KPMG

KPMG Taseer Hadi & Co.

PAIR Investment Company Limited

Financial Statements

For the year ended 31 December 2019

PAÏR INVESTMENT COMPANY LIMITED

CHAIRMAN's REVIEW FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2019

I am pleased to present the Financial Statements of PAÏR Investment Company Limited ("the Company") for the year ended December 31, 2019. It continues to be testing times for the Company in terms of external and internal happenings. The government after taking charge of the office took some tough decisions that impacted the business and consumer confidence however as the dust settled the results of those measures are becoming eminent accordingly the concerns on the economic stability are getting addressed to a greater extent if not fully. State Bank of Pakistan ("SBP") has changed its instance on the target policy rate from aggressive to hold since then the rate remains unchanged from the last three consecutive reviews by the Monetary Policy Committee. Even though inflation is persistently high, the reduction in the Current Account Deficit bodes well for the country as can be seen from the SBP foreign exchange reserves.

Pakistan Stock Exchange ("PSX") has been taking big swings from negative to positive and from positive to negative till the sharp recovery was seen in the latter part of the year. From the stock market perspective, investors have responded positively to Pakistan's entry in the IMF program along with the improvement in the perception for the creditworthiness of Pakistan as well as the improved law and order situation throughout the country. PKR after sharp episodes of devaluation is now considered to be at its equilibrium position in the international market. Thus the market has regained its appeal for foreign investors. In addition to foregoing the market, it-self is trading at attractive valuations compared to other emerging markets. The challenging economic situation is already accounted for in these valuations.

The Company continues to show resilience in the case of internal and external factors. There is a significant turnaround in terms of the profitability this year as the profit before tax stood at PKR 394.467 million while there was a mere breakeven last year. Non- performing loans continued to be bad news however the management of the company continues to prudently monitor the same. Coverage ratios are improved by way of making provisions in line with the guidance of the Prudential Regulations. Further efforts of recovering are being made and positive out of court settlements are expected to be reached with some of the defaulters. After careful analysis of the causes and effects, the due diligence mechanism has been further strengthened and stricter monitoring controls are implemented to ensure the corrective actions are taken before an account goes bad. There were some additional provisions that were taken on account of the equity investments as the PSX remained under the negative influence during the year, however towards the end of the year with the things got better and considerable portion of these provisions made including the charge taken in prior periods got reversed as the respective investments were offloaded in the market. Asset and Liability Committee oversees the asset profile and aligns the asset booking and fund generation after taking into account the prevalent economic constraints and capture the opportunities at the same time. Efforts are being made to diversify the revenue sources and increase the customer base. As such there were many new names added and will be added to the portfolio.

I assure you that the Company is fundamentally strong and have the full support of its shareholder and will continue to contribute towards the economic growth of the country. We at the board level are fully aware of the challenges currently being faced by the Company including the placement of the MD/CEO and are working for the resolution of the same. We have full confidence in the management team who comprise of seasoned professionals of their respective fields.

I would like to offer my sincere appreciation to all the stakeholders who continue to support the Company including Iran Foreign Investments Company, Ministry of Finance- Government of Pakistan, State Bank of Pakistan and Securities & Exchange Commission of Pakistan for their guidance and cooperation extended to our company. I would also encourage the staff and colleagues for their commitment, their team spirit as they hold hands of each other in the turbulent time of the Company and their contribution to the progress of the business.

Zahoor Ahmed
Acting Chairman of the Board of Directors
Tehran: February 18, 2020

PAÏR INVESTMENT COMPANY LIMITED
DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2019

On behalf of the Board of Directors, I am pleased to present the Financial Statements of PAÏR Investment Company Limited (PAÏR) for the year ended December 31, 2019. These Financial Statements have been prepared in compliance with the requirements of BPRD Circular No. 02 dated January 25, 2018, and BPRD Circular No. 10 dated November 27, 2018.

Economic Overview

To stabilize the economy painful yet necessary policy measures were undertaken by the PTI government with the support of the IMF. Some of these measures were highly criticized for political gains however some of the decisions have started to bear fruits and the economy seems to be moving in the right direction. According to the State Bank of Pakistan's ("SBP") first-quarter report for fiscal year, 2020 describes the GDP growth target of percent to be unlikely to be achieved while the World Bank projects the GDP growth rate for 2020 for Pakistan to be 3.7% to 2.7% since the production of important crops is falling short of target the targets while the large-scale manufacturing sector is witnessing decline as construction-allied industries, petroleum and automobile industries continued on downward path.

Inflation remained on the high side primarily from food price increase along with the increase in utility prices. The latter being the function of the increase in oil prices and the withdrawal of the subsidies. In the last monetary policy statement of SBP issued on January 28, 2020, SBP's projection for average inflation remained broadly unchanged at 11 – 12 percent for FY20 while the monetary policy itself will continue to take measures to bring inflation down to the medium-term target range of 5 – 7 percent over the next six to eight quarters.

The Current Account Deficit ("CAD") contracted by 75 percent to US$ 2.15 billion during Jul – Dec 2019 due to a notable reduction in imports and modest growth in both exports and workers' remittances. Importantly, export volumes of major items including rice, value-added textiles, leather products, and fish and meat, exhibited a notable increase. This reflects the benefits of a more competitive exchange rate and take-up of incentive credit schemes for export-oriented sectors. The capital account also continued to strengthen, with continued inflows of foreign portfolio investment and foreign direct investment. SBP foreign exchange reserves despite making repayment of US$ 1.0 billion international Sukuk in early December 2019 increased from US$ 7.28 billion at end-June 2019 to US$ 11.73 billion as of 17th January 2020, an increase of US$ 4.45 billion.

With PKR reaching its equilibrium position in international markets, the attractive interest rate on the sovereign local currency bonds and improved perception of the international investors about Pakistan's creditworthiness healthy portfolio inflows of more than USD 2.8 billion are witnessed. Such inflows reduce the interest rate on government debt due to the greater demand for government securities, deepen capital markets, and free up domestic banks' resources for lending to the private sector.

The equity market remained under pressure amid heightened volatility throughout the year. During the first eight months of FY 2019, the market mostly traded in negative territory bottoming at 28,765 points in mid-August (down by 22% in CY19), but subsequently, it made a spectacular recovery to not only regain its earlier losses of the year but also post a net positive return of 10% for CY19 as the KSE-100 Index settled at 40,735 points. From the valuations perspective, despite a robust recovery from its lows the market is trading at an attractive Price-to-Earnings multiples and offers an attractive dividend yield too. The corporate listings that were put on hold owing to the negative market conditions are expected to finally make their way. There is ample local liquidity ready to enter the market, awaiting clarity on the economic recovery. Therefore from the equity market's perspective, the momentum that came in Q4 of FY 2019 is expected to continue albeit in a range-bound manner in FY 2020.

Financial Highlights

FY 2019 was no less tough then FY 2018 for the Company, both in terms of external economic factors as well as issues, that were unique to the organization itself. Profit before tax position considerably improved in FY 2019 (PKR 394.467 million) when compared to the mere breakeven of FY 2018 (PKR 11.458 million). Gross markup income earned during the year was PKR 1.967 billion as against the PKR 0.907 billion in FY 2018. The other income needs a careful interpretation where dividend income has doubled whereas the loss on the sale of securities is about PKR 102.270 million. Out of which PKR 101.802 million pertains to the realization of loss on the sale of the securities that also resulted in a reversal of PKR 157.509 million of provision for diminution on the same investments given a net positive effect of PKR 55.707 million on the profit and loss account. The shift from bears to bulls in Q4 of FY 2019 presented the Company with the opportunity to crystallize the losses it had already booked in prior periods and the portfolio managers methodically materialized the end result.

Markup expense also grew as the better average total asset balances were observed throughout the year. An increase in employee cost, property expenses and technology had their respective fair share in the increase of administrative expenses which increased by 21% over the previous year.

US sanctions on Iran along with the availability of the cheaper funding sources will continue to pose challenges to the profitability and operational continuity of the Company, yet we can say with fair amount of certainty that financial position of the Company is expected to continue to improve in the coming days on the back of healthy growth in loan book as well as improved capital markets. The recovery of the latter will be a key factor in boosting the revenues of the Company.

The total assets increased by 16% or PKR 2.949 billion to close at PKR 21.475 billion as against PKR 18.525 billion of the total asset as at December 2018. Net investments closed at PKR 14.664 billion which is a healthy increase of 30% from the previous year when it closed at PKR 11.259 billion. In view of interest rates reaching its peak and expectations of rate cuts in the FY 2020 the focus is shifted back to fixed income securities from floating rate investments consequently fixed income government securities i.e. Treasury Bills and Pakistan Investment Bonds were invested in. Out of the total increase of PKR 3.404 billion, PKR 3.228 billion were in the aforementioned securities. A charge of PKR 47.217 million for diminution in the value of the investment was taken to P&L during the year against the equity exposure that reduced the reversal of provision for the diminution in the value of investment of PKR 157.509 million to PKR 110.292 million.

Healthy bookings in the last quarter of FY2018 supported earnings throughout the FY2019 while there was a change in the head of Corporate and Investment Banking ("CIBG") department, owner of the loan portfolio. During the year the outgoing head of CIBG left the Company in June while his successor joined in October. The incumbent is a seasoned professional and portfolio is expected to expand both in terms of the new name as well as deepening of the existing relationships.

Some additional classifications were made to the Non-Performing Loan ("NPL") during the year. The aggregate amount of the exposure that was additionally classified amounted to PKR 123.779 million.

Additional provision booked against the NPL portfolio during the year amounted to PKR 287.445 million while it was PKR 117.524 million last year. The additional provision improved the coverage ratio.

Credit Rating

Pakistan Credit Rating Agency Limited (PACRA) has reaffirmed entity rating long-Term Entity Rating 'AA'(Double A) and a short term Entity Rating of 'A1+' (A-One Plus). These ratings indicate a very low expectation of credit risk emanating a very strong capacity for timely payment of financial commitments. The ratings of PAIR primarily reflect the joint sovereign ownership of Pakistan and Iran.

Statement of Internal Controls

The Board is pleased to endorse the statement made by management relating to internal controls including management's evaluation of ICFR. The Management's Statement on Internal Controls is included in the Annual Report.

Corporate and Financial Reporting Framework

The Board of Directors of PAÏR, for the purpose of establishing a framework of good corporate governance, has implemented the relevant provisions of the Code of Corporate Governance for the year ended December 31, 2019. Review report on the Statement of Compliance with the Code of Corporate Governance from the external auditors is annexed with this report. As required under the Code of Corporate Governance, the Board of Directors states that:

- The financial statements prepared by the management of PAÏR present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of accounts of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in the preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of the financial statements and any departure therefrom has been adequately disclosed.
- As a continuous process, efforts have been made to effectively implement the internal control system. An effective and sound system of internal control is in place in accordance with the requirements of the regulatory authorities.
- There is no doubt regarding PAÏR's ability to continue as a going concern.
- There has been no material departure from the best practices of the Code of Corporate Governance.
- Key operating and financial data for the years 2010-2019 in a summarized form is included in the annual report.

- The tax outstanding amount and reason thereon are properly disclosed in the attached financial statements.

Risk Management Framework

Taking cognizance of various types of business risks, an effective risk management framework is embedded in PAIR`s strategy and organization structure. An independent Credit and Risk Management Department ("CRMD") is working as a core function to strengthen Company-wide Risk Management activities by adopting Basel II/III Framework. PAÏR is fully compliant with the Capital Adequacy Requirements of the State Bank of Pakistan under the Standardized Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk.

The prevailing economic situation has led the company to set its focus towards the deployment of stringent risk management policies to assess, mitigate and monitor major risks associated with business operations of the company. Accordingly, your Company has established a set of activities and creates core functions to administer, manage and report in order to complement its core business objectives and to remain abreast with the latest developments & challenges to safeguard shareholders' interests & enhance Shareholder's wealth.

Your Company has implemented a robust Internal Capital Adequacy Assessment Process (ICAAP) to establish more Risk Sensitive Assessment, Capital planning, formalization of Company-wide Risk Appetite, and to remain abreast of the internal and external risks that may impact future operations of the company. The deployment of this process allowed adequate management of capital as the Capital Adequacy Ratio stood at 58.04% against the regulatory requirement of 11.90% including Capital Conservation Buffer (CCB) of 2.5%. This contributed to the development of risk appetite and concentration levels with respect to the transaction level risk profiling as well as integrated portfolio management.

PAIR also periodically evaluates the organic strength of business by conducting Stress Testing of overall risk exposure. It helps to ensure the smooth operations of the business under hypothetically stressed circumstances. For this, CRMD applies shocks on different risk factors including interest rate, credit, equity price, and liquidity. Results of the latest stress testing exercise depict the solid and resilient financial position of your organization. The stress testing methodology implemented by PAIR is in adherence to SBP guidelines.

The Credit & Risk Management Department is also involved in the development of entity-wide policies, procedures, systems, and reporting mechanisms to achieve and maintain entity-wide best rating status and adaption of risk management principals in true letter and spirit. Further, the Board Risk Management Committee and Board of Directors of your organization oversee the strategy related to risk management. In addition, the Internal Audit department conducts independent, risk-based review and verification of major functions throughout the year for evaluation of control systems supplemented by Internal Control and Compliance Divisions.

Events after the Date of Statement of Financial Position

There have not been any material events that occurred subsequent to the date of the statement of the financial position that requires adjustments to the enclosed financial statements, except those which have already been made or disclosed.

Corporate Social Responsibility

The Company firmly believes in being a responsible corporate citizen and plays an integral role in our long-term success, and strives to incorporate the approach into every aspect of its work culture. In addition to our priority of operating profitability, the Company is aware of its responsibilities that go beyond its business, particularly its commitment towards employees, society, and environment.

The Company will continue to encourage community growth and development, thereby contributing in building a sustainable future in FY 2020 and beyond. Being a joint venture between the two brotherly countries' inclusion of the charitable organizations from Iran will also be ensured, subject to the regulatory approvals for the latter.

PAIR Investment, on an annual basis, sponsors one of its staff members to perform Hajj, through a transparent balloting mechanism.

Board of Directors and their Meetings

Four (4) Board Meetings were held during the year 2019. The director(s) who were not able to attend any of the meeting(s) were duly granted a leave of absence by the Board. The directors of the company attended the meetings, as under:

Name of Director	Representing	Meetings Attended
Arif Ahmed Khan*- Chairman	MOF-Pakistan	1
Hamid Eftekhari Kondelaji – CEO	IFIC -Iran	4
Aamer Mahmood Hussain – Director	MOF-Pakistan	4
Hemmat Jafari – Director	IFIC -Iran	2
Zahoor Ahmed* –Director	MOF-Pakistan	4
Gholamreza Khalil Arjmandi	IFIC -Iran	4
Hamidreza Raufi **– Director	IFIC -Iran	1

*Mr. Arif Ahmed Khan resigned from the board on 25 March 2019. Mr. Zahoor Ahmed is presiding the meetings thereafter as the acting chairman of the board with the unanimous concession of the board members.

**Mr. Hamidreza Raufi was appointed as a new Iranian Board Member in place of Mr. Hemmat Jafari on 05 August 2019.

Board Committees and their Meetings

Four (4) meetings of Board Audit Committee (BAC), Four (4) meetings of Board Risk Management Committee (BRMC) and (3) meetings of Board Human Resource Compensation Committee (BHRCC) and One (1) meeting of Board Strategic Investment Committee (BSIC) were held during 2019.

The member(s) who were not able to attend any of the meeting(s) were duly granted a leave of absence by the committee. The details of the meetings attended by each committee member are as under:

Name of Director	Representing	Designation and name of the committee	BAC	BRMC	BHRCC	BSIC
Arif Ahmed Khan	MOF-Pakistan	Member BHRCC			1	
Hamid Eftekhari Kondelaji	IFIC -Iran	Member BRMC		4		
		Member BHRCC			3	

		Member BSIC				1
Aamer Mahmood Hussain	MOF-Pakistan	Chairman BAC	4			
		Chairman BRMC		4		
		Member BHRCC			3	
Zahoor Ahmed	MOF-Pakistan	Member BAC	2			
		Chairman BHRCC			3	
		Chairman BSIC				1
Hemmat Jafari	IFIC -Iran	Member BAC	2			
		Member BRMC		2		
		Member BHRCC			2	
Gholamreza Khalil Arjmandi	IFIC -Iran	Member BAC	4			
		Member BSIC				1

Staff End of Service Benefits

The Bank operates two post-retirement funds, Provident Fund & Gratuity Fund. The carrying value of investments and bank balance respective funds as at December 31, 2019, were:

Value of the Investments and Bank Balances	Provident Fund	Gratuity Fund
	------------PKR '000------------	
2019 – unaudited	93,468	55,577
2018 – audited	75,578	44,913

Earnings / (Loss) Per Share

Basic and Diluted (loss) /earnings per share have been disclosed in note 33 of the financial statements.

Pattern of Shareholding

Shareholders	Shareholding
Government of Pakistan through the Ministry of Finance	**50%**
Government of Iran through Iran Foreign Investment Company	**50%**
Total	**100%**

Appointment of Auditors

The present auditors M/s. KPMG Taseer Hadi & Company, Chartered Accountants, retired and being eligible offer themselves for re-appointment in the forthcoming Annual General Meeting. Therefore, on the suggestion of the Audit Committee, the Board of Directors recommends the shareholders to appoint M/s. KPMG Taseer Hadi & Company Chartered Accountants as the statutory auditor of the company for the financial year ending December 31, 2020.

Future Outlook

In terms of the economic activity, we anticipate a positive outlook since the long term measures are being taken rather than the short term quick fixes. Opportunities for earnings are available both in the debt and equity market however the private sector offtake remains a concern for the loan booking. However, the Government's export-oriented strategy will require these sectors to have working capital demand.

PAIR investment sees a wide scope of business for itself in the year 2020 however it takes full cognizance of the challenges in terms of the high cost of funds and mounting inventory of non-performing loans. Therefore it will be focusing on raising low funds from non-conventional sources for a DFI and will be expanding its customer base through its diversified product portfolio.

In terms of the internal challenges, it is imperative to resolve the issues surrounding the appointment of the key management personnel i.e. MD/CEO of the Company.

Appreciation and Acknowledgement

We would like to thank our customers and business partners for the trust they have placed in us. We offer sincere appreciation to the Iran Foreign Investment Company, Ministry of Finance- Government of Pakistan, State Bank of Pakistan and Securities & Exchange Commission of Pakistan for their guidance and cooperation extended to our company. Finally, we are also thankful to our associates, staff, and colleagues for their commitment and their contribution to the progress of our business.

For and on behalf of the Board of Directors

Chairman of the Board of Directors
Iran: February 18, 2020

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2, Beaumont Road
Karachi 75530 Pakistan
+92 (21) 35685847, Fax +92 (21) 35685095

INDEPENDENT AUDITOR'S REPORT

To the Members of PAIR Investment Company Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of **PAIR Investment Company Limited** (the Company), which comprise the statement of financial position as at 31 December 2019, and the profit and loss account, the statement of comprehensive income, the statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and cash flow statement together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of the profit, the comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

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

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

Management is responsible for the other information. The Other Information comprises the information included in the Company's Annual Report for the year ended

31 December 2019, but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of Management and Board of Directors for the Financial Statements

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

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

Board of Directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

KPMG Taseer Hadi & Co.

