital

	June 30, 2020	December 31, 2019		June 30, 2020	December 31, 2019
	Un-audited	Audited		Un-audited	Audited
	Number of shares in '000			Rupees in '000	
	<u>9,081,861</u>	<u>9,081,861</u>	Ordinary shares of Rs. 10 each	<u>90,818,612</u>	<u>90,818,612</u>
	-	-	Fully paid in cash	<u>(67,387,238)</u>	<u>(67,387,238)</u>
	<u>9,081,861</u>	<u>9,081,861</u>	Less: Discount on issue of shares	<u>23,431,374</u>	<u>23,431,374</u>

24 SURPLUS ON REVALUATION OF ASSETS - NET OF TAX

Surplus on revaluation of					
- Available for sale securities	11.1	442,298		281,116	
- Fixed assets		53,696		55,486	
- Non-banking assets acquired in satisfaction of claims	16	30,471		31,789	
		<u>526,465</u>		<u>368,390</u>	
Deferred tax on surplus on revaluation of					
- Available for sale securities	15	(154,805)		(98,390)	
- Fixed assets	15	(10,647)		(11,274)	
- Non-banking assets acquired in satisfaction of claims	15	(2,216)		(2,216)	
		<u>(167,668)</u>		<u>(111,880)</u>	
		<u>358,797</u>		<u>256,510</u>	

25 CONTINGENCIES AND COMMITMENTS

Guarantees	25.1	13,038,155		11,110,063	
Commitments	25.2	22,765,476		27,332,813	
Contingent liabilities	25.3	1,258,679		1,258,952	
		<u>37,062,310</u>		<u>39,699,828</u>	

25.1 Guarantees:

Financial guarantees		59,940		59,940	
Performance guarantees		8,198,459		7,811,701	
Other guarantees		4,779,756		3,238,422	
		<u>13,038,155</u>		<u>11,110,063</u>	

25.2 Commitments:

Documentary credits and short-term trade-related transactions		2,480,839		2,458,714	
- letters of credit					
Commitments in respect of:					
- forward foreign exchange contracts	25.2.1	12,330,976		23,463,537	
- forward government securities transactions	25.2.2	7,911,664		1,351,959	
Commitments for acquisition of:					
- operating fixed assets		1,000		633	
- Intangible assets		40,997		57,970	
		<u>22,765,476</u>		<u>27,332,813</u>	

25.2.1 Commitments in respect of forward foreign exchange contracts

Purchase		8,467,088		14,799,455	
Sale		3,863,888		8,664,082	
		<u>12,330,976</u>		<u>23,463,537</u>	

June 30, December 31,
2020 2019
Un-audited Audited
Rupees in '000

25.2.2 Commitments in respect of forward government securities transactions

Purchase	-	929,110
Sale	7,911,664	422,849
	<u>7,911,664</u>	<u>1,351,959</u>

25.2.3 The Bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

June 30, December 31,
2020 2019
Un-audited Audited
Rupees in '000

25.3 Contingent liabilities:

Claims against the Bank not acknowledged as debt	1,223,039	1,221,312
Claims against the Bank by Competition Commission of Pakistan & others	35,640	35,640
	<u>1,258,679</u>	<u>1,256,952</u>

25.3.1 Suits for damages of Rs. 24.39 billion (December 31, 2019: Rs. 24.40 billion) have been filed against the Bank by various borrowers / employees in respect of certain disputes relating to loans and advances. The management of the Bank and its legal counsel consider that the suits are a counterblast in response to the recovery suits filed by the Bank. The Bank and its legal counsel are confident that the cases will be dismissed as actual damages have to be proven in such suits.

25.4 For contingencies relating to taxation refer note 35.1-35.3.

26 DERIVATIVE INSTRUMENTS

Product Analysis

June 30, 2020 - Un-audited

Forward Contracts	
Notional Principal	Mark to Market gain / (loss)
	Rupees in '000

Counterparties

Hedging

- Banks

- Other entities

Total

19,298,162	136,361
944,478	43,805
<u>20,242,640</u>	<u>180,166</u>

December 31, 2019 - Audited

Forward Contracts	
Notional Principal	Mark to Market gain / (loss)
	Rupees in '000

