



INDEPENDENT AUDITOR'S REPORT

To the members of Al Baraka Bank (Pakistan) Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of Al Baraka Bank (Pakistan) Limited (the Bank), which comprise the statement of financial position as at December 31, 2022, and the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, along with unaudited certified returns received from the branches except for 28 branches which have been audited by us and notes to the 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, profit and loss account, the statement of comprehensive income, 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 Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2022 and of the profit and other comprehensive loss, 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 Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 directors' report, 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.

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Responsibilities of Management and the 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 Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the 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.

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**Report on Other Legal and Regulatory Requirements**

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

Other Matter

The financial statements of the Bank as at and for the year ended December 31, 2021 were audited by another firm of Chartered Accountants who had expressed an unmodified opinion on those statements vide their report dated March 21, 2022.

The engagement partner on the audit resulting in this independent auditor's report is **Junaid Mesia**.

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A. F. Ferguson & Co.
Chartered Accountants
Karachi

Dated: March 25, 2023

UDIN: AR202210611fe5KvR1W6

AL BARAKA BANK (PAKISTAN) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	2022	2021
----- (Rupees in '000) -----			
ASSETS			
Cash and balances with treasury banks	6	16,569,661	17,608,396
Balances with other banks	7	1,939,954	9,763,588
Due from financial institutions	8	-	403,122
Investments	9	109,899,905	76,552,495
Islamic financing and related assets - net	10	86,057,049	96,202,153
Fixed assets	11	3,975,501	4,193,422
Intangible assets	12	1,305,295	1,320,367
Deferred tax assets	13	2,653,775	2,881,737
Other assets	14	11,266,630	9,192,117
		233,667,770	218,117,397
LIABILITIES			
Bills payable	15	5,376,942	3,978,696
Due to financial institutions	16	12,950,001	8,968,534
Deposits and other accounts	17	185,049,169	178,917,138
Subordinated debt	18	4,624,241	4,624,241
Deferred tax liabilities		-	-
Other liabilities	19	11,062,688	8,214,074
		219,063,041	204,702,683
NET ASSETS		14,604,729	13,414,714
REPRESENTED BY			
Share capital - net	20	14,500,490	14,500,490
Reserves		760,280	458,341
Surplus on revaluation of assets	21	176,411	481,104
Accumulated losses		(832,452)	(2,025,221)
		14,604,729	13,414,714
CONTINGENCIES AND COMMITMENTS	22		

The annexed notes 1 to 49 and annexures I and II form an integral part of these financial statements.

Chief Executive Officer

Chief Financial Officer

Chairman

Director

Director

AL BARAKA BANK (PAKISTAN) LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 ----- (Rupees in '000) -----	2021
Profit / return earned	23	24,793,256	13,743,663
Profit / return expensed	24	(16,347,091)	(7,214,112)
Net profit / return		<u>8,446,165</u>	<u>6,529,551</u>
Other income			
Fee and commission income	25	897,577	999,114
Dividend income		16,155	20,590
Foreign exchange income		826,587	803,333
Gain on securities-net	26	22,420	131,068
Other income	27	28,240	27,834
Total other income		<u>1,790,979</u>	<u>1,981,939</u>
Total income		<u>10,237,144</u>	<u>8,511,490</u>
Other expenses			
Operating expenses	28	(6,434,605)	(5,615,356)
Workers' Welfare Fund		(53,788)	(13,750)
Other charges	29	(56,524)	(359)
Total other expenses		<u>(6,544,917)</u>	<u>(5,629,465)</u>
Profit before provisions		<u>3,692,227</u>	<u>2,882,025</u>
Provisions and write offs - net	30	(1,056,618)	(2,208,291)
Extra ordinary / unusual items		-	-
Profit before taxation		<u>2,635,609</u>	<u>673,734</u>
Taxation	31	(1,125,914)	(43,183)
Profit after taxation		<u><u>1,509,695</u></u>	<u><u>630,551</u></u>
----- Rupees -----			
Basic / diluted earning per share	32	<u><u>1.10</u></u>	<u><u>0.46</u></u>

The annexed notes 1 to 49 and annexures I and II form an integral part of these financial statements.

Chief Executive Officer

Chief Financial Officer

Chairman

Director

Director

**AL BARAKA BANK (PAKISTAN) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022**

	2022	2021
	----- (Rupees in '000) -----	
Profit after taxation for the year	1,509,695	630,551
Other comprehensive income		
Items that may be reclassified to profit and loss account in subsequent periods:		
Movement in deficit on revaluation of investments - net of tax	(371,629)	(222,507)
Items that will not be reclassified to profit and loss account in subsequent periods:		
Remeasurement loss on defined benefit obligations - net of tax	(14,987)	(4,159)
Surplus / (deficit) on revaluation of non-banking assets - net of tax	66,936	(18,623)
	51,949	(22,782)
Total comprehensive income	<u>1,190,015</u>	<u>385,262</u>

The annexed notes 1 to 49 and annexures I and II form an integral part of these financial statements.

Chief Executive Officer

Chief Financial Officer

Chairman

Director

Director

AL BARAKA BANK (PAKISTAN) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital	Capital support fund	Discount on issue of shares	Statutory reserve*	Surplus on revaluation of		Accumulated loss	Total
					Investments	Non banking assets		
----- (Rupees in '000) -----								
Balance as at 1 January 2021	13,739,628	1,393,628	(632,766)	332,231	420,894	302,615	(2,526,778)	13,029,452
Profit after taxation for the year	-	-	-	-	-	-	630,551	630,551
Other comprehensive loss - net of tax	-	-	-	-	(222,507)	(18,623)	(4,159)	(245,289)
Transfer to statutory reserve	-	-	-	126,110	-	-	(126,110)	-
Transfer of surplus on revaluation of non-banking asset on disposal - net of tax	-	-	-	-	-	(1,275)	1,275	-
Balance as at 31 December 2021	<u>13,739,628</u>	<u>1,393,628</u>	<u>(632,766)</u>	<u>458,341</u>	<u>198,387</u>	<u>282,717</u>	<u>(2,025,221)</u>	<u>13,414,714</u>
Profit after taxation for the year	-	-	-	-	-	-	1,509,695	1,509,695
Other comprehensive loss - net of tax	-	-	-	-	(371,629)	66,936	(14,987)	(319,680)
Transfer to statutory reserve	-	-	-	301,939	-	-	(301,939)	-
Balance as at 31 December 2022	<u>13,739,628</u>	<u>1,393,628</u>	<u>(632,766)</u>	<u>760,280</u>	<u>(173,242)</u>	<u>349,653</u>	<u>(832,452)</u>	<u>14,604,729</u>

* This represents reserve created under section 21(i)(b) of the Banking Companies Ordinance ,1962.

The annexed notes 1 to 49 and annexures I and II form an integral part of these financial statements.

Chief Executive Officer

Chief Financial Officer

Chairman

Director

Director

AL BARAKA BANK (PAKISTAN) LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022	2021
		----- (Rupees in '000) -----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		2,635,609	673,734
Less: Dividend income		<u>(16,155)</u>	<u>(20,590)</u>
		2,619,454	653,144
Adjustments:			
Depreciation on fixed assets	28	223,270	201,826
Depreciation on right-of-use assets	28	464,932	667,822
Amortisation	28	158,741	149,858
Depreciation - non banking assets	28	31,997	32,009
Provision and write-offs - net	30	1,056,618	2,208,291
Gain on sale of fixed assets - net	27	(6,387)	(6,740)
Loss on sale of non-banking asset	27	-	1,987
Finance charges on lease liability against right-of-use assets	24	254,105	173,778
Unrealised gain on revaluation of securities classified as held for trading	26	-	(5,802)
Workers' Welfare Fund		53,788	13,750
		<u>2,237,064</u>	<u>3,436,779</u>
		4,856,518	4,089,923
Decrease / (increase) in operating assets			
Due from financial institutions		403,122	2,345,099
Held-for-trading securities - net		5,827,084	(5,279,855)
Islamic financing and related assets - net		9,074,348	(8,285,306)
Others assets (excluding advance taxation)		<u>(2,069,015)</u>	<u>(890,258)</u>
		13,235,539	(12,110,320)
Increase in operating liabilities			
Bills payable		1,398,246	282,214
Due to financial institutions		3,981,467	3,246,198
Deposits and other accounts		6,132,031	19,553,411
Other liabilities		<u>2,645,624</u>	<u>481,762</u>
		14,157,368	23,563,585
Income tax paid		<u>(336,006)</u>	<u>(191,427)</u>
Net cash flows generated from operating activities		31,913,419	15,351,761
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		<u>(41,302,472)</u>	<u>(16,873,713)</u>
Net investments in held-to-maturity securities		1,540,891	2,577,636
Dividends received		16,155	22,890
Investments in fixed assets		<u>(421,410)</u>	<u>(830,285)</u>
Proceeds from sale of fixed assets		35,919	16,020
Net cash used in investing activities		(40,130,917)	(15,087,452)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of Tier II mudaraba sukuk - first issue		-	(285,704)
Payment of lease liability against right-of-use assets		<u>(644,871)</u>	<u>(292,328)</u>
Proceeds from issuance of Tier II mudaraba sukuk - third issue		-	1,735,000
Net cash (used in) / generated from financing activities		(644,871)	1,156,968
(Decrease) / Increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	33	<u>(8,862,369)</u>	<u>1,421,277</u>
Cash and cash equivalents at the end of the year		<u>27,371,984</u>	<u>25,950,707</u>
		<u>18,509,615</u>	<u>27,371,984</u>

The annexed notes 1 to 49 and annexures I and II form an integral part of these financial statements.

Chief Executive Officer

Chief Financial Officer

Chairman

Director

Director

AL BARAKA BANK (PAKISTAN) LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

1 STATUS AND NATURE OF BUSINESS

- 1.1 Al Baraka Bank (Pakistan) Limited (the Bank) was incorporated in Pakistan on 20 December 2004 as a public limited company. The Bank was granted an Islamic Banking License BL(I)-01(07), issued by the Banking Policy and Regulations Department of the State Bank of Pakistan (SBP) on 18 January 2007. Subsequently, the Bank was also granted approval for commencement of business as a scheduled bank with effect from 13 February 2007. Upon merger of the Pakistan branches of Al Baraka Islamic Bank B.S.C. (c) with and into the Bank, fresh license no. BL(i)-01(2011) was issued by SBP on 12 March 2011, effective from close of business on 29 October 2010. The main objective of the Bank is to carry on Islamic banking business in Pakistan in accordance and in conformity with Shariah.

The Bank is a subsidiary of Al Baraka Islamic Bank B.S.C. (c) (Parent Bank) incorporated and domiciled in Bahrain and a member of Al Baraka Banking Group.

- 1.2 During the year 2016, the shareholders of the Bank in their extra ordinary general meeting held on 22 August 2016 have approved the merger of the Bank with Burj Bank Limited under a "Scheme of Amalgamation" (the Scheme). Further, the State Bank of Pakistan, through its letter no. BPRD (R&P-02)/2016/24373 dated 14 October 2016, had also approved the scheme of amalgamation and granted sanction order for the amalgamation of Ex Burj Bank Limited with and into the Bank. As of the effective date of amalgamation, the entire undertaking of Ex Burj Bank Limited including all the properties, assets and liabilities and all the rights and obligations, without any further act, action or deed and notwithstanding the terms of any contract or other document or any rule of law, stands amalgamated with and vested in the Bank and as a consequence, Ex Burj Bank Limited stood amalgamated with and into the Bank.

The Bank's registered office is located at 162, Bangalore Town, Main Shahrah-e-Faisal, Karachi. The Bank has 170 branches including 6 sub-branches (31 December 2021: 180 branches including 6 sub-branches) in Pakistan.

- 1.3 Based on the financial statements of the Bank for the year ended 31 December 2021, the VIS Credit Rating Company Limited has maintained the long-term rating at 'A+' and short-term rating as 'A-1'.
- 1.4 As at 31 December 2022, the Minimum Capital Requirement (MCR) and Capital Adequacy Ratio (CAR) stood at Rs. 13.668 billion and 15.8% respectively.

2 BASIS OF PRESENTATION

These financial statements have been prepared in conformity with the format of financial statements prescribed by the SBP vide BPRD Circular No. 02 dated 25 January 2018.

The Bank provides Islamic financing mainly through shariah compliant financial products as explained in note 5.6.1 except for Murabaha transactions (which are accounted for under the Islamic Financial Accounting Standard - 1). The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of rental / profit thereon. Income, if any received, which does not comply with the principles of Shariah is recognised as charity payable.

2.1 STATEMENT OF COMPLIANCE

- 2.1.1 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;
- Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Act, 2017;
- Provisions of and directives issued under the Banking Companies Ordinance, 1962 and the Companies Act, 2017; and
- Directives issued by the State Bank of Pakistan (SBP) and the Securities Exchange Commission of Pakistan (SECP).

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

- 2.1.2** The SBP vide its BSD Circular Letter No. 10 dated 26 August 2002 has deferred the applicability of International Accounting Standard 39, 'Financial Instruments: Recognition and Measurement' (IAS 39) and International Accounting Standard (IAS) 40, 'Investment Property' (IAS 40) for banking companies till further instructions. Further, according to the notification of SECP dated 28 April 2008, the IFRS - 7 'Financial Instruments: Disclosures' has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by the SBP.
- 2.1.3** The SBP vide its BPRD Circular No. 04 dated 25 February 2015 has clarified that the reporting requirements of IFAS-3 'Profit and Loss Sharing on Deposit' for Islamic Banking Institutions (IBIs) relating to annual, half yearly and quarterly financial statements would be notified by SBP through issuance of specific instructions and uniform disclosure formats in consultation with IBIs. These reporting requirements have not been notified to date. Accordingly, the disclosures requirements under IFAS 3 have not been considered in these financial statements.

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

There are certain new standards, interpretations and amendments that are mandatory for the Bank's accounting periods beginning on 1 January 2022 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

2.3 Standards, interpretations of and amendments to the published accounting and reporting standards that are not yet effective

The following revised standards, amendments and interpretations with respect to the accounting and reporting standards would be effective from the dates mentioned below against the respective standards, amendments or interpretations:

Standards, interpretations or amendments	Effective date (annual periods beginning on or after)
- IAS 1 - 'Accounting policy disclosures' (amendments)	01 January 2023
- IAS 1 - Non current liabilities with covenants (amendments)	01 January 2024
- IAS 8 - 'Accounting policies, changes in accounting estimates and errors' (amendments)	01 January 2023
- IFRS 16 - Sale and leaseback (amendments)	01 January 2024
- IAS 12 - 'Income taxes' (amendments)	01 January 2023
- IFRS 9 - 'Financial instruments'	01 January 2024

- 2.3.1** The management is in the process of assessing the impact of these standards and amendments on the financial statements of the Bank except for IFRS 9 (Financial Instruments), the impact of which is as follows:

IFRS 9 - 'Financial Instruments'

As directed by the SBP via BPRD Circular no 3 of 2022, IFRS 9, 'Financial Instruments' is effective for periods beginning on or after 1 January, 2024 for banks having asset base of less than Rs. 500 billion as at December 31, 2021. SBP via the same circular has finalised the instructions on IFRS 9 (Application Instructions) for ensuring smooth and consistent implementation of the standard in the banks.

During 2022, the management of the Bank has performed an impact assessment of IFRS 9 taking into account the SBP's IFRS 9 application instructions. The assessment is based on available information and may be subject to changes arising from further reasonable and supportable information being made available to the Bank at the time of finalising the impact for initial application of IFRS 9. In addition, the Bank will implement changes in classification of certain financial instruments.

An overview of the IFRS 9 requirements that are expected to have significant impact are discussed below along with the additional requirements introduced by the SBP:

Classification and measurement

The classification and measurement of financial assets will base on the business model within which they are held and their contractual cash flow characteristics. Financial assets that do not meet the solely payments of principal and profit (SPPI) criteria are measured at FVTPL regardless of the business model in which they are held. The Bank's business model in which financial assets are held will determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVTPL').

The business model reflects how groups of financial assets are managed to achieve a particular business objective. Financial assets can only be held at amortised cost if the instruments are held in order to collect the contractual cash flows ('hold to collect'), and where those contractual cash flows are solely payments of principal and profit (SPPI).

Debt instruments where the business model objectives are achieved by collecting the contractual cash flows and by selling the assets ('hold to collect and sell') and that have SPPI cash flows are held at FVOCI, with unrealised gains or losses deferred in reserves until the asset is derecognised.

The classification of equity instruments is generally measured at FVTPL unless the Bank, at initial recognition, irrevocably designates as FVOCI in which case both unrealised and realised gains or losses are recognised in reserves and no amounts other than dividends received are recognised in the profit and loss account.

All other financial assets will mandatorily be held at FVTPL. Financial assets may be designated at FVTPL only if doing so eliminates or reduces an accounting mismatch.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and FVOCI (other than equity instruments), lease receivables, and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are in 'stage 1'; financial assets that are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment, so are considered to be in default or otherwise credit impaired, are in 'stage 3'.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

Based on the requirement of IFRS 9 and SBP's IFRS 9 application instructions, the Bank has performed an ECL assessment taking into account the key elements such as assessment of SICR, Probability of Default, Loss Given Default and Exposure at Default.

Under the SBP's instructions, credit exposure (in local currency) guaranteed by the Government and Government Securities are exempted from the application of ECL Framework. Moreover, until implementation of IFRS 9 has stabilised, stage 1 and stage 2 provisions would be made as per IFRS 9 ECL and stage 3 provision would be made considering higher of IFRS 9 ECL or provision computed under existing PRS' requirements.

Presentation and disclosure

IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of Bank's disclosure about its financial instruments particularly in the year of adoption of IFRS 9.

Impact of adoption of IFRS 9

The Bank will adopt IFRS 9 in its entirety effective 1 January 2024 with modified retrospective approach for restatement. The cumulative impact of initial application will be recorded as an adjustment to equity at the beginning of the accounting period. The total estimated adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of the Bank's equity at 1 January 2023 is reduction in equity of approximately Rs. 728.252 million, representing corresponding impact.

The Bank continues to refine its expected credit loss model and embed its operational processes which may change the actual impact on adoption.

In order to mitigate the impact of expected credit loss (ECL) models on capital, the SBP has allowed a transitional arrangement on the impact on regulatory capital from the application of ECL accounting period over a period of 5 years.

- 2.3.2** There are certain other new and amended standards, interpretations and amendments that are mandatory for the Company's accounting periods beginning on or after 1 January 2023 but are considered not to be relevant or will not have any significant effect on the Company's operations and are therefore not stated in these financial statements.

3 BASIS OF MEASUREMENT

- 3.1** These financial statements have been prepared under the historical cost convention except for available for sale investments, non-banking assets and commitments in respect of foreign exchange forward contracts which have been measured at fair value in accordance with requirements of SBP and obligation in respect of staff retirement benefits which are carried at present value of the defined benefit obligation less fair value of plan assets.

3.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the accounting and reporting standards as applicable in Pakistan requires the management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgements in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates / judgments and associated assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimates are revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgments were made by the management in the application of accounting policies are as follows:

- i) classification and valuation of investments (notes 5.5 and 9);
- ii) provision against non-performing islamic financing and related assets (notes 5.6 and 10.5);
- iii) income taxes (notes 5.14,13 and 31);
- iv) defined benefit plans (notes 5.15 and 36);
- v) depreciation of fixed assets (notes 5.7.1 and 11.2);
- vi) amortisation of intangible assets (notes 5.8 and 12.1);
- vii) impairment of intangible assets (notes 5.9, 12.4 and 12.5);
- viii) valuation of right-of-use assets and their related lease liability (notes 5.1 and 11.3);
- ix) impairment of financial assets (note 5.5.5); and
- x) valuation of non-banking assets acquired in satisfaction of claims (notes 5.10 and 14.1).