Report on Other Legal and Regulatory Requirements

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

a) proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);

b) the statement of financial position, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account;

c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and

d) No zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Other Matter

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

KPMG Taseer Hadi & Co.
KPMG Taseer Hadi & Co.
Chartered Accountants

Date: 28 February 2020

Karachi

PAIR Investment Company Limited
Statement of Financial Position
As at 31 December 2019

	Note	31 December 2019	31 December 2018
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	5	**46,383**	73,144
Balances with other banks	6	**83,751**	60,653
Lendings to financial institutions	7	**150,000**	105,000
Investments	8	**14,664,301**	11,259,928
Advances	9	**5,389,709**	6,223,926
Fixed assets	10	**229,709**	193,031
Intangible assets	11	**314**	211
Deferred tax asset	12	**375,527**	346,484
Other assets	13	**534,895**	263,060
		21,474,589	18,525,437
LIABILITIES			
Bills payable		**-**	-
Borrowings	15	**10,842,781**	7,915,859
Deposits and other accounts	16	**775,323**	1,221,724
Liabilities against assets subject to Finance Lease		**-**	-
Subordinated debt		**-**	-
Deferred tax liabilities		**-**	-
Other liabilities	17	**385,766**	278,164
		12,003,870	9,415,747
NET ASSETS		**9,470,719**	9,109,690
REPRESENTED BY			
Share capital	18	**6,000,000**	6,000,000
Reserves	19	**888,356**	840,066
Surplus / (Deficit) on revaluation of assets	20	**56,305**	(71,701)
Unappropriated profit		**2,526,058**	2,341,325
		9,470,719	9,109,690

CONTINGENCIES AND COMMITMENTS 21

The annexed notes 1 to 46 form an integral part of these financial statements.

Chief Executive and Managing Director	Chief Financial Officer	Chairman	Director	Director

PAIR Investment Company Limited

Profit and Loss Account

For the year ended 31 December 2019

	Note	2019	2018
		(Rupees in '000)	
Mark-up / Return / Interest Earned	24	**1,967,277**	907,417
Mark-up / Return / Interest Expensed	25	**1,024,210**	472,607
Net Mark-up / Interest Income		**943,067**	434,810
NON MARK-UP / INTEREST INCOME			
Fee and Commission Income	26	**7,822**	12,767
Dividend Income		**57,509**	29,295
Foreign Exchange Income		**638**	963
Income / (Loss) from derivatives		**-**	-
(Loss) / Gain on Securities	27	**(102,270)**	58,211
Other Income	28	**89**	-
Total non mark-up / interest income		**(36,212)**	101,236
Total Income		**906,855**	536,046
NON MARK-UP / INTEREST EXPENSES			
Operating expenses	29	**322,425**	267,421
Workers Welfare Fund		**12,807**	-
Other charges	30	**3**	4
Total non mark-up / interest expenses		**335,235**	267,425
Profit Before Provisions		**571,620**	268,621
Provisions and write offs - net	31	**177,153**	257,163
Extra ordinary / unusual items		**-**	-
PROFIT BEFORE TAXATION		**394,467**	11,458
Taxation	32	**153,015**	21,689
PROFIT / (LOSS) AFTER TAXATION		**241,452**	(10,231)
		(Rupees)	
Basic and Diluted Earnings / (Loss) per Share	33	**0.40**	(0.02)

The annexed notes 1 to 46 form an integral part of these financial statements.

Chief Executive and Managing Director	Chief Financial Officer	Chairman	Director	Director

PAIR Investment Company Limited
Statement of Comprehensive Income
For the year ended 31 December 2019

	Note	2019	2018
		(Rupees in '000)	
Profit / (Loss) after taxation for the year		**241,452**	(10,231)
Other comprehensive income			
Items that may be reclassified to profit and loss account in subsequent periods:			
Movement in surplus / (deficit) on revaluation of investments - net of tax		**128,006**	(34,415)
Items that will not be reclassified to profit and loss account in subsequent periods:			
Remeasurement gain / (loss) on defined benefit obligations - net of tax		**1,263**	(996)
Total comprehensive income / (loss)		**370,721**	(45,642)

The annexed notes 1 to 46 form an integral part of these financial statements.

KAM

Iftekhari

JCauser.

Chief Executive and Managing Director	Chief Financial Officer	Chairman	Director	Director

PAIR Investment Company Limited
Statement of Changes in Equity
For the year ended 31 December 2019

	Note	Share Capital	Statutory reserve	Surplus / (deficit) on revaluation of Investments	Surplus / (deficit) on revaluation of Fixed / Non Banking Assets	Unappropriated profit	Total
		------------------	------------------	---- (Rupees in '000) ----	------------------	------------------	------------------
Balance as at 01 January 2018		6,000,000	840,066	(37,286)	-	2,452,552	9,255,332
Loss after taxation for the year ended 31 December 2018		-	-	-	-	(10,231)	(10,231)
Other comprehensive loss - net of tax		-	-	(34,415)	-	(996)	(35,411)
Transactions with owners recognised directly in equity							
Final cash dividend - 31 December 2017 declared subsequent to the year end		-	-	-	-	(100,000)	(100,000)
Balance as at 31 December 2018 (As reported previously)		**6,000,000**	**840,066**	**(71,701)**	**-**	**2,341,325**	**9,109,690**
Adjustment due to initial application of IFRS 16						(9,692)	(9,692)
Balance as at 31 December 2018 (Adjusted)		**6,000,000**	**840,066**	**(71,701)**	**-**	**2,331,633**	**9,099,998**
Profit for the year ended 31 December 2019		-	-	-	-	241,452	241,452
Other comprehensive income - net of tax		-	-	128,006	-	1,263	129,269
Transfer to statutory reserve	19	-	48,290	-	-	(48,290)	-
Balance as at 31 December 2019		**6,000,000**	**888,356**	**56,305**	**-**	**2,526,058**	**9,470,719**

The annexed notes 1 to 46 form an integral part of these financial statements.

KMM

Chief Executive and Managing Director	Chief Financial Officer	Chairman	Director	Director

PAIR Investment Company Limited
Cash Flow Statement
For the year ended 31 December 2019

	Note	2019	2018
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		394,467	11,458
Less: Dividend income		(57,509)	(29,295)
		336,958	(17,837)
Adjustments:			
Depreciation		26,368	11,201
Amortisation		246	194
Provision and write-offs	31	177,153	257,163
Gain on sale of fixed assets		(89)	4
Charge for defined benefit plan		10,316	9,392
Unrealised loss / (gain) on revaluation of held for trading investments		468	8,010
		214,462	285,964
		551,420	268,127
(Increase) / Decrease in operating assets			
Lendings to financial institutions		(45,000)	865,000
Held-for-trading securities		40,152	91,039
Advances		546,772	(1,688,518)
Others assets (excluding advance taxation)		(253,386)	125,214
		288,538	(607,265)
Increase / (Decrease) in operating liabilities			
Borrowings from financial institutions		2,926,922	1,545,121
Deposits		(446,401)	(592,277)
Other liabilities (excluding current taxation)		104,094	30,997
		2,584,615	983,841
		3,424,573	644,703
Income tax paid		(229,203)	(117,479)
Defined benefits paid		(15,699)	(7,331)
Net cash flows from operating activities		3,179,671	519,893
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(2,796,338)	(597,697)
Net investments in held-to-maturity securities		(386,981)	153,060
Dividends received		58,023	30,310
Investment in operating fixed assets		(58,220)	(1,418)
Proceeds from sale of fixed assets		182	52
Net cash flow used in investing activities		(3,183,334)	(415,693)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		-	(100,000)
Net cash flows from / (used in) financing activities		-	(100,000)
(Decrease) / Increase in cash and cash equivalents		(3,663)	4,200
Cash and cash equivalents at beginning of the year	34	133,797	129,597
Cash and cash equivalents at end of the year	34	130,134	133,797

The annexed notes 1 to 46 form an integral part of these financial statements.

KAM

Iftekhari

Kauser

Chief Executive and Managing Director	Chief Financial Officer	Chairman	Director	Director

1. STATUS AND NATURE OF BUSINESS

PAIR Investment Company Limited (the Company) is an unlisted Public Limited Company incorporated in Pakistan on 15 January 2007 under the repealed Companies Ordinance, 1984. The Company has been notified as a Development Financial Institution (DFI) by the Ministry of Finance, Government of Pakistan.

The Company is a Joint Venture (50:50) between Government of Pakistan and Iran Foreign Investment Company which is owned by the Government of Iran. The Company's objectives interalia includes financing for industrial and commercial projects, capital and money market operations and other investment banking activities. Its registered and principal office is situated at ICCI Building, Clifton, Karachi.

2. BASIS OF PRESENTATION

2.1 These financial statements have been prepared in conformity with the format of financial statements prescribed by the State Bank of Pakistan (SBP) vide BPRD Circular No. 02 dated 25 January 2018 effective from the accounting year ending 31 December 2018.

These financial statements have been presented in Pakistani Rupees, which is the Company's functional and presentation currency.

2.2 STATEMENT OF COMPLIANCE

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

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

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

- The SBP through its BSD Circular letter No. 11 dated 11 September 2002 has deferred the implementation of IAS 39 'Financial Instruments: Recognition and Measurement' and IAS 40 'Investment Property' for Non-Banking Financial Institutions (NBFIs) in Pakistan. Further, SECP has deferred the implementation of IFRS 7 'Financial Instruments: Disclosures' through SRO 411(1)/2008. Accordingly, the requirements of these IFRS and their respective interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), have not been considered in preparation of these financial statements.

2.3 Standards, interpretations of and amendments to published approved accounting standards that are effective in the current year

IFRS 16, Leases and IFRS 15, Revenue from contracts with customers, became effective for annual reporting periods commencing on or after 1 January 2019. The impact of the adoption of these standards is disclosed in notes 4.1 and 4.2 to these financial statements.

In addition to the above, there are certain new standards, amendments and interpretations that are mandatory for the Company's accounting periods beginning on or after 01 January 2019 but are considered not to be relevant or do not have any significant effect on the Company's operations and are, therefore, not disclosed in these financial statements.

2.4 Standards, interpretations of and amendments to published approved accounting standards that are not yet effective

The following IFRS as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 01 January 2019:

- Amendment to IFRS 3 'Business Combinations' – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of annual period beginning on or after 1 January 2020). The IASB has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must

KMW

include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The standard is effective for transactions in the future and therefore would not have an impact on past financial statements.

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB has also issued guidance on how to make materiality judgments when preparing their general purpose financial statements in accordance with IFRS Standards.

- On 29 March 2018, the International Accounting Standards Board (the IASB) has issued a revised Conceptual Framework for Financial Reporting which is applicable immediately contains changes that will set a new direction for IFRS in the future. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs and any inconsistencies with the revised Framework will be subject to the usual due process – this means that the overall impact on standard setting may take some time to crystallise. The companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs.

- IFRS 14 Regulatory Deferral Accounts - (effective for annual periods beginning on or after 1 July 2019) provides interim guidance on accounting for regulatory deferral accounts balances while IASB considers more comprehensive guidance on accounting for the effects of rate regulation. In order to apply the interim standard, an entity has to be rate regulated – i.e. the establishment of prices that can be charged to its customers for goods or services is subject to oversight and/or approved by an authorized body. The term 'regulatory deferral account balance' has been chosen as a neutral descriptor for expense (income) or variance account that is included or is expected to be included by the rate regulator in establishing the rate(s) that can be charged to customers and would not otherwise be recognized as an asset or liability under other IFRSs. The standard is not likely to have any effect on Company's financial statements.

- IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation – for DFIs, the effective date of the standard has been extended to annual periods beginning on or after 1 January 2021 vide SBP circular 4 dated 23 October 2019. IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. According to SBP circular referred to above, the DFI's is required to have a parallel run of IFRS 9 from 1 January 2020. The DFIs are also required to prepare pro-forma financial statements which includes the impact of IFRS 9 from the year ended 31 December 2019.

The above amendments are effective from annual period beginning on or after 1 January 2020 and are not likely to have an impact on Company's financial statements.

There are certain new and amended standards, interpretations and amendments that are mandatory for the Company's accounting periods beginning on or after 01 January 2020 but are considered not to be relevant or do not have any significant effect on the Company's Operations and therefore not detailed in these financial statements.

2.5 Critical accounting estimates and judgments

The preparation of financial statements in conformity with accounting standards as applicable in Pakistan requires management to make judgments, estimates and associated assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The judgments, estimates and associated assumptions are based on historical experiences, current trends and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future period if the revision affects both current and future periods. The estimates and judgments that have a significant effect on the financial statements are in respect of the following:

	Note
- Classification and valuation of investments and impairment	4.6 & 8
- Provision against non-performing advances including net investment in finance lease	4.7 & 9
- Provision against off - balance sheet obligations	4.24
- Non-banking assets acquired in satisfaction of claims	4.9 & 13
- Useful life of fixed and intangible assets, depreciation and amortization	4.8, 10 & 11
- Current and deferred taxation	4.16, 12 & 32
- Accounting for defined benefit plan and compensated absences	4.11, 4.12 & 36
- Right-of-use assets and lease liabilities	4.1, 10 & 17

KM

3. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except for certain investments which have been mark to market and are carried at fair value, non - banking assets acquired in satisfaction of claims which are stated at revalued amount less accumulated depreciation and staff retirement benefits are carried at present value.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied and adopted in the preparation of these financial statements are consistent with those of the previous financial year, except for changes explained in note 4.1:

4.1 During the year, IFRS 16 - Leases became applicable. IFRS 16 replaces existing guidance on accounting for leases, including IAS 17, Leases, IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases - Incentive, and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces an on-balance sheet lease accounting model for leases entered by the lessee. A lessee recognizes a right-of-use asset representing its right of using the underlying asset and a corresponding lease liability representing its obligations to make lease payments. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as either finance or operating leases.

The Company has adopted IFRS 16 from January 01, 2019, and has not restated comparatives for the reporting period of 2018, as permitted under the specific transitional provisions in the standard.

On adoption of IFRS 16, the Company has recognised liabilities in respect of leases which had previously been classified as operating leases under IAS 17. These liabilities were initially measured as the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 10.43% per annum as of January 01, 2019. The lease liability is subsequently measured at amortised cost using the effective interest rate method.

	As at 31 December 2019	As at 1 January 2019
	(Rupees in '000)	
Lease Liability recognised	**42,531**	63,184

On adoption of IFRS 16, the associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of prepaid lease payments recognised in the statement of financial position immediately before the date of initial application.

The right-of-use assets recognised subsequent to the adoption are measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date. The right-of-use assets are depreciated on a straight line basis over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits. The right-of-use assets are reduced by impairment losses, if any, and adjusted for certain remeasurements of lease liability.

	As at 31 December 2019	As at 1 January 2019
The recognised right-of-use assets relate to the following type of asset:	**(Rupees in '000)**	
Right-of-use assets Property	**36,988**	53,492

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

Impact on Statement of Financial Position

Increase in fixed assets - right-of-use assets	**36,988**	53,492
Increase in deferred tax	**1,607**	-
Increase in total assets	**38,595**	53,492
Increase in other liabilities - lease liability against right-of-use assets	**(42,531)**	(63,184)
Decrease in net assets	**(3,936)**	(9,692)

KMW

Impact on Profit and Loss account	For the year ended 31 December 2019 (Rupees in '000)
Increase in mark-up expense - lease liability against right-of-use assets	(5,311)
(Increase) / decrease in administrative expenses:	-
- Depreciation on right-of-use assets	(16,504)
- Rent expense	19,835
Decrease in profit before tax	**(1,980)**
Decrease in tax	574
Decrease in profit after tax	**(1,406)**

4.2 Change in accounting policy - IFRS 15- Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Company initially applied IFRS 15 on 1 January 2019 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Company's fee and commission income from contract with customers was not impacted by the adoption of IFRS 15. These are disclosed in note 4.15.

4.3 Additional / amended disclosures effective from the accounting year ending 31 December 2019.

The State Bank of Pakistan (SBP) through its letter BPRD/R&PD/2018/17232 had relaxed the implementation and disclosure requirements under the revised framework for Governance and Remuneration practices. The implementation of the risk adjusted remuneration framework, as described in the guidelines across the converged business areas and MRTs / MRCs was made effective from 01 January 2019, while the disclosures were made effective from 31 December 2019. Accordingly, the information as required under the said framework and as required under the revised format of annual financial statements by SBP through BPRD Circular No.02 of 2018 dated 25 January 2018, have been presented and disclosed in note 4.14, note 29.1 and note 41 to these financial statements.

4.4 Cash and cash equivalents

For the preparation of cash flow statement, cash and cash equivalents include cash and balances with treasury banks and balances with other banks excluding any term deposit with original terms of greater than three months.

4.5 Repurchase / resale agreements

The Company enters into repurchase / resale agreements at contracted rates for a specified period of time. These are recorded as under:

Sale under repurchase obligations

Securities sold with a simultaneous commitment to repurchase at a specified future date (repo) continue to be recognised in the statement of financial position and are measured in accordance with accounting policies for investments. Amounts received under these agreements are recorded as repurchase agreement borrowings. The difference between sale and repurchase price is amortised as expense over the term of the repurchase agreement.

Purchase under resale obligation

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised as investments in the statement of financial position. Amounts paid under these arrangements are included in repurchase agreement lendings. The difference between purchase and resale price is accrued as income over the term of the resale agreement.

4.6 Investments

The Company classifies its investments as follows:

Held for trading

These are securities, which are acquired with the intention to trade by taking advantages of short term market / interest rate movements and are carried at market value. Cost of investment is determined on weighted average basis. These securities are

KMM

required to be sold within 90 days from the date of their classification as 'Held for trading' under normal circumstances, in accordance with the requirements of State Bank of Pakistan.

Held to maturity

These are securities with fixed or determinable payments and fixed maturity in respect of which the Company has the positive intent and ability to hold to maturity.

Available for sale

Investments that do not fall under the held for trading or held to maturity categories are classified as available for sale.

All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date on which the Company commits to purchase or sell the investment.

Initial Recognition

Investments other than those categorised as held for trading are initially recognised at fair value which includes transaction costs associated with the investment. Investments classified as held for trading are initially recognised at fair value, and transaction costs are expensed in the profit and loss account.

Subsequent Measurement

Investments in government securities and quoted investments, categorized as 'held for trading' and 'available for sale' are valued at rates quoted on PKRV, PKFRV and Pakistan Stock Exchange (PSX) as at the date of statement of financial position respectively. Any surplus or deficit arising as a result of revaluation of securities categorised as 'held for trading' is taken to profit and loss account and that of 'available for sale' is taken to the statement of financial position, and shown within equity in accordance with the requirements of State Bank of Pakistan.