Counterparties

Hedging

- Banks

- Other entities

Total

22,983,136	(362,050)
1,832,361	22,090
<u>24,815,497</u>	<u>(339,960)</u>

		June 30, 2020	June 30, 2019
	Note	Un-audited	Un-audited
		Rupees in '000	
27	MARK-UP / RETURN / PROFIT / INTEREST EARNED		
	On:		
	a) Loans and advances	6,471,237	7,794,695
	b) Investments	4,869,109	783,936
	c) Lendings to financial institutions	477,285	967,489
	d) Balances with banks	721	3,716
		<u>11,818,352</u>	<u>9,549,836</u>
28	MARK-UP / RETURN / PROFIT / INTEREST EXPENSED		
	On:		
	a) Deposits	6,925,912	5,109,103
	b) Borrowings	3,443,500	738,794
	c) Subordinated debt	154,062	119,709
	d) Cost of foreign currency swaps against foreign currency deposits / borrowings	194,201	103,116
	e) Lease liability against right-of-use assets	224,324	-
	f) Others	9,325	5,555
		<u>10,951,324</u>	<u>6,076,277</u>
29	FEE & COMMISSION INCOME		
	Branch banking customer fees	80,442	85,201
	Card related fees (debit and credit cards)	669,413	592,200
	Credit related fees	178,175	169,275
	Commission on trade	80,287	88,735
	Commission on guarantees	36,533	36,193
	Commission on remittances including home remittances	8,645	9,143
	Commission on bancassurance	30,705	40,972
	Others	2,909	35,697
		<u>1,087,109</u>	<u>1,057,416</u>
30	GAIN / (LOSS) ON SECURITIES		
	Realised	5,554,621	(39,502)
	Unrealised - held for trading	9,358	(406)
		<u>5,563,979</u>	<u>(39,908)</u>
30.1	Realised gain / (loss) on:		
	Federal Government Securities	5,516,412	(21,256)
	Shares	37,684	(18,246)
	Non Government Debt Securities	525	-
		<u>5,554,621</u>	<u>(39,502)</u>
31	OTHER INCOME		
	Rent on property and non-banking assets	102	176,807
	Gain on sale of fixed assets - net	341	589
	Loss on sale of non-banking assets - net	(25,751)	(192,632)
	Rent on lockers	10,718	9,771
	Postage, telex and other service charges recovered	27,714	15,436
	Share of profit from associate	8,665	406
	Early loan termination charges	29,833	36,877
		<u>51,622</u>	<u>47,254</u>

	June 30, 2020 Un-audited	June 30, 2019 Un-audited
	Rupees In '000	
32 OPERATING EXPENSES		
Total compensation expense	1,898,370	1,804,660
Property expense		
Rent & taxes	19,999	390,896
Insurance on non-banking assets acquired in satisfaction of claims	629	433
Utilities cost	79,032	96,728
Security (including guards)	73,359	85,816
Repair & maintenance (including janitorial charges)	44,536	40,660
Depreciation on buildings	47,559	67,845
Depreciation on right-of-use assets	336,689	-
Depreciation on non-banking assets acquired in satisfaction of claims	32,273	34,577
Professional charges	7,533	424
	641,609	717,379
Information technology expenses		
Software maintenance	106,518	94,539
Hardware maintenance	44,000	38,914
Depreciation	36,300	26,000
Amortisation	38,166	30,699
Website development charges	194	248
	225,178	190,400
Other operating expenses		
Directors' fees and allowances	15,200	11,400
Fees and allowances to Shariah Board	7,557	7,290
Legal & professional charges	56,216	149,781
Outsourced services costs	16,590	30,845
Travelling & conveyance	45,768	70,748
NIFT clearing charges	5,601	8,814
Depreciation	121,124	120,325
Training & development	6,111	15,628
Postage & courier charges	15,652	22,413
Communication	195,080	158,692
Stationery & printing	34,571	31,755
Marketing, advertisement & publicity	69,517	179,181
Auditors' remuneration	12,650	11,229
Insurance (including deposit protection)	65,543	77,264
Repairs & maintenance	38,687	68,024
Financial charges on leased assets	-	87
Brokerage and commission	5,219	4,135
Subscriptions and news papers	9,290	10,849
Entertainment	20,191	26,638
Vehicle running & maintenance	9,275	13,997
Card related expenses (debit and credit cards)	58,886	68,022
Security	12,224	15,661
Others	1,179	23,684
	822,131	1,126,462
	<u>3,587,288</u>	<u>3,838,901</u>
33 OTHER CHARGES		
Penalties imposed by State Bank of Pakistan	13	108,111
Operational loss	17,222	16,981
	<u>17,235</u>	<u>125,092</u>

		June 30, 2020 Un-audited	June 30, 2019 Un-audited
	Note	Rupees in '000	
34	PROVISIONS & WRITE OFFS - NET		
Provisions against loans & advances	12.3	827,669	691,244
Provision against other assets - net	16.3.1	180,000	-
Write offs against fixed assets		813	2,080
Recovery of written off / charged off bad debts		<u>(69,850)</u>	<u>(89,644)</u>
		<u>938,632</u>	<u>603,680</u>
35	TAXATION		
Current		180,280	15,636
Prior years		-	-
Deferred		<u>1,112,866</u>	<u>121,661</u>
		<u>1,293,146</u>	<u>137,297</u>

35.1 The income tax returns of the Bank have been submitted up to Tax Year 2019. The Bank has filed appeals before Appellate Tribunal Inland Revenue (ATIR) against certain disallowances amounting to Rs.1,996 million (2019: Rs.1,996 million) made by Tax officer for Assessment / Tax Year(s) 2000-2001, 2001-2002, 2002-2003 and 2004. The disallowances amounting to Rs. 808 million (December 31, 2019: Rs.798 million) in respect of Tax Years 2003, 2006 and 2015 to 2019 are pending at Commissioner Inland Revenue (Appeals) (CIR (A)). Management is confident that the outcome of these appeals would be in favor of the Bank.