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

4 FUNCTIONAL AND PRESENTATION CURRENCY

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

5.1 Leasing arrangements

Right-of-use assets

At the inception of the contract, the Bank assesses whether a contract is, or contain, a lease. The Bank applies a single recognition and measurement approach for all leases, except for short term leases and leases of low-value assets. At the commencement date of the lease, the right-of-use asset is initially measured at the present value of lease payment plus initial direct cost (if any). Subsequently, right-of-use assets are measured at cost, less accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Lease liability against right-of-use assets

At the commencement date of the lease, the Bank recognises lease liability measured at the present value of the consideration (lease payments) to be made over the lease term and is adjusted for lease prepayments. Lease payments include fixed lease payments less any incentive receivables, variable lease payment dependent upon index or rate, amount expected to be paid under residual value guaranteed if any. The lease payments are discounted using the interest rate implicit in the lease, unless it is not readily determinable, in which case the lessee may use the incremental rate of borrowing. After the commencement date, the carrying amount of lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities are remeasured if there is a modification, change in lease term, change in lease payments or change in assessment to purchase the underlying assets.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

5.2 Business combinations and goodwill

Business combinations are accounted for by applying the acquisition method. The cost of acquisition is measured as the fair value of assets given, equity instruments issued and the liabilities incurred or assumed at the date of acquisition. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement, if any. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets acquired in the case of a bargain purchase, the difference is recognised directly in profit and loss account.

Goodwill acquired in a business combination is measured, subsequent to initial recognition, at its cost less accumulated impairment losses, if any. Goodwill acquired in a business combination is tested for impairment annually or whenever there is an indication of impairment as per the requirements of International Accounting Standard (IAS) 36, 'Impairment of assets'. Impairment charge in respect of goodwill is recognised in the profit and loss account and is not subsequently reversed.

5.3 Cash and cash equivalents

For the purpose of cash flow statements, cash and cash equivalents comprise of cash in hand, cash and balances with treasury banks, balances with other banks in current and deposit accounts and investments with short term maturity of three months or less.

5.4 Due to / from financial institutions

Bai Muajjal

In Bai Muajjal transactions, the Bank sells shariah compliant instruments on credit to other financial institutions. The credit price is agreed at the time of sale and such proceeds are received at the end of the credit period. The difference between sale and credit price is recognised over the credit period and recorded as income.

Musharaka

In Musharaka, the Bank invests in the Shariah compliant business pools of the financial institutions at the agreed profit and loss sharing ratio under Musharaka agreements.

Musharaka from State Bank of Pakistan under Refinance Schemes

Under the refinance schemes, the Bank accepts funds from the SBP under shirkat-ul-aqd to constitute a pool for investment in export refinance portfolio of the Bank under the guidelines issued by the SBP. The profit of the pool is shared as per the agreed weightages between the partners.

5.5 Investments

5.5.1 Classification

Investments are classified as follows:

(a) Held for trading

These are securities, which are either acquired for the purpose of generating a profit from short-term fluctuations in market prices, profit rate movements or are securities included in the portfolio in which a pattern of short-term profit making exists. Such securities are normally sold within 90 days of the purchase date.

(b) Held to maturity

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

(c) Available for sale

These are investments, that do not fall under the 'held for trading' or 'held to maturity' categories.

5.5.2 Regular way contracts

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 Bank commits to purchase or sell the investment.

5.5.3 Initial recognition and measurement

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

5.5.4 Subsequent measurement

(a) Held for trading

These are measured at subsequent reporting dates at fair value. Gains and losses on remeasurement are included in the profit and loss for the year.

(b) Held to maturity

These are measured at amortised cost using the effective profit rate (EPR) method, less any impairment loss recognised to reflect irrecoverable amount. The amortisation and impairment are included in profit and loss for the year.

(c) Available for sale

In accordance with the requirements of the SBP, quoted securities and Government securities other than those classified as 'held to maturity', are re-measured at subsequent reporting date at fair value. Surplus / deficit arising on revaluation of quoted securities which are classified as 'available for sale', is included in other comprehensive income. On derecognition or impairment of available-for-sale investments, the cumulative gain or loss previously reported in other comprehensive income is transferred to profit and loss for the period.

Unquoted equity securities are valued at the lower of cost and break-up value. The break-up value of these securities is calculated with reference to the net assets of the investee company as per the latest available financial statements. A decline in the carrying amount is charged to profit and loss account. A subsequent increase in the carrying value, upto the cost of investment is credited to profit and loss account. Investments in unquoted securities is valued at cost less impairment, if any.

5.5.5 Impairment

Impairment loss in respect of investments classified as available for sale (except sukuk certificates) 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 the 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 sukuk certificates is made as per the requirements of the Prudential Regulations issued by the SBP. In case of impairment of available for sale securities, the cumulative loss that has been recognised in surplus / deficit on revaluation of securities on the statement of financial position within equity is removed therefrom and recognised in the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in the profit and loss account.

Gain or loss on sale of investments is included in the profit and loss account.

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

5.6 Islamic financing and related assets

5.6.1 Islamic financing and related assets are stated net of specific and general provisions. Specific provision for Islamic financing and related assets is made in accordance with the requirements of the Prudential Regulations and other directives issued by the SBP which is based on the time based criteria and subjective evaluation of the credit worthiness of the borrowers. The amount of provision is charged to the profit and loss account. The amount of general provision is determined in accordance with the relevant regulations and the management's judgment. Islamic financing and related assets are written off when there is no realistic prospect of recovery. The Bank also offers various Islamic financing products the details of which are as follows:

(a) Murabaha

In Murabaha transactions, the Bank purchases the goods and after taking the possession, sells them to the customer on cost plus profit basis either in a spot or credit transaction.

(b) Ijarah

Ijarah is a contract whereby the owner of an asset (other than consumables) transfers its usufruct to another person for an agreed period and for an agreed consideration.

Ijarah assets are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged from the date of recognition of Ijarah assets on a straight line basis over the period of Ijarah. Impairment of Ijarah assets is determined on the same basis as that of operating fixed assets.

Ijarah rental income is recognised on an accrual basis as and when the rental becomes due. Impairment of Ijarah rentals receivable is determined in accordance with the requirements of the Prudential Regulations and other directives issued by the SBP and charged to the profit and loss account.

(c) Istisna

In istisna financing, the Bank places an order to purchase some specific goods / commodities from its customers to be delivered to the Bank within an agreed time. The goods are then sold by the customer on behalf of the Bank and the amount hence financed along with the profit is paid back to the Bank.

(d) Tijarah

In tijarah financing, the Bank purchases specific goods / commodities on cash basis from its customer against spot delivery. The customer is then appointed as an agent to sell the Tijarah goods in the market. On execution of onwards sale by the customers, the net amount realised is paid by the customer to the Bank.

(e) Diminishing Musharaka

In Diminishing Musharakah financing, the Bank enters into Musharakah based on Shirkat-ul-mulk for purchasing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers. The customers pay periodic profit as per the agreement for the utilisation of the Bank's Musharakah share and also periodically purchase the Bank's share over the tenure of the transaction.

(f) Salam

Salam is a sale transaction where the seller undertakes to supply some specific goods to the buyer at a future date against an advance price fully paid on spot. The funds disbursed under Salam are recorded as advances against Salam. On execution of goods receiving note and receipt of Salam, the same are recorded in the statement of financial position as inventories of the Bank at cost price and after the sale of goods by customer to its ultimate buyers, Salam financing is recognised.

(g) Running Musharaka

Running musharaka is a shirkul-aqd based financing facility offered to the customers where the Bank participates in operating activities of the customer and share profit and loss as per the actual performance of their business.

5.6.2 Inventories

Goods purchased but remaining unsold at the reporting date are recorded as inventories. The Bank values its inventories at the lower of cost and net realisable value. Cost of inventories represents the actual purchase price paid by the customer as an agent on behalf of the Bank from the funds disbursed for the purpose of culmination of murabaha.

The net realisable value is the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

5.7 Fixed assets**5.7.1 Property and equipment**

Property and equipment, other than land, are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Land is stated at cost.

Depreciation is charged using the straight-line method in accordance with the rates specified in note 11.2 to these financial statements and after taking into account residual value, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate at each reporting date. Depreciation on additions is charged from the month the asset is available for use while no depreciation is charged in the month in which the asset is disposed off.

Gains / losses on sale of fixed assets are credited / charged to the profit and loss account and disclosed in other income.

Subsequent costs are included in the assets' carrying amount and recognised as a separate asset as appropriate, only when it is probable that future benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account as and when incurred.

5.7.2 Capital work-in-progress

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. All expenditure connected with specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to specific assets as and when assets become available for use.

5.8 Intangible assets

Intangible assets having finite useful lives are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets are amortised from the month, when these assets are available for use, using the straight line method, No amortisation is charged in the month of disposal. The residual values, useful lives and amortisation methods are reviewed and adjusted, if appropriate, at each reporting date. Amortisation rates are specified in note 12.1 to these financial statements.

Intangible assets having indefinite useful lives are not amortised but tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains and losses on disposal are taken to the profit and loss account.

5.9 Impairment

The carrying amount of assets are reviewed at each reporting date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The resulting impairment loss is taken to the profit and loss account. An impairment loss is reversed except for impairment loss relating to goodwill, if there has been a change in the estimate used to determine the recoverable amount. Such reversals are only made to the extent that the asset's carrying amount does not exceed the amount that would have been determined if no impairment loss had been recognised.

5.10 Non-banking assets

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

Depreciation is determined with reference to the value assigned to such assets on revaluation and depreciation charge for the year is taken to the profit and loss account.

5.11 Deposits

Deposits are generated on the basis of two modes i.e. Qard and Mudaraba. Deposits taken on Qard basis are classified as 'Current Accounts' and Deposits generated on Mudaraba basis are classified as 'Savings account' and 'Fixed deposit accounts'.

No profit or loss is passed on to current account depositors. However, the funds of current accounts are treated as equity for the purpose of profit calculation and any profit earned / loss incurred on these funds are allocated to the equity of the Bank. Profits realised in pool are distributed in pre-agreed profit sharing ratio. Rab-ul-Maal share is distributed amongst depositors according to weightages assigned at the inception of profit calculation period.

Mudarib (the Bank) can distribute its share of profit to Rab-ul-Maal in line with Shariah guidelines issued by the SBP.

5.12 Sub-ordinated loans

A subordinated loan is initially recorded at the amount of proceeds received and subsequently carried at amortised cost. Profit accrued on subordinated loans is charged to the profit and loss account.

5.13 Revenue recognition

- Profit on murabaha transactions is recognised on an accrual basis. Profit on Murabaha transactions for the period from the date of disbursement to the date of culmination of murabaha is recognised immediately at the date of culmination.
- Rental income on ijarah financing is recognised on an accrual basis.
- Profit on diminishing musharaka, mudaraba and service ijarah is recognised on an accrual basis.
- Profit on running musharakah financing is recognised on an accrual basis and is adjusted upon declaration of profit by musharakah partners.
- Profit on tijarah, salam and istisna is recognised on an accrual basis for the period from the date of sale of goods by the Bank's customer till the realisation of sale proceeds by the Bank (date of culmination).
- Profit on bai muajjal transactions are recognised on an accrual basis.
- Commission on letters of credit, acceptances and letters of guarantee is recognised on an accrual basis.
- Dividend income is recognised when the Bank's right to receive the dividend is established.
- Profit from investment in sukuk is recognised on an accrual basis. Premium and discount on purchase of sukuk are being amortised through profit and loss account over the remaining maturity using effective profit rate method.
- Gains / losses on disposal of fixed assets, ijarah assets and musharaka assets are taken to the profit and loss account in the period in which they arise.
- Rentals from non-banking assets are recognised when earned.

- Gains / losses on sale of investments is included in the profit and loss account.
- Income earned from avenues that are not Shariah compliant is not recognised in the profit and loss account. This income is classified as charity payable in accordance with the recommendation of the RSBM of the Bank.
- Realisation of profit earlier suspended in compliance with the Prudential Regulations issued by SBP is credited to the profit and loss account on receipt basis.

5.14 Taxation

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

(a) Current

Provision for current taxation is based on taxable income for the year. Tax charge is determined in accordance with prevailing laws for taxation. The change for the current tax is calculated using tax rates enacted or substantively enacted at the reporting date.

(b) Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. In addition, the Bank also records deferred tax asset on available tax losses. Deferred tax is calculated using the rates that are expected to apply to the period when the differences are expected to reverse, based on tax rates 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 will be available against which the asset can be utilised. The carrying amount of the deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

The Bank also recognises a deferred tax asset / liability on the deficit / surplus on revaluation of assets which is adjusted against the related surplus / deficit in accordance with the requirements of the International Accounting Standard (IAS) 12, 'Income Taxes'.

5.15 Staff retirement benefits

(a) Defined benefit plan

The Bank 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 basic salary for each completed year of service, subject to a minimum of three years of service. The scheme is regulated under the trust deed and rules of the Fund and is administrated by the trustees nominated under the trust deed.

The defined benefit obligation is calculated periodically by an independent actuary using the projected unit credit method. Remeasurement gain or losses are recognised in other comprehensive income while return on plan assets and interest cost (net) are recognised in the profit and loss account.

(b) Defined contribution plan

The Bank also operates a contributory provident fund for all permanent employees to which each monthly contributions are made, both by the Bank and the employees, to the fund at a rate of 10 percent of basic salary.

5.16 Provisions, contingent assets and contingent liabilities

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

Contingent assets are not recognised unless inflow of economic benefits is virtually certain.

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

5.17 Provision for claims under guarantee and other off-balance sheet obligations

The Bank, in the ordinary course of business, issues letters of credit, acceptances, guarantees, bid bonds, performance bonds etc. The commission against such contracts is recognised in the profit and loss account under "fee and commission income" on receipt basis. The Bank's liability under such contracts is measured at the best estimate of the amount expected to settle any financial obligation arising under such contracts.

5.18 Foreign currency transactions

Foreign currency transactions are translated into Pakistan rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pakistan rupees at the exchange rates prevailing at the reporting date. Exchange gains or losses are included in the profit and loss account.

5.19 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in the financial statements at their committed amounts. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee term at the exchange rates prevailing at the reporting date.

5.20 Acceptances

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be simultaneously settled with the reimbursement from the customers. Acceptances are accounted for in these statement of financial position both as assets and liabilities.

5.21 Financial instruments

(a) Financial assets and financial liabilities

Financial assets and financial liabilities are initially recognised at the time when the Bank becomes a party to the contractual provisions of the instrument. These include regular way purchases or sales of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the market place. Financial assets are de-recognised when the contractual right to future cash flows from the asset expires or is transferred along with the risk and rewards of ownership of the asset. Financial liabilities are de-recognised when obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial assets and liabilities is recognised in the profit and loss account.

(b) Off-setting

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

5.22 Share capital and reserves

Ordinary shares are classified as equity and are recorded at their face value. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Discount on issue of shares and capital support received are shown in equity as a separate reserve.

The appropriation to reserves are recognised in the financial statements in the period in which these are approved by the Board of directors.

5.23 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing product or services within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from those of other segments. The Bank's primary format of reporting is based on business segments. Operating segments are reported in a manner consistent with the internal reporting provided to the management. Management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment.

5.23.1 Business segments

(a) Corporate banking

It includes corporate sukuks, project finance, export finance, trade finance and guarantees.

(b) Commercial and Small & Medium Enterprise (SME) banking

It includes project finance, export finance, trade finance and guarantees.

(c) Retail and Consumer banking

It includes deposits, mobilisation and branch banking services. It also includes consumer auto and housing financing.

(d) Trading and sales

It includes treasury operations in respect of capital market, money market and other forex related activities.

(e) Payment and settlement

It includes centralised functions operating independent of aforementioned segments.

5.23.2 Geographical segments

Currently, the operations of the Bank are carried out in Pakistan only.

5.24 Earnings / loss per share

The Bank presents basic and diluted earnings per share (EPS) and basic and diluted loss per share for its shareholders. Basic earnings / loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted earnings / loss per share is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

5.25 Pool management

The Bank operates general and specific pools for depositors and other fund providers.

Under the general deposits pool, the Bank accepts funds on Mudaraba basis from depositors (Rab-ul-Maal) where the Bank acts as Manager (Mudarib) and invests the funds in the Shariah Compliant modes of Islamic financings and related assets, investments and placements. When utilising investing funds, the Bank prioritises the funds received from depositors over the funds generated from own sources after meeting the regulatory requirement relating to such deposits.

Specific pools are operated for:

- (a) Funds received from State Bank of Pakistan for under the Refinance Schemes under the Musharaka mode.
- (b) Funds acquired from Islamic Financial Institutions for liquidity management under either Musharaka or Wakala modes.
- (c) Funds accepted on Mudaraba basis from high net-worth / special deposit customers who demand higher rate of return on their investments.

The profit of each deposit pool is calculated on all the remunerative assets by utilising the funds from the pool after deduction of expenses directly incurred in earning the income of such pool, if any. No provisions against any non performing assets of the pool is passed on to the pool. The profit of the pool is shared among the members of the pool on pre-defined mechanism based on the weightages announced before the profit calculation period.

The deposits and funds under the above mentioned pools are provided to diversified sectors and avenues of the economy / business and are also invested in Government of Pakistan backed ijarah sukuk and other sovereign securities. Musharaka investments from State Bank of Pakistan under Islamic Export Refinance are channelled towards the export sector of the economy.

	Note	2022 ----- (Rupees in '000) -----	2021 ----- (Rupees in '000) -----
6 CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		2,879,096	2,762,250
Foreign currencies		414,071	460,262
		3,293,167	3,222,512
With State Bank of Pakistan in			
Local currency current account	6.1	11,363,393	10,982,941
Foreign currency current account	6.2	59,904	22,352
Foreign currency deposit account	6.3	1,822,851	1,756,373
		13,246,148	12,761,666
With National Bank of Pakistan in			
Local currency current accounts		30,338	1,624,210
Local currency deposit accounts		8	8
		30,346	1,624,218
		<u>16,569,661</u>	<u>17,608,396</u>

6.1 These represent local currency current accounts maintained with the SBP as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve in a current account with the SBP at a sum not less than such percentage of the Bank's time and demand liabilities in Pakistan as may be prescribed by the SBP.

6.2 This represents foreign currencies settlement account maintained with SBP.

6.3 According to BSD Circular No.15 of 2008, Islamic Banks or Branches are required to maintain Cash Reserves in US \$ equivalent of their total FE-25 deposits on daily basis with State Bank of Pakistan at 5% and 6% on Cash Reserve Account and Special Cash Reserve Account respectively.

	Note	2022 ----- (Rupees in '000) -----	2021 ----- (Rupees in '000) -----
7 BALANCES WITH OTHER BANKS			
In Pakistan			
In current accounts		52,739	143,560
In deposit accounts	7.1	129,946	8,123,328
		182,685	8,266,888
Outside Pakistan			
In current accounts		1,440,015	1,179,395
In deposit accounts	7.1	317,254	317,305
		1,757,269	1,496,700
		<u>1,939,954</u>	<u>9,763,588</u>

7.1 The expected return on remunerative deposits ranges from 0.08% to 9.50% (31 December 2021: 0.08% to 11.25%) per annum.