Management has determined fair value of certain investments by using quotations from active market, and review of conditions and information about the financial instruments. These estimates are subjective in nature and involve some uncertainties and matter of judgment (e.g. evaluation, interest rates, etc.) and therefore, cannot be determined with precision.

Investments classified as 'held-to-maturity' are stated at their amortized cost less impairment in value, if any.

Unquoted equity securities are valued at the lower of cost and break-up value less impairment losses, if any. Break-up value of unquoted equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments in subsidiaries and associates, if any (which qualify for accounting under International Accounting Standard - 28) are carried at cost less impairment, if any.

Premium or discount on acquisition of investments is amortised through the profit and loss account over the remaining period till maturity using effective interest method.

Impairment

Impairment loss on investments in respect of available for sale (except term finance certificates and sukuks) and held to maturity is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in fair value of a listed equity investment below its cost is also considered an objective evidence of impairment. Provision for diminution in the value of Term Finance Certificates and Sukuks is made as per the Prudential Regulations issued by the State Bank of Pakistan. In case of impairment of available for sale securities, the cumulative loss that has been recognised in surplus/deficit on revaluation of securities in the statement of changes of equity is transferred to profit or loss account. FOr investments catergorised as held to maturity, the impairment loss is recognised in the profit and loss account.

4.7 Advances

The Company reviews its loan portfolio to assess the amount of non-performing advances and provision required there against on a regular basis. While assessing this requirement various factors including the delinquency in the account, financial position of the borrowers and the requirements of the Prudential Regulations are considered.

Loans and advances

Advances are stated net of specific provision. Specific provision for doubtful debts is determined on the basis of Prudential Regulations issued by SBP and the other directives issued by the SBP and charged to the profit and loss account. These regulations prescribe an age based criteria (as supplemented by subjective evaluation of advances) for classification of non-performing loans and advances and computing provision / allowance there against. Advances are written off when there is no realistic prospect of recovery.

Finance lease receivables

Leases in which the Company transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees are classified as finance leases. A receivable is recognised at an amount equal to the present value of the minimum lease payments, including any guaranteed residual value which are included in the financial statements as "net investment in finance lease".

4.8 Fixed Assets

Capital work in progress

Capital work in progress are stated at cost less impairment, if any. These are transferred to specific assets as and when assets become available for use.

Property and equipment - owned

Operating fixed assets except capital work in progress, are stated at cost less accumulated depreciation and impairment loss, if any. Depreciation is charged to profit and loss account on straight line basis so as to write-off the assets over their expected economic lives at the rates specified in note 10.3 to these financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. Full month depreciation is charged in the month the assets are available for use and no depreciation is charged in the month of disposal.

Normal repairs and maintenance are charged to profit and loss account as and when incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in operating fixed assets.

Gains and losses on disposal of assets are included in profit and loss account. The Company reviews the rate of depreciation / useful life, residual values and value of assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of operating fixed assets with a corresponding effect on depreciation charge and impairment.

Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and impairment losses, if any. Intangible assets are amortised from the month when these are available for use, using the straight line method, whereby the cost of an intangible asset is amortised over the period which takes into account the economic benefits that will be available to the Company. The residual value, useful life and amortisation method is reviewed and adjusted, if appropriate, at each reporting date.

4.9 Non - banking assets acquired in satisfaction of claims

Non - banking assets acquired in satisfaction of claims are initially measured at settlement amount and upon revaluation, are carried at revalued amounts less accumulated depreciation and impairment, if any. These assets are revalued as per SBP's requirement by independent professionally qualified valuers to ensure that their net carrying value does not differ materially from their fair value. A surplus arising on revaluation of property is credited to the 'surplus on revaluation of fixed assets' account and any deficit arising on revaluation is taken to profit and loss account directly. Legal fees, transfer costs and direct costs of acquiring title of property is charged to profit and loss account and not capitalised.

4.10 Borrowings and deposits

Borrowings and deposits are recorded at the amount of proceeds received. Mark-up on borrowings and deposits are charged to profit and loss account on a time proportion basis.

4.11 Staff retirement benefit

Defined benefit plan

The Company operates an approved funded gratuity scheme for all its permanent employees who have completed the qualifying period under the scheme. The scheme is administered by a Board of Trustees and contributions therein are made in accordance with the actuarial recommendations. The valuation in this regard is carried out at each balance sheet date, using the Projected Unit Credit Method for the valuation of the scheme.

Gratuity is payable to staff on completion of two years of service.

Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment. The Company recognises past service cost as an expense at the earlier of the following dates:

(a) when the plan amendment or curtailment occurs; or
(b) and when the Company recognises related restructuring costs or termination benefits.

The Company has adopted certain actuarial assumptions as disclosed in the note 36.3 for valuation of defined benefit obligation and fair value of plan assets, based on actuarial advice.

Defined contribution plan

The Company operates a recognised provident fund scheme for its employees. Equal monthly contributions are made, both by the Company and the employees, to the fund at the rate of 10% of the basic salary.

4.12 Employees' compensated absences

Employees' entitlement to annual leave is recognised when they accrue to employees. A provision is made for estimated liability for annual leave as a result of services rendered by the employee against un-availed leaves upto the reporting date.

4.13 Foreign currencies

Transaction and balances in foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Pakistan Rupees at the exchange rates prevailing at the reporting date. Foreign currency transactions during the year are recorded at the rates prevailing on the date of transaction.

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Pakistani Rupees, which is the Company's functional and presentation currency.

Translation gains and losses

Exchange gains and losses are included in profit and loss account.

4.14 Remuneration Framework

In order to align the remuneration practices in Pakistan with the international standards and best practices, the SBP issued Guidelines on Remuneration Practices through its BPRD circular no. 02 dated March 03, 2016, which were subsequently revised through BPRD Circular No. 01 dated January 25, 2017.

In accordance with these guidelines, the Company has developed a comprehensive remuneration framework. The aim of this framework is to promote an effective risk management culture, and to ensure that the remuneration practice at the Company is in line with the Company's objectives taking into consideration all risks that the Company may face. As a result, a fair, objective, transparent and sound remuneration policy, aligned with risks and responsibilities of Financial Intermediation has been put in place. The framework was reviewed and recommended by the Board's Human Resource & Remuneration Committee (BHRRC) and approved by the Board of Directors (BoD) during the year.

Under the policy, all employees across the Company who are materially responsible for risk taking - Material Risk Takers (MRTs), or risk controlling activities - Material Risk Controllers (MRCs) are identified. The remuneration of these MRTs and MRCs is dependent upon the achievement of performance measured through risk-adjusted balance scorecards which include financial and non-financial! qualitative performance indicators including compliance with internal policies! procedures! controls, customer experience, as well as certain risk-adjusting factors (negative earners) such as regulatory compliance, frauds, complaints etc. All other individuals who do not fall within the criteria of MRTs and MRCs continue to be governed through the Company's existing HR policy. The features of total compensation i.e. fixed remuneration as well as variable remuneration offered through performance bonuses have been disclosed in note 38.1 to these financial statements.

A certain portion of the variable compensation of the MRTs and MRCs shall now be made subject to mandatory deferrals for a defined period, thus creating alignment between the employees' and stakeholders' interests and reinforcing that compensation is appropriately linked to longer-term sustainable performance. Deferred remuneration, especially with risk adjustments, improves risk-taking incentives because the amount ultimately received by employees can be made to depend on risk outcomes, and shall vest proportionately over the deferral period following the year of variable remuneration award, subject to any malus trigger adjustments. Under the Company's framework, the deferral percentages range between 10 to 15 percent while the deferral period is set at three years.

The payouts for variable compensation for the performance year 2019 for MRTs and MRCs shall be based on the revised mechanism which takes into consideration factors (such as position within the organization, roles and responsibilities, risk alignment, and performance against KPIs) for differentiating the variable pays across employees or group of employees under the framework. Furthermore, the balanced scorecards to be used for performance assessment shall also take into consideration that MRCs are remunerated independently of the functions they oversee. The deferral pool so created, shall be transferred to a fund established specifically for this purpose. The fund shall be set up outside the Company and shall be managed by Trustees that the Company may appoint. The process of setting up the fund is currently in process. The disclosures required under the SBP's Guidelines on Remuneration Practices are included as part of these financial statements.

4.15 Revenue recognition

Mark-up / interest on advances & return on investments are recognised on time proportion basisi using the effective yield on the arrangement / instruments, except for non performing advances & investments, the income is recognised on receipt basis. Interest / return / mark-up on rescheduled / restructured advances and investments is recognised as permitted by the Prudential Regulations issued by the SBP.

A gain / loss on sale of securities is recognised in profit and loss account at the time of sale of relevant securities.

The surplus / deficit arising on revaluation of the Company's held for trading investment portfolio is taken to the profit and loss account.

Premium or discount on acquisition of investments is amortised through the profit and loss account over the remaining period through effective interest method.

Dividend income is recognised when the Company's right to receive the dividend is established.

Fee and commission income is recognised upon performance of obligation.

4.16 Taxation

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

Current

Provision for current taxation is based on the taxable income at the current rates of taxation after taking into account available tax credit and rebates, if any. The charge for current tax also includes adjustments, where considered necessary relating to prior years, which arises from assessments /developments made during the year. The charge for current tax is calculated using prevailing tax rates enacted at the balance sheet date and, any adjustments to tax payable relating to prior years.

In making the estimates for income taxes currently payable by the Company, the management considers the current income tax laws and the decisions of appellate authorities on certain issues in the past. In making the provisions for deferred taxes, estimates of the Company's future taxable profits are also taken into account.

Deferred

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits would be available against which it can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is not probable that related tax benefits will be realised.

4.17 Impairment

The carrying amount of the Company's assets (other than deferred tax asset) are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the relevant asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit and loss account. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

4.18 Off setting

Financial assets and financial liabilities are only offset and the net amount is reported in the financial statements when there is a legally enforceable right to set-off the recognised amount and the Company intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously.

4.19 Provisions, Contingent assets and Contingent liabilities

Other provisions are recognised when the Company has a legal or constructive obligation as a result of a past event, and it is probable that outflow of resources embodying economic benefits would be required to settle the obligation and a reliable

kM

estimate of the amount can be made. Provisions are reviewed at each reporting date and are adjusted to reflect the current best estimate.

Contingent assets are not recognised and are also not disclosed unless an inflow of economic benefits is probable. Contingent liabilities are not recognised but disclosed unless the probability of an outflow of resources embodying economic benefits are remote.

4.20 Financial Assets and Liabilities

Financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provision of the instrument. Financial assets are de-recognised when the contractual right future cash flows from the asset expires or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognised when obligation specific in the contract discharge, cancel or expire. Any gain or loss on derecognition of the financial asset and liability is recognised in the profit or loss account of the current year.

4.21 Derivative financial instruments

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

4.22 Dividend distribution

Dividend and appropriation to reserves, except appropriation which is required by the law after the reporting date, is recognised as liability in the Company's financial statements in the period in which these are approved.

4.23 Earnings per share

The Company presents earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

4.24 Provisions against off - balance sheet obligations

The Company, in the ordinary course of business, issues guarantees. The commission against such contracts is recognised in the profit and loss account under 'fees and commission income' over the period of contracts. The Company's liability under such contracts is measured at the higher of the amount representing unearned commission income at the reporting date and the best estimate of the amount expected to settle any financial obligation arising under such contracts.

4.25 Segment reporting

A segment is distinguishable component of the Company that is engaged in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company's primary format of reporting is based on business segments.

4.25.1 Business segments

Following are the main segments of the Company:

Corporate finance and commercial banking	It includes loans, advances, leases and other transactions with corporate customers. Further, it undertakes advisory services including mergers and acquisitions, listed debt syndication, trustee activities and other investment banking activities.
Trading & Sales (other than Capital Market)	Undertakes Company's fund management activities through leveraging and investing in liquid assets such as short term placements, government securities and reverse repo activities. It carries out spread based activities in the inter bank market and manages the interest rate risk exposure of the Company.
Capital Market	Includes trading in listed securities with a view to trade and earn the benefit of market fluctuations and to hold securities for dividend income and capital gains.

4.25.2 Geographical segments

The Company operates only in Pakistan.

4.26 Statutory reserve

Every Bank / DFI incorporated in Pakistan is required to transfer 20% of its profit to a statutory reserve until the reserve equals share capital, thereafter 10% of the profit of the DFI is to be transferred to this reserve.

5. CASH AND BALANCES WITH TREASURY BANKS

	Note	2019	2018
		(Rupees in '000)	
In hand			
Local currency		**55**	70
Foreign currency		**4,694**	4,153
		4,749	4,223
With State Bank of Pakistan in			
Local currency current account	5.1	**41,009**	68,363
With National Bank of Pakistan in			
Local currency current account		**17**	12
Local currency deposit account	5.2	**608**	546
		625	558
		46,383	73,144

5.1 This represents current account maintained for minimum cash reserve required to be maintained with the State Bank of Pakistan in accordance with its requirements of BSD Circular No. 04 dated May 22, 2004.

5.2 This carries mark-up at the rate 10.25% per annum (2018: 6.5%).

6. BALANCES WITH OTHER BANKS

	Note	2019	2018
		(Rupees in '000)	
In Pakistan			
In current account		**12,961**	33,268
In deposit account	6.1	**70,790**	27,385
		83,751	60,653

6.1 These deposit accounts carry annual mark-up rate of 6.30% to 11.25% (2018: 3.25% to 8%).

7. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2019	2018
		(Rupees in '000)	
Call / clean money lendings		-	-
Certificate of Investment	7.2	**150,000**	105,000
		150,000	105,000

7.1 Particulars of lendings

	2019	2018
In local currency	**150,000**	105,000

7.2 These carry mark-up rates upto 15.15% (2018: 12.50%) per annum, with maturity upto 10 February 2020 (2018: 29 March 2019).

8. INVESTMENTS

8.1 Investments by type:

	Note	2019 Cost / amortised cost	2019 Provision for diminution	2019 Surplus / (Deficit)	2019 Carrying Value	2018 Cost / amortised cost	2018 Provision for diminution	2018 Surplus / (Deficit)	2018 Carrying Value
		-----	-----	-----	(Rupees in '000)	-----	-----	-----	-----
Held-for-trading securities									
Shares		36,381	-	(468)	35,913	84,075	-	(8,010)	76,065
		36,381	-	(468)	35,913	84,075	-	(8,010)	76,065
Available-for-sale securities	8.3 & 8.4								
Federal Government securities		8,381,569	-	107,775	8,489,344	5,276,557	-	(15,511)	5,261,046
Shares		976,459	(79,508)	26,865	923,816	953,722	(135,043)	(62,239)	756,440
Non Government Debt Securities		4,929,282	(32,636)	(68,399)	4,828,247	4,986,574	(12,956)	(6,924)	4,966,694
Units of Mutual Funds		-	-	-	-	274,119	(74,436)	-	199,683
		14,287,310	(112,144)	66,241	14,241,407	11,490,972	(222,435)	(84,674)	11,183,863
Held-to-maturity securities	8.5								
Commercial Papers		386,981	-	-	386,981	-	-	-	-
		386,981	-	-	386,981	-	-	-	-
Total Investments		14,710,672	(112,144)	65,773	14,664,301	11,575,047	(222,435)	(92,684)	11,259,928

8.2 Investments by segments

	2019 Cost / amortised cost	2019 Provision for diminution	2019 Surplus / (Deficit)	2019 Carrying Value	2018 Cost / amortised cost	2018 Provision for diminution	2018 Surplus / (Deficit)	2018 Carrying Value
	-----	-----	-----	(Rupees in '000)	-----	-----	-----	-----
Federal Government securities								
Market Treasury Bills	5,616,839	-	3,115	5,619,954	3,963,632	-	(1,512)	3,962,120
Pakistan Investment Bonds	2,764,730	-	104,660	2,869,390	1,312,925	-	(13,999)	1,298,926
	8,381,569	-	107,775	8,489,344	5,276,557	-	(15,511)	5,261,046
Shares								
Listed Companies	1,012,840	(79,508)	26,397	959,729	1,037,797	(135,043)	(70,249)	832,505
Non Government Debt Securities								
Term Finance Certificate - Listed	1,600,778	-	(15,238)	1,585,540	1,555,209	-	(9,000)	1,546,209
Term Finance Certificate - Unlisted	2,245,382	(11,245)	(43,123)	2,191,014	2,419,108	(11,245)	1,745	2,409,608
Sukkuk Bonds	1,083,122	(21,391)	(10,038)	1,051,693	1,012,257	(1,711)	331	1,010,877
	4,929,282	(32,636)	(68,399)	4,828,247	4,986,574	(12,956)	(6,924)	4,966,694
Units in Mutual Funds	-	-	-	-	274,119	(74,436)	-	199,683
Commercial Papers	386,981	-	-	386,981	-	-	-	-
Total Investments	14,710,672	(112,144)	65,773	14,664,301	11,575,047	(222,435)	(92,684)	11,259,928

8.2.1 Investments given as collateral

	2019	2018
	(Rupees in '000)	
Market Treasury Bills		
Carrying value	2,672,582	2,715,515
Deficit	3,674	(1,200)
	2,676,256	2,714,315
Pakistan Investment Bonds		
Carrying value	2,735,349	1,312,924
Deficit	121,866	(13,998)
	2,857,215	1,298,926
Shares		
Carrying value	104,675	106,093
Impairment	(14,732)	(17,361)
Deficit	2,812	(16,638)
	92,755	72,094
Term Finance Certificates		
Carrying value	-	499,100
Deficit	-	124
	-	499,224

8.3	**Provision for diminution in value of investments**	**2019**	2018
		(Rupees in '000)	
8.3.1	**Available-For-Sale Investment**		
	Opening balance	**222,436**	82,797
	Charge / reversals		
	Charge for the year	**47,217**	166,469
	Reversal on disposals	**(157,509)**	(26,830)
		(110,292)	139,639
	Closing Balance	**112,144**	222,436

8.3.2 Particulars of provision against debt securities

Category of classification		2019 Non-Performing Investments	2019 Provision	2018 Non-Performing Investments	2018 Provision
		----------------------(Rupees in '000)----------------------			
Domestic					
Other assets especially mentioned		-	-	-	-
Substandard		-	-	-	-
Doubtful		-	-	-	-
Loss	*8.3.2.1*	**48,882**	**(32,636)**	54,336	(12,956)
		48,882	**(32,636)**	54,336	(12,956)

8.3.2.1 The Company has availed the benefit of Forced Sales Value (FSV) against the non-performing investment. Had this benefit of FSV not been taken by the Company, the specific provision against non-performing investment would have been higher by PKR 16.25 million. Further, this amount arising from availing the benefit of FSV is not available for distribution amongst the shareholders either in the form of cash or stock dividend.