35.2 Income tax returns for Tax Years 2011 and 2014 were selected for audit. The proceedings of the audit are In process, no order has been passed by the relevant tax authorities.

The proceedings u/s 161 / 205 of the Income Tax Ordinance, 2001 regarding monitoring of withholding taxes pertaining to the Tax Years 2006, 2007 and 2011 to 2019 were completed. Orders were issued by the Assessing Officer creating total tax demand of Rs. 179 million (already paid by the bank) including default surcharge of Rs. 25 million. The Bank has filed appeals against orders u/s 161 / 205 before CIR (A). The Bank's appeals for Tax Years 2013 and 2014 before the CIR (A) were rejected after which appeals before the ATIR, Karachi have been filed, which are pending hearing. Management is confident that the outcome of these appeals would be in favor of the Bank.

35.3 The Bank's return in respect of AJK operations have been submitted up to and including Tax Year 2019. Certain appeals were filed before the various Appellate and other forums which are either pending for adjudication or the proceedings initiated against the Bank have been dropped / withdrawn. Management is confident that the outcome of pending appeals would be in favor of the Bank.

		June 30, 2020 Un-audited	June 30, 2019 Un-audited
		Rupees in '000	
36	BASIC AND DILUTED EARNINGS PER SHARE		
Profit after tax for the period		<u>1,886,459</u>	<u>116,831</u>
Weighted average of ordinary shares (Number)		<u>9,081,861</u>	<u>9,081,861</u>
Basic and Diluted Earnings Per Share (Rupee)		<u>0.21</u>	<u>0.01</u>
37	CASH AND CASH EQUIVALENTS		
Cash and balance with treasury banks		11,593,227	15,707,095
Balance with other banks		<u>969,331</u>	<u>652,911</u>
		<u>12,562,558</u>	<u>16,360,006</u>

38 FAIR VALUE MEASUREMENTS

The fair value of traded investments is based on quoted market prices. Fair value of unquoted equity investments other than investments in associates is determined on the basis of break up value of these investments as per the latest available audited financial statements.

Fair value of fixed term loans, other assets, other liabilities, fixed term deposits and borrowings cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments.

The Bank's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred. There were no transfers between levels 1 and 2 during the period.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently re-priced.

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 liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Fair value measurements using input for the asset or liability 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:

	June 30, 2020 - Un-audited				
	Carrying Value	Level 1	Level 2	Level 3	Total
	Rupees in '000				
On balance sheet financial instruments					
Financial assets - measured at fair value					
Investments:					
Federal Government Securities					
Market Treasury Bills	8,085,529	-	8,085,529	-	8,085,529
Pakistan Investment Bonds	120,115,162	-	120,115,162	-	120,115,162
GOP Ijarah Sukuks	3,921,919	-	3,921,919	-	3,921,919
Bal Muajjal	257,658	-	257,658	-	257,658
Shares					
Listed companies	164,050	164,050	-	-	164,050
Non-Government Debt Securities					
Sukuks - Listed	116,959	-	116,959	-	116,959
Term Finance Certificates - Listed	74,619	-	74,619	-	74,619
	132,735,896	164,050	132,571,846	-	132,735,896
Financial assets - disclosed but not measured at fair value					
Cash and balances with treasury banks	11,593,227	-	-	-	-
Balances with other banks	969,331	-	-	-	-
Lendings to financial institutions	7,134,660	-	-	-	-
Advances	100,934,836	-	-	-	-
Other assets	11,099,663	-	-	-	-
	131,731,617	-	-	-	-
	284,467,513	164,050	132,571,846	-	132,735,896
Off-balance sheet financial instruments - measured at fair value					
Forward purchase of foreign exchange	8,467,088	-	8,467,088	-	8,467,088
Forward sale of foreign exchange	3,863,888	-	3,863,888	-	3,863,888
Forward purchase of government securities transactions	-	-	-	-	-
Forward sale of government securities transactions	7,911,664	-	7,911,664	-	7,911,664