	Note	2022 ----- (Rupees in '000) -----	2021 ----- (Rupees in '000) -----
8 DUE FROM FINANCIAL INSTITUTIONS			
Bai muajjal receivable			
- from financial institution	8.2	-	403,122
8.1 Particulars of due from financial institution			
In local currency		-	403,122
8.2 The return on bai muajjal is Nil (31 December 2021: 9.00%) per annum.			

9 INVESTMENTS

		2022				2021			
		Cost / amortised cost	Provision for diminution	(Deficit) / surplus	Carrying value	Cost / amortised cost	Provision for diminution	(Deficit) / surplus	Carrying value
Note		----- (Rupees in '000) -----							
9.1 Investments by type									
Held-for-trading securities									
Federal Government securities		-	-	-	-	5,830,519	-	(3,435)	5,827,084
Available-for-sale securities									
Federal Government securities		103,840,636	-	(133,145)	103,707,491	65,405,323	-	289,932	65,695,255
9.5.1	Shares	524,820	(303,313)	5,070	226,577	602,416	(345,384)	5,830	262,862
9.5.2 & 9.5.3	Non-government debt securities	1,754,355	(111,455)	10,453	1,653,353	1,395,405	(111,455)	10,260	1,294,210
9.5.4	Foreign securities	3,985,947	-	(186,311)	3,799,636	1,400,142	-	19,203	1,419,345
9.5.5		110,105,758	(414,768)	(303,933)	109,387,057	68,803,286	(456,839)	325,225	68,671,672
Held-to-maturity securities									
Federal Government securities		512,848	-	-	512,848	2,053,739	-	-	2,053,739
9.6									
Total investments		110,618,606	(414,768)	(303,933)	109,899,905	76,687,544	(456,839)	321,790	76,552,495

		2022				2021			
		Cost / amortised cost	Provision for diminution	(Deficit) / surplus	Carrying value	Cost / amortised cost	Provision for diminution	(Deficit) / surplus	Carrying value
		----- (Rupees in '000) -----							
9.2 Investments by segments									
Federal Government securities									
Ijarah sukuk		79,339,305	-	(527,884)	78,811,421	49,487,488	-	(248,580)	49,238,908
Bai muajjal		512,848	-	-	512,848	2,053,739	-	-	2,053,739
9.6	Other sukuk	24,501,331	-	394,739	24,896,070	21,748,354	-	535,077	22,283,431
		104,353,484	-	(133,145)	104,220,339	73,289,581	-	286,497	73,576,078
Shares									
Listed companies		402,144	(277,159)	5,070	130,055	514,257	(319,230)	5,830	200,857
9.5.2	Unlisted companies	122,676	(26,154)	-	96,522	88,159	(26,154)	-	62,005
9.5.3		524,820	(303,313)	5,070	226,577	602,416	(345,384)	5,830	262,862
Non government debt securities									
Unlisted		1,754,355	(111,455)	10,453	1,653,353	1,395,405	(111,455)	10,260	1,294,210
9.5.4									
Foreign securities									
Government securities		679,637	-	(11,311)	668,326	529,994	-	18,356	548,350
9.5.5.1	Non-government debt securities	3,306,310	-	(175,000)	3,131,310	870,148	-	847	870,995
9.5.5.2		3,985,947	-	(186,311)	3,799,636	1,400,142	-	19,203	1,419,345
Total investments		110,618,606	(414,768)	(303,933)	109,899,905	76,687,544	(456,839)	321,790	76,552,495

	Note	2022	2021
----- (Rupees in '000) -----			
9.3 Investment given as collateral - at market value			
- Ijarah sukuk	16.6	3,983,200	-
9.4 Provision for diminution in value of investments			
9.4.1 Opening balance		456,839	632,672
Charge / reversals			
Charge for the year		8,337	18,211
Reversal on disposals		(50,408)	(194,044)
		(42,071)	(175,833)
Closing balance		414,768	456,839

9.4.2 Particulars of provision against debt securities

Category of classification	2022		2021	
	Non-performing investment	Provision	Non-performing investment	Provision
----- (Rupees in '000) -----				
Domestic				
Other assets especially mentioned	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	111,455	111,455	111,455	111,455
	111,455	111,455	111,455	111,455

2022	2021
Cost	
----- (Rupees in '000) -----	

9.5 Quality of available for sale securities

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

9.5.1 Federal Government securities

- Government guaranteed

Ijarah sukuk	79,339,305	43,656,969
Others Federal Government sukuks	24,501,331	21,748,354
	103,840,636	65,405,323

9.5.2 Shares - Listed companies

Chemicals and pharmaceutical	51,507	94,549
Cement	-	16,449
Power generation and distribution	-	45,767
Oil and gas marketing and exploration companies	269,852	269,852
Paper and board	71,409	71,409
Cable and electrical goods	9,376	16,231
	402,144	514,257

9.5.3 Shares - Unlisted companies

	2022		2021	
	Cost	Breakup value	Cost	Breakup value
----- (Rupees in '000) -----				
Salaam Takaful Limited (formerly: Takaful Pakistan Limited)*	116,117	89,964	83,046	56,892
Crown Textile Mills Limited**	-	-	-	-
SWIFT	6,559	6,559	5,113	5,113
	<u>122,676</u>	<u>96,523</u>	<u>88,159</u>	<u>62,005</u>

* The break-up value of Salaam Takaful Limited (formerly: Takaful Pakistan Limited) is Rs. 8.10 per share as per the latest available (un-audited) financial statements for the period ended 30 September 2022 and Rs. 6.65 per share as per the (audited) financial statements for the year ended 31 December 2021.

** The Bank holds 444,656 (2021: 444,656) shares of Crown Textile Mills Limited which were transferred at Nil value upon amalgamation of Pakistan branches of Al Baraka Islamic Bank B.S.C. (c) with and into the Bank.

9.5.4 Non-government debt securities

	2022	2021
	Cost	
----- (Rupees in '000) -----		
Unlisted		
- AA+	475,000	500,000
- A+	597,500	643,150
- A	70,400	140,800
- AA-	500,000	-
- Non-performing	111,455	111,455
	<u>1,754,355</u>	<u>1,395,405</u>

9.5.5 Foreign securities**9.5.5.1 Government securities**

	2022		2021	
	Cost	Rating	Cost	Rating
----- (Rupees in '000) -----				
- Oman	<u>679,637</u>	BB	<u>529,994</u>	BB-

9.5.5.2 Non-government debt securities

	2022	2021
	Cost	
----- (Rupees in '000) -----		
Listed		
- A+	1,085,444	-
- A	1,127,486	870,148
- A-	1,093,380	-
	<u>3,306,310</u>	<u>870,148</u>

9.6 Particulars relating to held to maturity securities are as follows:**Federal Government securities****- Government guaranteed**

Bai Muajjal	<u>512,848</u>	<u>2,053,739</u>
	<u>512,848</u>	<u>2,053,739</u>

9.6.1 The market value of securities classified as held to maturity as at 31 December 2022 amounted to Rs. 513 million (31 December 2021: Rs. 2,054 million).

10.2 This includes Ijarah financing contracts amounting to Rs. 173.077 (31 December 2021: Rs. 270.874) million which includes Ijarah contracts of Rs. 108.679 million entered up to December 2008. These are accounted for as finance lease where by assets under Ijarah agreements are presented as a receivable at an amount equal to net investment in Ijarah.

10.2.1

	2022						Book value As at 31 Dec 2022
	Cost			Depreciation			
	As at 01 Jan 2022	Deletions	As at 31 Dec 2022	As at 01 Jan 2022	Reversal for the year	As at 31 Dec 2022	
	(Rupees in '000)						
Plant and machinery	724,412	(276,833)	447,579	542,675	(256,218)	286,457	161,122
Vehicles	535,598	(441,046)	94,552	446,461	(363,864)	82,597	11,955
Total	1,260,010	(717,879)	542,131	989,136	(620,082)	369,054	173,077

	2021						Book value As at 31 Dec 2021
	Cost			Depreciation			
	As at 01 Jan 2021	Deletions	As at 31 Dec 2021	As at 01 Jan 2021	Charge / (reversal) for the year	As at 31 Dec 2021	
	(Rupees in '000)						
Plant and machinery	742,462	(18,050)	724,412	538,208	4,467	542,675	181,737
Vehicles	990,217	(454,619)	535,598	704,381	(257,920)	446,461	89,137
Total	1,732,679	(472,669)	1,260,010	1,242,589	(253,453)	989,136	270,874

10.3 Particulars of Islamic financing and related assets (Gross)	2022	2021
	(Rupees in '000)	
In local currency	95,978,619	104,232,216
In foreign currency	214,883	1,390,625
	96,193,502	105,622,841

10.4 Islamic financing and related assets include Rs. 11,732.122 million (31 December 2021: Rs. 12,225.857 million) which have been placed under non-performing status as detailed below:

Category of classification	2022		2021	
	Classified Islamic financing and related assets	Provision	Classified Islamic financing and related assets	Provision
	(Rupees in '000)			
Domestic				
Other assets especially mentioned	238,507	-	249,397	232
Substandard	215,491	27,611	696,101	67,892
Doubtful	191,619	52,007	663,066	150,794
Loss	11,086,505	9,638,083	10,617,293	8,924,222
	11,732,122	9,717,701	12,225,857	9,143,140

10.5 Particulars of provisions against non-performing Islamic financing and related assets

Note	2022			2021		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	9,143,140	277,548	9,420,688	6,557,682	518,641	7,076,323
Charge for the year	1,210,006	141,204	1,351,210	2,742,439	58,907	2,801,346
Reversals for the year	(290,016)	-	(290,016)	(442,468)	-	(442,468)
	919,990	141,204	1,061,194	2,299,971	58,907	2,358,878
Charge for the year - agriculture financing	9,562	-	9,562	3,319	-	3,319
	929,552	141,204	1,070,756	2,303,290	58,907	2,362,197
Amounts written off against provision	10.6 (354,991)	-	(354,991)	(17,832)	-	(17,832)
Transfer during the year	-	-	-	300,000	(300,000)	-
Closing balance	9,717,701	418,752	10,136,453	9,143,140	277,548	9,420,688

- 10.5.1** The above provision against non-performing Islamic financing has been computed after considering allowable forced sale value (FSV) of collateral amounting to Rs. 1,687.842 (31 December 2021: Rs. 2,452.037) million. The FSV benefit recognised is not allowed for distribution of cash or stock dividend to shareholders and bonus to employees.
- 10.5.2** The Bank maintains general provision in accordance with the applicable requirements of the Prudential Regulations for Consumer Financing and House Financing issued by the SBP.

In addition, the Bank has also maintained a general provision of Rs 144.744 million (2021: Nil) against financing made on prudent basis, in view of prevailing economic conditions. This general provision is in addition to the requirements of Prudential Regulations.

- 10.5.3** SBP vide its letter BPRD/BLRD-3/DMG/2011-1035 has allowed relaxation from further provisioning requirement against a financing exposure having a provisioning impact of Rs. 40.581 (31 December 2021: Rs. 40.581) million.

10.5.4 Particulars of provisions against non-performing Islamic financing and related assets

	2022			2021		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
In local currency	9,717,701	418,752	10,136,453	9,143,140	277,548	9,420,688
In foreign currency	-	-	-	-	-	-
	<u>9,717,701</u>	<u>418,752</u>	<u>10,136,453</u>	<u>9,143,140</u>	<u>277,548</u>	<u>9,420,688</u>

	2022	2021
	----- (Rupees in '000) -----	
10.6 Particulars of write offs:		
10.6.1 Against provisions	<u>354,991</u>	<u>17,832</u>

10.7 Details of loan write off of Rs. 500,000/- and above

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962, the Statement in respect of written-off loans or any other financial relief of rupees five hundred thousand or above allowed to a person(s) during the year ended is given in Annexure-1.

	Note	2022	2021
		----- (Rupees in '000) -----	
11. FIXED ASSETS			
Capital work-in-progress	11.1	285,843	313,871
Property and equipment	11.2	2,086,424	2,050,315
Right-of-use asset	11.3	<u>1,603,234</u>	<u>1,829,236</u>
		<u>3,975,501</u>	<u>4,193,422</u>
11.1 Capital work-in-progress			
Civil works		285,254	285,715
Advance to suppliers		589	28,156
Advance for purchase of property - related party		<u>251,680</u>	<u>251,680</u>
Provisions for impairment against advance for purchase of property		<u>(251,680)</u>	<u>(251,680)</u>
		-	-
Total capital work-in-progress	11.1.1	<u>285,843</u>	<u>313,871</u>
11.1.1 The movement in capital work-in-progress during the year is as follows:			
Opening balance		313,871	348,311
Payment made during the year		189,212	63,303
Transferred out to fixed assets during the year		<u>(217,240)</u>	<u>(97,743)</u>
Closing Balance		<u>285,843</u>	<u>313,871</u>

11.2 Property and equipment

2022						
Leasehold land	Building on leasehold land	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Total	
----- (Rupees in '000) -----						
At 01 January 2022						
Cost	972,104	1,353,846	353,745	1,860,750	85,642	4,626,087
Accumulated depreciation	-	(786,344)	(296,196)	(1,442,810)	(50,422)	(2,575,772)
Net book value	<u>972,104</u>	<u>567,502</u>	<u>57,549</u>	<u>417,940</u>	<u>35,220</u>	<u>2,050,315</u>
Year ended December 2022						
Opening net book value	972,104	567,502	57,549	417,940	35,220	2,050,315
Additions	-	59,180	7,406	239,183	-	305,769
Disposals - Cost	-	(19,499)	(8,977)	(111,379)	(42,156)	(182,011)
- Accumulated depreciation	-	16,054	7,701	108,127	20,597	152,479
	-	(3,445)	(1,276)	(3,252)	(21,559)	(29,532)
Write off - Cost	-	(38,827)	(791)	(2,171)	-	(41,789)
- Accumulated depreciation	-	22,348	784	1,799	-	24,931
	-	(16,479)	(7)	(372)	-	(16,858)
Depreciation:						
Depreciation charge for the year	-	(72,429)	(15,544)	(129,149)	(6,148)	(223,270)
Closing net book value	<u>972,104</u>	<u>534,329</u>	<u>48,128</u>	<u>524,350</u>	<u>7,513</u>	<u>2,086,424</u>
At 31 December 2022						
Cost	972,104	1,354,700	351,383	1,986,383	43,486	4,708,056
Accumulated depreciation	-	(820,371)	(303,255)	(1,462,033)	(35,973)	(2,621,632)
Net book value	<u>972,104</u>	<u>534,329</u>	<u>48,128</u>	<u>524,350</u>	<u>7,513</u>	<u>2,086,424</u>
Rate of depreciation (%)	-	5% - 10%	10%	10% - 50%	20%	
----- (Rupees in '000) -----						
2021						
Leasehold land	Building on leasehold land	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Total	
----- (Rupees in '000) -----						
At 01 January 2021						
Cost	972,104	1,324,700	348,021	1,813,404	80,017	4,538,246
Accumulated depreciation	-	(754,525)	(285,861)	(1,382,973)	(39,826)	(2,463,185)
Net book value	<u>972,104</u>	<u>570,175</u>	<u>62,160</u>	<u>430,431</u>	<u>40,191</u>	<u>2,075,061</u>
Year ended December 2021						
Opening net book value	972,104	570,175	62,160	430,431	40,191	2,075,061
Additions	-	85,026	11,384	97,963	5,625	199,998
Disposals - Cost	-	(6,380)	(4,465)	(48,919)	-	(59,764)
- Accumulated depreciation	-	4,613	4,136	47,845	-	56,594
	-	(1,767)	(329)	(1,074)	-	(3,170)
Write off - Cost	-	(49,500)	(1,195)	(1,698)	-	(52,393)
- Accumulated depreciation	-	30,035	1,008	1,602	-	32,645
	-	(19,465)	(187)	(96)	-	(19,748)
Depreciation:						
Depreciation charge for the year	-	(66,467)	(15,479)	(109,284)	(10,596)	(201,826)
Closing net book value	<u>972,104</u>	<u>567,502</u>	<u>57,549</u>	<u>417,940</u>	<u>35,220</u>	<u>2,050,315</u>
At 31 December 2021						
Cost	972,104	1,353,846	353,745	1,860,750	85,642	4,626,087
Accumulated depreciation	-	(786,344)	(296,196)	(1,442,810)	(50,422)	(2,575,772)
Net book value	<u>972,104</u>	<u>567,502</u>	<u>57,549</u>	<u>417,940</u>	<u>35,220</u>	<u>2,050,315</u>
Rate of depreciation (%)	-	5% - 10%	10%	10% - 50%	20%	

11.3 Right-of-use asset	Note	2022 ----- (Rupees in '000) -----	2021 ----- (Rupees in '000) -----
At 01 January		1,829,236	1,972,910
Additions during the year		612,742	611,730
Depreciation charge during the year	28	(464,932)	(667,822)
Derecognition during the year		(373,812)	(78,651)
Modification		-	(8,931)
At 31 December	11.3.1	<u>1,603,234</u>	<u>1,829,236</u>

11.3.1 The right-of-use asset is against the leased branch offices of the Bank.

11.4 Disposal of assets - related party

Details of disposal of fixed assets made to any related party otherwise than through a regular auction are as follows:

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
----- (Rupees in '000) -----						
Vehicles						
Audi A6	22,998	11,115	11,883	11,883	As per Bank's policy	Mr. Ahmed Shuja Kidwai (Ex-Chief Executive Officer)
Toyota Fortuner	9,343	3,582	5,761	5,761	As per Bank's policy	Mr. Farhan Baig (Ex-Deputy Chief Executive Officer)
MG HS 1.5 Turbo	5,463	1,548	3,915	3,915	As per Bank's policy	Mr. Farhan Baig (Ex-Deputy Chief Executive Officer)
Computers						
Laptops (2)	208	118	90	90	As per Bank's policy	Mr. Ahmed Shuja Kidwai (Ex-Chief Executive Officer)
Laptop	108	84	24	24	As per Bank's policy	Mr. Irfan Hassan (Executive, Ex-Employee)
Laptop	76	76	-	-	As per Bank's policy	Mr. Farhan Baig (Ex-Deputy Chief Executive Officer)
31 December 2022	<u>38,196</u>	<u>16,523</u>	<u>21,673</u>	<u>21,673</u>		

11.5 Property and equipment includes assets that are temporarily idle amounting to Rs. 987.5 million (31 December 2021: Rs. 987.5 million).