8.4 Quality of Available for Sale Securities

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

8.4.1	**Federal Government Securities - Government guaranteed**	Note	**2019**	2018
			Cost	
			(Rupees in '000)	
	Market Treasury Bills	*8.6*	**5,616,839**	3,963,632
	Pakistan Investment Bonds	*8.7*	**2,764,730**	1,312,925
			8,381,569	5,276,557

8.4.2 Shares

Listed Companies	2019	2018
- Cement	**23,483**	44,913
- Fertilizer	**153,643**	159,403
- Commercial Banks	**284,843**	253,887
- Insurance	**26,869**	33,838
- Textile Composite	**144,110**	104,947
- Refinery	**475**	475
- Power Generation and Distribution	**109,350**	79,478
- Oil and Gas Exploration Companies	**31,549**	35,357
- Oil and Gas Marketing Companies	**55,205**	43,006
- Engineering	**9,012**	10,086
- Automobile Assembler	**16,666**	43,539
- Automobile Parts and Accessories	**12,661**	21,176
- Fixed Line Telecommunication	**24,096**	29,956
- Pharmaceuticals	**8,468**	14,188
- Food Producers	**4,861**	11,613
- Industrial Metals and Mining	**8,254**	8,254
- Household Goods	**22,629**	24,395
- Media	**21,763**	21,087
- Technology Hardware and Equipment	**4,397**	-
- Real Estate Investment Trust	**843**	843
- Paper & Board	**6,032**	6,032
- Personal goods	**7,252**	7,250
	976,459	953,722

8.4.3 Non Government Debt Securities

8.4.3.1 Listed

	2019	2018
	Cost (Rupees in '000)	
- AAA	**495,924**	1,094,521
- AA+, AA, AA-	**344,244**	-
- A+, A, A-	**760,610**	460,688
	1,600,778	1,555,209

8.4.3.2 Unlisted

	2019	2018
	Cost (Rupees in '000)	
- AA+, AA, AA-	**1,803,868**	1,217,559
- A+, A, A-	**1,475,754**	1,190,414
- BBB+, BBB, BBB-	-	-
- Unrated	**48,882**	11,245
	3,328,504	2,419,218

	2019	2018
	Cost (Rupees in '000)	
8.4.4 Mutual Funds	-	274,119

8.5 Particulars relating to Held to Maturity securities are as follows:

	2019	2018
	Cost (Rupees in '000)	
Non Government Debt Securities- Unlisted		
- AA+	**386,981**	-
	386,981	-

8.5.1 The market value of securities classified as held-to-maturity as at December 31, 2019 amounted to Rs. 386.981 million (December 31, 2018: Nil).

8.6 Market treasury bills carry yield ranging from 13.25% to 14.188% (2018: 6.01% to 10.30%) per annum with maturities upto 19 Nov 2020 (2018: 28 Feb 2019).

8.7 The investments in Pakistan investment bonds are maturing upto 19 Sep 2029 (2018: 28 June 2028) and the effective yield ranges from 7.33% to 14.60% (2018: 6.57% to 9.35%) per annum.

9. ADVANCES

	Note	Performing		Non Performing		Total	
		2019	2018	2019	2018	2019	2018
		(Rupees in '000)					
Loans, cash credits, running finances, etc.	9.2	**4,549,796**	5,115,626	**1,822,853**	1,712,086	**6,372,649**	6,827,712
Islamic financing and related assets		**276,275**	332,984	**-**	-	**276,275**	332,984
Bills discounted and purchased		**-**	35,000	**-**	-	**-**	35,000
Advances - gross	9.3	**4,826,071**	5,483,610	**1,822,853**	1,712,086	**6,648,924**	7,195,696
Provision against advances							
- Specific	9.5	**-**	-	**(1,259,215)**	(971,770)	**(1,259,215)**	(971,770)
- General		**-**	-	**-**	-	**-**	-
		-	-	**(1,259,215)**	(971,770)	**(1,259,215)**	(971,770)
Advances - net of provision		**4,826,071**	5,483,610	**563,638**	740,316	**5,389,709**	6,223,926

9.1 These include personal loans and house loans advanced to employees in accordance with their terms of employment. These personal loans and house loans carry mark-up at the rates of 3% and 5% (2018: 3% and 5%) respectively.

9.2 Includes Net Investment in Finance Lease as disclosed below:

	2019			2018		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
	(Rupees in '000)					
Lease rentals receivable	**243,639**	**201,168**	**444,807**	235,806	379,465	615,271
Residual value	**55,503**	**94,421**	**149,924**	6,469	131,841	138,310
Minimum lease payments	**299,142**	**295,589**	**594,731**	242,275	511,306	753,581
Financial charges for future periods	**(37,807)**	**(13,974)**	**(51,781)**	(48,180)	(50,158)	(96,338)
Present value of minimum lease payments	**261,335**	**281,615**	**542,950**	194,095	461,148	655,243

9.2.1 The Company's implicit rate of return on leases ranges between 14.34% and 20.00% (2018: 8.27% and 15.94%) per annum. These are secured against leased assets and security deposits generally upto 38% (2018: 27%) of the cost of leased assets.

9.2.2 Lease rentals received during the year aggregate to Rs. 308 million (2018: Rs. 181 million).

9.3 Particulars of advances (Gross)

	2019	2018
	(Rupees in '000)	
In local currency	**4,826,071**	5,483,610
In foreign currencies	**-**	-
	4,826,071	5,483,610

9.4 Advances include Rs. 1,822.853 million (2018: Rs. 1,712.086 million) which has been placed under non-performing status as detailed below:

9.4.1 Category of Classification

	2019		2018	
	Non Performing Loans	Provision	Non Performing Loans	Provision
	(Rupees in '000)			
Domestic				
Other Assets Especially Mentioned	**111,473**	**-**	-	-
Substandard	**12,306**	**2,937**	165,656	31,059
Doubtful	**-**	**-**	235,803	-
Loss	**1,699,074**	**1,256,278**	1,310,627	940,711
	1,822,853	**1,259,215**	1,712,086	971,770

9.5 Particulars of provision against advances

	2019			2018		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	**971,770**	**-**	**971,770**	854,246	-	854,246
Charge for the year	**287,445**	**-**	**287,445**	117,524	-	117,524
Reversals	**-**	**-**	**-**	-	-	-
	287,445	**-**	**287,445**	117,524	-	117,524
Amounts written off	**-**	**-**	**-**	-	-	-
Closing balance	**1,259,215**	**-**	**1,259,215**	971,770	-	971,770

9.5.1 Particulars of provision against advances

	2019			2018		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	**1,259,215**	**-**	**1,259,215**	971,770	-	971,770
In foreign currencies	**-**	**-**	**-**	-	-	-
	1,259,215	**-**	**1,259,215**	971,770	-	971,770

9.5.2 In accordance with BSD Circular No. 1 dated 21 October 2011 issued by the SBP, the Company has availed the benefit of Forced Sales Value (FSV) against the non-performing advances. Had this benefit of FSV not been taken by the Company, the specific provision against non-performing advances would have been higher by PKR 442.936 million (2018: Rs. 498 million). Further, this amount arising from availing the benefit of FSV is not available for distribution amongst the shareholders either in the form of cash or stock dividend.

10. FIXED ASSETS

	Note	2019	2018
		(Rupees in '000)	
Capital work-in-progress	*10.1*	**183,090**	183,090
Property and equipment	*10.3*	**9,631**	9,941
Right of use assets	*10.6*	**36,988**	-
		229,709	193,031

10.1 Capital work-in-progress

	Note	2019	2018
Civil works	*10.2*	**183,090**	183,090

10.2 This represents office space and related parking space situated at The Ocean Mall, Clifton, Karachi purchased by the Company to transfer its registered and principal office.

10.3 Property and Equipment

	2019			
	Furniture and fixture	**Electrical, office and computer equipment**	**Vehicles**	**Total**
	(Rupees in '000)			
At 01 January 2019				
Cost	**35,481**	**34,331**	**15,469**	**85,281**
Accumulated depreciation	**(35,165)**	**(31,803)**	**(8,372)**	**(75,340)**
Net book value	**316**	**2,528**	**7,097**	**9,941**
Year ended 31 December 2019				
Opening net book value	**316**	**2,528**	**7,097**	**9,941**
Additions	**667**	**3,706**	**-**	**4,373**
Disposals	**-**	**(93)**	**-**	**(93)**
Depreciation charge	**(192)**	**(1,737)**	**(2,661)**	**(4,590)**
Closing net book value	**791**	**4,404**	**4,436**	**9,631**
At 31 December 2019				
Cost	**36,148**	**34,834**	**15,389**	**86,371**
Accumulated depreciation	**(35,357)**	**(30,430)**	**(10,953)**	**(76,740)**
Net book value	**791**	**4,404**	**4,436**	**9,631**
Rate of depreciation (percentage)	**20%**	**20%-25%**	**25%**	

	2018			
	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Total
	(Rupees in '000)			
At 01 January 2018				
Cost	35,538	35,437	15,469	109,046
Accumulated depreciation	(33,628)	(32,598)	(5,711)	(94,539)
Net book value	1,910	2,839	9,758	14,507
Year ended 31 December 2018				
Opening net book value	1,910	2,839	9,758	14,507
Additions	-	1,417	-	1,417
Disposals	-	(56)	-	(56)
Depreciation charge	(1,595)	(1,672)	(2,661)	(5,927)
Closing net book value	315	2,529	7,097	9,941
At 31 December 2018				
Cost	35,481	34,331	15,469	85,281
Accumulated depreciation	(35,165)	(31,803)	(8,372)	(75,340)
Net book value	316	2,528	7,097	9,941
Rate of depreciation (percentage)	20%	20%-25%	25%	

KM

10.4 The gross cost of fully depreciated assets still in use is as follows;

	2019	2018
	(Rupees in '000)	
Furniture and fixture	**23,935**	23,643
Electrical, office and computer equipment	**27,793**	27,502
Vehicles	**4,745**	4,825
	56,473	55,970

10.5 The gross cost and sale proceeds of disposals / write-offs:

Asset	Cost	Book Value	Sale Price	Mode	Purchaser
MOBILE PHONE (Samsung Galaxy Note 5)	45,000	-	-	As per entitlement.	Saadia Shaikh
MOBILE PHONE (IPhone 7 - 128 GB)	50,000	-	-		Jahangeer Jamil
MOBILE PHONE (IPhone 7 - 32 GB)	55,000	-	-		Bilal Darr
MOBILE PHONE (IPHONE 7 Plus)	50,000	-	-		Amir Aizaz
MOBILE PHONE (Samsung Galaxy A-7)	45,000	-	-		Habib Ameer Ali
MOBILE PHONE (Samsung Galaxy S-7 Edge	50,000	-	-		Salman Raza
MOBILE PHONE (Apple IPHONE -8 Plus)	50,000	-	-		Syed M Amin Kazmi
MOBILE PHONE (Samsung Galaxy Note 8)	45,000	-	-		Syed Afak Hussain

10.6 Right of use assets

	2019	2018
	(Rupees in '000)	
At 01 January 2019		
Cost	**63,184**	-
Accumulated depreciation	**(9,692)**	-
Net book value	**53,492**	-
Year ended 31 December 2019		
Opening net book value	**53,492**	-
Additions	-	-
Disposals	-	-
Depreciation charge	**(16,504)**	-
Closing net book value	**36,988**	-
At 31 December 2019		
Cost	**63,184**	-
Accumulated depreciation	**(26,196)**	-
Net book value	**36,988**	-
Rate of depreciation (percentage)	**10%**	-

11. INTANGIBLE ASSETS

	2019 Computer software	2018 Computer software
	(Rupees in '000)	
At 01 January		
Cost	**19,193**	19,193
Accumulated amortisation and impairment	**(18,982)**	(18,788)
Net book value	**211**	405
Year ended 31 December		
Opening net book value	**211**	405
Additions - Directly purchased	**349**	-
Amortisation charge	**(246)**	(194)
Closing net book value	**314**	211
At 31 December		
Cost	**19,542**	19,193
Accumulated amortisation and impairment	**(19,228)**	(18,982)
Net book value	**314**	211
Rate of amortisation (percentage)	**33%**	33%

11.1 The gross cost of fully amortised assets still in use is as follows;

	2019	2018
	(Rupees in '000)	
Software Licenses	**19,040**	18,989
	19,040	18,989

kan

12. DEFERRED TAX ASSETS

	2019			
	At 01 January 2019	Recognised in profit and loss account	Recgonised in other comprehensive income	At 31 December 2019
	(Rupees in 000)			
Deductible Temporary Differences on				
- Capital losses carried forward	-	15,270	-	15,270
- Post retirement employee benefits	1,484	(1,484)	(516)	(516)
- Deficit on revaluation of investments	16,471	(3,312)	(6,793)	6,366
- Accelerated tax depreciation	12,571	(9,377)	-	3,194
- Provision against advances, off balance sheet etc.	281,813	83,359	-	365,172
- Provision against investments	64,505	(47,683)	-	16,822
- Lease liabilities	-	12,334	-	12,334
- Others	1,016	(132)	-	884
	377,860	48,975	(7,309)	419,526
Taxable Temporary Differences on				
- Surplus on revaluation of investments	(50)	-	(16,116)	(16,166)
- Right of use asset	-	(10,727)	-	(10,727)
- Accelerated tax depreciation	(5,734)	(1,140)	-	(6,874)
- Lease assets	(25,039)	14,807	-	(10,232)
- Others	(553)	553	-	-
	(31,376)	3,493	(16,116)	(43,999)
	346,484	52,468	(23,425)	375,527

	2018			
	At 01 January 2018	Recognised in profit and loss account	Recgonised in other comprehensive income	At 31 December 2018
	(Rupees in 000)			
Deductible Temporary Differences on				
- Tax losses carried forward	-	-	-	-
- Post retirement employee benefits	2,739	(1,661)	406	1,484
- Deficit on revaluation of investments	11,288	5,182	-	16,471
- Accelerated tax depreciation	3,723	8,848	-	12,571
- Provision against advances, off balance sheet etc.	256,274	25,539	-	281,813
- Provision against investments	14,363	50,142	-	64,505
- Others	2,268	(1,252)	-	1,016
	290,655	86,798	406	377,860
Taxable Temporary Differences on				
- Surplus on revaluation of fixed assets	-	-	-	-
- Surplus on revaluation of investments	(6,162)	(283)	6,395	(50)
- Accelerated tax depreciation	(1,680)	(4,054)	-	(5,734)
- Lease assets	(22,259)	(2,780)	-	(25,039)
- Others	-	(553)	-	(553)
	(30,101)	(7,670)	6,395	(31,376)
	260,554	79,128	6,801	346,484

13. OTHER ASSETS

	Note	2019	2018
		(Rupees in '000)	
Income / Mark-up accrued in local currency - net of provision		1,458,285	1,132,962
Advances, deposits, advance rent and other prepayments		93,685	11,494
Advance taxation (payments less provisions)		39,930	15,694
Non-banking asset acquired in satisfaction of claims	13.1 & 13.2	89,632	94,905
Dividend receivable		-	514
Security deposits		6,231	7,231
		1,687,763	1,262,800
Less: Provision held against other assets	13.3	(1,152,868)	(999,740)
Other Assets (Net of Provision)		534,895	263,060
Surplus on revaluation of non-banking assets acquired in satisfaction of claims		-	-
Other Assets - total		534,895	263,060

		2019	2018
13.1	Market value of Non-banking assets acquired in satisfaction of claims	171,000	119,700

13.2 Non-banking assets acquired in satisfaction of claims

	2019	2018
Opening Balance	94,905	100,177
Less: Depreciation for the year	5,273	5,272
Closing Balance	89,632	94,905

13.3 Provision held against other assets	Note	2019	2018
		(Rupees in '000)	
Opening Balance		999,740	682,147
Add: Provision during the year		153,128	317,593
Closing Balance		1,152,868	999,740

14. CONTINGENT ASSETS

There are no contingent assets as at the balance sheet date.

15. BORROWINGS

Details of borrowings secured / unsecured

	Note	2019	2018
Secured			
Borrowings from State Bank of Pakistan- Under financing facility for Imported & Locally Manufactured Plant & Machinery (LTFF)	15.1	1,655,047	712,115
Repurchase agreement borrowings	15.2	5,323,734	3,994,244
Term borrowings	15.3	3,650,000	2,062,500
Total Secured		10,628,781	6,768,859
Unsecured			
Call borrowings		214,000	1,147,000
Total Unsecured		10,842,781	7,915,859

15.1 The Company has entered into agreement with the SBP for extending Long Term Financing Facility (LTFF) for Imported & Locally Manufactured Plant & Machinery. These borrowings carry mark-up rate of 2.0% per annum (2018: 2.0%). These borrowings will mature by 2029 (2018: 2027).

15.2 These carry mark-up at the rates ranging from 13.35% to 13.70% per annum (2018: 10.20% to 10.50% per annum) and are secured against government securities having carrying amount of PKR 5,408 billion (2018: PKR 4,028 billion). These borrowings will mature up to February 2020 (2018: February 2019).

15.3 These represent finances obtained from Allied Bank Limited to finance regular business operations of the Company. These finances are secured by pledge of listed and unlisted Term finance certificates. It carries mark up at the rate of 6 months KIBOR +0.10% to 0.25% per annum. These are repayable in semi annual installments and shall be repaid by 2024.

15.4 Particulars of borrowings with respect to Currencies	2019	2018
	(Rupees in '000)	
In local currency	10,842,781	7,915,859
In foreign currencies	-	-
	10,842,781	7,915,859

16. DEPOSITS AND OTHER ACCOUNTS

	Note	2019			2018		
		In local Currency	In Foreign Currencies	Total	In local Currency	In Foreign Currencies	Total
		(Rupees in '000)					
Customers							
Term deposits	16.2	209,265	-	209,265	711,906	-	711,906
		209,265	-	209,265	711,906	-	711,906
Financial Institutions							
Term deposits	16.3	566,058	-	566,058	509,818	-	509,818
		566,058	-	566,058	509,818	-	509,818
		775,323	-	775,323	1,221,724	-	1,221,724

16.1 Composition of deposits	Note	2019	2018
		(Rupees in '000)	
- Individuals	16.4	49,139	41,161
- Public Sector Entities		-	331,878
- Non-Banking Financial Institutions		566,058	509,818
- Private Sector		160,126	338,867
		775,323	1,221,724

16.2 The mark-up rates on these certificate of investments (COI) range between 13.50% to 13.75% per annum (2018: 6.7% to 10.75% per annum). These COIs will mature up to June 2020 (2018: May 2019).

16.3 The mark-up rates on these certificate of investments (COI) is 13.60% per annum (2018: 8.85% to 10.65% per annum). These COIs will mature up to March 2020 (2018: March 2019).

16.4 These include non-interest bearing certificate of investments (COI) issued to employees of the Company maturing up to October 2020 (2018: October 2019).