December 31, 2019 - Audited				
Carrying Value	Level 1	Level 2	Level 3	Total
Rupees in '000				
On balance sheet financial instruments				
Financial assets - measured at fair value				
Investments:				
Federal Government Securities				
Market Treasury Bills	3,535,706	-	3,535,706	-
Pakistan Investment Bonds	29,084,354	-	29,084,354	-
GOP Ijarah Sukuks	2,277,000	-	2,277,000	-
Bal Muajjal	257,658	-	257,658	-
Shares				
Listed companies	693,897	693,897	-	-
Non-Government Debt Securities				
Sukuks - Listed	227,354	-	227,354	-
Term Finance Certificates - Listed	37,500	-	37,500	-
	36,113,469	693,897	35,419,572	-
Financial assets - disclosed but not measured at fair value				
Cash and balances with treasury banks	11,838,682	-	-	-
Balances with other banks	1,188,163	-	-	-
Lendings to financial institutions	18,101,837	-	-	-
Advances	105,374,947	-	-	-
Other assets	6,552,718	-	-	-
	143,036,347	-	-	-
	179,149,816	693,897	35,419,572	-
Off-balance sheet financial instruments - measured at fair value				
Forward purchase of foreign exchange	14,799,455	-	14,799,455	-
Forward sale of foreign exchange	8,664,082	-	8,664,082	-
Forward purchase of government securities transactions	929,110	-	929,110	-
Forward sale of government securities transactions	422,849	-	422,849	-

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

Item	Valuation approach and input used
Market Treasury Bills and Pakistan Investment Bonds	Fair values are derived using the PKRV rates.
GOP Ijarah Sukuks	Fair values of GOP Ijarah Sukuks are derived using the PKISRV rates announced by the Financial Market Association (FMA) through Reuters. These rates denote an average of quotes received from eight different pre-defined / approved dealers / brokers.
Sukuks - Listed and Term Finance Certificates - Listed	Investments in debt securities i.e. term finance certificates and sukuk certificates issued by a company or a body corporate for the purpose of raising funds in the form of redeemable capital are valued on the basis of the rates announced by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the methodology prescribed by the Securities and Exchange Commission of Pakistan.
Foreign exchange contracts	The valuation has been determined by interpolating the mid rates announced by the State Bank of Pakistan.

38.2 Fair value of non-financial assets

Information about the fair value hierarchy of Bank's non-financial assets as at the end of the reporting period are as follows:

June 30, 2020 - Un-audited				
Carrying Value	Level 1	Level 2	Level 3	Total
Rupees in '000				
Fixed assets - land and buildings	180,295	-	180,295	180,295
Non-banking assets acquired in satisfaction of claims	9,101,461	-	9,101,461	9,101,461
Assets held for sale	2,229,729	-	2,229,729	2,229,729
	11,511,485	-	11,511,485	11,511,485
December 31, 2019 - Audited				
Carrying Value	Level 1	Level 2	Level 3	Total
Rupees in '000				
Fixed assets - land and buildings	186,146	-	186,146	186,146
Non-banking assets acquired in satisfaction of claims	9,438,705	-	9,438,705	9,438,705
Assets held for sale	2,229,729	-	2,229,729	2,229,729
	11,854,580	-	11,854,580	11,854,580

38.2.1 Certain categories of fixed assets (land and buildings), non-banking assets acquired in satisfaction of claims and assets held for sale are carried at revalued amounts (level 3 measurement) determined by professional valuers based on their assessment of the market values as disclosed in annual financial statements for the year ended December 31, 2019.

39 SEGMENT INFORMATION

Segment Details with respect to Business Activities

June 30, 2020 - Un-audited				
Consumer / SME	Whole Sale Banking	Treasury	Total	
Rupees in '000				
Profit and Loss Account				
Net mark-up / return / profit	2,861,920	(2,515,375)	520,483	867,028
Inter segment revenue - net	-	-	-	-
Non Mark-up / Interest Income	1,035,558	166,175	6,718,889	6,920,622
Total Income	3,897,478	(2,349,200)	6,239,372	7,787,650
Segment direct expenses	(1,777,411)	(1,851,403)	(40,599)	(3,669,413)
Inter segment expense allocation	(702,974)	747,816	(44,642)	-
Total expenses	(2,480,385)	(1,103,787)	(85,241)	(3,669,413)
Provisions	(483,011)	(455,621)	-	(938,632)
Profit before tax	934,082	(3,908,608)	6,154,131	3,179,605
Statement of Financial Position				
Cash & Bank balances	-	3,791,855	8,770,903	12,562,558
Investments	-	172,867	133,048,471	133,219,338
Net Inter segment lending	91,120,909	49,223,091	103,642,289	243,986,289
Lendings to financial institutions	830,918	146,632	6,157,110	7,134,660
Advances - performing	26,771,730	45,033,550	(6)	71,805,274
Advances - non-performing - net of provision	1,473,829	27,656,733	-	29,129,562
Others	857,321	34,186,984	4,297	35,048,602
Total Assets	121,054,707	160,210,512	251,621,064	532,886,283
Borrowings	608,346	1,104,555	104,455,799	106,168,700
Subordinated debt	-	2,206,218	-	2,206,218
Deposits & other accounts	96,868,086	60,387,993	-	157,256,079
Net Inter segment borrowing	21,499,466	74,334,520	148,152,303	243,986,289
Others	2,074,222	8,182,809	215,035	10,472,066
Total liabilities	121,050,120	146,216,095	252,823,137	520,089,352
Equity	4,586	13,999,069	(1,206,724)	12,796,931
Total Equity & liabilities	121,054,706	160,215,164	251,616,413	532,886,283
Contingencies & Commitments	1,223,039	15,596,631	20,242,640	37,062,310