11.6 Fully depreciated property and equipment

Cost of property and equipment that are fully depreciated and are still in use are as follows:

	Note	2022 ----- (Rupees in '000) -----	2021 ----- (Rupees in '000) -----
Building on leasehold land		293,812	278,512
Furniture and fixture		204,621	189,655
Electrical, office and computer equipment		953,116	966,755
Vehicles		28,498	32,850
		<u>1,480,047</u>	<u>1,467,772</u>

12 INTANGIBLE ASSETS

Computer software	12.1 & 12.2	150,654	109,587
Advance to suppliers against computer software		106,279	69,103
Core deposits	12.1 & 12.3	269,100	362,415
Brand	12.4 & 12.5	383,145	383,145
Goodwill	12.5	396,117	396,117
		<u>1,305,295</u>	<u>1,320,367</u>

12.1 Movement in intangibles assets is as following:

	2022		
	Computer software	Core deposits	Total
	----- (Rupees in '000) -----		
At 01 January 2022			
Cost	998,787	1,386,000	2,384,787
Accumulated amortisation	(889,200)	(1,023,585)	(1,912,785)
Net book value	<u>109,587</u>	<u>362,415</u>	<u>472,002</u>
Year ended December 2022			
Opening net book value	109,587	362,415	472,002
Additions			
- through acquisitions / purchased	106,493	-	106,493
Write off - Cost	729	-	729
- Accumulated depreciation	(729)	-	(729)
	-	-	-
Amortisation charge for the year	(65,426)	(93,315)	(158,741)
Closing net book value	<u>150,654</u>	<u>269,100</u>	<u>419,754</u>
At 31 December 2022			
Cost	1,104,551	1,386,000	2,490,551
Accumulated amortisation	(953,897)	(1,116,900)	(2,070,797)
Net book value	<u>150,654</u>	<u>269,100</u>	<u>419,754</u>
Rate of amortisation (%)	<u>14.29% - 33.33%</u>	<u>8.33% - 10%</u>	
Useful life	<u>3 to 7 Years</u>	<u>10 to 12 Years</u>	
	2021		
	Computer software	Core deposits	Total
	----- (Rupees in '000) -----		
At 01 January 2021			
Cost	907,283	1,386,000	2,293,283
Accumulated amortisation	(837,615)	(925,312)	(1,762,927)
Net book value	<u>69,668</u>	<u>460,688</u>	<u>530,356</u>
Year ended 31 December 2021			
Opening net book value	69,668	460,688	530,356
Additions			
- through acquisitions / purchased	91,504	-	91,504
Amortisation charge for the year	(51,585)	(98,273)	(149,858)
Closing net book value	<u>109,587</u>	<u>362,415</u>	<u>472,002</u>
At 31 December 2021			
Cost	998,787	1,386,000	2,384,787
Accumulated amortisation	(889,200)	(1,023,585)	(1,912,785)
Net book value	<u>109,587</u>	<u>362,415</u>	<u>472,002</u>
Rate of amortisation (%)	<u>14.29% - 33.33%</u>	<u>8.33% - 10%</u>	
Useful life	<u>3 to 7 Years</u>	<u>10 to 12 Years</u>	

12.2 Intangible assets include computer software that are fully amortised and are still in use aggregating to Rs. 856.405 million (31 December 2021: Rs. 795.917 million).

12.3 Core deposits are intangible assets acquired by the Bank during its amalgamation with Ex-Emirates Global Islamic Bank Limited and Ex-Burj Bank Limited. The value of core deposit were valued by an independent valuer at the time of amalgamation. The carrying amount of core deposits is Rs. 269.100 million (31 December 2021: Rs. 362.415 million) with a remaining amortisation period of 5 years.

12.4 Intangible assets include brand having indefinite useful life with a carrying amount of Rs. 383.145 million (31 December 2021: Rs. 383.145 million). This represents the Bank's ability to attract new customers and generate superior returns from existing customers due to brand recognition. The management considers that the benefits from usage of brand will be available to the Bank for an indefinite time period.

The management on an ongoing basis assesses the recoverable amount of Brand, recognised upon amalgamation with Ex-Emirates Global Islamic Bank Limited.

IAS 36 "Impairment of assets" requires an intangible asset with an indefinite useful life to be tested for impairment annually by comparing its carrying amount with its recoverable amount. An impairment loss shall be recognised if the recoverable amount of the intangible asset is less than its carrying amount. During the year, the management has assessed the recoverable amount of the Brand which exceeds its carrying amount. Accordingly, no impairment loss has been recognised in these financial statements on the Brand.

The recoverable amount of the Brand has been determined based on value-in-use calculation using relief-from-royalty method based on financial strategy / projections approved by the management of the Bank covering a five-year period. The following rates have been used by the Bank in the computation of value-in-use:

Royalty rate	2.00%
Discount rate (post-tax)	22.00%
Terminal growth rate (post-tax)	9.40%

The calculation of value-in-use is most sensitive to the following assumptions:

Revenue growth

Revenue growth is based on prevailing industry trends and anticipated market conditions. The assumptions are important as they represent management assessment of how the Bank's profit earned on Islamic financing (net of provisions) and fee and commission income might change over the projected period.

Royalty rate

Royalty rate reflects the management's assessment (based on industry experience) of the percentage of royalty that would have been paid for using the brand name at the time of amalgamation with Ex-Emirates Global Islamic Bank Limited.

Discount rate

Discount rate reflects management's estimate of the rate of return required for the Brand and is calculated using the Capital Asset Pricing Model adjusted for a risk premium.

Terminal growth rate

Terminal growth rate is used to extrapolate the cash flows beyond the budgeted period. Assumptions are based on the management's best estimates.

Management believes that any significant change in key assumptions, on which the Brand's recoverable amount is based, may impact the value-in-use which would result in the carrying amount exceeding its recoverable amount. Value-in-use calculations of the Brand are sensitive to changes in assumptions for profit rate spreads, royalty rate, long-term growth rates and discount rates.

- 12.5** Goodwill was recognised by the Bank upon merger of Ex-Burj Bank Limited and the amount of goodwill was allocated to the "retail and consumer banking" segment (as an individual cash-generating unit). The management on an ongoing basis assesses the recoverable amount of the cash-generating unit in accordance with the requirement of IAS 36. IAS 36 states that a cash-generating unit will be tested for impairment on an annual basis and an impairment loss shall be recognised if, and only if, the recoverable amount of the unit is less than the carrying amount of the unit.

During the year, the management has assessed the recoverable amount of the cash-generating unit which exceeds its carrying amount. Accordingly, no impairment loss has been recognised in these financial statements on goodwill.

The recoverable amount of goodwill has been determined based on value-in-use calculation using discounted cash flow based on financial strategy / projections approved by the management of the Bank covering a five-year period. The following rates have been used by the Bank in the computation of value-in-use:

Discount rate (post-tax)	21.00%
Terminal growth rate (post-tax)	9.50%

The calculation of value in use is most sensitive to the following assumptions:

Deposit and Islamic financing growth and profit margins

Deposit and Islamic financing growth and profit margins are based on prevailing industry trends and anticipated market conditions.

Discount rate

Discount rate reflects management estimates of the rate of return required for retail and consumer banking sector and is calculated after taking into account the prevailing risk-free rate, industry risk and business risk. Discount rate is calculated by using the cost of equity of the Bank derived using the Capital Asset Pricing Model (CAPM).

Terminal growth rate

Terminal growth rate is used to extrapolate the cash flows beyond the budgeted period. Assumptions are based on the management's best estimates.

Management believes that any significant change in key assumptions, on which the cash-generating unit's recoverable amount is based, may impact the carrying amount to exceed its recoverable amount. Value-in-use calculation of the unit is sensitive to changes in assumptions for growth in Islamic financing and deposits, profit rate spreads, long-term growth rates and discount rate.

		2022			
		At 01 Jan 2022	Recognised in P&L	Recognised in OCI	At 31 Dec 2022
13	DEFERRED TAX ASSETS	----- (Rupees in '000) -----			
		Note			
	Deductible temporary differences on:				
	- Tax losses carried forward	944,049	(605,571)	-	338,478
	- Minimum tax	228,522	(228,522)	-	-
	- Post retirement employee benefits	25,552	-	15,904	41,456
	- Provision against assets	2,115,632	410,382	-	2,526,014
	- Other deductible temporary differences	20,930	25,277	-	46,207
	- Deficit on revaluation of investments	-	-	130,691	130,691
		3,334,685	(398,434)	146,595	3,082,846
	Taxable temporary differences on:				
	- Surplus on revaluation of investments	(125,499)	(1,340)	126,839	-
	- Surplus on revaluation of non-banking assets	(180,754)	-	(83,019)	(263,773)
	- Accelerated tax depreciation	(146,695)	(18,603)	-	(165,298)
		(452,948)	(19,943)	43,820	(429,071)
		2,881,737	(418,377)	190,415	2,653,775
		2021			
		At 01 Jan 2021	Recognised in P&L	Recognised in OCI	At 31 Dec 2021
		----- (Rupees in '000) -----			
	Deductible temporary differences on:				
	- Tax losses carried forward	1,244,800	(300,751)	-	944,049
	- Minimum tax	539,858	(311,336)	-	228,522
	- Post retirement employee benefits	19,281	-	6,271	25,552
	- Provision against assets	1,367,430	748,202	-	2,115,632
	- Other deductible temporary differences	-	20,930	-	20,930
		3,171,369	157,045	6,271	3,334,685
	Taxable temporary differences on:				
	- Surplus on revaluation of investments	(223,404)	(1,893)	99,798	(125,499)
	- Surplus on revaluation of non-banking assets	(162,947)	-	(17,807)	(180,754)
	- Accelerated tax depreciation	(144,234)	(2,461)	-	(146,695)
		(530,585)	(4,354)	81,991	(452,948)
		2,640,784	152,691	88,262	2,881,737

- 13.1** The deferred tax asset on carried forward tax losses has been recognised in these financial statements as the management estimates that sufficient taxable profits will be available in future years against which the unused carry forward tax losses and other deductible temporary differences can be utilised. The estimates of future taxable profits are based on financial projections of the Bank for the next five years approved by the Board. The projections involve certain key assumptions underlying the estimation of future taxable profits. Key assumptions include income tax rates, cost to income ratio, deposit composition, Kibor rates, growth of deposits and Islamic financing, investment returns, product mix of Islamic financing and related assets, potential provision against assets and branch expansion plan. Any significant change in the key assumptions may have an effect on the realisability of the deferred tax asset.

14 OTHER ASSETS	Note	2022	2021
		----- (Rupees in '000) -----	----- (Rupees in '000) -----
Profit / return accrued in local currency		5,731,273	3,665,261
Profit / return accrued in foreign currency		22,665	14,307
Advances, deposits, advance rent and other prepayments		703,856	550,850
Advance taxation (payments less provisions)		-	101,385
Non-banking assets acquired in satisfaction of claims	14.1.1	1,312,781	1,344,778
Branch adjustment account		-	340,366
Mark to market gain on re-measurement of forward exchange contracts		452,929	595,036
Stamps and stationery		4,249	5,966
Acceptances		2,361,669	2,028,153
Others		212,994	231,756
		<u>10,802,416</u>	<u>8,877,858</u>
Less: Provision held against other assets	14.2	<u>(149,212)</u>	<u>(149,212)</u>
Other assets (net of provision)		10,653,204	8,728,646
Surplus on revaluation of non-banking assets acquired in satisfaction of claims	14.1.1	<u>613,426</u>	<u>463,471</u>
Other assets - total		<u>11,266,630</u>	<u>9,192,117</u>
14.1 Market value of non-banking assets acquired in satisfaction of claims		<u>1,926,207</u>	<u>1,901,387</u>

- 14.1.1** The non-banking assets acquired in satisfaction of claims have been revalued by professionally qualified valuers listed on Pakistan Banks' Association panel of valuers namely Professional Associates, Oceanic Surveyors (Private) Limited and Medallion Services (Private) Limited as at 31 December 2022. The above market values are based on full scope valuations. The SBP's Regulations for Debt Property Swap require the Bank to carry out a full scope valuation of non-banking assets after every three years.

	2022	2021
	----- (Rupees in '000) -----	----- (Rupees in '000) -----
14.1.2 Non-banking assets acquired in satisfaction of claims		
Opening balance	1,808,249	1,848,355
Addition during the year	-	-
Revaluation surplus during the year	149,955	-
Disposal during the year	-	(8,097)
Depreciation for the year	(31,997)	(32,009)
Closing balance	<u>1,926,207</u>	<u>1,808,249</u>

14.1.3 Loss on disposal of non-banking assets acquired in satisfaction of claims

Disposal proceeds	-	6,110
Less:		
- Cost	-	8,200
- Accumulated depreciation	-	(103)
	-	8,097
Loss on disposal	<u>-</u>	<u>(1,987)</u>

14.2 Provision held against other assets

Non-performing receivables	148,966	148,966
Others	246	246
	<u>149,212</u>	<u>149,212</u>

	Note	2022 ----- (Rupees in '000) -----	2021 ----- (Rupees in '000) -----
14.2.1 Movement in provision held against other assets			
Opening balance		149,212	149,212
Charge for the year		-	-
Reversal during the year		-	-
Write off		-	-
Closing balance		<u>149,212</u>	<u>149,212</u>
15 BILLS PAYABLE			
In Pakistan		<u>5,376,942</u>	<u>3,978,696</u>
16. DUE TO FINANCIAL INSTITUTIONS			
Secured			
Borrowings from State Bank of Pakistan			
- Under Islamic export refinance scheme	16.1	5,310,244	6,452,476
- Under Islamic refinance scheme for payment of salaries and wages	16.2	125,080	1,130,453
- Under Islamic temporary economic refinance facility for plant and machinery	16.3	1,978,884	1,297,289
- Under Islamic refinance facility for combating COVID-19	16.4	49,879	36,688
- Under Islamic financing facility for renewable energy	16.5	109,001	51,628
- Under Shariah compliant standing ceiling facility	16.6	3,886,913	-
		<u>11,460,001</u>	<u>8,968,534</u>
Unsecured			
Other Musharaka	16.7	1,490,000	-
		<u>12,950,001</u>	<u>8,968,534</u>
16.1	The range of profit rates on these borrowings is 8% to 10% per annum (31 December 2021: 1% to 2% per annum). The maximum limit approved by SBP to the Bank under Islamic Export Refinance Scheme is Rs.6.609 billion. These contracts will mature in May 2023.		
16.2	SBP vide its Circular no. 06 of 2020 has introduced an Islamic refinance scheme for businesses for payment of wages and salaries to combat the impact of COVID-19. The scheme aims to finance wages and salaries of permanent, contractual, daily wagers and outsourced employees. The maximum limit approved by SBP to the Bank under this scheme is Rs. 3 billion. These contracts have been matured at 31 December 2022. However, they have been subsequently paid off till 23 January 2023.		
16.3	SBP vide its Circular no. 02 of 2020 has introduced an Islamic temporary economic refinance facility to support sustainable economic growth. The facility aims to provide concessionary finance for setting up of new industrial units through purchase of new imported and locally manufactured plant and machinery. The profit rate on these borrowings is 1% (31 December 2021: 1%) per annum. The maximum limit approved by SBP to the Bank under this scheme is Rs. 2 billion. These contracts will mature in October 2032.		
16.4	SBP vide its Circular no. 04 of 2020 has introduced an Islamic refinance facility to combat the impact of COVID-19. The facility aims to provide long term finance for purchase of new imported and locally manufactured medical equipments to be used for combating COVID-19 by hospitals and medical centers registered with provincials / federal agencies. The maximum limit approved by SBP to the Bank under this scheme is Rs. 75 million. These contracts will mature in December 2026.		
16.5	The profit rate on these borrowings is 2% (31 December 2021: 2%) per annum. SBP vide its Letter No. 1H&SMEFD/IFRE/2022-2215 revised the maximum limit for the Bank to Rs. 168 million from Rs 200 million in 31 December 2021. Further, these contracts will mature in May 2032.		
16.6	These represents acceptance of funds by the Bank on Mudaraba basis and are secured against lien of the Bank's investment in Federal Government Securities. The profit rate on these borrowings is 16.26% (31 December 2021: Nil) per annum and are due to mature by February 2023.		
16.7	The profit rate on these borrowings is 16% (31 December 2021: Nil) per annum. These borrowings will mature in January 2023.		

16.8	Particulars of due to financial institutions with respect to currencies	2022	2021
		----- (Rupees in '000) -----	
	In local currency	12,950,001	8,968,534
	In foreign currency	-	-
		<u>12,950,001</u>	<u>8,968,534</u>

17 DEPOSITS AND OTHER ACCOUNTS

	2022			2021		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
----- (Rupees in '000) -----						
Customers						
Current deposits	27,397,519	7,477,567	34,875,086	34,469,987	9,225,638	43,695,625
Savings deposits	54,920,776	9,351,938	64,272,714	58,900,348	6,869,645	65,769,993
Term deposits	54,508,615	2,200,361	56,708,976	48,629,110	1,108,269	49,737,379
Others	3,299,962	-	3,299,962	2,478,098	-	2,478,098
	<u>140,126,872</u>	<u>19,029,866</u>	<u>159,156,738</u>	<u>144,477,543</u>	<u>17,203,552</u>	<u>161,681,095</u>
Financial Institutions						
Current deposits	89,991	1,820	91,811	84,597	4,306	88,903
Savings deposits	24,262,195	925	24,263,120	16,004,670	720	16,005,390
Term deposits	1,537,500	-	1,537,500	1,141,750	-	1,141,750
	<u>25,889,686</u>	<u>2,745</u>	<u>25,892,431</u>	<u>17,231,017</u>	<u>5,026</u>	<u>17,236,043</u>
	<u>166,016,558</u>	<u>19,032,611</u>	<u>185,049,169</u>	<u>161,708,560</u>	<u>17,208,578</u>	<u>178,917,138</u>

17.1	Composition of deposits	2022	2021
		----- (Rupees in '000) -----	
	- Individuals	75,851,304	70,708,047
	- Government (federal and provincial)	14,925,554	11,634,711
	- Public sector entities	2,122,832	3,288,169
	- Banking companies	1,086	1,482,205
	- Non-banking financial institutions	25,891,345	15,756,826
	- Private sector	66,257,048	76,047,180
		<u>185,049,169</u>	<u>178,917,138</u>

17.2 This includes deposits eligible to be covered under insurance arrangements amounting to Rs. 81,060 million (31 December 2021: Rs. 84,502 million).

18	SUBORDINATED DEBT	Note	2022	2021
			----- (Rupees in '000) -----	
	Tier II mudaraba sukuk - second issue	18.1	1,500,000	1,500,000
	Tier II mudaraba sukuk - third issue	18.2	1,735,000	1,735,000
	Additional Tier I capital	18.3	1,389,241	1,389,241
			<u>4,624,241</u>	<u>4,624,241</u>

18.1 In August 2017, the Bank issued regulatory shariah compliant unsecured, subordinated privately placed Tier-II sukuk (second issue) based on mudaraba of Rs. 1.5 billion as instruments of redeemable capital under section 66 of the Companies Act, 2017. A brief description of Tier-II sukuk (second issue) is as follows:

Credit rating	A by VIS Credit Rating Company Limited
Issue date	22 August 2017
Tenor	7 years from the issue date
Maturity date	21 August 2024
Profit payment frequency	Semi-annually in arrears
Redemption	Bullet payment at the end of the seventh year
Expected periodic profit amount (mudaraba profit amount)	Mudaraba profit is computed under the general depositors' pool on the basis of profit Sharing Ratio (PSR) and monthly weightages announced by the Bank. Profit rate is 6 month KIBOR + 0.75% per annum.
Call option	The Bank may call Tier-II sukuk with prior approval of SBP after completion of five years from the date of issue.
Loss absorbency	The Tier-II sukuk, at the option of the SBP, will be fully and permanently converted into common shares upon the occurrence of a Point of Non-Viability (PONV) trigger event as determined by SBP or for any other reason as may be directed by SBP.
Lock-in-clause	Profit and / or redemption amount can be held back in respect of the Tier-II sukuk, if such payment will result in a shortfall in the Bank's Minimum Capital Requirement (MCR) or Capital Adequacy Ratio (CAR) requirement.