17. OTHER LIABILITIES

	2019	2018
	(Rupees in '000)	
Mark-up / Return / Interest payable in local currency	59,300	44,886
Accrued expenses	25,754	12,940
Current taxation (provisions less payments)	-	-
Payable to defined benefit plan	5,654	7,528
Provision for compensated absences	3,047	3,502
Payable to an associated undertaking	7,090	6,475
Government levies payable	1,108	4,694
Provision for audit fee	270	714
Advance insurance premium on lease	520	932
Security deposits against finance lease	149,924	138,310
Payable Brokerage	2,540	-
Provision for staff rewards	20,130	3,092
Provision for Worker's Welfare Fund	67,898	55,091
Lease liability against right-of-use assets	42,531	-
	385,766	278,164

18. SHARE CAPITAL

18.1 Authorised capital

2019	2018		2019	2018
(Number of shares)			(Rupees in '000)	
1,000,000,000	1,000,000,000	Ordinary shares of Rs. 10 each	10,000,000	10,000,000

18.2 Issued, subscribed and paid-up share capital

600,000,000	600,000,000	Ordinary shares of Rs.10 each and fully paid in cash	6,000,000	6,000,000

18.3 Major shareholders (holding more than 5% of total paid-up capital)

	2019		2018	
	Number of shares held	Percentage of shareholding	Number of shares held	Percentage of shareholding
Name of shareholder				
Government of Pakistan *	300,000,000	50%	300,000,000	50%
Iran Foreign Investment Company *	300,000,000	50%	300,000,000	50%
	600,000,000	100%	600,000,000	100%

* This includes nominal shares allotted to the nominee Directors of the Company nominated by Government of Pakistan and Iran Foreign Investment Company.

19. RESERVES

	2019	2018
	(Rupees in '000)	
Statutory reserve		
Opening balance	840,066	840,066
Transfer during the year	48,290	-
Closing balance	888,356	840,066

19.1 According to BPD Circular No. 15 dated 31 May 2004 issued by SBP, an amount not less than 20% of the after tax profits shall be transferred to create a reserve fund till such time the reserve fund equals the amount of the paid-up capital and after that a sum not less than 5% of profit after tax shall be credited to the statutory reserve.

20. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS

	Note	2019	2018
		(Rupees in '000)	
Surplus / (deficit) on revaluation of			
- Available for sale securities	8.1	66,241	(84,674)
		66,241	(84,674)
Deferred tax on surplus / (deficit) on revaluation of:			
- Available for sale securities		(9,936)	12,973
		(9,936)	12,973
		56,305	(71,701)

KM

21. CONTINGENCIES AND COMMITMENTS

21.1 For Tax year 2013, The Company has filed appeal before ATIR against the Order passed by CIRA, which is pending for hearing, where any adverse decision may increase the liability of the company by approximately PKR 5.5 Million. In respect of tax years 2014 & 2015, the tax department has filed reference before High Court of Sindh on allocation of expenses, where any adverse decision may increase the liability of the company by approximately PKR 107.137 Million & PKR 258.653 million respectively. The Company is confident for a favourable outcome on these pending cases.

With respect to Tax year 2016, ADCIR amended the assessment under section 122(5A) of the Ordinance. Demand amounting to PKR 52.049 Million was created. The company admitted tax imposed on commission income amounting to PKR 1.031 Million, which was paid and on other issues filed apeal to CIR(A) against ADCIR order. The CIR(A) passed order and decided the appeal and allowed partial relief. Order to the extent of apportionment of finance cost was confirmed by CIR(A). An appeal effect order under section 124 of the Ordinance is required to be passed for the relief allowed by CIR(A). The company and the department has filed appeals before the Appellate Tribunal Inland Revenue (ATIR) on the issue decided against it. The issue is pending before ATIR and based on decisions made in the tax year 2014 and 2015 in respect of similar cases, the Company is confident for a favourable outcome.

With respect to Tax year 2017, ADCIR amended the assessment under section 122(5A) of the Ordinance. Demand amounting to PKR 134.499 Million was created. The order passed under 122(5A) contained mistakes which were rectifired subsequently, ACIR subsequently passed order under 221(1) dated 22 January 2019 and rectified demand to PKR 46.351 Million. The company paid the demand and paid PKR 18.0 Million while remaining amount of PKR 28.351 Million was adjusted from the refund of tax year 2018. The Compay filed apeal against order before CIR(A). The CIR(A) passed order and has decided the appeal and allowed partial relief and accepted contention except on apportionment of markup expenses. An appeal effect order under section 124 of the Ordinance is required to be passed for the relief allowed by CIR(A). The company and the department has filed appeals before the Appellate Tribunal Inland Revenue (ATIR) on the issue decided against it. The appeal is awaited to be heard. The issue is pending before ATIR and based on decisions made in the tax year 2014 and 2015 in respect of similar cases, the Company is confident for a favourable outcome.

With respect to Tax year 2018, ADCIR amended the assessment under section 122(5A) of the Ordinance. The ACIR has passed order under section 122(5A) reducing the refund amounting to PKR 17.962 Million. The order passed under 122(5A) contained mistakes which were rectifired subsequently, ACIR subsequently passed order under 221(1) dated 22 January 2019. The Company filed an appeal against the order before the CIR(A) on 31 January 2019. The CIR(A) passed order and has decided the appeal and allowed partial relief and accepted our contention except on apportionment of markup expenses. An appeal effect order under section 124 of the Ordinance is required to be passed for the relief allowed by CIR(A). The issue is pending before ATIR and based on decisions made in the tax year 2014 and 2015 in respect of similar cases, the Company is confident for a favourable outcome.

For tax years 2019, Return filed under Universal Self-Assessment Scheme (USAS) is treated as deemed assessment under section 120 of the Income Tax Ordinance, 2001.

		2019	2018
		(Rupees in '000)	
21.2	**Commitments in respect of repo transactions**		
	Repurchase agreement borrowings	**5,323,734**	3,994,244
21.3	**Direct credit substitutes**	**100,000**	80,000

21.4 Commitments to extend credit

The Company 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.

22. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

Off balance sheet financial instruments referred to as derivatives, contracts the characteristics of which are derived from those of underlying assets. These include forwards and swaps in money and foreign exchange markets. The Company's exposure in these instruments represents equity futures. The Company also enters into repo transactions against government securities carrying fixed interest rates and having fixed contractual maturities. The liquidity risk associated with repo transactions is secured through underlying government securities.

23. DERIVATIVE INSTRUMENTS

The Company at present does not offer structured derivative products such as interest rate swaps, forward rate swaps, forward rate agreements or forward exchange options. However, the Company's treasury and investment group buy and sell derivative instruments such as equity futures.

23.1 Equity futures

An equity futures contract is a standardized contract, traded on a futures counter of the stock exchange, to buy or sell a certain underlying scrip at a certain date in the future, at a specified price.

The Company uses equity futures as a hedging instrument to hedge its equity portfolio against equity price risk. Only selected shares are allowed to be traded on futures exchange. Equity futures give flexibility to the Company either to take delivery on the future settlement date or to settle it by adjusting the notional value of the contract based on the current market rates.

Maximum exposure limit to the equity futures is 10% of tier 1 capital of the Company, based on prevailing SBP regulations.

24. MARK-UP / RETURN / INTEREST EARNED

	2019	2018
	(Rupees in '000)	
On:		
a) Loans and advances	**648,352**	148,770
b) Investments	**1,301,578**	715,615
c) Lendings to financial instruments	**14,025**	40,176
d) Balances with banks	**3,322**	2,856
	1,967,277	907,417

25. MARK-UP / RETURN / INTEREST EXPENSED

Deposits	**140,454**	87,217
Securities sold under repurchase agreements	**434,705**	245,513
On borrowing from State Bank of Pakistan- Under financing facility		
- for Storage of Agricultural Produce (FFSAP)	**-**	-
- for Imported & Locally Manufactured Plant & Machinery (LTFF)	**24,980**	13,977
Markup on Lease liability against right of use assets	**5,311**	-
Term Borrowing	**288,522**	87,917
Clean Borrowing	**130,238**	37,983
	1,024,210	472,607

26. FEE & COMMISSION INCOME

Investment banking fees	**6,477**	12,282
Others	**1,345**	485
	7,822	12,767

27. (LOSS) / GAIN ON SECURITIES

Realised	*27.1*	**(101,802)**	66,221
Unrealised - held for trading	*8.1*	**(468)**	(8,010)
		(102,270)	58,211

27.1 Realised gain on

Shares	**(44,932)**	66,221
Units of mutual funds	**(56,870)**	-
	(101,802)	66,221

28. OTHER INCOME

	Note	**2019**	2018
		(Rupees in '000)	
Gain on sale of fixed assets		**89**	-
		89	-

29. OPERATING EXPENSES

	Note	2019	2018
		(Rupees in '000)	
Total compensation expense	29.1	**211,922**	174,891
Property expense			
Rent & taxes		**1,873**	19,419
Insurance		**3,365**	3,477
Utilities cost		**6,907**	4,947
Security		**861**	626
Repair & maintenance		**16,372**	3,605
Depreciation		**24,630**	9,529
		54,008	41,603
Information technology expenses			
Software maintenance		**5,429**	4,131
Depreciation		**1,738**	1,672
Amortisation		**246**	194
Network charges		**4,437**	4,056
Others		**532**	259
		12,382	10,312
Other operating expenses			
Directors' fees and allowances		**3,871**	2,228
Legal & professional charges		**7,099**	4,178
Travelling & conveyance		**17,787**	23,326
Depreciation		**-**	-
Training & development		**1,061**	343
Postage & courier charges		**240**	218
Communication		**1,251**	1,201
Stationery & printing		**706**	83
Marketing, advertisement & publicity		**296**	209
Auditors Remuneration	29.2	**4,324**	3,641
Commission and brokerage		**5,082**	3,797
Bank charges and miscellaneous expenses		**2,396**	1,391
		44,113	40,615
		322,425	267,421

29.1 Total compensation expense

	2019	2018
Fees and Allowances etc	**-**	-
Managerial Remuneration		
i) Fixed	**115,491**	90,978
ii) Variable		
of which;		
a) Cash Bonus / Awards etc.	**17,500**	8,035
b) Bonus & Awards in Shares etc.	**-**	-
Charge for defined benefit plan	**10,316**	9,392
Contribution to defined contribution plan	**8,904**	8,676
Rent & house maintenance	**23,206**	23,339
Utilities	**5,801**	5,710
Medical	**7,528**	6,976
Conveyance	**23,176**	21,785
Total	**211,922**	174,891

29.2 Auditors' remuneration

	2019	2018
Audit fee	**600**	544
Half yearly review	**258**	214
Fee for audit of employee funds	**260**	440
Special certifications and sundry advisory services	**1,325**	1,812
Tax services	**1,362**	300
Out of pocket expenses	**519**	331
	4,324	3,641

30. OTHER CHARGES

	2019	2018
Penalties imposed by State Bank of Pakistan	**3**	-
Loss on disposal of fixed assets	**-**	4
	3	4

31 PROVISIONS & WRITE OFFS - NET

	Note	2019	2018
		(Rupees in '000)	
(Reversal) / Provisions for diminution in value of investments	8.3.1	**(110,292)**	139,639
Provisions against loans & advances	9.5	**287,445**	117,524
		177,153	257,163

32. TAXATION

	2019	2018
Current	**205,483**	65,098
Prior years	**-**	35,719
Deferred	**(52,468)**	(79,128)
	153,015	21,689

32.1 Relationship between tax expense and accounting profit

	2019	2018
Profit before taxation	**394,467**	11,458
Tax on income @ 29% (2018: 29%)	**114,395**	3,323
Net tax effect on income taxed at reduced rates	**7,177**	(6,593)
Prior Deferred tax	**32,262**	-
Unabsorbed depreciation on leased assets	**(16,125)**	-
Permanent difference	**7,966**	(24,573)
Effect of change in rate of tax	**-**	8,685
Prior years charge	**-**	35,719
Others	**7,339**	5,128
Tax charge	**153,015**	21,689

33. BASIC AND DILUTED EARNINGS / (LOSS) PER SHARE

	2019	2018
Profit for the year	**241,452**	(10,231)
	(Number of shares in '000)	
Weighted average number of ordinary shares	**600,000**	600,000
	(Rupees per share)	
Basic and Diluted earnings / (loss) per share	**0.40**	(0.02)

34. CASH AND CASH EQUIVALENTS

	Note	2019	2018
		(Rupees in '000)	
Cash and balances with treasury banks	5	**46,383**	73,144
Balance with other banks	6	**83,751**	60,653
		130,134	133,797

km

34.1 Reconciliation of movement of liabilities to cash flows arising from financing activities

	2019									
	Liabilities						Equity			
	Bills payable	Borrowings	Deposits and other accounts	Sub-ordinated debt	Lease liabilities	Other liabilities	Share capital	Reserves	Unappropriated profit	Total
	(Rupees in '000)									
Balance as at 01 January 2019	-	7,915,859	1,221,724	-	-	278,164	6,000,000	840,066	2,341,325	18,597,138
Changes from financing cash flows										
Receipts from subordinated loans - net	-	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	-
Total changes from financing cash flows	-	-	-	-	-	-	-	-	-	-
Other changes										
Liability - related										
Changes in bills payable	-	-	-	-	-	-	-	-	-	-
Changes in borrowings	-	2,926,922	-	-	-	-	-	-	-	2,926,922
Changes in deposits and other accounts	-	-	(446,401)	-	-	-	-	-	-	(446,401)
Changes in lease liabilities	-	-	-	-	-	-	-	-	-	-
Changes in other liabilities										
- Cash based	-	-	-	-	-	105,823	-	-	-	105,823
- Non - cash based - Actuarial loss on remeasurements of defined benefit plan	-	-	-	-	-	1,779	-	-	-	1,779
Transfer of profit to reserve	-	-	-	-	-	-	-	48,290	(48,290)	-
Profit for the year	-	-	-	-	-	-	-	-	241,452	241,452
Other adjustments	-	-	-	-	-	-	-	-	(8,429)	(8,429)
Exchange differences on translation of net investment in foreign branches	-	-	-	-	-	-	-	-	-	-
	-	2,926,922	(446,401)	-	-	107,602	-	48,290	184,733	2,821,146
Balance as at 31 December 2019	-	10,842,781	775,323	-	-	385,766	6,000,000	888,356	2,526,058	21,418,284

	2018									
	Liabilities						Equity			
	Bills payable	Borrowings	Deposits and other accounts	Sub-ordinated debt	Lease liabilities	Other liabilities	Share capital	Reserves	Unappropriated profit	Total
	(Rupees in '000)									
Balance as at 01 January 2018	-	6,370,738	1,814,001	-	-	245,594	6,000,000	840,066	2,452,552	17,722,951
Changes from financing cash flows										
Receipts from sub - ordinated loans - net	-	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	(100,000)	-	-	(100,000)	(200,000)
Total changes from financing cash flows	-	-	-	-	-	(100,000)	-	-	(100,000)	(200,000)
Other changes										
Liability - related										
Changes in bills payable	-	-	-	-	-	-	-	-	-	-
Changes in borrowings	-	1,545,121	-	-	-	-	-	-	-	1,545,121
Changes in deposits and other accounts			(592,277)				-	-	-	(592,277)
Changes in other liabilities										
- Cash based	-	-	-	-	-	132,570	-	-	-	132,570
- Non - cash based - Actuarial loss on remeasurements of defined benefit plan	-	-	-	-	-	-	-	-	-	-
Transfer of profit to reserve	-	-	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-	-	-	(10,231)	(10,231)
Other adjustments	-	-	-	-	-	-	-	-	(996)	(996)
Exchange differences on translation of net investment in foreign branches	-	-	-	-	-	-	-	-	-	-
	-	1,545,121	(592,277)	-	-	132,570	-	-	(11,227)	1,074,187
Balance as at 31 December 2018	-	7,915,859	1,221,724	-	-	278,164	6,000,000	840,066	2,341,325	18,597,138

35. STAFF STRENGTH

	2019	2018
	(Number of employees)	
Permanent	45	45
On Company contract	7	7
Company's own staff at end of the year	52	52

km

36 DEFINED BENEFIT PLAN

36.1 General description

As mentioned in note 4.9, the Company operates an approved funded gratuity scheme for all its permanent employees. The benefits under the gratuity scheme are payable on retirement at the age of 60 or earlier cessation of service, in lump sum. The benefit is equal to one month's last drawn salary for each year of eligible service or part thereof, subject to a minimum of two years of service.

36.2 Number of Employees under the scheme

The number of employees covered under the defined benefit schemes are 45 (2018: 45).

36.3 Principal actuarial assumptions

The actuarial valuation was carried out as at 31 December 2019 using the "Projected Unit Credit Actuarial Cost Method". The information provided in notes 34.3 to 34.15 has been obtained from the actuarial valuation carried out as at 31 December 2019.

	2019	2018
	-------- Per annum --------	
Discount rate	**11.25%**	13.25%
Expected rate of return on plan assets	**11.25%**	13.25%
Expected rate of salary increase	**11.25%**	13.25%
Mortality rates (for death in service)	**SLIC(2001-05)-1**	SLIC(2001-05)-1
Rates of employee turnover	**Moderate**	Moderate

36.4 Reconciliation of (receivable from) / payable to defined benefit plans

	Note	2019	2018
		(Rupees in '000)	
Present value of obligations	36.5	**59,706**	50,119
Fair value of plan assets	36.6	**(55,631)**	(44,061)
Payable		**4,075**	6,058

36.5 Movement in defined benefit obligations

	2019	2018
Obligations at the beginning of the year	**50,119**	38,046
Current service cost	**9,523**	9,006
Interest cost	**6,888**	3,949
Benefits paid during the year	**(4,864)**	(354)
Re-measurement loss / (gain)	**(1,960)**	(528)
Obligations at the end of the year	**59,706**	50,119

36.6 Movement in fair value of plan assets

	2019	2018
Fair value at the beginning of the year	**44,061**	33,982
Interest income on plan assets	**6,095**	3,563
Contribution by the Company - net	**5,656**	8,446
Re-measurements gain / (loss) on plan assets	**(181)**	(1,930)
Fair value at the end of the year	**55,631**	44,061

36.7 Movement in payable under defined benefit schemes

	2019	2018
Opening balance	**6,058**	4,063
Charge for the year	**10,316**	9,392
Contribution by the Company - net	**(10,520)**	(8,800)
Re-measurement (Gain) / loss recognised in other comprehensive income during the year	**(1,779)**	1,402
Closing balance	**4,075**	6,058

36.8 Charge for defined benefit plans

36.8.1 Cost recognised in profit and loss

	2019	2018
Current service cost	**9,523**	9,006
Net interest on defined benefit liabilty / (asset)	**793**	386
	10,316	9,392

36.8.2 Re-measurements recognised in OCI during the year

	2019	2018
Loss / (gain) on obligation		
- Demographic assumptions	**-**	-
- Financial assumptions	**(266)**	420
- Experience adjustment	**(1,694)**	(948)
Actuarial loss on plan assets	**181**	1,930
Total Re-measurements recognised in OCI	**(1,779)**	1,402

36.9 Components of plan assets

	2019	2018
	(Rupees in '000)	
Cash and cash equivalents - net	**2,431**	266
Government Securities	**50,400**	19,795
Non-Government Debt Securities	**2,800**	24,000
	55,631	44,061

36.10 Sensitivity analysis

The increase / (decrease) in the present value of defined benefit obligations as a result of change in each assumption is summarised below:

	2019	2018
	(Rupees in '000)	
0.5% increase in discount rate	**56,976**	47,898
0.5% decrease in discount rate	**62,626**	52,497
0.5% increase in expected rate of salary increase	**62,683**	52,544
0.5% decrease in expected rate of salary increase	**56,900**	47,836

	2019
	(Rupees in '000)
36.11 Expected contributions to be paid to the funds in the next financial year	**11,241**
36.12 Expected charge / (reversal) for the next financial year	**11,241**

36.13 Maturity profile

The weighted average duration of the obligation is 9.45 years.