June 30, 2019 - (Un-audited)				
Consumer / SME	Whole Sale Banking	Treasury	Total	
Rupees in '000				
Profit and Loss Account				
Net mark-up / return / profit	3,797,849	(339,960)	15,670	3,473,559
Inter segment revenue - net	-	-	-	-
Non Mark-up / Interest Income	1,070,227	94,677	188,524	1,353,428
Total Income	4,868,076	(245,283)	204,194	4,826,987
Segment direct expenses	(2,180,839)	(1,760,507)	(37,833)	(3,969,179)
Inter segment expense allocation	(798,481)	848,651	(50,170)	-
Total expenses	(2,979,320)	(901,856)	(88,003)	(3,969,179)
Provisions	(455,780)	(147,900)	-	(603,680)
Profit before tax	1,432,976	(1,295,039)	116,191	254,128

December 31, 2019 - Audited				
Consumer / SME	Whole Sale Banking	Treasury	Total	
Rupees in '000				
Statement of Financial Position				
Cash & Bank balances	-	3,435,857	9,570,988	13,006,845
Investments	-	275,692	35,969,658	36,245,350
Net Inter segment lending	86,565,401	19,779,983	78,082,280	184,427,664
Lendings to financial institutions	765,636	135,112	17,201,089	18,101,837
Advances - performing	31,071,521	45,651,990	-	76,723,511
Advances - non-performing - net of provision	1,649,619	27,001,817	-	28,651,436
Others	929,772	32,151,609	(122,280)	32,959,101
Total Assets	120,981,949	128,432,060	140,701,735	390,115,744
Borrowings	574,507	1,138,394	30,260,330	31,973,231
Subordinated debt	-	2,125,418	-	2,125,418
Deposits & other accounts	93,990,095	54,883,418	-	148,873,513
Net Inter segment borrowing	24,192,373	47,086,257	113,149,034	184,427,664
Others	2,224,974	9,615,168	123,889	11,964,031
Total liabilities	120,981,949	114,828,655	143,533,253	379,343,857
Equity	-	13,603,406	(2,831,519)	10,771,887
Total Equity & liabilities	120,981,949	128,432,061	140,701,734	390,115,744
Contingencies & Commitments	1,221,312	13,663,020	24,815,496	39,699,828

Segment determination are made on the basis of management accountability, monitoring and decision making of these reporting segments at regular intervals. Transactions between reportable segments are based on an appropriate transfer pricing mechanism using agreed rates. Furthermore, segment assets and liabilities include intersegment balances. Costs which are not allocated to segments are included in the Head office. Income taxes are managed at bank level and are not allocated to operating segments.

40 RELATED PARTY TRANSACTIONS

The Bank has related party transactions with its associates, employee benefit plans and its directors and key management personnel.

The Bank 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 to and accruals in respect of staff retirement benefits and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan. Remuneration to the executives / officers is determined in accordance with the terms of their appointment.

Majority of the transactions with related parties comprise loans and advances, deposits, issuance of letters of credit and guarantees. Advances for the house building, conveyance and for personal use have also been provided to the staff and executives at reduced rates in accordance with the employment and pay policy and such advances have not been disclosed in the following schedule. Facility of group life insurance and hospitalisation insurance is also provided to staff and executives. In addition to this, executives of the Bank have been provided with Bank maintained cars.

Details of balances and transactions with related parties during the period / year, other than those which have been disclosed elsewhere in these condensed interim financial statements are as follows:

	June 30, 2020 - Un-audited				December 31, 2019 - Audited			
	Directors	Key management personnel	Associates	Other related parties	Directors	Key management personnel	Associates	Other related parties
Rupees in '000								
Balances								
Investments								
Opening balance	-	-	131,881	416,226	-	-	126,654	112,246
Investment made / share profit during the period / year	-	-	8,665	303,187	-	-	5,227	604,099
Investment redeemed / disposed off during the period / year	-	-	-	(305,736)	-	-	-	(300,119)
Closing balance	-	-	140,546	413,677	-	-	131,881	416,226
Advances								
Opening balance	22,342	9,925	-	2,312,557	9,085	7,456	-	1,122,873
Addition during the period / year	37,094	39,946	-	75,894	79,858	205,357	-	4,595,664
Repaid during the period / year	(46,904)	(40,934)	-	(208,574)	(66,601)	(202,888)	-	(3,405,980)
Closing balance	12,532	8,937	-	2,179,877	22,342	9,925	-	2,312,557
Provision held against advances	-	-	-	130,608	-	-	-	130,608
Other Assets								
Interest / mark-up accrued	389	153	-	117,541	872	200	-	123,213
Insurance claim receivable	-	-	6,390	-	-	-	9,778	-
Prepaid Insurance	-	-	6,963	-	-	-	604	-
Subordinated debt								
Opening balance	-	-	-	126,218	-	-	-	-
Issued / purchased during the period / year	-	-	-	81,000	-	-	-	126,218
Redemption during the period / year	-	-	-	-	-	-	-	-
Closing balance	-	-	-	207,218	-	-	-	126,218
Deposits and other accounts								
Opening balance	7,076	85,006	41,608	1,488,688	5,620	64,292	18,256	2,023,685
Received during the period / year	159,373	285,132	168,320	2,295,606	287,826	1,159,796	262,582	10,895,222
Withdrawn during the period / year	(152,073)	(293,006)	(180,192)	(2,320,598)	(266,370)	(1,139,082)	(239,230)	(11,430,219)
Closing balance	14,376	77,132	29,736	1,463,696	7,076	85,006	41,608	1,488,688
Other Liabilities								
Interest / mark-up payable	-	-	259	14,215	-	-	743	9,152
Contingencies and Commitments								
Other contingencies	-	-	-	-	-	-	-	-

	June 30, 2020 - Un-audited				June 30, 2019 - (Un-audited)			
	Directors	Key management personnel	Associates	Other related parties	Directors	Key management personnel	Associates	Other related parties
Rupees in '000								
Transactions								
Income								
Mark-up / return / interest earned	909	849	-	155,645	768	837	-	86,160
Dividend Income	-	-	-	-	-	-	-	-
Net gain on sale of securities	-	-	-	38,950	-	-	-	-
Share of profit from associate	-	-	8,665	-	-	-	406	-
Expense								
Mark-up / return / interest paid	120	1,192	1,303	71,543	148	1,960	846	59,107
Services rendered	-	-	-	-	-	-	-	74,815
Short term employment benefits	61,660	203,995	-	-	60,721	170,644	-	-
Contribution to Defined Benefit Plan	2,823	6,883	-	-	2,693	5,840	-	-
Meeting fee	15,200	-	-	-	11,400	-	-	-
Insurance premium paid	-	-	24,189	-	-	-	10,719	-
Insurance claims settled	-	-	2,867	-	-	-	4,778	-

June 30, 2020 Un-audited	December 31, 2019 Audited
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Rupees In '000

41 CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

Minimum Capital Requirement (MCR)

Paid-up capital (net of losses)	<u>11,617,244</u>	<u>9,694,487</u>
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Capital Adequacy Ratio (CAR):

Eligible Common Equity Tier 1 (CET 1) Capital	9,552,072	6,331,077
Eligible Additional Tier 1 (ADT 1) Capital	-	-
Total Eligible Tier 1 Capital	<u>9,552,072</u>	<u>6,331,077</u>
Eligible Tier 2 Capital	<u>3,207,479</u>	<u>2,637,949</u>
Total Eligible Capital (Tier 1 + Tier 2)	12,759,551	8,969,026

Risk Weighted Assets (RWAs):

Credit Risk	136,703,447	138,592,235
Market Risk	1,659,965	1,673,780
Operational Risk	14,214,926	14,214,926
Total	152,578,338	154,480,941

Common Equity Tier 1 Capital Adequacy Ratio	<u>6.26%</u>	<u>4.10%</u>
Tier 1 Capital Adequacy Ratio	<u>6.26%</u>	<u>4.10%</u>
Total Capital Adequacy Ratio	<u>8.36%</u>	<u>5.81%</u>

Leverage Ratio (LR):

Eligible Tier-1 Capital	9,552,072	6,331,077
Total Exposures	<u>303,572,379</u>	<u>219,608,606</u>
Leverage Ratio	<u>3.15%</u>	<u>2.88%</u>

Liquidity Coverage Ratio (LCR):

Total High Quality Liquid Assets	44,948,937	36,648,252
Total Net Cash Outflow	<u>42,452,674</u>	<u>41,719,855</u>
Liquidity Coverage Ratio	<u>105.88%</u>	<u>87.84%</u>

Net Stable Funding Ratio (NSFR):

Total Available Stable Funding	171,860,682	133,214,604
Total Required Stable Funding	<u>126,957,778</u>	<u>132,679,684</u>
Net Stable Funding Ratio	<u>135.37%</u>	<u>100.40%</u>

42 ISLAMIC BANKING BUSINESS

The Bank is operating with 30 Islamic Banking branches at the end of June 30, 2020 (December 31, 2019: 30).