- 18.2** In December 2021, the Bank issued regulatory shariah compliant unsecured, subordinated privately placed Tier-II sukuk (third issue) based on mudaraba of Rs.1.735 billion as instruments of redeemable capital under section 66 of the Companies Act, 2017. A brief description of Tier-II sukuk (third issue) is as follows:

Credit rating	A by VIS Credit Rating Company Limited
Issue date	22 December 2021
Maturity date	21 December 2031
Tenor	10 years from the issue date
Profit payment frequency	Semi-annually in arrears
Redemption	Bullet payment at the end of the tenth year
Expected periodic profit amount (mudaraba profit amount)	Mudaraba profit is computed under the general depositors' pool on the basis of profit Sharing Ratio (PSR) and monthly weightages announced by the Bank. Profit rate is 6 month KIBOR + 1.5% per annum.
Call option	The Bank may call Tier-II sukuk with prior approval of SBP after completion of five years from the date of issue.
Loss absorbency	The Tier-II sukuk, at the option of the SBP, will be fully and permanently converted into common shares upon the occurrence of a Point of Non-Viability (PONV) trigger event as determined by SBP or for any other reason as may be directed by SBP.
Lock-in-clause	Profit and / or redemption amount can be held back in respect of the Tier-II sukuk, if such payment will result in a shortfall in the Bank's Minimum Capital Requirement (MCR) or Capital Adequacy Ratio (CAR) requirement.

- 18.3** In December 2018, the Bank issued regulatory shariah compliant unsecured, subordinated privately placed Additional Tier-I (ADT-1) capital based on mudaraba of Rs. 1.389 billion. A brief description of Additional Tier-I (ADT-1) capital is as follows:

Credit rating	Not rated
Issue date	26 December 2018
Tenor	Perpetual
Profit payment frequency	Monthly
Redemption	Perpetual
Expected periodic profit amount (mudaraba profit amount)	Mudaraba profit is computed under the general depositors' pool on the basis of Profit Sharing Ratio (PSR) and monthly weightages announced by the Bank. Profit rate is 1 Year KIBOR + 2.50% per annum.
Call option	The Bank may call ADT-1 Capital sukuk with prior approval of SBP after completion of five years from the date of issue.
Loss absorbency	The ADT-1 capital, at the option of the SBP, will be fully and permanently converted into common shares upon the occurrence of a Point of Non-Viability (PONV) trigger event as determined by SBP or for any other reason as may be directed by SBP.
Lock-in-clause	Profit and / or redemption amount can be held back in respect of the ADT-1 capital, if such payment will result in a shortfall in the Bank's minimum Capital Requirement (MCR) or Capital Adequacy Ratio (CAR)

19 OTHER LIABILITIES	Note	2022 ----- (Rupees in '000) -----	2021
Return on deposits and other dues:			
- payable in local currency		2,523,349	1,165,527
- payable in foreign currencies		16,396	1,647
Accrued expenses		707,235	490,764
Current taxation (payments less provisions)		270,146	-
Unearned Income		73,696	-
Advance payments		833,429	1,014,897
Charity fund balance	19.1	32,200	77,705
Security deposits against ijarah		81,903	160,648
Payable in respect of defined benefit plan	36.4	62,621	17,567
Takaful payable against ijarah and diminishing musharakah assets		377,468	429,178
Branch adjustment account		393,226	-
Acceptances		2,361,669	2,028,153
Lease liability against right-of-use assets		1,695,781	1,847,617
Others		1,633,569	980,371
		<u>11,062,688</u>	<u>8,214,074</u>

	2022	2021
	----- (Rupees in '000) -----	
19.1 Charity fund balance		
Opening balance	77,705	77,238
Additions during the year		
Received from customers on account of delayed payment	58,873	69,665
Dividend purification amount	683	739
Non-shariah compliant income	3,117	8,505
Profit on charity saving account	92	23
Others	69	112
	62,834	79,044
Payments / utilization during the year		
Education	(21,585)	(23,767)
Health	(50,068)	(52,490)
Social (Mass wedding)	-	(1,770)
Infrastructure and development	(19,000)	(500)
Others	(17,686)	(50)
	(108,339)	(78,577)
Closing balance	32,200	77,705

20 SHARE CAPITAL - NET

20.1 Authorised capital

	2022	2021		2022	2021
	-----Number of shares-----			----- (Rupees in '000) -----	
	2,500,000,000	2,000,000,000	Ordinary shares of Rs. 10 each	25,000,000	20,000,000

20.1.1 During the year, the Bank has increased its authorised share capital by Rs 5,000 million pursuant to Section 85 of the Companies Act, 2017 through a special resolution passed on 31 May 2022.

20.2 Issued, subscribed and paid-up capital

	2022	2021		2022	2021
	-----Number of shares-----			----- (Rupees in '000) -----	
	450,000,000	450,000,000	Ordinary shares of Rs. 10 each fully paid in cash	4,500,000	4,500,000
	923,962,760	923,962,760	Issued for consideration other than cash	9,239,628	9,239,628
	1,373,962,760	1,373,962,760		13,739,628	13,739,628
	-	-	Add: Capital support fund*	1,393,628	1,393,628
	-	-	Less: Discount on issue of shares	(632,766)	(632,766)
	1,373,962,760	1,373,962,760		14,500,490	14,500,490

* In order to support the CAR requirements, Al Baraka Islamic Bank, B.S.C (c) (the Parent Bank) has injected a temporary Capital Support Fund amounting to Rs 1.394 billion (USD 9 million) which is an allowable capital for the purposes of CAR, MCR and Leverage ratio. These funds can only be remitted back after prior approval of SBP. In case capital of the Bank is not increased through alternate plans, the said capital support fund will be converted into share capital of the Bank. Presently, the SBP has allowed the Bank, a timeline extension for the commencement of conversion process of Capital Support Fund into Share Capital till 30 June 2023. At present, the Bank does not have relevant basis to determine the number of shares to be issued at the time of conversion, accordingly the diluted EPS cannot be ascertained.

20.3 Shareholders having more than 10% shareholding in 2022 and 2021

Name of shareholder	2022		2021	
	Number of shares held	Percentage of shareholding	Number of shares held	Percentage of shareholding
Al Baraka Islamic Bank (Bahrain) B.S.C. (c) Islamic Corporation for the Development of the Private Sector	812,446,582	59.13%	812,446,082	59.13%
Mal Al Khaleej Investment L.L.C.	162,847,717	11.85%	162,847,717	11.85%
	158,360,039	11.53%	158,360,039	11.53%

21 SURPLUS ON REVALUATION OF ASSETS

Note

2022 **2021**
----- (Rupees in '000) -----

(Deficit) / surplus on revaluation of:

- Available for sale securities	9.1	(303,933)	325,225
- Non-banking assets acquired in satisfaction of claims	21.1	613,426	463,471
		309,493	788,696

Deferred tax on surplus / (deficit) on revaluation of:

- Available for sale securities		130,691	(126,838)
- Non-banking assets acquired in satisfaction of claims	21.1	(263,773)	(180,754)
		(133,082)	(307,592)

176,411 481,104

21.1 Surplus on revaluation of non-banking assets acquired in satisfaction of claims

Surplus on revaluation as at January 1	463,471	465,561
Revaluation surplus recognised during the year	149,955	-
Realised on disposal during the year	-	(2,090)
Surplus on revaluation as at December 31	613,426	463,471

Less: related deferred tax liability on:

- revaluation as at January 1	(180,754)	(162,946)
- tax rate change during the year	(18,538)	(18,623)
- revaluation surplus recognised during the year	(64,481)	-
- surplus realised on disposal during the year	-	815
	(263,773)	(180,754)

349,653 282,717

22 CONTINGENCIES AND COMMITMENTS

- Guarantees	22.1	14,712,264	14,169,635
- Commitments	22.2	48,500,519	65,381,806
		<u>63,212,783</u>	<u>79,551,441</u>

22.1 Guarantees:

Financial guarantees	953,683	153,194
Performance guarantees	10,040,818	7,190,353
Other guarantees	3,717,763	6,826,088
	<u>14,712,264</u>	<u>14,169,635</u>

22.2 Commitments:

Documentary credits and short-term trade-related transactions			
- letters of credit		11,407,940	15,979,710
Commitments in respect of forward foreign exchange contracts	22.2.1	36,327,164	48,167,237
Commitments for acquisition of operating fixed assets		4,618	4,656
Other commitments	22.2.2	760,797	1,230,203
		<u>48,500,519</u>	<u>65,381,806</u>

	Note	2022 ----- (Rupees in '000) -----	2021 ----- (Rupees in '000) -----
22.2.1 Commitments in respect of forward foreign exchange contracts			
Purchase		23,494,138	29,458,882
Sale		<u>12,833,026</u>	<u>18,708,355</u>
		<u>36,327,164</u>	<u>48,167,237</u>

22.2.1.1 The maturities of the above contracts are spread over the period upto one year.

22.2.2 Other commitments

Commitments in respect of financing	22.2.2.1	<u>760,797</u>	<u>1,230,203</u>
-------------------------------------	----------	----------------	------------------

22.2.2.1 These represent commitments that are irrecoverable because they cannot be withdrawn at the discretion of the Bank without the risk of incurring significant penalty or expense.

22.3 Tax contingencies

22.3.1 The Bank has received various assessment orders from the Deputy Commissioner Inland Revenue (DCIR) stating that the Bank has short paid Federal Excise Duty (FED) on specific income of the Bank for the years 2009 to 2011 amounting to Rs. 86.585 million and Rs. 34.575 million in respect of year 2012. In response to the Bank's appeal, the Appellate Tribunal Inland Revenue (ATIR) has set aside the orders relating to years 2009 to 2011 for fresh adjudication and the said matter is pending decision for further proceedings. For the year 2012, the Commissioner Inland Revenue Appeal (CIRA) has dropped the proceedings amounting to Rs.8.991 million. Accordingly, the Bank has filed the appeal before the ATIR against the order of CIRA amounting to Rs. 25.584 million.

In respect of assessments of ex - Burj Bank Limited (now Al Baraka Bank (Pakistan) Limited), the taxation authorities have raised a demand of Rs.1.9 million on account of charging minimum tax in respect of tax year 2011, the matter is presently pending for hearing in Sindh High Court.

In respect of assessments of ex - Burj Bank Limited (now AlBaraka Bank (Pakistan) Limited), the taxation authorities have raised a demand of Rs.41.650 million on account of additions/disallowances of certain expenses in the tax return filed for the tax year 2014. As a result of rectification order demand has been reduced to Rs. 3.071 million. The Bank has filed an appeal before Commissioner Inland Revenue (CIR) appeals which is pending for hearing.

In respect of assessments of ex - Burj Bank Limited (now Al Baraka Bank (Pakistan) Limited), Deputy Commissioner Inland Revenue (DCIR) passed the order under Section 122(1) of the Income Tax Ordinance, 2001, demanding Rs. 5.416 million on account of minimum tax on turnover for the tax year 2015. In response to the Bank's appeal, the matter was set-aside for a fresh adjudication. The matter is pending for further proceedings.

In respect of assessments of ex - Burj Bank Limited (now Al Baraka Bank (Pakistan) Limited), the Additional Commissioner Inland Revenue (ACIR) passed the order under Section 124 and 129 demanding Rs. 25.343 million on account of minimum tax on turnover for the tax year 2016 when the Bank had a gross loss. The matter is pending at the forum of Commissioner Inland Revenue Appeals (CIRA).

The management of the Bank is confident that the appeals are likely to be decided in favor of the Bank and, hence no provision has been made in these financial statements.

22.3.2 During the year 2020, the Bank received assessment orders from Appellate Tribunal (ATIR) in respect of ex-Al Baraka Islamic Bank B.S.C (merged with and into the Bank) related to various tax matters from tax years 2001-2011. Based on the advise of the Bank's tax advisor, the Bank has filed the reference application before the Honorable High Court, Lahore against the said orders.

The management of the Bank is confident that the appeals are likely to be decided in favor of the Bank and, hence no provision has been made in these financial statements for the income tax claims amounting to Rs.116.512 million.

22.3.3 During the year 2020, Additional Commissioner Inland Revenue (ACIR) passed the order under Section 122(5A) of the Income Tax Ordinance on account of additions / disallowances of certain expenses and disallowing certain adjustments in the tax return filed for the tax year 2015. The Bank filed an appeal against the order before Commissioner Inland Revenue (Appeals) who passed an order annulling additions / disallowances of certain expenses and adjustments however there are certain additions / disallowances of expenses and adjustments for which appeal has been filed before ATIR.

The management and the Bank's tax advisor is confident that the appeal is likely to be decided in favor of the Bank and hence no provision has been made in these financial statements for the income tax claims amounting to Rs. 437.165 million.

- 22.3.4** During the year 2022, the Assistant/Deputy Commissioner Inland Revenue (DCIR) passed an order under Section 161(1) of the Income Tax Ordinance, 2001, demanding Rs. 6.128 million on account of short deduction of withholding tax in tax year 2016. The Bank has filed an appeal against the said decision before Commissioner Inland Revenue Appeals (CIRA) which is pending for hearing.

The management and the Bank's tax consultant is confident that the appeal is likely to be decided in favor of the Bank and hence no provision has been made in these financial statements for the tax claims amounting to Rs. 6.128 million.

- 22.3.5** During the year 2021, Additional Commissioner Inland Revenue (ACIR) passed the order under Section 122(5A) of the Income Tax Ordinance, 2001, disallowing certain refunds adjustment in the tax return filed for the tax year 2017. The Bank has filed an appeal against the said decision before Commissioner Inland Revenue Appeals (CIRA).

The management and the Bank's tax consultant are confident that the appeal is likely to be decided in favor of the Bank and hence no provision has been made in these financial statements for the income tax claims amounting to Rs. 8.385 million.

- 22.3.6** During the year 2021, Assistant / Deputy Commissioner Inland Revenue (DCIR) passed an order under Section 122(1) of the Income Tax Ordinance, 2001, on account of certain additions / disallowances of certain expenses in the tax return filed for the tax year 2018. The Bank filed an appeal before Commissioner Inland Revenue (Appeals) who passed an order on 13 June 2022 annulling additions / disallowances of certain expenses however there are certain additions / disallowances of expenses for which appeal has been filed before ATIR.

The management and the Bank's tax consultant is confident that the appeal is likely to be decided in favor of the Bank and hence no provision has been made in these financial statements for the income tax claims of Rs. 380.184 million.

- 22.3.7** During the year 2021, Additional Commissioner Inland Revenue (ACIR) passed the order under Section 122(5A) of the Income Tax Ordinance, 2001, on account of certain additions / disallowances of certain expenses in the tax return filed for the tax year 2019. The order has been rectified by ACIR and the income tax demanded reduced from Rs. 299.266 million to Rs. 97.372 million.

The Bank has filed an appeal before Commissioner Inland Revenue (Appeals). The management and the Bank's tax consultant is confident that the appeal is likely to be decided in favor of the Bank and hence no provision has been made in these financial statements for the income tax claims amounting to Rs. 97.372 million.

- 22.3.8** During the year 2022, Additional Commissioner Inland Revenue (ACIR) AJK passed the order under Section 122(1) of the Income Tax Ordinance, 2001, on account of additions / disallowances of certain expenses in the tax return filed for the tax year 2019 and raised a demand of Rs.6.741 million. The Bank filed an appeal against the order before Commissioner Inland Revenue (Appeals) which is pending for hearing.

The management and the Bank's tax consultant is confident that the appeal is likely to be decided in favor of the Bank and hence no provision has been made in these financial statements for the income tax claims amounting to Rs. 6.741 million.

- 22.3.9** During the year 2022, Additional Commissioner Inland Revenue (ACIR) passed the order under Section 122(5A) of the Income Tax Ordinance, 2001, on account of certain additions / disallowances of certain expenses in the tax return filed for the tax year 2020. The Bank intends to file application for rectification and an appeal against the Order before Commissioner Inland Revenue (Appeals). The Order passed by CIRA annulled additions / disallowances of certain expenses. However there are certain additions / disallowances of expenses for which the Bank will file an appeal before the ATIR.

The management and the Bank's tax consultant is confident that the appeal is likely to be decided in favor of the Bank and hence no provision has been made in these financial statements for the income tax claims amounting to Rs. 964.289 million.

- 22.3.10** The Bank has received order stating that the Bank has short paid Sindh Sales Tax (SST) on specific income of the Bank for the year 2012 amounting to Rs. 5.958 million. In response to the Bank's appeal, Appellate Tribunal Inland Revenue (ATIR) has set aside order-in-appeal and held that the instant appeal is deemed to be pending before the Commissioner (Appeals). Further, the Appellate Tribunal remanded the cess to the Commissioner (Appeals) and directed to decide the case on merits after hearing the parties and considering their submissions. However, effect to the appellate order is still awaited.

- 22.3.11** The Bank has received order from Deputy Commissioner (DC) SRB stating that the Bank has short paid Sindh Sales Tax (SST) on specific income of the Bank for the year 2014 amounting to Rs. 20.762 million. The Bank has filed an appeal before the Commissioner (Appeals), SRB against the order-in-original which is pending for hearing.