Distribution of timing of benefit payments (time in years)

1	**2,761**
2	**3,319**
3	**3,891**
4	**4,563**
5	**4,772**
6-10	**139,514**

36.14 Funding Policy

An implicit, though not formally expressed objective is that the liabilities under the scheme in respect of members in service on the valuation date on a going concern basis and having regard to projected future salary increases, should be covered by the Fund on the valuation date, the total book reserve as of the valuation date, future contributions to the Fund, future additions to the book reserve and future projected investment income of the Fund.

As far as possible, there is an implicit objective that the contribution to the Fund should remain reasonably stable as a percentage of salaries, under the Actuarial Cost Method employed.

36.15 The significant risk associated with the staff retirement benefit plan may include:

Mortality Risk
The risk that the actual mortality experience is different. The effect depends on the beneficiaries' service/age distribution and the benefit.

Investment Risk
The risk of the investment underperforming and not being sufficient to meet the liabilities.

Final salary risks
The risk that the final salary at the time of cessation of service is higher than what we assumed. Since the benefit is calculated on the final salary, the benefit amount increases similarly.

Withdrawal risk
The risk of higher or lower withdrawal experience than assumed. The final effect could go either way depending on the beneficiaries' service/age distribution and the benefit.

37 DEFINED CONTRIBUTION PLAN

The general description of the note is included in note 4.11.

Contributions made during the year:	2019	2018
	(Rupees in '000)	
Employer's contribution	**8,904**	8,676
Employees' contribution	**8,904**	8,676

The number of employees covered under the defined contribution plan are 45 (2018: 45).

KM

38 COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

38.1 Total Compensation Expense

2019

Items	Directors – Chairman	Directors – Executives (other than CEO)	Directors – Non-Executives	Members Shariah Board	President / CEO	Key Management Personnel	Other Material Risk Takers/ Controllers
Fees and Allowances etc	4,015	-	8,410	-	-	-	-
Managerial Remuneration							
i) Fixed	-	-	-	-	32,229	39,487	-
ii) Total Variable	-	-	-	-	-	-	-
of which							
a) Cash Bonus / Awards	-	-	-	-	-	1,186	-
b) Bonus & Awards in Shares	-	-	-	-		-	-
Charge for defined benefit plan	-	-	-	-	-	-	-
Contribution to defined contribution plan	-	-	-	-	2,622	3,067	-
Rent & house maintenance	-	-	-	-	-	12,183	-
Utilities	-	-	-	-	-	3,041	-
Medical	-	-	-	-	-	3,834	-
Conveyance	-	-	-	-	7	11,144	-
Others *	-	-	-	-	-	670	-
Total	4,015	-	8,410	-	34,858	74,592	-
Number of Persons	2*	0	5	0	1	11	0

2018

Items	Directors – Chairman	Directors – Executives (other than CEO)	Directors – Non-Executives	Members Shariah Board	President / CEO	Key Management Personnel	Other Material Risk Takers/ Controllers
Fees and Allowances etc.	5,955	-	11,662	-	-	-	-
Managerial Remuneration							
i) Fixed	-	-	-	-	29,801	36,400	-
ii) Total Variable	-	-	-	-	-	-	-
of which							
a) Cash Bonus / Awards	-	-	-	-	1,000	5,480	-
b) Bonus & Awards in Shares	-	-	-	-	-	-	-
Charge for defined benefit plan	-	-	-	-	-	-	-
Contribution to defined contribution plan	-	-	-	-	2,622	2,845	-
Rent & house maintenance	-	-	-	-	1,039	11,381	-
Utilities	-	-	-	-	-	3,349	-
Medical	-	-	-	-	-	3,557	-
Conveyance	-	-	-	-	-	10,033	-
Others **	-	-	-	-	-	630	-
Total	5,955	-	11,662	-	34,462	73,675	-
Number of Persons	1	0	3	0	1	10	0

Any Other Perks and Privileges: allowed to above officials should also be disclosed and specified separately.

* This includes outgoing chairman during the year.

The term "Key Management Personnel" means the following functional responsibilities:

(a) Any executive or key executive, acting as second to CEO, by whatever name called, and including the Chief Operating Officer (COO) and Deputy Managing Director.

(b) Any executive or key executive reporting directly to the CEO / President or the person mentioned in (a) above.

The terms Directors/ Executive Directors/ Non-Executive Directors, CEO and Key Executives have same meaning as defined in Prudential Regulations (PRs) for Corporate and Commercial Banking. For the purpose of these disclosures Key Executive will also include Executives who have direct reporting line to the President/CEO or BoD or its Committees.

38.2 Remuneration paid to Directors for participation in Board and Committee Meetings

2019

Sr. No.	Name of Director	Meeting Fees and Allowances Paid – For Board Meetings	For Board Committees – Board Audit Committee	For Board Committees – Boark Risk Management Committee	For Board Committees – Board Human Resource Compensation Committee	For Board Committees – Board Strategic Investment Committee	Total Amount Paid
		(Rupees in '000)					
1	Hemmat Jafri	941	64	64	64	-	1,133
2	Aamer Mahmood Hussain	3,743	173	173	115	-	4,204
3	Arif Ahmed Khan	1,076	-	-	39	-	1,115
4	Zahoor Ahmed	3,793	79	-	123	50	4,045
5	Gholamreza Arjmandi	1,379	149	-	-	50	1,578
6	Hamid Reza Raufi	350	-	-	-	-	350
	Total Amount Paid	11,282	485	237	341	100	12,425

2018

Sr. No.	Name of Director	Meeting Fees and Allowances Paid – For Board Meetings	For Board Committees – Board Audit Committee	For Board Committees – Board Risk Management Committee	For Board Committees – Board Human Resource Compensation Committee	For Board Committees – Board Strategic Investment Committee	Total Amount Paid
		(Rupees in '000)					
1	Arif Ahmed Khan	2,860	-	-	35	74	2,969
2	Hemmat Jafri	4,131	123	123	92	-	4,469
3	Aamer Mahmood Hussain	4,751	145	145	106	-	5,147
4	Zahoor Ahmed	4,751	74	-	133	74	5,032
	Total Amount Paid	16,493	342	268	366	148	17,617

39 FAIR VALUE MEASUREMENTS

39.1 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 measured is categorised.

On balance sheet financial instruments	2019			
	Fair value			
	Level 1	**Level 2**	**Level 3**	**Total**
	(Rupees in '000)			
Financial assets measured at fair value				
Investments				
Federal Government securities		**8,489,344**		**8,489,344**
Units of mutual funds		**-**		**-**
Shares in listed companies	**959,729**			**959,729**
Non Government Debt Securities		**4,929,282**		**4,929,282**

	2018			
	Fair value			
	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
Financial assets measured at fair value				
Investments				
Federal Government securities		5,261,046		5,261,046
Units of mutual funds		199,683		199,683
Shares in listed companies	832,505			832,505
Non Government Debt Securities		3,974,427		3,974,427

39.2 Fair value of financial assets

The fair value of financial assets and liabilities not carried at fair value are not significantly different from their carrying values since assets and liabilities are eaither short term in nature or in case of loan are frequently repriced.

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences may arise between the carrying value and the fair values' estimates.

The Company 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).

39.3 On balance sheet financial instruments

	2019		2018	
	Book value	**Fair value**	Book value	Fair value
	(Rupees in '000)			
Assets				
Cash and balances with treasury banks	**46,383**	**46,383**	73,144	73,144
Balances with other banks	**83,751**	**83,751**	60,653	60,653
Lendings to financial institutions	**150,000**	**150,000**	105,000	105,000
Investments	**14,598,528**	**14,664,301**	11,352,612	11,259,928

Kan

40 SEGMENT INFORMATION

40.1 Segment Details with respect to Business Activities

	2019				
	Corporate Finance & Commercial Banking	Trading & Sales (other than Capital Market)	Capital Markets	Others	Total
	(Rupees in '000)				
Profit & Loss					
Net mark-up/return/profit	796,777	177,254	-	(30,964)	943,067
Inter segment revenue - net	-	-	-	-	-
Non mark-up / return / interest income	9,481	(56,870)	10,449	728	(36,212)
Total Income	**806,258**	**120,384**	**10,449**	**(30,236)**	**906,855**
Segment direct expenses	21,904	16,178	9,630	287,523	335,235
Inter segment expense allocation	-	-	-	-	-
Total expenses	**21,904**	**16,178**	**9,630**	**287,523**	**335,235**
Provisions/ (Reversals)	316,749	(74,436)	(65,160)	-	177,153
Profit before tax	**467,605**	**178,642**	**65,979**	**(317,759)**	**394,467**
Balance Sheet					
Cash & Bank balances	-	-	-	130,134	130,134
Investments	3,612,607	10,121,644	930,050	-	14,664,301
Net inter segment lending	-	-	-	-	-
Lendings to financial institutions	-	150,000	-	-	150,000
Advances - performing	4,711,294	-	-	114,777	4,826,071
- non-performing	563,638	-	-	-	563,638
Others	602,619	144,054	8,032	385,740	1,140,445
Total Assets	**9,490,158**	**10,415,698**	**938,082**	**630,651**	**21,474,589**
Borrowings	4,753,734	5,888,155	200,892	-	10,842,781
Subordinated debt	-	-	-	-	-
Deposits & other accounts	658,215	74,436	42,672	-	775,323
Net inter segment borrowing	-	-	-	-	-
Others	169,492	40,247	-	176,027	385,766
Total liabilities	**5,581,441**	**6,002,838**	**243,564**	**176,027**	**12,003,870**
Equity	3,908,717	4,412,860	694,518	454,624	9,470,719
Total Equity & liabilities	**9,490,158**	**10,415,698**	**938,082**	**630,651**	**21,474,589**
Contingencies & Commitments	**100,000**	**5,323,734**	-	-	**5,423,734**

	2018				
	Corporate Finance & Commercial Banking	Trading & Sales (other than Capital Market)	Capital Markets	Others	Total
	(Rupees in '000)				
Profit & Loss					
Net mark-up/return/profit	255,444	173,856	-	5,510	434,810
Inter segment revenue - net	-	-	-	-	-
Non mark-up / return / interest income	15,692	-	84,580	964	101,236
Total Income	271,136	173,856	84,580	6,474	536,046
Segment direct expenses	36,150	15,770	14,228	201,277	267,425
Inter segment expense allocation	-	-	-	-	-
Total expenses	36,150	15,770	14,228	201,277	267,425
Provisions	134,660	74,436	48,067	-	257,163
Profit before tax	100,326	83,650	22,285	(194,803)	11,458
Balance Sheet					
Cash & Bank balances	-	-	-	133,797	133,797
Investments	3,351,589	7,144,954	763,385	-	11,259,928
Net inter segment lending	-	-	-	-	-
Lendings to financial institutions	-	105,000	-	-	105,000
Advances - performing	5,410,162	-	-	73,448	5,483,610
- non-performing	740,316	-	-	-	740,316
Others	432,348	97,737	38,931	233,770	802,786
Total Assets	9,934,415	7,347,691	802,316	441,015	18,525,437
Borrowings	2,327,698	5,466,400	121,761	-	7,915,859
Subordinated debt	-	-	-	-	-
Deposits & other accounts	956,993	192,607	72,124	-	1,221,724
Net inter segment borrowing	-	-	-	-	-
Others	153,068	31,059	-	94,037	278,164
Total liabilities	3,437,759	5,690,066	193,885	94,037	9,415,747
Equity	6,496,656	1,657,625	608,431	346,978	9,109,690
Total Equity & liabilities	9,934,415	7,347,691	802,316	441,015	18,525,437
Contingencies & Commitments	80,000	3,994,244	-	-	4,074,244

KM

41 RELATED PARTY TRANSACTIONS

The Company has related party transactions with its shareholders, employee benefit plans, its directors and Key Management Personnel.

The Company enters into transactions with related paties 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.

Details of transacitons with related parties during the year, other than those which have been disclosed elsewhere in these financial statements are as follows:

	2019			2018		
	Directors	**Key management personnel**	**Other related parties**	Directors	Key management personnel	Other related parties
	(Rupees in '000)					
Advances						
Opening balance	-	**58,688**	-	-	22,559	-
Addition during the year	-	**21,229**	-	-	41,059	-
Repaid during the year	-	**(4,182)**	-	-	(4,930)	-
Closing balance	-	**75,735**	-	-	58,688	-
Other Assets						
Receivable from staff retirement fund	-	-	-	-	-	-
Other receivable	-	-	**10,039**	-	-	9,035
	-	-	**10,039**	-	-	9,035
Deposits and other accounts						
Opening balance	-	**1,823**	**587,715**	-	80	456,681
Rollforward during the year	-	**23,353**	**3,045,655**	-	7,026	2,143,428
Rollforward / Withdrawn during the year	-	**(22,006)**	**(3,048,014)**	-	(5,263)	(2,012,394)
Transfer in / (out) - net	-	-	-	-	(20)	
Closing balance	-	**3,170**	**585,356**	-	1,823	587,715
Other Liabilities						
Interest / mark-up payable	-	**13**	**2,433**	-	14	2,767
Payable to staff retirement fund	-	-	-	-	-	2,156
Other liabilities	-	-	**7,090**	-	-	(6,475)

RELATED PARTY TRANSACTIONS	2019			2018		
	Directors	**Key management personnel**	**Other related parties**	Directors	Key management personnel	Other related parties
	(Rupees in '000)					
Income						
Mark-up / return / interest earned	-	**3,187**	-	-	1,432	-
Expense						
Mark-up / return / interest paid	-	**254**	**75,109**	-	43	44,622
Operating expenses						
Fees for Board & Committee Meeting	**3,713**	-	-	2,228	-	-
Allowances for Board & Committee Meeting	**8,712**	-	-	15,389	-	-
Managerial Remuneration	-	**71,716**	-	-	66,201	-
Cash Bonus / Awards	-	**1,186**	-	-	6,480	-
Contribution to defined contribution plan	-	**5,689**	-	-	5,467	-
Rent & house maintenance	-	**12,163**	-	-	12,420	-
Utilities	-	**3,041**	-	-	3,349	-
Medical	-	**3,834**	-	-	3,557	-
Conveyance	-	**11,151**	-	-	10,033	-
Others	-	**670**	-	-	630	-

42 CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

Capital adequacy

As per requirements of SBP, the Bank is required to comply with the capital adequacy framework which comprises the following capital standards:

i) Minimum Capital Requirement (MCR):

The MCR standard sets the paid - up capital that the Company is required to hold at all times.

As of the statement of financial position date, the Company's paid - up capital stands at Rs. 6 billion as against the required MCR of Rs. 6 billion.

ii) Capital Adequacy Ratio:

The Capital Adequacy Ratio (CAR) assesses the capital requirement based on the risks faced by the banks/DFIs. The banks/DFIs are required to comply with the CAR as specified by SBP on standalone as well as consolidated basis.

During the year 2013, SBP issued revised instructions on the computation of CAR based on Basel III Capital Reform as issued by the Basel Committee on Banking Supervision. These instructions became effective from 31 December 2013 with full implementation intended by 31 December 2019. These instructions also specify the transitional arrangements from 2013 to 2019.
Accordingly, the Bank has assessed and reported its Capital Adequacy Ratio in the financial statements on the basis of Basel III requirements as prescribed by SBP.

Capital Management

The regulatory capital as managed by the Company is analyzed into following tiers

Common Equity Tier I Capital (CETI), which includes fully paid up capital, general reserves, statutory reserves as per the financial statements and net un-appropriated profits. Goodwill and other intangibles are deducted from Tier I Capital.

Tier 2 Capital, which includes surplus on revaluation of AFS securities after all regulatory adjustments applicable on Tier 2

	2019	2018
	(Rupees in '000)	
Minimum Capital Requirement (MCR):		
Paid-up capital (net of losses)	**6,000,000**	6,000,000
Capital Adequacy Ratio (CAR):		
Eligible Common Equity Tier 1 (CET 1) Capital	**6,424,849**	5,816,658
Eligible Additional Tier 1 (ADT 1) Capital	**-**	-
Total Eligible Tier 1 Capital	**6,424,849**	5,816,658
Eligible Tier 2 Capital	**-**	-
Total Eligible Capital (Tier 1 + Tier 2)	**6,424,849**	5,816,658
Risk Weighted Assets (RWAs):		
Credit Risk	**8,255,320**	8,450,190
Market Risk	**1,411,956**	1,416,408
Operational Risk	**1,403,104**	1,231,336
Total	**11,070,380**	11,097,934

	2019		2018	
	Required	**Actual**	Required	Actual
Common Equity Tier 1 Capital Adequacy ratio	**6.00%**	**58.04%**	6.00%	52.41%
Tier 1 Capital Adequacy Ratio	**7.50%**	**58.04%**	7.50%	52.41%
Total Capital Adequacy Ratio	**12.50%**	**58.04%**	11.90%	52.41%

Standardized Approach of Basel III is used for calculating Capital Adequacy for Credit and Market Risk while Basic indicator Approach is used for calculating Capital Adequacy for Operational Risk.

KM

	2019	2018
	(Rupees in '000)	
Leverage Ratio (LR):		
Eligiblle Tier-1 Capital	**6,424,849**	5,816,658
Total Exposures	**21,589,787**	17,766,344
Leverage Ratio	**29.76%**	32.74%
Liquidity Coverage Ratio (LCR):		
Total High Quality Liquid Assets	**2,119,092**	1,711,471
Total Net Cash Outflow	**1,445,881**	869,649
Liquidity Coverage Ratio	**1.47**	1.97
Net Stable Funding Ratio (NSFR):		
Total Available Stable Funding	**14,550,356**	12,175,418
Total Required Stable Funding	**10,497,288**	10,211,830
Net Stable Funding Ratio	**139%**	119%

42.1 The full disclsoures on the CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS as per SBP instructions issued from time to time has be placed on the website. The link to the full disclosure is avialable at http://www.pairinvestment.com.

43 RISK MANAGEMENT

The primary risks associated with the Company's exposure are:

Credit Risk: the risk of loss resulting from client or counterparty default.

Market Risk: the exposure to market variables such as interest rates and equity prices.

Operational Risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and therefore includes legal risk.

PICL manages risk through a sound framework based on risk principles which includes an optimal organizational structure, risk assessment and monitoring processes. Credit & Risk Management function (CRMD) is mandated to implement this framework as a function independent of business segments working under the guidance of Board's Risk Management

The Company's Credit & Risk Management Department has BASEL Compliant, Credit, Market, Liquidity and Operational Risk functions. Furthermore, Environmental Risk Management mechanism, through Green Banking Framework, has been defined and is currently in implementation phase.