The statement of financial position of these branches as at June 30, 2020 are as follows:

		June 30, 2020	December 31, 2019
	Note	Un-audited	Audited
		Rupees In '000	
ASSETS			
Cash and balances with treasury banks		2,270,189	2,142,308
Balances with other banks		38,844	540,286
Due from financial institutions	42.1	20,883,327	5,478,118
Investments	42.2	4,179,677	257,658
Islamic financing and related assets - net	42.3	7,756,661	27,448,800
Fixed assets		1,314,768	1,414,903
Intangible assets		4,692	2,972
Due from Head Office		10,148,350	-
Other assets	42.4	1,118,895	985,608
Total assets		47,713,193	38,270,653
LIABILITIES			
Bills payable		141,779	133,503
Due to financial institutions		-	-
Deposits and other accounts	42.5	39,265,469	33,274,825
Due to Head Office		-	154,880
Subordinated debt		-	-
Other liabilities		1,670,738	1,572,884
Total liabilities		40,977,986	35,136,092
NET ASSETS		6,735,207	3,134,561
REPRESENTED BY			
Islamic banking fund		6,625,000	6,625,000
Reserves		-	-
Deficit on revaluation of assets		(24,423)	-
Unappropriated profit / Accumulated loss	42.9	134,630	(3,490,439)
		6,735,207	3,134,561
CONTINGENCIES AND COMMITMENTS			
	42.6		

The profit and loss account of the Bank's Islamic banking branches for the half year ended June 30, 2020 is as follows:

		June 30, 2020	June 30, 2019
	Note	Un-audited	Un-audited
		Rupees In '000	
Profit / return earned	42.7	5,233,571	1,873,312
Profit / return expensed	42.8	(1,685,731)	(1,511,135)
Net profit / return		3,547,840	362,177
Other Income			
Fee and commission income		7,728	7,257
Dividend income		-	-
Foreign exchange loss		(76,929)	(54,870)
Income from derivatives		91,663	70,025
Gain on securities		9,435	161
Other income		6,806	5,946
Total other income		39,603	28,519
Total Income		3,587,443	390,696
Other expenses			
Operating expenses		(411,250)	(404,871)
Workers Welfare Fund		(73,981)	-
Other charges		(725)	(703)
Total other expenses		(485,956)	(405,574)
Profit / (loss) before provisions		3,101,487	(14,878)
Provisions and write offs - net		523,582	(10,457)
Profit / (loss) for the period		3,625,069	(25,335)

	June 30, 2020 - Un-audited			December 31, 2019 - Audited		
	In Local Currency	In Foreign currencies	Total	In Local Currency	In Foreign currencies	Total
42.1 Due from Financial Institutions	Rupees In '000					
Bai Muajjal receivable from State Bank of Pakistan	2,794,643	-	2,794,643	3,449,975	-	3,449,975
Bai Muajjal receivable from other financial institution	18,088,684	-	18,088,684	2,028,143	-	2,028,143
	<u>20,883,327</u>	<u>-</u>	<u>20,883,327</u>	<u>5,478,118</u>	<u>-</u>	<u>5,478,118</u>

	June 30, 2020 - Un-audited				December 31, 2019 - Audited			
	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
42.2 Investments by segments:	Rupees In '000							
Federal Government Securities:								
Ijarah Sukuks	3,946,342	-	(24,423)	3,921,919	-	-	-	-
Bai Muajjal	257,658	-	-	257,658	257,658	-	-	257,658
Total Investments	<u>4,204,000</u>	<u>-</u>	<u>(24,423)</u>	<u>4,179,577</u>	<u>257,658</u>	<u>-</u>	<u>-</u>	<u>257,658</u>

	Note	June 30, 2020	December 31, 2019
		Un-audited	Audited
42.3 Islamic financing and related assets - net		Rupees In '000	
Murabaha		647,707	2,876,403
Musawammah		-	127,343
Diminishing Musharaka		7,238,416	24,998,108
Gross Islamic financing and related assets	12	<u>7,786,123</u>	<u>28,001,854</u>
Less: provision against Islamic financings			
- Specific		(29,472)	(553,054)
- General		-	-
		<u>(29,472)</u>	<u>(553,054)</u>
Islamic financing and related assets - net of provision		<u>7,756,651</u>	<u>27,448,800</u>

42.3.1 Islamic financing includes Rs.2,793 million (December 31, 2019: Rs. 22,750 million) which have been placed under non-performing status as detailed below:

Category of classification - specific	June 30, 2020 - Un-audited		December 31, 2019 - Audited	
	Non Performing Loans	Provision	Non Performing Loans	Provision
	Rupees In '000			
Domestic				
Substandard	12,857	796	42,875	-
Doubtful	233,868	-	462,500	-
Loss	2,645,833	28,676	22,244,285	553,054
Total	<u>2,792,558</u>	<u>29,472</u>	<u>22,749,660</u>	<u>553,054</u>

42.3.2 This includes transfer of Non Performing Loans (NPL) owned by Emaan Islamic Banking to Conventional Banking at a sale consideration of Rs. 20,161 million.