		2022	2021
		----- (Rupees in '000) -----	
22.4 Other contingencies			
Claims against the Bank not acknowledged as debt		<u>2,285,605</u>	<u>2,897,884</u>
22.4.1	These mainly represent counter claims by borrowers for damages, claims filed by the former employee(s) of the Bank and other claims related to banking transactions. Based on legal advice and / or internal assessments carried out, management is confident that the matters will be decided in the Bank's favor and the possibility of any adverse outcome is remote. Accordingly, no provision has been made in these financial statements.		
23 PROFIT / RETURN EARNED	Note	----- (Rupees in '000) -----	
On:			
- Islamic financing and related assets - net		12,243,678	8,808,293
- Investments		11,939,188	4,664,817
- Due from financial institutions		491,601	256,531
- Balances with banks		<u>118,789</u>	<u>14,022</u>
		<u>24,793,256</u>	<u>13,743,663</u>
24 PROFIT / RETURN EXPENSED			
On:			
- Deposits		12,893,871	6,135,246
- Borrowings		1,988,085	121,020
- Conversion cost against foreign currency deposits / borrowings		311,935	396,850
- Subordinated debt		649,368	282,685
- Finance charge on lease liability against right-of-use asset		254,105	173,778
- SBP Islamic refinance schemes		<u>249,727</u>	<u>104,533</u>
		<u>16,347,091</u>	<u>7,214,112</u>
25 FEE AND COMMISSION INCOME			
Branch banking customer fees		87,075	93,641
Consumer finance related fees		126,740	107,074
Debit card related fees and income		99,921	107,238
Investment banking fees		70,227	176,353
Commission on trade		329,541	350,545
Commission on guarantees		119,629	90,446
Commission on cash management		11,424	10,154
Commission on remittances including home remittances		25,616	32,490
Commission on bancatakaful		7,198	7,151
Others		<u>20,206</u>	<u>24,022</u>
		<u>897,577</u>	<u>999,114</u>
26 GAIN ON SECURITIES - NET			
Realised	26.1	22,420	125,266
Unrealised - held for trading	9.1	-	5,802
		<u>22,420</u>	<u>131,068</u>
26.1	Realised gain / (loss) on:		
	Federal Government securities	70,350	152,638
	Shares	<u>(47,930)</u>	<u>(27,372)</u>
		<u>22,420</u>	<u>125,266</u>
27 OTHER INCOME			
Rent on property		21,853	23,081
Gain on sale of fixed assets - net		6,387	6,740
Loss on sale of non-banking assets		-	(1,987)
		<u>28,240</u>	<u>27,834</u>

28	OPERATING EXPENSES	Note	2022	2021
			----- (Rupees in '000) -----	
	Total compensation expense	28.1	2,752,866	2,537,637
	Property expense			
	Rent and taxes		124,330	25,436
	Takaful expense		67,388	46,116
	Utilities		332,772	234,404
	Security (including guards)	28.2	292,759	264,002
	Repair and maintenance (including janitorial charges)	28.2	98,225	83,375
	Depreciation		72,429	66,467
	Depreciation on right of use assets		464,932	667,822
	Depreciation - non banking assets		31,997	32,009
	Others		7,750	7,925
			1,492,582	1,427,556
	Information technology expenses			
	Software maintenance		282,480	189,971
	Hardware maintenance		51,448	56,508
	Depreciation		60,749	41,461
	Amortisation		65,426	51,585
	Network charges		86,271	82,898
	Others		107,104	75,038
			653,478	497,461
	Other operating expenses			
	Directors' fees and allowances		119,525	42,000
	Fees and allowances to Shariah Board		7,934	2,089
	Legal and professional charges		132,925	82,631
	Outsourced services costs	28.2	200,046	166,034
	Travelling and conveyance		50,665	27,175
	NIFT clearing charges		18,887	16,444
	Depreciation		90,092	93,898
	Amortisation		93,315	98,273
	Takaful and registration of Ijarah		7,459	11,531
	Training and development		8,443	2,750
	Postage and courier charges		37,484	25,429
	Communication		47,243	45,636
	Stationery and printing	28.2	148,999	94,357
	Marketing, advertisement and publicity		65,116	27,285
	Repair and maintenance		51,044	43,680
	Auditors' remuneration	28.3	17,678	17,430
	Depositors' protection		135,203	136,872
	Brokerage, commission and bank charges		231,256	164,319
	Others		72,365	54,869
			1,535,679	1,152,702
			6,434,605	5,615,356
28.1	Total compensation expense			
	Managerial remuneration			
	i) Fixed		1,403,520	1,375,079
	ii) Total variable of which		154,305	99,264
	a) Cash bonus / awards		154,305	99,264
	b) Bonus and awards in shares		-	-
	Charge for defined benefit plan		100,329	80,969
	Contribution to defined contribution plan		104,566	100,926
	Rent and house maintenance		368,687	356,393
	Utilities		118,870	114,316
	Medical		128,919	126,711
	Conveyance		373,412	283,891
	Others		258	88
			2,752,866	2,537,637

28.2 These amounts include outsourcing services with regards to janitorial services, security services, contractual employees over third party contracts and printing activities.

	Note	2022	2021
		-----Rupees in '000-----	
28.3 Auditors' remuneration			
Audit fee		3,276	3,048
Fee for half yearly limited scope review		986	918
Fee for audit of group reporting		5,331	5,880
Fee for other statutory certifications		2,074	1,999
Fee for audit of AJK and Gilgit Region branches		553	515
Special certifications and sundry advisory services		2,115	1,819
Sindh sales tax		1,340	1,333
Out-of-pocket expenses		2,003	1,918
		<u>17,678</u>	<u>17,430</u>
29 OTHER CHARGES			
Penalties imposed by State Bank of Pakistan		<u>56,524</u>	<u>359</u>
30 PROVISIONS AND WRITE OFFS - NET			
Reversal for diminution in value of investments	9.4.1	(42,071)	(175,833)
Provision against non-performing Islamic financing and related assets	10.5	1,070,756	2,362,197
Write off against other assets		11,075	2,171
Write off against fixed assets		16,858	19,756
		<u>1,056,618</u>	<u>2,208,291</u>
31 TAXATION			
Current tax - current year		707,537	195,874
Deferred tax - current year		418,377	(152,691)
		<u>1,125,914</u>	<u>43,183</u>
31.1	Through Finance Act 2022, the effective tax rate on banking companies has been increased and consequently for the year 2022, tax rates has been enhanced to 49% (inclusive of 10% Super Tax) from 39% in 2021 (inclusive of 4% Super Tax). Accordingly, the Bank has recognised super tax charge of Rs 317.308 million (2021: Rs 94.365 million) in the current year based on taxable income for the year.		
		2022	2021
		-----Rupees in '000-----	
31.2 Relationship between tax expense and accounting profit			
Profit before taxation		<u>2,635,609</u>	<u>673,734</u>
Tax at the applicable rate of 39% (2021 : 35%)		1,027,888	235,807
Impact of Super tax		317,308	94,365
Tax impact due to rate change during the year		(223,900)	(301,051)
Permanent difference		532	12,646
Other		4,086	1,416
Tax charge for the year		<u>1,125,914</u>	<u>43,183</u>

	2022	2021
	-----Rupees in '000-----	
32 BASIC / DILUTED EARNING PER SHARE		
Profit after taxation for the year	<u>1,509,695</u>	<u>630,551</u>
	-----Number of shares-----	
Weighted average number of ordinary shares	<u>1,373,962,760</u>	<u>1,373,962,760</u>
	-----Rupees-----	
Basic / diluted earnings per share	<u>1.10</u>	<u>0.46</u>
32.1	Diluted earnings per share has not been presented as the Bank does not have any convertible instruments in issue at December 31, 2022 and December 31, 2021 which would have any effect on the earnings per share if the option to convert is exercised.	
	2022	2021
	-----Rupees in '000-----	
33 CASH AND CASH EQUIVALENTS		
Cash and balance with treasury banks	16,569,661	17,608,396
Balance with other banks	<u>1,939,954</u>	<u>9,763,588</u>
	<u>18,509,615</u>	<u>27,371,984</u>
34 RECONCILIATION OF MOVEMENT OF LIABILITIES TO CASH FLOW ARISING FROM FINANCING ACTIVITIES		
Balance as at 01 January	4,968,731	3,811,763
Change from financing cash flows		
Repayment of Tier II mudaraba sukuk-first issue	-	(285,704)
Payment of lease liability against right-of-use assets	(644,871)	(292,328)
Proceeds against issuance of Tier II mudaraba-third issue	-	1,735,000
Balance as at 31 December	<u>4,323,860</u>	<u>4,968,731</u>
	2022	2021
	----- Number -----	
35 STAFF STRENGTH		
Permanent	1,643	1,740
On bank contract	152	193
Consultants	1	1
Bank's own staff strength at the end of the year	<u>1,796</u>	<u>1,934</u>
35.1	In addition to the above, 438 (31 December 2021: 475) employees of outsourcing services companies were assigned to the Bank as at the end of the year to perform services other than guarding and janitorial services.	
36 DEFINED BENEFIT PLAN		
36.1 General description		
The Bank 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 basic salary for each completed year of service, subject to a minimum of three years of service. The Bank contributes to the gratuity fund based on the independent actuarial valuations.		
	2022	2021
	----- Number -----	
36.2 Number of employees under the scheme		
The number of employees covered under the following defined benefit scheme are:		
Gratuity fund	<u>1,724</u>	<u>1,818</u>
36.3 Principal actuarial assumptions		
The actuarial valuation was carried out as at 31 December 2022 using the following significant assumptions:		

		2022	2021
		----- Per annum -----	
Discount rate		14.25%	12.25%
Expected rate of return on plan assets		14.25%	12.25%
Expected rate of salary increase		12.25%	10.25%
	Note	2022	2021
36.4 Reconciliation of payable to defined benefit plans		-----Rupees in '000-----	
Present value of obligations		432,926	378,539
Fair value of plan assets		<u>(370,305)</u>	<u>(360,972)</u>
		<u>62,621</u>	<u>17,567</u>
36.5 Movement in defined benefit obligations			
Obligations at the beginning of the year		378,539	336,539
Current service cost		98,185	84,274
Interest cost		39,654	31,523
Past service cost		5,540	-
Benefits paid by the Bank		(105,253)	(59,448)
Re-measurement gain		16,261	(14,349)
Obligations at the end of the year		<u>432,926</u>	<u>378,539</u>
36.6 Movement in fair value of plan assets			
Fair value at the beginning of the year		360,972	328,640
Expected return on plan assets		43,050	34,828
Contribution by the Bank		86,166	81,731
Benefits paid		(105,253)	(59,448)
Re-measurements: Net return on plan assets over interest income loss	36.8.2	<u>(14,630)</u>	<u>(24,779)</u>
Fair value at the end of the year		<u>370,305</u>	<u>360,972</u>
36.7 Movement in payable under defined benefit schemes			
Opening balance		17,567	7,899
Charge for the year		100,329	80,969
Contribution by the Bank		(86,166)	(81,731)
Re-measurement loss recognised in OCI during the year	36.8.2	<u>30,891</u>	<u>10,430</u>
Closing balance		<u>62,621</u>	<u>17,567</u>
36.8 Charge for defined benefit plans			
36.8.1 Cost recognised in the profit and loss account			
Current service cost		98,185	84,274
Past service cost		5,540	-
Net interest on defined benefit asset / liability		<u>(3,396)</u>	<u>(3,305)</u>
		<u>100,329</u>	<u>80,969</u>
36.8.2 Re-measurements recognised in OCI during the year			
Loss on obligation			
- Financial assumptions		(3,167)	(5,469)
- Experience adjustment		19,428	(8,880)
Return on plan assets over interest income		14,630	24,779
Total re-measurements recognised in OCI		<u>30,891</u>	<u>10,430</u>
36.9 Components of plan assets			
Cash and cash equivalents - net		332,340	317,628
Units of mutual funds		<u>37,965</u>	<u>43,344</u>
		<u>370,305</u>	<u>360,972</u>

	2022	2021
	----- (Rupees in '000) -----	
36.10 Sensitivity analysis		
1% increase in discount rate	374,479	337,026
1% decrease in discount rate	457,219	416,447
1 % increase in expected rate of salary increase	459,759	418,855
1 % decrease in expected rate of salary increase	371,784	334,484
36.11 Expected contributions to be paid to the funds in the next financial year	<u>86,058</u>	<u>74,740</u>
36.12 Expected charge for the next financial year	<u>86,058</u>	<u>74,740</u>
36.13 Maturity profile		
Weighted average duration of the defined benefit obligation		
Distribution of timing of benefit payments	10.02 years	10.63 years
	2022	2021
	----- (Rupees in '000) -----	
Less than 12 months	20,541	26,882
Between 1 year and 5 years	10,699	73,780
Between 6 and 10 years	292,153	242,507
Above 10 years	2,668,140	1,851,704

36.14 Funding policy

The policy followed by the Bank in respect of the staff retirement benefit schemes is disclosed in note 5.15 of these financial statements.

36.15 Risks associated with defined benefit plan**- Investment risks**

The risk arises when the actual performance of the investments is lower than expectation and thus creating a shortfall in the funding objectives.

- Longevity risks

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

- Salary increase risk

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than expectation and impacts the liability accordingly.

- Withdrawal risk

The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation.

37 DEFINED CONTRIBUTION PLAN

The Bank also operates a recognised contributory provident fund for all permanent employees. Equal monthly contributions are made, both by the Bank and the employees, to the fund at a rate of 10% of basic salary.

	2022	2021
	----- (Rupees in '000) -----	
Contribution from the Bank	104,566	100,926
Contribution from the employees	<u>104,566</u>	<u>100,926</u>
	<u>209,132</u>	<u>201,852</u>

38 COMPENSATION OF DIRECTORS AND EXECUTIVES

		2022						
		Directors		Members	President / CEO	Key	Other material	
		Chairman	Non-executives	shariah board		management	risk takers /	
		personnel						controllers
Note		(Rupees in '000)						
	Fees and allowances etc.	5,000	114,525	7,934	-	-	-	
	Managerial remuneration							
	i) Fixed	-	-	9,010	14,993	134,132	88,947	
	ii) Total variable	-	-	789	2,146	8,312	5,634	
	of which							
	a) Cash bonus / awards	38.1	-	789	2,146	8,312	5,634	
	b) Bonus & awards in shares		-	-	-	-	-	
	Charge for defined benefit plan		-	-	987	7,461	5,124	
	Contribution to defined contribution plan		-	-	1,292	10,518	7,187	
	Rent & house maintenance		-	-	3,875	33,956	23,432	
	Utilities		-	-	1,292	11,319	7,211	
	Medical		-	5	1,301	11,442	7,361	
	Conveyance		-	2,130	173	39,157	43,983	
	Others		-	10	2	223	796	
	Total		5,000	114,525	19,878	256,520	189,675	
	Number of persons		1	7	4	2	24	32
		2021						
		Directors		Members	President / CEO	Key	Other material	
		Chairman	Non-executives	shariah board		management	risk takers /	
		personnel						controllers
		(Rupees in '000)						
	Fees and allowances etc.	500	41,500*	2,089	-	-	-	
	Managerial remuneration							
	i) Fixed	-	-	7,998	24,539	129,499	78,264	
	ii) Total variable	-	-	1,019	4,899	13,987	5,905	
	of which							
	a) Cash bonus / awards		-	1,019	4,899	13,987	5,905	
	b) Bonus & awards in shares		-	-	-	-	-	
	Charge for defined benefit plan		-	-	1,742	7,450	4,313	
	Contribution to defined contribution plan		-	-	2,090	10,245	6,204	
	Rent & house maintenance		-	-	6,273	32,777	19,981	
	Utilities		-	-	2,091	10,926	6,244	
	Medical		-	-	2,091	10,926	6,244	
	Conveyance		-	1,772	138	32,352	36,372	
	Others		-	3	3	432	402	
	Total		500	41,500	12,881	43,866	248,594	163,929
	Number of Persons		1	8	4	1	19	28

The Bank also provides Bank maintained car to certain executives for their own use and business use.

*This includes fee paid to resigned directors for the meetings held during their tenure.

- 38.1** SBP has issued guidelines and disclosure on governance and remuneration practices through BPRD of Circular No. 1 of 2017 dated 25 January 2017 effective from 01 January 2019. The amount of bonus pay out of deferred at the time of payment to the President, Chief Executive Officer, key management personnel and other material risk takers / material risk controllers, as per the Remuneration Policy as at 31 December 2022 amounts to Rs. 9.693 million (31 December 2021: Rs. 9.222 million).

38.1.1 Movement of deferred remuneration

2022
Rupees in '000

Opening balance	9,222
Addition of 2021 deferred Remuneration	4,012
Less: Paid during the year	(3,541)
Closing balance	9,693

38.2 Fee paid to directors for participation in board and committee meetings

	2022							
	Meeting Fees Paid							
	For Board Committees							
For Board Meetings	ITD & IS Committee	Pakistan Capital Injection Committee	Risk Committee	Audit Committee	Compliance Committee	Nomination and Remuneration Committee	Board Executive Committee	Total amount paid
----- (Rupees in '000) -----								
Dr. Jehad El Nakla	3,000	-	-	-	-	-	2,000	5,000
Mr. Tareq Mahmood Kazim	3,525	2,500	7,500	-	-	11,000	1,500	26,025
Mr. Mohammed Tareq Sadeq	3,500	-	-	-	2,000	2,000	-	7,500
Mr. Zahid Rahim	4,000	3,000	7,500	2,000	-	-	2,500	19,000
Mr. Azhar Hamid	3,500	-	-	-	2,000	2,000	-	7,500
Ms. Aminah Zahid Zaheer	4,500	3,000	7,500	1,500	-	12,000	2,500	31,000
Mr. Abdul Malek Mazhar	3,500	-	-	-	2,000	1,500	10,000	17,000
Mr. Azhar Aziz Dogar	4,000	-	-	2,500	-	-	-	6,500
	29,525	8,500	22,500	6,000	6,000	5,500	33,000	119,525

	2021						
	Meeting Fees Paid						
	For Board Committees						
For Board Meetings	Risk Committee	Audit and Compliance Committee	Compliance Committee	Board Executive Committee	Sustainability and Social Responsibility Committee	Total amount paid	
----- (Rupees in '000) -----							
Dr. Jehad El Nakla	500	-	-	-	-	500	
Mr. Tareq Mahmood Kazim	2,000	-	-	1,500	2,000	6,000	
Mr. Mohammed Tareq Sadeq	2,000	-	2,000	-	-	4,000	
Mr. Zahid Rahim	2,000	2,000	500	-	2,500	7,000	
Mr. Azhar Hamid	1,500	-	1,500	-	-	3,500	
Ms. Aminah Zahid Zaheer	500	500	-	500	1,000	2,500	
Mr. Abdul Malek Mazhar	500	-	500	500	-	1,500	
Mr. Azhar Aziz Dogar	500	500	-	-	-	1,000	
Mr. Adnan Ahmed Yousif *	500	-	-	-	-	500	
Mr. Salman Ahmed *	1,000	1,500	-	-	1,500	4,000	
Mr. Ahmed Rehman *	1,000	1,500	-	1,000	-	3,500	
Mr. Asheque Moyeed *	1,000	-	-	1,000	1,500	3,500	
Mr. Shafqaat Ahmed *	1,000	1,500	-	-	-	3,000	
Mr. Abdulrahman Shehab *	500	-	500	500	-	1,500	
	14,500	7,500	5,000	5,000	8,500	42,000	

* Resigned during the year ended 31 December 2021

38.3 Remuneration paid to shariah board members

	2022			2021		
	Chairman	Resident Member	Non-Resident Member	Chairman	Resident Member	Non-Resident Member
	(Rupees in '000)					
Fees and allowances etc.	3,850	-	4,084	-	-	2,089
Managerial remuneration						
i) Fixed	-	9,010	-	-	7,998	-
ii) Total variable	-	789	-	-	1,019	-
of which						
a) Cash bonus / awards	-	789	-	-	1,019	-
a) Bonus & awards in shares	-	-	-	-	-	-
Charge for defined benefit plan	-	-	-	-	-	-
Contribution to defined contribution plan	-	-	-	-	-	-
Rent & house maintenance	-	-	-	-	-	-
Utilities	-	-	-	-	-	-
Medical	-	5	-	-	-	-
Conveyance	-	2,130	-	-	1,772	-
Others	-	10	-	-	3	-
Total	3,850	11,944	4,084	-	10,792	2,089
Number of persons	1	1	2	1	1	2

39 FAIR VALUE MEASUREMENTS

The fair value of quoted securities other than those classified as held to maturity, is based on quoted market price. Quoted securities classified as held to maturity are carried at cost. The fair value of unquoted equity securities is determined on the basis of the break-up value of these investments as per their latest available audited financial statements.

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

The repricing profile and maturity are stated in notes 44.2.5 and 44.4.1 to these financial statements.