The Company's portfolio and exposures are governed through relevant policies, procedures and various risk measurement techniques by adopting Internal Capital Adequacy Assessment Process (ICAAP) and Stress Testing with a purpose to achieve efficiency, effectiveness and compliance. Internal Risk Rating mechanism and transaction level risk analytics are in place to have ongoing risk sensitive assessment and reporting. The Company is more focused towards implementing system based risk assessment in order to have more efficiency in overall risk management processes.

43.1 Credit risk

Credit risk is the risk of loss to the Company as a result of failure by a client or counterparty to meet its contractual obligations. It is inherent in loans, commitments to lend, traded products, repurchase agreements (reverse repos), placements and other lending transactions. The role of Credit Risk Management particularly includes:

- Participation in portfolio planning and management.
- Establishment of credit policies and standards that conform to regulatory requirements and the Company's overall objectives.
- Working with Business Units in keeping aggregate credit risk exposure within the Company's risk appetite.
- Organizing portfolio reviews focusing on quality assessment, risk profiles, industry concentrations.
- Setting systems to identify significant portfolio indicators, problem credits and level of provisioning required.

The Company has designed an Internal Risk Rating Models and methodology to gauge credit risk elements in the banking book of the Company.

The credit products mainly comprise of Fund based & Non-Fund based, including short term and long term financing, project finance, term lending, reverse repurchase, bridge finance, investment in TFCs , sukuk bonds and placements with financials institutions, etc. Exposures are collateralized by cash equivalents, fixed assets, and current assets including property plant and equipment, land and building, hypothecation, pledge on stocks and receivables as the case may be. The Company manages limits and controls concentrations of credit risk as identified, in particular to individual counterparties and groups, and to industries, where appropriate.

Concentrations of credit risk exist if clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. The Company sets limits on its credit exposure to counterparty, to groups, and to industry, which are in line with SBP standards.

Stress testing on credit portfolio is being carried out on regular basis to assess the impact of defaults on Company's earning and capital adequacy. Credit concentration, rating migration, default shocks and risk aggregation of large exposures are few of the main shocks used to gauge the strength of Credit risk standing of the Company.

43.1.1 Credit Risk – General Disclosures Basel II/ III specific

The Company is more focused on the intent of Basel II/ III rather than just treating it as a regulatory requirement. Therefore, in addition to the adoption of Standardized approach and reporting to SBP, the Company has already adopted the practice of ongoing assessment as required under the advanced approaches of Basel II .The Company has adopted Pillar II ICAAP requirements duly approved by the Board of Directors.

43.1.2 Credit Risk: Disclosure for portfolio subject to the Standardized Approach

For the calculation of Risk Weighted Assets under Standardized Approach, external credit ratings have been used for all exposures, where available, against banks lending, corporate lending and debt instruments. The external ratings are further mapped with SBP ratings scale to arrive at risk weights of each transaction.

43.1.3 Types of exposures and ECAI's used

Exposures	JCR-VIS	PACRA
Banks	✓	✓
Corporate	✓	✓

Credit exposures subject to standardised approach

Exposures

	Rating Category	Amount Outstanding	Deduction	Net amount
		------ (Rupees in '000) ------		
Corporate	1	1,298,804	-	1,298,804
	2	3,114,783	-	3,114,783
	3,4	10,836	-	10,836
	5,6	-	-	-
	Unrated 1	1,610,789	-	1,610,789
	Unrated 2	1,374,855	-	1,374,855
Banks		5,585,221	5,323,734	261,487
Sovereigns		8,753,374	-	8,753,374
Retail Portfolio		7,484	-	7,484
Residential Mortgage Finance		107,293	-	107,293
Past Due Loans		761,408	-	761,408
Listed Equity investmnents		540,397	-	540,397
Unlisted Equity investmnents		131,501	-	131,501
Cash and Cash Equivalents		4,762	-	4,762
Others		722,891	-	722,891
		24,024,398	**5,323,734**	**18,700,664**

43.1.4 Credit Risk: Disclosure with respect to Credit Risk Mitigation for Standardized approach - Basel II specific

The credit policy of the Company covers credit risk mitigation process and requirements for all secured transactions. Key elements include:

- Collateral type;
- Collateral quality and ranking;
- Collateral valuation process, and
- Margin requirements

Equitable Mortgage, Token Registered Mortgage, Hypothecation Charge Over Fixed Assets , Current Assets, Pledge of Shares, Lending against Government Securities (for repo style transaction), GOP Guarantee and Pledge of stocks are the main type of collaterals taken against the exposure.

43.1.5 Lendings to financial institutions

Credit risk by public / private sector

	Gross lendings		Non-performing lendings		Provision held	
	2019	2018	2019	2018	2019	2018
	(Rupees in '000)					
Public/ Government	-	-	-	-	-	-
Private	150,000	105,000	-	-	-	
	150,000	105,000	-	-	-	-

43.1.6 Investment in debt securities

Credit risk by industry sector

	Gross investments		Non-performing investments		Provision held	
	2019	2018	2019	2018	2019	2018
	(Rupees in '000)					
Chemical and Pharmaceuticals	249,518	486,777	-	-	-	-
Financial Institution	3,621,161	3,524,317	11,245	11,245	11,245	11,245
Home Appliances		-				
Manufacture of bakery other food products	190,000	200,000				
Manufacture of basic iron and steel	300,000	300,000				
Manufacture of chemicals and chemical products	17,957	21,550	17,957	23,411	1,711	1,711
Manufacture of medicinal and pharmaceutical products	120,000	150,000				
Power	50,966	94,228				
Real estate activities	379,680	209,702	19,680	19,680	19,680	
	4,929,282	4,986,574	48,882	54,336	32,636	12,956

Credit risk by public / private sector

	Gross investments		Non-performing investments		Provision held	
	2019	2018	2019	2018	2019	2018
	(Rupees in '000)					
Public/ Government	-	-	-	-	-	-
Private	4,929,282	4,986,574	48,882	54,336	32,636	12,956
	4,929,282	4,986,574	48,882	54,336	32,636	12,956

43.1.7 Advances

Credit risk by industry sector

	Gross advances		Non-performing advances		Provision held	
	2019	2018	2019	2018	2019	2018
	(Rupees in '000)					
Manufacture of electrical machinery and apparatus	575,000	600,000	-	-	-	-
Cargo handling	220,737	240,706	12,306	-	2,937	-
Casting of iron and steel	194,288	194,288	194,288	194,288	-	-
Education	137,632	122,204	-	-	-	-
Financial Institution	52,941	173,950	-	-	-	-
Hotels and Tourism	100,000	140,000	-	-	-	-
Manufacture of basic iron and steel	476,611	476,611	476,611	476,611	298,028	114,605
Manufacture of cement	225,000	375,000	75,000	75,000	75,000	75,000
Manufacture of dairy products	-	-	-	-	-	-
Manufacture of medicinal and pharmaceutical products	246,922	286,553	-	-	-	-
Manufacture of other grain mills products	248,163	150,000	-	-	-	-
Manufacture of parts and accessories for motor vehicles	61,566	116,227	-	-	-	-
Manufacture of refined petroleum and products	273,336	800,000	-	-	-	-
Manufacture of rubber tyres	-	31,250	-	-	-	-
Manufacture of rubber tyres and tubes	206,250	200,000	-	-	-	-
Manufacture of structural metal products	-	-	-	-	-	-
Manufacture of sugar	91,429	640,000	70,000	70,000	70,000	64,165
Manufacture of Textiles	2,155,047	1,212,547	500,000	500,000	500,000	500,000
Media	-	35,000	-	-	-	-
Poultry and other animal farming and related products	95,250	106,500	95,250	95,250	95,250	-
Production, transmission and distribution of electricity	348,891	453,698	152,988	41,515	-	-
Real estate activities	284,860	284,860	218,000	218,000	218,000	218,000
Staff Loans	114,777	73,536	-	-	-	-
Textile others	37,410	41,421	28,410	41,421	-	-
Printing, publishing and allied industries	52,978	123,157	-	-	-	-
Maintenance and repair	37,828	62,368	-	-	-	-
Manufacture of parts and accessories for motor vehicles and their engine	47,373	6,694	-	-	-	-
Manufacture of other fabricated metal products	197,803	49,125	-	-	-	-
Manufacture of edible oil and ghee	138,889	200,000	-	-	-	-
Manufacture of bakery other food products n.e.c.	27,943	-	-	-	-	-
Printing and Publishing of newspapers, journals, periodicals and related pr	-	-	-	-	-	-
	6,648,924	7,195,695	1,822,853	1,712,086	1,259,215	971,770

Credit risk by public / private sector

	Gross advances		Non-performing advances		Provision held	
	2019	2018	2019	2018	2019	2018
	(Rupees in '000)					
Public/ Government	-	-	-	-	-	-
Private	6,648,924	7,195,696	1,822,853	1,712,086	1,259,215	971,770
	6,648,924	7,195,696	1,822,853	1,712,086	1,259,215	971,770

kml

43.1.8 Contingencies and Commitments

Credit risk by industry sector

	2019	2018
	(Rupees in '000)	
Production & Transmission of Energy	100,000	80,000
Manufacture of medicinal and pharmaceutical products	-	-
Production, transmission and distribution of electricity	-	-
	100,000	80,000

Credit risk by public / private sector

	2019	2018
Public/ Government	-	-
Private	100,000	80,000
	100,000	80,000

43.1.9 Concentration of Advances

The Company's exposures on the basis of total (funded and non-funded expsoures) aggregated to Rs 3.07 billion (2018: 3.18 billion) are as following:

	2019	2018
	(Rupees in '000)	
Funded	3,069,197	3,187,358
Non Funded	-	-
Total Exposure	3,069,197	3,187,358

The sanctioned limits against these expsoures aggregated to PKR 4.22 billion (2018: 3.32 billion)

Total Funded Classified therein	2019		2018	
	Amount	Provision held	Amount	Provision held
OAEM	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	826,611,381	648,025,529	702,377,000	433,546,000
Total	826,611,381	648,025,529	702,377,000	433,546,000

43.1.10 Advances - Province/Region-wise Disbursement & Utilization

	2019		
	Disbursements *	Utilization **	
Province/Region		Punjab	Sindh
Sindh	2,615,430	1,025,000	1,590,430
Total	2,615,430	1,025,000	1,590,430

	2018		
		Utilization **	
Province/Region	Disbursements	Punjab	Sindh
Sindh	3,135,959	1,645,902	1,490,057
Total	3,135,959	1,645,902	1,490,057

* "Disbursements of Province/Region wise" refers to the place from where the funds are being issued by the Company to the borrowers.

** "Utilization of Province/Region wise" refers to the place where the funds are being utilized by borrower.

43.2 Market Risk

Trading activities are executed in the Treasury & Investment Unit (T&IU). Major equity holdings are held to earn capital gain and dividend to support the Company's business activities while some of the investment positions of equity holding are made for revenue generation as part of strategic initiatives. The Company is active in the Money Market, Fixed Income and Equity market that carry interest rate and equity price risk on both trading and banking book respectively. Management level Market Risk Committee has been invoked to ensure specific & general risk assessment of all Market related products on timely basis.

Controls are also applied to prevent any undue risk concentrations in trading books, taking into account variations in price volatility and market depth and liquidity. They include controls on exposure to individual market risk variables, such as individual interest or equity price ('risk factors'), and on positions in the securities of individual issuers.

Market risk measures and controls are applied at the portfolio level, and concentration limits and other controls are applied where necessary to individual risk types, to particular books and to specific exposures. Portfolio risk measures are common to all market risks, but concentration limits and other controls are tailored to the nature of the activities and the risks they create.

The Company has developed Market Risk Policy, which covers the techniques to gauge, monitor and report the impact of interest rate and price risk implications.

Details of Market Risk Weighted Assets subject to Basel III Capital Adequacy Calculation are given below:

Market Risk Weighted Assets	Assets	Capital Charge
Interest Rate Risk Exposure	-	-
Equity Exposure	706,047	112,967

Kam

43.2.1 Balance sheet split by trading and banking books

	2019			2018		
	Banking book	**Trading book**	**Total**	Banking book	Trading book	Total
	----------	----------	**(Rupees in '000)**	----------	----------	----------
Cash and balances with treasury banks	**46,383**	-	**46,383**	73,144	-	73,144
Balances with other banks	**83,751**	-	**83,751**	60,653	-	60,653
Lendings to financial institutions	**150,000**	-	**150,000**	105,000	-	105,000
Investments	**13,704,574**	**959,727**	**14,664,301**	10,227,639	1,032,289	11,259,928
Advances	**5,389,709**	-	**5,389,709**	6,223,926	-	6,223,926
Fixed assets	**229,709**	-	**229,709**	193,031	-	193,031
Intangible assets	**314**	-	**314**	211	-	211
Deferred tax assets	**375,527**	-	**375,527**	346,484	-	346,484
Other assets	**534,895**	-	**534,895**	263,060	-	263,060
	20,514,862	**959,727**	**21,474,589**	17,493,148	1,032,289	18,525,437

43.2.2 Foreign Exchange Risk

Foreign Exchange Risk is the risk of loss resulting from changes in exchange rates. The Company does not carry any product specific Foreign Exchange Risk.

	2019				2018			
	Foreign Currency Asset	**Foreign Currency Liabilities**	**Off-balance sheet items**	**Net foreign currency exposure**	Foreign Currency Asset	Foreign Currency Liabilities	Off-balance sheet items	Net foreign currency exposure
	----------	----------	----------	----------	**(Rupees in '000)**	----------	----------	----------
Pakistan Rupees	**21,459,856**	**11,996,780**	**100,000**	**9,563,076**	18,512,249	9,409,272	80,000	9,182,977
United States Dollar	**12,555**	-	-	**12,555**	9,414	-	-	9,414
Euro	**2,178**	**7,090**	-	**(4,912)**	3,774	6,475	-	(2,701)
	21,474,589	**12,003,870**	**100,000**	**9,570,719**	18,525,437	9,415,747	80,000	9,189,690

	2019		2018	
	Banking book	**Trading book**	Banking book	Trading book
	----------	**(Rupees in '000)**	----------	----------
Impact of 1% change in foreign exchange rates on				
- Profit and loss account	**76**	-	67	-
- Other comprehensive income	-	-	-	-

43.2.3 Equity position Risk

The objective of 'Held for Trading' portfolio is to take advantages of short-term capital gains, while the 'Available for Sale' portfolio is maintained with a medium-term view of capital gains and dividend income. The Company has also invested in mutual funds categorize as 'Available for Sale'. Investment policy has been developed to discuss in detail the objectives / policies, risks / mitigates, limits / controls for exposures against price risk.

	2019		2018	
	Banking book	**Trading book**	Banking book	Trading book
	----------	**(Rupees in '000)**	----------	----------
Impact of 5% change in equity prices on				
- Profit and loss account	-	**1,796**	-	3,808
- Other comprehensive income	-	**46,191**	-	37,822

43.2.4 *Yield / Interest Rate Risk in the Banking Book (IRRBB)-Basel II Specific*

The Company's Banking Book consists of significant amount of Interest Rate sensitive assets. The investment portfolio comprises of floating interest rate TFCs and Sukuk that are mainly linked to six month KIBOR. Therefore, the overall frequency of banking book interest rate is around six months. Interest rate position for on-balance sheet instruments is based on the earlier of contractual re-pricing or maturity date, the instrument's repayment nature varies from monthly payments to bullet maturity.

Capital Adequacy Stress test exercise has been conducted by using duration method for measuring the upward and downward shocks of interest rate. This provides the Company risk taking and absorption capacity and its implication on capital adequacy in the worst case scenarios.

	2019		2018	
	Banking book	**Trading book**	Banking book	Trading book
	----------	**(Rupees in '000)**	----------	----------
Impact of 1% change in interest rates on				
- Profit and loss account	**11,724**	-	31,129	-
- Other comprehensive income	**110,293**	-	79,444	-

43.2.5 *Mismatch of Interest Rate Sensitive Assets and Liabilities*

	2019											
	Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk									Non-interest bearing financial instruments
			Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
			(Rupees in '000)									
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.15%	46,396	608	-	-	-	-	-	-	-	-	45,788
Balances with other banks	9.25%	83,751	70,790	-	-	-	-	-	-	-	-	12,961
Lending to financial institutions	15.15%	150,000	100,000	50,000	-	-	-	-	-	-	-	-
Investments	14.09%	14,664,301	2,364,556	2,454,982	2,837,501	3,161,898	463,895	-	1,203,620	1,201,875	-	975,974
Advances	10.83%	5,389,709	1,166,258	1,313,459	584,689	69,499	191,468	293,056	481,827	630,843	78,323	580,287
Other assets		305,417	-	-	-	-	-	-	-	-	-	305,417
		20,639,574	3,702,212	3,818,441	3,422,190	3,231,397	655,363	293,056	1,685,447	1,832,718	78,323	1,920,427
Liabilities												
Bills payable		-										
Borrowings	11.87%	10,842,781	4,995,440	563,158	3,696,165	61,095	156,832	245,418	423,387	701,286	-	-
Deposits and other accounts	13.58%	775,324	169,782	591,792	12,550	1,000	-	-	-	-	-	200
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Subordinated debt		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		314,821	-	-	-	-	-	-	-	-	-	314,821
		11,932,926	5,165,222	1,154,950	3,708,715	62,095	156,832	245,418	423,387	701,286	-	315,021
On-balance sheet gap		8,706,648	(1,463,010)	2,663,491	(286,525)	3,169,302	498,531	47,638	1,262,060	1,131,432	78,323	1,605,406
Off-balance sheet financial instruments												
Documentary credits and short-term trade-related transactions												
Commitments in respect of:												
- forward foreign exchange contracts												
- forward government securities transactions												
- derivatives												
- forward lending												
Other commitments (to be specified)												
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap		8,706,648	(1,463,010)	2,663,491	(286,525)	3,169,302	498,531	47,638	1,262,060	1,131,432	78,323	1,605,406
Cumulative Yield/Interest Risk Sensitivity Gap		8,706,648	(1,463,010)	1,200,481	913,956	4,083,258	4,581,789	4,629,427	5,891,487	7,022,919	7,101,242	8,706,648