42.3.3 SBP vide various circulars has amended Prudential Regulations in respect of provisioning against non-performing advances under which the benefit of Forced Sale Value (FSV) has been allowed for plant and machinery under charge, pledged stock and mortgaged residential, commercial and industrial properties (land and building only) held as collateral against non-performing advances upto five years from the date of classification.

42.3.4 As of June 30, 2020, the Bank has availed FSV benefits against all non performing advances. Had the benefit not been taken by the Bank, profit would have been lower by Rs.2,637 million (December 31, 2019: loss would have been higher by Rs.5,804 million), which shall not be available for payment of cash or stock dividend / bonus to employees.

42.4 Other Assets

This includes transfer of Mark-up receivable owned by Emaan Islamic Banking to Conventional Banking at a sale consideration of Rs. 4,596 million.

	June 30, 2020 - Un-audited			December 31, 2019 - Audited		
	In Local Currency	In Foreign currencies	Total	In Local Currency	In Foreign currencies	Total
42.5 Deposits	Rupees In '000					
Customers						
Current deposits	2,629,996	532,730	3,162,726	2,232,796	613,408	2,846,204
Saving deposits	17,292,008	622,240	17,914,248	13,564,144	368,203	13,932,347
Term deposits	6,311,803	210,080	6,521,883	5,217,006	881,603	6,098,609
Margin deposits	31,700	-	31,700	30,700	-	30,700
Call deposits	101,860	-	101,860	76,557	-	76,557
	<u>28,367,367</u>	<u>1,265,050</u>	<u>27,632,417</u>	<u>21,121,203</u>	<u>1,863,214</u>	<u>22,984,417</u>
Financial Institutions						
Current deposits	6,660	348	6,908	29,206	6,667	35,873
Saving deposits	11,376,044	-	11,376,044	10,053,435	-	10,053,435
Term deposits	261,100	-	261,100	201,100	-	201,100
	<u>11,632,704</u>	<u>348</u>	<u>11,633,052</u>	<u>10,283,741</u>	<u>6,667</u>	<u>10,290,408</u>
	<u>38,000,071</u>	<u>1,265,398</u>	<u>39,265,469</u>	<u>31,404,944</u>	<u>1,869,881</u>	<u>33,274,825</u>

	June 30, 2020 Un-audited	December 31, 2019 Audited
	Rupees in '000	
42.6 Contingencies and Commitments		
Guarantees	1,002,379	563,350
Commitments	<u>1,060,018</u>	<u>2,046,818</u>
	<u>2,062,397</u>	<u>2,610,168</u>
	June 30, 2020 Un-audited	June 30, 2019 Un-audited
	Rupees in '000	
42.7 Profit / return earned of financing, investments and placement		
On:		
Financing	4,891,987	1,695,130
Investments	83,719	35,306
Due from Financial Institutions	<u>257,865</u>	<u>142,876</u>
	<u>5,233,571</u>	<u>1,873,312</u>
42.8 Profit expensed on Deposits and other Dues Expensed		
On:		
Deposits and other accounts	1,563,510	1,475,679
Due to Financial Institutions	(296)	13,837
Cost of foreign currency swaps against foreign currency deposits / borrowings	60,873	21,619
Lease liability against right-of-use assets	<u>61,644</u>	<u>-</u>
	<u>1,685,731</u>	<u>1,511,135</u>
	June 30, 2020 Un-audited	December 31, 2019 Audited
	Rupees in '000	
42.9 Islamic Banking Business Unappropriated profit / Accumulated loss		
Opening Balance	(3,490,439)	1,098,279
Add: Islamic Banking profit / (loss) for the period / year	<u>3,625,069</u>	<u>(4,588,718)</u>
Closing Balance	<u>134,630</u>	<u>(3,490,439)</u>

43 GENERAL

43.1 Corresponding figures have been rearranged / reclassified to reflect more appropriate presentation.

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

44 NON-ADJUSTING EVENTS AFTER THE REPORTING DATE

There are no adjusting events that are required to be adjusted or disclosed in the condensed interim financial statements.

45 DATE OF AUTHORISATION FOR ISSUE

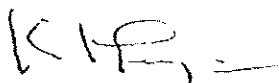
These condensed interim financial statements were authorised for issue on _____ by the Board of *9/11* Directors of the Bank.



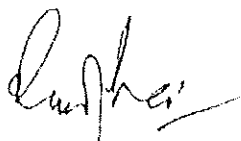
Chief Financial Officer



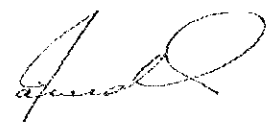
Acting President & Chief Executive Officer



Director



Director



Director