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

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

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

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

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

39.1 Fair value of financial assets

The following table provides the fair value measurement hierarchy of the Bank's assets:

On balance sheet financial instruments	2022			Total
	Level 1	Level 2	Level 3	
----- (Rupees in '000) -----				
Financial assets - measured at fair value				
Investments				
Federal Government securities	23,520,350	80,187,141	-	103,707,491
Other securities	-	1,553,353	-	1,553,353
Shares	130,055	-	-	130,055
Foreign securities	3,799,636	-	-	3,799,636
	<u>27,450,041</u>	<u>81,740,494</u>	<u>-</u>	<u>109,190,535</u>
Financial assets - disclosed but not measured at fair value				
Cash and balances with treasury banks	-	-	-	16,569,661
Balances with other banks	-	-	-	1,939,954
Due from financial institutions	-	-	-	-
Investments	-	-	-	709,370
Islamic financing and related assets	-	-	-	86,057,049
Other assets	-	-	-	9,266,766
	<u>-</u>	<u>-</u>	<u>-</u>	<u>114,542,800</u>
Off-balance sheet financial instruments - measured at fair value				
Forward purchase of foreign exchange	<u>-</u>	<u>23,494,138</u>	<u>-</u>	<u>23,494,138</u>
Forward sale of foreign exchange	<u>-</u>	<u>12,833,026</u>	<u>-</u>	<u>12,833,026</u>
2021				
On balance sheet financial instruments	Level 1	Level 2	Level 3	Total
----- (Rupees in '000) -----				
Financial assets - measured at fair value				
Investments				
Federal Government securities	20,262,374	51,259,965	-	71,522,339
Other securities	-	543,410	-	543,410
Shares	200,857	-	-	200,857
Foreign securities	1,419,345	-	-	1,419,345
	<u>21,882,576</u>	<u>51,803,375</u>	<u>-</u>	<u>73,685,951</u>
Financial assets - disclosed but not measured at fair value				
Cash and balances with treasury banks	-	-	-	17,608,396
Balances with other banks	-	-	-	9,763,588
Due from financial institutions	-	-	-	403,122
Investments	-	-	-	2,866,544
Islamic financing and related assets	-	-	-	96,202,153
Other assets	-	-	-	7,219,504
	<u>-</u>	<u>-</u>	<u>-</u>	<u>134,063,307</u>
Off-balance sheet financial instruments - measured at fair value				
Forward purchase of foreign exchange	<u>-</u>	<u>29,458,882</u>	<u>-</u>	<u>29,458,882</u>
Forward sale of foreign exchange	<u>-</u>	<u>18,708,355</u>	<u>-</u>	<u>18,708,355</u>

There were no transfers between level 1 and level 2 during the year.

39.2 Valuation techniques used in determination of fair values

Particulars	Valuation approach and input used
Federal government securities	The fair value of federal government securities are determined on the basis of rates / prices sourced from Reuters. However, valuation of Pakistan Energy Sukuk on the basis of rates announced or last traded rates by PSX.
Non-government debt securities	Investment in non-government debt securities denominated in local currency are valued on the basis of rates announced by the Mutual Funds Association of Pakistan (MUFAP).
Foreign government debt securities	The fair value of overseas Government securities are denominated on the basis of rates taken from Bloomberg / Reuters.
Forward foreign exchange contracts	The valuation has been determined by interpolating the mid rates announced by State Bank of Pakistan.

40 SEGMENT INFORMATION

40.1 Segment details with respect to business activities

	2022						Total
	Corporate Banking	Commercial and SME Banking	Retail and Consumer Banking	Trading and Sales	Others	Inter-segment Eliminations	
	(Rupees in '000)						
Profit and loss							
Net profit / return earned	2,764,277	1,746,570	(5,169,702)	9,763,338	(658,318)	-	8,446,165
Inter segment revenue - net	-	-	17,289,805	-	1,550,412	(18,840,217)	-
Other income	388,992	191,465	351,134	845,667	13,721	-	1,790,979
Total Income	3,153,269	1,938,035	12,471,237	10,609,005	905,815	(18,840,217)	10,237,144
Segment direct expenses	(245,209)	(281,199)	(5,935,485)	(83,024)	-	-	(6,544,917)
Inter segment expense allocation	(2,695,523)	(1,891,474)	(3,983,126)	(10,270,094)	-	18,840,217	-
Total expenses	(2,940,732)	(2,172,673)	(9,918,611)	(10,353,118)	-	18,840,217	(6,544,917)
(Provisions) / Reversal	(583,615)	(290,522)	(124,144)	42,072	(100,409)	-	(1,056,618)
(Loss) / profit before tax	(371,078)	(525,160)	2,428,482	297,959	805,406	-	2,635,609
Statement of Financial Position							
Cash and balances with treasury banks	49,952	-	3,259,753	11,441,608	1,818,348	-	16,569,661
Balances with other banks	-	-	-	1,939,954	-	-	1,939,954
Due from financial institutions	-	-	-	-	-	-	-
Investments	3,029,073	-	-	106,870,832	-	-	109,899,905
Net inter segment lending	-	-	163,802,792	-	10,168,570	(173,971,362)	-
Islamic financing and related assets - performing	43,035,925	12,278,771	26,638,844	-	2,089,088	-	84,042,628
- non-performing	1,033,010	628,363	353,048	-	-	-	2,014,421
Others	5,686,349	1,264,508	5,597,146	3,655,380	2,997,818	-	19,201,201
Total assets	52,834,309	14,171,642	199,651,583	123,907,774	17,073,824	(173,971,362)	233,667,770
Bills payable	-	-	5,376,942	-	-	-	5,376,942
Due to financial institutions	6,749,505	823,583	-	5,376,913	-	-	12,950,001
Subordinated debt	-	-	-	-	4,624,241	-	4,624,241
Deposits and other accounts	28,701,109	-	156,348,060	-	-	-	185,049,169
Net inter segment borrowing	14,550,068	13,847,503	27,318,484	118,255,307	-	(173,971,362)	-
Others	2,901,390	25,716	7,783,499	104,323	247,760	-	11,062,688
Total liabilities	52,902,072	14,696,802	196,826,985	123,736,543	4,872,001	(173,971,362)	219,063,041
Equity	(67,763)	(525,160)	2,824,598	171,231	12,201,823	-	14,604,729
Total equity and liabilities	52,834,309	14,171,642	199,651,583	123,907,774	17,073,824	(173,971,362)	233,667,770
Contingencies and commitments	18,247,731	8,494,243	143,646	36,327,164	4,390,406	-	67,603,190

	2021						Total
	Corporate Banking	Commercial and SME Banking	Retail and Consumer Banking	Trading and Sales	Others	Inter-segment Eliminations	
	(Rupees in '000)						
Profit and loss							
Net profit / return earned	3,665,825	1,150,129	(2,176,126)	4,117,753	(228,030)	-	6,529,551
Inter segment revenue - net	-	-	8,303,537	-	683,451	(8,986,988)	-
Other income	512,897	216,647	336,155	920,699	(4,459)	-	1,981,939
Total Income	4,178,722	1,366,776	6,463,566	5,038,452	450,962	(8,986,988)	8,511,490
Segment direct expenses	(210,621)	(231,603)	(5,127,306)	(64,192)	4,257	-	(5,629,465)
Inter segment expense allocation	(3,364,292)	(1,171,820)	-	(4,450,876)	-	8,986,988	-
Total expenses	(3,574,913)	(1,403,423)	(5,127,306)	(4,515,068)	4,257	8,986,988	(5,629,465)
Provisions	(1,566,238)	(663,710)	(151,150)	175,833	(3,026)	-	(2,208,291)
(Loss) / profit before tax	(962,429)	(700,357)	1,185,110	699,217	452,193	-	673,734
Statement of Financial Position							
Cash and balances with treasury banks	72,122	-	15,519,647	-	2,016,627	-	17,608,396
Balances with other banks	-	-	-	9,763,588	-	-	9,763,588
Due from financial institutions	-	-	-	403,122	-	-	403,122
Investments	3,315,268	-	-	73,237,227	-	-	76,552,495
Net inter segment lending	-	-	144,984,971	-	10,568,385	(155,553,356)	-
Islamic financing and related assets - performing	49,237,159	14,698,696	27,137,093	-	2,046,488	-	93,119,436
- non-performing	1,694,693	1,017,962	357,784	-	12,278	-	3,082,717
Others	2,662,118	461,690	8,710,048	2,470,786	3,283,001	-	17,587,643
Total assets	56,981,360	16,178,348	196,709,543	85,874,723	17,926,779	(155,553,356)	218,117,397
Bills payable	-	-	3,978,696	-	-	-	3,978,696
Due to financial institutions	7,024,503	1,944,031	-	-	-	-	8,968,534
Subordinated debt	-	-	-	-	4,624,241	-	4,624,241
Deposits and other accounts	20,472,635	-	158,444,503	-	-	-	178,917,138
Net inter segment borrowing	27,690,014	14,892,940	28,300,100	84,670,302	-	(155,553,356)	-
Others	2,756,637	41,733	4,405,015	24,103	986,586	-	8,214,074
Total liabilities	57,943,789	16,878,704	195,128,314	84,694,405	5,610,827	(155,553,356)	204,702,683
Equity	(962,429)	(700,356)	1,581,229	1,180,318	12,315,952	-	13,414,714
Total equity and liabilities	56,981,360	16,178,348	196,709,543	85,874,723	17,926,779	(155,553,356)	218,117,397
Contingencies and commitments	25,609,282	5,770,266	4,656	48,167,237	3,816,300	-	83,367,741

40.2 Segment details with respect to geographical locations

GEOGRAPHICAL SEGMENT ANALYSIS

	Pakistan	
	2022	2021
	(Rupees in '000)	
Profit and loss		
Profit before tax	2,635,609	673,734
Total assets	233,667,770	218,117,397
Total liabilities	219,063,041	204,702,683
Total equity and liabilities	233,667,770	218,117,397
Contingencies and commitments	67,603,190	83,367,741

41 TRUST ACTIVITIES

The Bank commonly act as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions including on behalf of certain related parties. These are not assets of the Bank and, therefore, are not included in the Statement of Financial Position. The following is the list of assets held under trust:

Category	Type	2022	2021	2022	2021
		Number of IPS account		Face value	
		(Rupees in '000)			
Takaful company	Government of Pakistan Ijara Sukuk	1	1	834,000	696,500
Employee funds	Government of Pakistan Ijara Sukuk	2	1	1,078,500	795,000
Others	Government of Pakistan Ijara Sukuk	9	-	2,514,100	-
		12	2	4,426,600	1,491,500

42 RELATED PARTY TRANSACTIONS

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

The Banks enters into transactions with related parties in the ordinary course of business and on substantially the same terms as for comparable transactions with person of similar standing. Contributions to and accruals in respect of employee 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 transactions with related parties during the year, other than those which have been disclosed elsewhere in these financial statements are as follows:

	2022					2021				
	Parent	Directors	Key management personnel	Other related parties	Total	Parent	Directors	Key management personnel	Other related parties	Total
----- (Rupees in '000) -----										
Islamic financing and related assets										
Opening balance	-	-	380,424	-	380,424	-	-	260,191	-	260,191
Addition during the year	-	-	82,532	-	82,532	-	-	283,940	-	283,940
Repaid during the year	-	-	(53,468)	-	(53,468)	-	-	(118,820)	-	(118,820)
Transfer in/out	-	-	(86,142)	-	(86,142)	-	-	(44,887)	-	(44,887)
Closing balance	-	-	323,346	-	323,346	-	-	380,424	-	380,424
Fixed assets										
Fixed assets	-	-	-	251,680	251,680	-	-	-	251,680	251,680
Provision for impairment	-	-	-	251,680	251,680	-	-	-	251,680	251,680
Other assets										
Profit receivable on Islamic financing and related assets	-	-	85	-	85	-	-	357	-	357
Subordinated debt	1,389,241	-	-	-	1,389,241	1,389,241	-	-	-	1,389,241
Deposits and other accounts										
Opening balance	13,845	49,643	46,691	1,093,154	1,203,333	4,414	249,380	54,832	999,524	1,308,150
Received during the year	1,465	65,156	265,621	11,587,411	11,919,653	9,431	88,123	410,446	8,514,973	9,022,973
Withdrawn during the year	-	(66,861)	(255,299)	(11,508,446)	(11,830,606)	-	(92,182)	(413,859)	#####	#####
Transfer in/out	-	-	(12,261)	6,666	(5,595)	-	(195,678)	(4,728)	724,291	523,885
Closing balance	15,310	47,938	44,752	1,178,785	1,286,785	13,845	49,643	46,691	1,093,154	1,203,333
Other Liabilities										
Return payable on deposits	-	40	295	3,554	3,889	-	47	163	1,420	1,630
Return payable on Sub-ordinated debt	197,648	-	-	-	197,648	145,680	-	-	-	145,680
Payable in respect of defined benefit plan	-	-	-	62,621	62,621	-	-	-	17,567	17,567
Other liabilities	-	-	-	657	657	-	-	-	657	657
Non-funded exposure	-	-	-	-	-	-	-	-	67,033	67,033
----- (Rupees in '000) -----										
Related party transactions during the year										
Income										
Profit earned on Islamic financing and related assets	-	-	10,306	-	10,306	-	-	7,925	-	7,925
Fee and commission income	-	-	-	6,318	6,318	-	-	-	6,736	6,736
Expense and transactions										
Return on deposits expenses	-	640	2,952	132,015	135,607	-	1,588	1,125	38,089	40,802
Salaries, allowances and benefits	-	-	260,044	-	260,044	-	-	271,380	-	271,380
Director fee and other allowances	-	119,525	-	-	119,525	-	42,000	-	-	42,000
Shariah Board fee	-	-	-	7,934	7,934	-	-	-	2,089	2,089
Rent expense	-	-	-	37,731	37,731	-	-	-	32,619	32,619
Contribution to defined contribution plan	-	-	-	104,566	104,566	-	-	-	100,926	100,926
Contribution to defined benefit plan	-	-	-	100,329	100,329	-	-	-	80,969	80,969
Return on sub-ordinated loan	194,437	-	-	-	194,437	141,147	-	-	-	141,147

43	CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS	2022	2021
		----- (Rupees in '000) -----	
	Minimum Capital Requirement (MCR):		
	Paid-up capital (net of losses)	13,668,038	12,475,269
	Capital Adequacy Ratio (CAR):		
	Eligible Common Equity Tier 1 (CET 1) Capital	11,426,288	9,472,244
	Eligible Additional Tier 1 (ADT 1) Capital	1,389,241	1,389,241
	Total Eligible Tier 1 Capital	12,815,529	10,861,485
	Eligible Tier 2 Capital	2,453,753	2,612,549
	Total Eligible Capital (Tier 1 + Tier 2)	15,269,282	13,474,034
	Risk Weighted Assets (RWAs):		
	Credit Risk	78,582,865	86,500,506
	Market Risk	1,365,195	2,980,642
	Operational Risk	16,667,845	14,378,880
	Total	96,615,905	103,860,028
	Common Equity Tier 1 Capital Adequacy Ratio	11.83%	9.12%
	Tier 1 Capital Adequacy Ratio	13.26%	10.46%
	Total Capital Adequacy Ratio	15.80%	12.97%
	The minimum capital adequacy ratio required by SBP as at 31 December 2022 is 11.5% (31 December 2021: 11.5%).		
	Leverage Ratio (LR):		
	Eligible Tier-1 Capital	12,815,529	10,861,485
	Total Exposures	275,516,707	251,518,127
	Leverage Ratio	4.65%	4.32%
	Liquidity Coverage Ratio (LCR):		
	Total High Quality Liquid Assets	117,370,386	90,472,868
	Total Net Cash Outflow	63,752,123	48,557,008
	Liquidity Coverage Ratio	184.10%	186.32%
	Net Stable Funding Ratio (NSFR):		
	Total Available Stable Funding	148,334,072	146,555,015
	Total Required Stable Funding	82,406,182	87,138,883
	Net Stable Funding Ratio	180.00%	168.19%

43.1 The full disclosures on the CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS as per SBP instructions issued from time to time have been placed on the website. The link to the full disclosure is available at www.albaraka.com.pk/page/investor-relations.

44 RISK MANAGEMENT

During 2022, Pakistan witnessed significant economic headwinds, rising inflation, increasing fuel prices, depleting foreign exchange reserves, massive devaluation of the Pakistani rupee, political instability, increasing interest rates, and high budget deficit made the year more challenging. In this backdrop, Fitch, Moody's and S&P Global lowered the country's sovereign credit rating. In June 2022, Pakistan was hit with a natural catastrophe in the shape of worst ever floods in the history of the country. The floods resulted in millions of people being displaced and severe damage to both crops and livestock. Additionally, international commodity prices also remained elevated through the year. The headline inflation increased significantly touching a multi-year high of 27.32% in August. During the year, SBP increased the benchmark interest rate by a cumulative 625 bps to 16%. This steep increase was aimed at reducing aggregate demand in the economy and also to counter high inflation. This led to a steep uptick in domestic food prices.

The Bank is regularly conducting assessments of the credit portfolio, with robust post disbursement credit review mechanism to identify borrowers most likely to be affected in the challenging business and economic environment. Bank is confident that it has more than sufficient risk bearing capacity to stand with in these difficult times.

The wide variety of the Bank's business activities require the Bank to identify, assess, measure, aggregate and manage risks effectively which are constantly evolving as the business activities expand in response to the Bank's strategy and growth. The Bank manages the risk through a framework of risk management encompassing policies and procedures, organisational structures, risk measurement and monitoring processes and techniques that are closely aligned with business activities of the Bank.

The primary goal of risk management is to identify, assess and monitor risks inherent in the activities of the Bank and take adequate measures to manage and control these risks on timely basis. This will help in achieving sustainable business growth and financial and non-financial targets with better protection and soundness. The Bank's aim is to achieve an appropriate balance between risk and return and minimizing potential adverse effects on the Bank's financial performance.

This section presents information about Bank's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments:

- Credit risk is the risk of loss resulting from client or counterparty default (note 44.1).
- Market risk is exposure to market variables such as benchmark rates, exchange rates and equity indices (note 44.2).
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events and Shariah non compliance (note 44.3).
- Liquidity risk is the potential loss arising from Bank's inability to meet its obligations when due (note 44.4).

The objective of risk management is to effectively manage uncertainties that arise in the normal course of business activities. The Bank manages the risk through a framework of risk management, policies and principles, organizational structures, and risk measurement and monitoring processes that are closely aligned with the business activities of the Bank.

Risk management principles

- The Board of Directors (the Board) provides overall risk management supervision. The Board Risk Committee (BRC) regularly monitors the Bank's risk profile.
- The Bank has set up objectives and policies to manage the risks that arise in connection with the Bank's activities. The risk management framework and policies of the Bank are guided by specific objectives to ensure that comprehensive and adequate risk management policies are established to mitigate the salient risk elements in the operations of the Bank.
- The establishment of the overall financial risk management objectives is consistent and tandem with the strategy to create and enhance shareholders value, while guided by a prudent and robust framework of risk management policies.
- The structure of risk management function is closely aligned with the organizational structure of the Bank.

Risk management organisation

The Board through its sub-committee called Board Risk Committee (BRC) oversees the overall risk of the Bank. The Risk Management Department (RMD) is the organisational arm performing the functions of identifying, measuring, monitoring and controlling the various risk and assists the apex level committee and the various sub-committees in conversion of policies into action.

The BRC comprises executive directors, non-executive directors and the Chief Risk Officer. One of the non-executive directors of the Bank chairs the BRC, who is responsible for planning, management and control of the aforementioned risks of the Bank.