	2018											
	Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk									Non-interest bearing financial instruments
			Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
			(Rupees in '000)									
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.05%	73,144	566	-	-	-	-	-	-	-	-	72,578
Balances with other banks	3.33%	60,653	27,421	-	-	-	-	-	-	-	-	33,232
Lending to financial institutions	12.50%	105,000		105,000	-	-	-	-	-	-	-	-
Investments	10.20%	11,259,926	3,215,826	3,185,046	2,508,263	803,575	-	-	-	495,350	-	1,051,866
Advances	10.58%	6,223,926	1,921,354	2,321,319	334,048	253,082	130,682	121,442	310,252	135,585	49,021	647,141
Other assets		802,786										802,786
		18,525,435	5,165,167	5,611,365	2,842,311	1,056,657	130,682	121,442	310,252	630,935	49,021	2,607,603
Liabilities												
Bills payable		-	-	-	-	-	-	-	-	-	-	-
Borrowings	9.67%	7,915,858	4,160,977	991,335	2,095,772	57,278	118,662	118,662	236,770	136,402	-	-
Deposits and other accounts	10.20%	1,221,722	572,930	535,718	113,074	-	-	-	-		-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Subordinated debt		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		278,165	-	-	-	-	-	-	-	-	-	278,165
		9,415,745	4,733,907	1,527,053	2,208,846	57,278	118,662	118,662	236,770	136,402	-	278,165
On-balance sheet gap		9,109,690	431,260	4,084,312	633,465	999,379	12,020	2,780	73,482	494,533	49,021	2,329,438
Off-balance sheet financial instruments												
Commitments in respect of:												
- forward foreign exchange contracts		-	-	-	-	-	-	-	-	-	-	-
- forward government securities transactions		-	-	-	-	-	-	-	-	-	-	-
- derivatives		-	-	-	-	-	-	-	-	-	-	-
- forward lending		-	-	-	-	-	-	-	-	-	-	-
Other commitments (to be specified)		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap		9,109,690	431,260	4,084,312	633,465	999,379	12,020	2,780	73,482	494,533	49,021	2,329,438
Cumulative Yield/Interest Risk Sensitivity Gap		9,109,690	431,260	4,515,572	5,149,037	6,148,416	6,160,436	6,163,216	6,236,698	6,731,231	6,780,252	9,109,690

43.2.5.1 Reconciliation of financial assets and liabilities

	2019	2018
	(Rupees in 000)	
Assets as per Statement of financial position	**21,474,589**	18,525,437
Less: Fixed assets	**229,709**	193,031
Less: Intangible assets	**314**	211
Less: Deferred tax assets	**375,527**	346,484
Less:		
Advances, deposits, advance rent and other prepayments	**93,685**	11,494
Stationery and stamps on hand	**-**	-
Non-Refundable Deposits	**6,231**	7,231
Non Banking assets acquired against claims	**89,632**	94,905
Advance Taxation (payments less provisions)	**39,930**	15,694
	229,478	129,324
Interest Rate Sensitive Assets	**20,639,561**	17,856,387
Liabilities as per Statement of financial position	**12,003,870**	9,415,747
Deferred tax liabilities	**-**	-
Less:		
Provision for compensated absences	**3,047**	3,502
Branch Adjustment accounts	**-**	-
Workers' Welfare Fund	**67,897**	55,091
Provisions against off balance sheet obligations	**-**	-
Unearned commission LG	**-**	-
	70,944	58,593
Other liabilities - yield	**11,932,926**	9,357,154

43.3 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. PAIR Investment Company, in the light of SBP guidelines on Operational Risk Framework via BPRD Circular# 04-2014 dated May 20, 2014, developed Operational Risk Management Framework considering the regulatory guidelines and best practices in the market. PAIR Investment Company is adequately monitoring & reporting the operational risk data as per regulatory guidelines and BoD approved Operational Risk policy. With the implementation of Operational Risk Framework, the Company is being able to manage operational risks in a more systematic way that includes analyzing current systems for data collection, migration, validation and retention for current and historical reference and calculation.

The Company maintains a system of internal controls designed to keep operational risk at appropriate levels. Various techniques/tools used by the company for management of Operational Risk includes RCSAs (Risk Control Self Assessment), KRIs (Key Risk Indicators) and Loss data management. The Company also has in place a business continuity plan for all critical functional areas for smooth functioning of operations.

Basel III Basic Indicator Approach is used for calculating the Capital Adequacy for Operational Risk.

43.3.1 Operational risk disclosure - Basel II/III specific

Basic Indicator approach of Basel II/ III has been used to calculate Operational Risk charge of the Company.

43.4 Liquidity risk

Liquidity risk is the risk of loss to the Company arising from its inability to meet obligations as they fall due or to fund growth in assets, without incurring unacceptable cost or losses.

The Company's approach to liquidity management is to ensure, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions without incurring unacceptable losses or risking sustained damage.

Liquidity risk policy has been designed that entails careful monitoring and control of the daily liquidity position, and regular liquidity stress tests under a variety of scenarios. Scenarios encompass both normal and stressed market conditions, including general market crises and the possibility that access to markets could be impacted by a stress event affecting some part of the Company's business.

The Company has developed Liquidity Risk Policy, which covers the techniques to gauge, monitor and report the impact of potential liquidity risk indicators and its implications. Moreover, PAIR Investment maintain strict adherence to SBP prescribed Liquidity Measures ensuring smooth liquidity i.e.: CRR, SLR, LCR and NSFR.

43.4.1 Liquidity Coverage Ratio

SBP issued BPRD Circular No. 8 dated June 23, 2016 advising implementation of Basel III liquidity standards that constitute two ratios, i.e., Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), and five monitoring tools.

LCR is the measure of conversion capability of the Company's High Quality Liquid Assets (HQLAs) into cash to meet immediate liquidity requirements over a 30 days horizon.

The Company calculates Liquidity Coverage Ratio (LCR) on monthly basis as per the guidelines given in the above mentioned circular. The objective of LCR is to ensure the short-term resilience of the liquidity risk profile which requires the Company to maintain sufficient High Quality Liquid Assets (HQLAs) to meet stressed cash outflows over a prospective 30 calendar - days period. As of 31 December 2019, the Company's LCR stood at 1.47.

43.4.2 Governance of Liquidity Risk Management

Liquidity risk is managed through the liquidity risk policy approved by the Board. The Company has "zero tolerance" for liquidity risk and will continue to maintain a comfortable margin of excess liquidity in the form of cash and readily marketable assets to meet its funding requirements at any time.

Management of liquidity risk is accomplished through a formal structure which includes:

- Board of Directors (BOD)
- Risk Management Committee
- Asset Liability Management Committee (ALCO)
- Treasury Division
- Risk Management Division & Middle Office
- Finance Division
- Information Technology Division

The Board of Directors approves the liquidity risk policy and ensures, through quarterly reviews by the Risk Management Committee of the Board, that the Company's liquidity risk is being managed prudently. Risk Management Committee of the Board provides overall guidance in managing the Company's liquidity risk. Liquidity position is monitored daily by the Treasury Division and the Middle Office and reviewed regularly by ALCO.

43.4.3 Funding Strategy

The Company's prime source of liquidity is it's own Capital and funding from other Financial Institutions. The Company also have sizable Deposits Base in the form of Certificate of Investments. The Company is endeavouring to diversify its funding sources and enhance its Long-Term funding options so as to minimiz the Liquidity Risk.

43.4.4 Liquidity Risk Mitigation Techniques

Various tools and techniques are used to measure and monitor the possible liquidity risk. These include monitoring of different liquidity ratios like Liquid Assets to Total Assets, advances to deposits, liquid assets to Clean Borrowing & COIs, Net Advances to Total Asset Ratio etc, which are monitored on regular basis against limits. Further, the DFI also prepares the maturity profile of assets and liabilities to monitor the liquidity gaps over different time bands. The DFI also ensures that statutory cash and liquidity requirements are maintained at all times.

In addition, LCR, NSFR & Monitoring Tools of Basel III framework further strengthen liquidity risk management of the Company.

43.4.5 Liquidity Stress Testing

As per SBP BSD Circular No. 1 of 2012, Liquidity stress testing is being conducted under stress scenario. Shock include the withdrawals of Interbank and deposits. The Company's liquidity risk management addresses the goal of protecting solvency and the ability to withstand stressful events in the market place. Stress testing for liquidity as prescribed in the liquidity risk policy is carried out regularly to estimate the impact of decline in liquidity.

43.4.6 Contingency Funding Plan

Contingency Funding Plan (CFP) is a part of liquidity risk policy of the Company which identifies the trigger events that could cause a liquidity contingency and describes the actions to be taken to manage it. The contingency funding plan highlights liquidity management actions that needs to be taken to deal with the contingency. CFP highlights possible funding sources, in case of a liquidity contingency.

43.4.7 Main Components of LCR

Main components of LCR are High Quality Liquid Assets and Net Cash Outflows. Outflows are mainly deposit outflows net of cash inflows which consist of inflows from financing and money market placements up to 1 month. The inputs for calculation of LCR are based on SBP BPRD circular no. 08 dated 23 June 2016.

43.4.8 Composition of HQLAs

High Quality Liquid Assets consist of Level 1 Assets which are included in the stock of liquid assets at 100% weightage of their market value i.e., Cash & Treasury balances, Conventional Government Securities, GOP Ijarah Sukuks, Foreign Currency Sukuks & Bonds issued by sovereigns. While Level 2 Assets comprise all equity shares (excluding shares of Financial Institutions) listed on PSX 100.

43.4.9 Concentration of Funding Sources

Almost half of the Company's Balance sheet is funded by its own equity, while Borrowing from Financial Institutions remain key source of funding. Inorder to diversify its funding sources, the Company has sizable Deposits Base in the form of Certificate of Investment while Term Borrowing from Central Bank and other FIs are also tapped.

43.4.10 Currency Mismatch in the LCR

About 90% of the Company's assets and liabilites are in local currency. Currency mismatch in other currencies is regularly monitored.

43.4.11 Centralisation of Liquidity Management

Overall liquidity management of the Company is centralised in Treasury & Investment Unit.While ALCO periodically monitors the Liquidity Management of the Company.

43.4.12 Other Inflows & Outflows

Benefit of pledged deposits (deposits under lien) are not accounted for in calculation of LCR.

43.4.13 Net Stable Funding Ratio (NSFR)

NSFR is the ratio of the amount of Available Stable Funding (ASF) - source of funds, capital and liabilities relative to the amount of Required Stable Funding (RSF) - use of funds, assets and off - balance sheet exposures.

The objective of NSFR is to ensure the availability of stable funds that a company must hold to enable it to build and maintain its assets, investments and off balance sheet portfolio on an ongoing basis for longer term, i.e., over a one year horizon. NSFR reduces maturity mismatches between the asset and liability items on the balahce sheet and thereby reduces funding and roll - over risk. The Company's NSFR stood at 139% as on 31 December 2019.

43.4.14 *Maturities of Assets and Liabilities - based on contractual maturity of the assets and liabilities of the Company*

2019

	Total	Upto 1 Day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 month	Over 1 to 2 months	Over 2 to 3 months	Over 3 to 6 months	Over 6 to 9 months	Over 9 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 years
	(Rupees in '000)													
Assets														
Cash and balances with treasury banks	46,383	46,383	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	83,751	83,751	-	-	-	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	150,000	-	-	-	100,000	50,000	-	-	-	-	-	-	-	-
Investments	14,664,301	56,250	-	9,541	1,524,346	499,666	405,528	1,442,802	1,496,111	1,830,906	1,198,334	365,237	2,748,854	3,086,726
Advances	5,389,709	3,223	25,710	202,736	87,794	59,949	91,493	509,891	487,621	450,590	702,627	1,345,670	677,398	745,007
Fixed assets	229,709	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	314	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	375,527	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	534,895	12,502	6,226	54,254	23,664	55,451	109,771	167,631	105,396	-	-	-	-	-
	21,474,589	202,109	31,936	266,531	1,735,804	665,066	606,792	2,120,324	2,089,128	2,281,496	1,900,961	1,710,907	3,426,252	3,831,733
Liabilities														
Bills payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	10,842,781	-	2,589,940	1,189,027	1,216,473	560,562	2,596	496,165	11,402	499,693	1,056,832	1,145,418	1,373,387	701,286
Deposits and other accounts	775,323	-	5,154	3,000	161,668	68,395	523,417	12,610	1,020	59	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	385,766	-	-	-	14,601	-	259,330	12,097	-	7,090	63,508	-	-	-
	12,003,870	-	2,595,094	1,192,027	1,392,742	628,957	785,343	520,872	12,422	506,842	1,120,340	1,145,418	1,373,387	701,286
Net assets	9,470,719	202,109	(2,563,158)	(925,496)	343,062	36,109	(178,551)	1,599,452	2,076,706	1,774,654	780,621	565,489	2,052,865	3,130,447
Share capital	6,000,000													
Reserves	888,356													
Surplus on revaluation of assets	56,305													
Unappropriated profit	2,526,058													
	9,470,719													

2018

	Total	Upto 1 Day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 month	Over 1 to 2 months	Over 2 to 3 months	Over 3 to 6 months	Over 6 to 9 months	Over 9 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 years
Assets														
Cash and balances with treasury banks	73,144	73,144	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	60,653	60,653	-	-	-	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	105,000	-	-	-	-	-	105,000	-	-	-	-	-	-	-
Investments	11,259,928	75,000	999,571	80	1,071,328	1,974,851	11,598	1,001,636	886,220	50,189	299,080	412,735	2,229,491	2,248,147
Advances	6,223,926	2,660	13,290	540,623	67,931	187,477	63,275	604,888	717,297	881,281	741,058	1,305,001	766,808	332,338
Fixed assets	193,031	-	-	-	-	-	-	-	-	-	-	-	-	193,031
Intangible assets	211	-	-	-	-	-	-	-	-	-	-	-	-	211
Deferred tax assets	346,484	-	-	-	-	-	-	-	-	-	-	-	-	346,484
Other assets	263,060	4,215	2,383	46,885	35,670	34,624	39,729	15,899	83,655	-	-	-	-	-
	18,525,437	215,672	1,015,244	587,588	1,174,929	2,196,952	219,602	1,622,423	1,687,172	931,470	1,040,138	1,717,736	2,996,299	3,120,211
Liabilities														
Bills Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	7,915,859	2,000	1,835,653	982,737	1,340,588	988,739	2,596	220,772	8,716	173,561	618,662	618,662	986,770	136,402
Deposits and other accounts	1,221,724	-	73,537	242,399	257,014	60,535	475,184	112,976	20	60	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	278,164	-	-	-	8,349	-	194,626	13,624	-	6,475	55,091	-	-	-
	9,415,747	2,000	1,909,190	1,225,136	1,605,951	1,049,274	672,406	347,372	8,736	180,096	673,753	618,662	986,770	136,402
Net assets	9,109,690	213,672	(893,946)	(637,548)	(431,022)	1,147,678	(452,804)	1,275,051	1,678,436	751,374	366,385	1,099,074	2,009,529	2,983,809
Share capital	6,000,000													
Reserves	840,066													
Surplus on revaluation of assets	(71,701)													
Unappropriated profit	2,341,325													
	9,109,690													

43.4.15 Maturities of assets and liabilities - based on expected maturities of the assets and liabilities of the Company

	2019									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	46,383	46,396	-	-	-	-	-	-	-	-
Balances with other banks	83,751	83,267	-	-	-	-	-	-	-	-
Lending to financial institutions	150,000	100,000	50,000	-	-	-	-	-	-	-
Investments	14,664,301	1,608,886	905,194	1,442,802	3,327,018	1,198,334	365,237	2,748,854	2,641,493	500,000
Advances	5,389,709	319,463	151,441	509,891	938,211	702,627	1,345,670	677,398	630,843	78,323
Fixed assets	229,709	-	-	-	-	-	-	-	-	-
Intangible assets	314	-	-	-	-	-	-	-	-	-
Deferred tax assets	375,527	-	-	-	-	-	-	-	-	-
Other assets	534,895	96,645	165,222	167,631	101,669	-	-	-	-	-
	21,474,589	2,254,657	1,271,857	2,120,324	4,366,898	1,900,961	1,710,907	3,426,252	3,272,336	578,323
Liabilities										
Bills payable	-	-	-	-	-	-	-	-	-	-
Borrowings	10,842,781	4,995,440	563,158	496,165	511,095	1,056,832	1,145,418	1,373,387	701,286	-
Deposits and other accounts	775,323	169,822	591,812	12,610	1,080	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	385,766	14,601	259,330	12,097	7,090	63,508	-	-	-	-
	12,003,870	5,179,863	1,414,300	520,872	519,265	1,120,340	1,145,418	1,373,387	701,286	-
Net assets	9,470,719	(2,925,206)	(142,443)	1,599,452	3,847,633	780,621	565,489	2,052,865	2,571,050	578,323
Share capital/ Head office capital account	6,000,000									
Reserves	888,356									
Surplus/(Deficit) on revaluation of assets	56,305									
Unappropriated/ Unremitted profit	2,526,058									
	9,470,719									

	2018									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
			(Rupees in '000)							
Assets										
Cash and balances with treasury banks	73,144	73,144	-	-	-	-	-	-	-	-
Balances with other banks	60,653	60,653	-	-	-	-	-	-	-	-
Lending to financial institutions	105,000	-	105,000	-	-	-	-	-	-	-
Investments	11,259,928	2,145,981	1,986,449	1,001,636	936,409	299,080	412,735	2,229,491	1,748,147	500,000
Advances	6,223,926	624,504	250,783	604,878	1,598,568	741,047	1,305,001	766,808	283,316	49,021
Fixed assets	193,031	-	-	-	-	-	-	-	-	193,031
Intangible assets	211	-	-	-	-	-	-	-	-	211
Deferred tax assets	346,484	-	-	-	-	-	-	-	-	346,484
Other assets	263,060	89,153	74,353	15,899	83,655	-	-	-	-	-
	18,525,437	2,993,435	2,416,585	1,622,413	2,618,632	1,040,127	1,717,736	2,996,299	2,031,463	1,088,747
Liabilities										
Bills payable	-	-	-	-	-	-	-	-	-	-
Borrowings	7,915,858	4,160,977	991,335	220,772	182,278	618,662	618,662	986,770	136,402	-
Deposits and other accounts	1,221,724	572,950	535,718	112,976	80	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	278,165	8,349	194,626	13,624	6,475	55,091	-	-	-	-
	9,415,747	4,742,276	1,721,679	347,372	188,833	673,753	618,662	986,770	136,402	-
Net assets	9,109,690	(1,748,841)	694,906	1,275,041	2,429,799	366,374	1,099,074	2,009,529	1,895,061	1,088,747
Share capital/ Head office capital account	6,000,000									
Reserves	840,066									
Surplus/(Deficit) on revaluation of assets	(71,701)									
Unappropriated/ Unremitted profit	2,341,325									
	9,109,690									

44 EVENTS AFTER THE REPORTING DATE

Subsequent to the year end, the Board of Directors proposed a final cash dividend of PKR ______________(2018: Nil) per share.

45. GENERAL

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

45.2 Figures have been rounded off to the nearest thousand rupees, unless otherwise stated.

45.3 The Pakistan Credit Rating Agency Limited (PACRA) has maintained the long term entity rating to AA (Double A) and the short term rating at A1+ (A one plus) of the Company.

45.4 Corresponding figures

Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements wherever necessary to facilitate comparison and better presentation. There were no significant reclassifications during the current year.

46. DATE OF AUTHORISATION

These financial statements were authorized for issue on 18 FEB 2020 by the Board of Directors of the Company.

Chief Financial Officer	Chief Executive and Managing Director	Chairman	Director	Director