The BRC has delegated some of its tasks of risk management to sub committees which are as follows:

Name of the committees

Credit committee
 Asset and liability management committee (ALCO)
 Credit Risk management Committee (CRMC)

Chaired by

Chief Executive Officer
 Chief Executive Officer
 Chief Executive Officer

Credit committee is responsible for approving and monitoring all financing transactions and also the overall quality of the asset portfolio. For this purpose it has formulated credit policy so as to effectively monitor the risk profile of the Bank's asset portfolio and to ensure strict adherence to the SBP's Prudential Regulations, Banking Companies Ordinance, 1962 and any other regulatory requirement.

ALCO has the responsibility for the formulation of overall strategy and oversight of the assets liability management function. ALCO monitors the maintenance of liquidity ratios, depositor's concentration both in terms of overall funding mix and avoidance of reliance on large deposits. The Board has approved a comprehensive liquidity management policy.

CRMC is responsible to oversee credit risk activities on bank wide basis while ensuring compliance with regulatory requirements and internal policies. Its responsibilities also include to provide support and guide front lines in managing their businesses, perform finance portfolio review, establish financing standards and benchmarks, maintain adequate industry diversification and decide upon provisioning. It is also required to delegate financing approving powers & prudential limits on large financing exposures.

The Bank's risk management, compliance and internal audit and legal departments support the risk management function. The role of the risk management department is to quantify the risk and the quality and integrity of the Bank's risk-related data. The Compliance Department ensures that all the directives and guidelines issued by SBP are being complied with in order to mitigate the compliance and operational risks. Internal Audit Department reviews the compliance of internal control procedures with internal and regulatory standards.

44.1 Credit risk

Credit risk is the risk of loss to Bank as a result of failure by a client or counterparty to meet its contractual obligations when due. Exposure to credit risks for the Bank arises primarily from financing and investing activities.

The management of credit risk is governed by credit policies approved by the Board. The procedures set out the relevant approval authorities, limit structures, risks, credit ratings and other matters involved in order to ensure sound credit granting standards.

The Bank has a well defined credit structure duly approved by the Board under which delegated authorities at various levels are operating and which critically scrutinise and sanction credit. The emphasis is to provide short to medium term trade related Islamic financing and related assets to reputable names, which are self liquidating and Shariah compliant. The risk appraisal system of the Bank has enabled it to build a sound portfolio.

Credit risk management framework forms part of the overall business strategy and credit operations of the Bank. The principles for credit risk management have been laid down in the Bank's credit risk policy, credit manual and credit operations procedure manuals. The policy has been developed in accordance with the requirements of the State Bank of Pakistan and is reviewed and updated (where required) on periodic basis.

The Bank has a rigorous pre-approval evaluation process of credit risk embedded in each credit transactions executed by the business units. The entire process broadly encompasses, gathering relevant information of the borrower, credit investigations and visits, detailed credit appraisal and credit risk assessment and measurement. In addition to monitoring credit limits specified in the Prudential Regulations of the State Bank of Pakistan, credit limit structure includes internal limits as established by the senior management and the Board. Internal limits include limits with respect to Board approved risk appetite, industry / sector, credit approval authority and exposure with financial institutions. All these limits are monitored on regular basis and exceptions are reported to the relevant authorities for their timely action where necessary.

Besides managing credit risk at transaction level, the Bank regularly monitors credit risk at portfolio level and ensures that no undue concentration of risk is present in the overall credit exposure. The Bank has well established management information set-up which allows efficient and effective assessment, monitoring and management of its credit risk profile in various dimensions.

Provisions are determined in accordance with the requirements of the SBP. The authority to determine provisions and credit valuation adjustments for impaired claims, vests in Credit Operations Department and is according to the SBP regulations.

The Bank expects that several borrowers will be severely impacted by this pandemic. Since many of such borrowers have availed the SBP enabled deferment / restructuring and rescheduling relief, the full potential effect of the economic stress is difficult to predict given the uncertain economic environment.

44.1.1 Due from financial institutions

	Due from financial institutions (Gross)		Non-performing due from financial institutions		Provision held	
	2022	2021	2022	2021	2022	2021
(Rupees in '000)						
Credit risk by public / private sector						
Public / Government	-	-	-	-	-	-
Private	-	403,122	-	-	-	-
	<u>-</u>	<u>403,122</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

44.1.2 Investment in debt securities

	Gross investments		Non-performing investments		Provision held	
	2022	2021	2022	2021	2022	2021
(Rupees in '000)						
Credit risk by industry sector						
Textile	102,213	102,213	102,213	102,213	102,213	102,213
Pharmaceuticals	261,813	374,210	-	-	-	-
Electronics and electrical appliances	308,758	310,000	-	-	-	-
Power (electricity), gas, water, sanitary	25,378,853	22,793,431	-	-	-	-
Financial	3,740,551	980,237	9,242	9,242	9,242	9,242
Federal Government securities	79,324,269	51,292,647	-	-	-	-
Foreign Government securities	668,326	548,350	-	-	-	-
	<u>109,784,783</u>	<u>76,401,088</u>	<u>111,455</u>	<u>111,455</u>	<u>111,455</u>	<u>111,455</u>
Credit risk by public / private sector						
Public / Government	104,220,339	73,576,079	-	-	-	-
Private	5,564,444	2,825,009	111,455	111,455	111,455	111,455
	<u>109,784,783</u>	<u>76,401,088</u>	<u>111,455</u>	<u>111,455</u>	<u>111,455</u>	<u>111,455</u>

44.1.3 Islamic financing and related assets

	Islamic financing and related assets (Gross)		Non-performing Islamic financing and related assets		Provision held	
	2022	2021	2022	2021	2022	2021
(Rupees in '000)						
Credit risk by industry sector						
Agriculture, forestry, hunting and fishing	2,027,213	2,766,346	323,091	399,121	240,419	219,316
Mining and quarrying	1,682,831	899,902	-	-	-	-
Textile	11,706,079	13,356,934	3,825,323	3,785,997	3,302,494	3,145,766
Chemical and pharmaceuticals	5,574,777	6,157,317	477,346	505,643	458,296	330,075
Cement	1,477,008	2,038,019	-	-	-	-
Sugar	3,148,293	3,603,719	314,467	323,744	274,372	282,747
Footwear and leather garments	472,068	569,385	37,835	52,825	34,873	49,863
Automobile and transportation equipment	1,657,178	1,793,412	9,450	3,500	1,500	500
Electronics and electrical appliances	2,680,283	2,893,313	275,482	350,315	21,612	21,612
Construction	1,078,006	1,397,747	340,654	350,959	279,010	204,662
Power (electricity), gas, water, sanitary	2,382,755	1,740,799	197,210	204,370	-	-
Wholesale and retail trade	2,181,919	2,495,126	162,688	164,856	117,579	74,517
Exports / Imports	209,179	142,724	-	15,992	-	15,992
Transport, storage and communication	7,390,327	10,133,525	88,403	216,219	63,390	53,785
Financial	617,812	792,812	89,035	89,035	89,035	88,051
Insurance	411	1,455	-	-	-	-
Services	2,640,598	2,832,901	196,567	222,553	193,441	198,900
Individuals / staff	30,156,464	30,514,675	845,777	759,949	486,502	383,791
Food products and beverages	12,577,467	14,078,061	2,268,238	2,349,436	2,019,899	1,800,722
Oil and gas companies	2,406,500	2,831,007	1,781,500	1,781,500	1,781,500	1,781,500
Others	4,126,334	4,583,662	499,056	649,843	353,779	491,341
	<u>96,193,502</u>	<u>105,622,841</u>	<u>11,732,122</u>	<u>12,225,857</u>	<u>9,717,701</u>	<u>9,143,140</u>

	Islamic financing and related assets (Gross)		Non-performing Islamic financing and related assets		Provision held	
	2022	2021	2022	2021	2022	2021
Credit risk by public / private sector	-----Rupees in '000-----					
Public / Government	7,392,857	9,577,381	-	-	-	-
Private	88,800,645	96,045,460	11,732,122	12,225,857	9,717,701	9,143,140
	<u>96,193,502</u>	<u>105,622,841</u>	<u>11,732,122</u>	<u>12,225,857</u>	<u>9,717,701</u>	<u>9,143,140</u>

44.1.4 Contingencies and Commitments

	2022	2021
Credit risk by industry sector	-----Rupees in '000-----	
Agriculture, forestry, hunting and fishing	148,256	205,398
Mining and quarrying	-	-
Textile	2,574,042	1,662,669
Chemical and pharmaceuticals	3,965,573	3,359,891
Cement	131,055	168,675
Sugar	145,240	340,572
Footwear and leather garments	128,245	110,290
Automobile and transportation equipment	516,427	477,365
Electronics and electrical appliances	1,011,494	1,644,745
Construction	3,457,264	3,708,075
Power (electricity), gas, water, sanitary	1,715,786	1,868,769
Wholesale and retail trade	929,356	2,689,901
Exports / Imports	176,675	428,508
Transport, storage and communication	97,152	178,877
Financial	36,562,855	48,428,165
Services	2,631,081	4,103,004
Food products and beverages	3,471,129	2,678,681
Others	9,941,561	11,314,156
	<u>67,603,190</u>	<u>83,367,741</u>
Credit risk by public / private sector		
Public / Government	2,326,512	1,199,777
Private	65,276,678	82,167,964
	<u>67,603,190</u>	<u>83,367,741</u>

44.1.5 Concentration of Islamic financing and related assets

The bank top 10 exposures on the basis of total funded and non-funded exposures aggregated to Rs 25,296 million (31 December 2021: Rs 28,087 million) are as following:

	2022	2021
	-----Rupees in '000-----	
Funded	17,129,176	20,798,891
Non-funded	8,166,451	7,287,710
Total exposure	<u>25,295,627</u>	<u>28,086,601</u>

The sanctioned limits against these top 10 exposures aggregated to Rs 36,769 million (31 December 2021: Rs 34,921 million).

Total funded classified therein

	2022		2021	
	Amount	Provision held	Amount	Provision held
	-----Rupees in '000-----			
OAEM	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	1,781,500	1,781,500	1,781,500	1,781,500
Total	<u>1,781,500</u>	<u>1,781,500</u>	<u>1,781,500</u>	<u>1,781,500</u>

44.1.6 Islamic financing and related assets - Province / Region-wise disbursement and utilisation

Province / Region	2022						
	Disbursements	Utilisation					
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan
(Rupees in '000)							
Punjab	62,030,049	62,030,049	-	-	-	-	-
Sindh	92,114,679	-	92,114,679	-	-	-	-
KPK including FATA	224,692	-	-	224,692	-	-	-
Balochistan	852,400	-	-	-	852,400	-	-
Islamabad	4,723,633	-	-	-	-	4,723,633	-
AJK including Gilgit-Baltistan	20,439	-	-	-	-	-	20,439
Total	159,965,892	62,030,049	92,114,679	224,692	852,400	4,723,633	20,439

Province / Region	2021						
	Disbursements	Utilisation					
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan
(Rupees in '000)							
Punjab	43,411,438	43,411,438	-	-	-	-	-
Sindh	62,114,042	-	62,114,042	-	-	-	-
KPK including FATA	559,023	-	-	559,023	-	-	-
Balochistan	419,745	-	-	-	419,745	-	-
Islamabad	4,035,714	-	-	-	-	4,035,714	-
AJK including Gilgit-Baltistan	3,647	-	-	-	-	-	3,647
Total	110,543,609	43,411,438	62,114,042	559,023	419,745	4,035,714	3,647

44.2 Market risk

Market risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as profit rates, credit spreads, commodity prices, equity prices and foreign exchange rates.

The main objective of the Bank's market risk management is to minimise market risk and to facilitate business growth within a controlled and transparent risk management framework.

Market risk arise from investment in sukuk, equities and dealing in foreign exchange transactions.

Market risk is being monitored by ALCO and performs following functions in relation to market risk:

- Regular periodic review of market risk, based on economic review reports.
- Keeps an eye on the structure / composition of the Bank's assets and liabilities and decide upon product pricing for deposits, Islamic financing and related assets.
- Develop future business strategy in view of the latest trends / policy in the market, economic conditions and local regulatory requirements.
- Review and recommend to the Board of Directors, new opportunities for generating revenues.

44.2.1 Statement of Financial Position split by trading and banking books

	2022			2021		
	Banking book	Trading book	Total	Banking book	Trading book	Total
	(Rupees in '000)					
Cash and balances with treasury banks	16,569,661	-	16,569,661	17,608,396	-	17,608,396
Balances with other banks	1,939,954	-	1,939,954	9,763,588	-	9,763,588
Due from financial institutions	-	-	-	403,122	-	403,122
Investments	109,776,310	123,595	109,899,905	70,530,132	6,022,363	76,552,495
Islamic financing and related assets	86,057,049	-	86,057,049	96,202,153	-	96,202,153
Fixed assets	3,975,501	-	3,975,501	4,193,422	-	4,193,422
Intangible assets	1,305,295	-	1,305,295	1,320,367	-	1,320,367
Deferred tax assets	2,653,775	-	2,653,775	2,881,737	-	2,881,737
Other assets	11,266,630	-	11,266,630	9,192,117	-	9,192,117
Total	233,544,175	123,595	233,667,770	212,095,034	6,022,363	218,117,397

44.2.2 Foreign exchange risk

Foreign exchange risk arises from the fluctuation in the value of financial instruments consequent to the changes in foreign exchange rates. Objective of foreign exchange risk management function is to minimize the adverse impact of foreign exchange assets and liabilities mismatch and maximize the earnings. The Bank manages this risk by setting and monitoring dealer, currency, inter exposures, stop loss and counter party limits for on and off balance sheet financial instruments.

	2022				2021			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)				(Rupees in '000)			
Pakistan rupee	223,172,085	197,608,203	(10,661,113)	14,902,769	211,457,721	186,214,611	(10,750,527)	14,492,583
US Dollar	9,603,890	18,429,084	8,240,442	(584,752)	5,549,056	15,733,510	8,780,623	(1,403,831)
Great Britain pound	560,526	1,758,361	1,258,331	60,496	441,014	1,657,548	1,398,820	182,286
Euro	125,024	1,105,542	1,008,127	27,609	229,661	787,580	609,060	51,141
Arab Emirates Dirham	73,784	152,033	154,213	75,964	198,368	241,959	48,092	4,501
Japanese Yen	35,661	24	-	35,637	38,716	14,125	-	24,591
Canadian Dollar	14,979	-	-	14,979	5,860	-	-	5,860
Singapore Dollar	50	50	-	-	39	39	-	-
Swiss Frank	14,314	-	-	14,314	-	-	-	-
Chinese Yuan	67,453	9,740	-	57,713	196,958	53,307	(86,068)	57,583
Malaysian Ringgit	4	4	-	-	4	4	-	-
Foreign currency exposure	10,495,685	21,454,838	10,661,113	(298,040)	6,659,676	18,488,072	10,750,527	(1,077,869)
	<u>233,667,770</u>	<u>219,063,041</u>	<u>-</u>	<u>14,604,729</u>	<u>218,117,397</u>	<u>204,702,683</u>	<u>-</u>	<u>13,414,714</u>

The exposures of the Bank to foreign exchange risk is also restricted by the statutory limit on aggregate exposure prescribed by the SBP.

	2022		2021	
	Banking book	Trading book	Banking book	Trading book
	(Rupees in '000)			
Impact of 1% change in foreign exchange rates on:				
- Profit and loss account	(109,591)	106,611	(118,284)	107,505

44.2.3 Equity position risk

Equity position includes the following:

- Strategic investment
- Investment in equities for generating revenue in short term

The equity investments are accounted for and disclosed as per the provisions and directives of SBP, SECP and the requirements of accounting and reporting standards as applicable in Pakistan.

Provision for diminution in the value of securities is made after considering impairment, if any, in their value and is charged to the profit and loss account.

	2022		2021	
	Banking book	Trading book	Banking book	Trading book
	(Rupees in '000)			
Impact of 5% change in equity prices on:				
- Other comprehensive	323	6,180	279	9,764

44.2.4 Yield / profit rate risk

It includes all material yield risk positions of the Bank taking into account all re-pricing and maturity data. It includes current balances and contractual yield rates, the Bank understands that its Islamic financing and related assets shall be re-priced as per their respective contracts.

The Bank estimates changes in the economic value of equity due to changes in the yield rates on on-balance sheet positions by conducting duration gap analysis. It also assesses yield rate risk on earnings of the bank by applying upward and downward shocks.

	2022		2021	
	Banking book	Trading book	Banking book	Trading book
	(Rupees in '000)			
Impact of 1% change in profit rates on				
- Profit and loss account	(112,490)	-	(102,376)	48,559
- Other comprehensive	-	-	-	-

44.2.5 Mismatch of yield rate sensitive assets and liabilities

Effective yield rate	Total	2022 Exposed to Yield 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)										
Assets												
Cash and balances with treasury banks	16,569,661	-	-	-	-	-	-	-	-	-	-	16,569,661
Balances with other banks	14.02% 1,939,954	447,200	-	-	-	-	-	-	-	-	-	1,492,754
Due from financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	15.17% 109,899,905	12,177,918	11,508,896	82,186,882	-	668,326	2,105,461	1,025,845	-	-	-	226,577
Islamic financing and related assets-net	17.34% 86,057,049	20,703,433	23,403,446	20,070,443	13,694,351	87,124	17,544	248,984	2,587,652	3,596,982	-	1,647,090
Other assets	9,266,766	-	-	-	-	-	-	-	-	-	-	9,266,766
	223,733,335	33,328,551	34,912,342	102,257,325	13,694,351	755,450	2,123,005	1,274,829	2,587,652	3,596,982	-	29,202,848
Liabilities												
Bills payable	5,376,942	-	-	-	-	-	-	-	-	-	-	5,376,942
Due to financial institutions	13.54% 12,950,001	2,228,978	5,867,200	2,590,979	-	-	2,916	1,869	2,083,100	-	-	174,959
Deposits and other accounts	11.89% 185,049,169	146,782,310	-	-	-	-	-	-	-	-	-	38,266,859
Subordinated debt	15.99% 4,624,241	-	1,500,000	1,735,000	1,389,241	-	-	-	-	-	-	-
Other liabilities	8,913,371	-	-	-	-	-	-	-	-	-	-	8,913,371
	216,913,724	149,011,288	7,367,200	4,325,979	1,389,241	-	2,916	1,869	2,083,100	-	-	52,732,131
On-balance sheet gap	6,819,611	(115,682,737)	27,545,142	97,931,346	12,305,110	755,450	2,120,089	1,272,960	504,552	3,596,982	-	(23,529,283)
Non-financial assets												
Fixed assets	3,975,501	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	1,305,295	-	-	-	-	-	-	-	-	-	-	-
Other assets	1,999,864	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	2,653,775	-	-	-	-	-	-	-	-	-	-	-
	9,934,435	-	-	-	-	-	-	-	-	-	-	-
Non-financial liabilities												
Other liabilities	2,149,318	-	-	-	-	-	-	-	-	-	-	-
Total net assets	14,604,728	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments												
Commitments in respect of:												
- forward foreign exchange contracts	36,327,164	-	-	-	-	-	-	-	-	-	-	36,327,164
- guarantees	14,712,264	-	-	-	-	-	-	-	-	-	-	14,712,264
- letter of credit	11,407,940	-	-	-	-	-	-	-	-	-	-	11,407,940
- financing	760,797	-	-	-	-	-	-	-	-	-	-	760,797
- acquisition of operating fixed assets	4,618	-	-	-	-	-	-	-	-	-	-	4,618
- others	2,285,605	-	-	-	-	-	-	-	-	-	-	2,285,605
Off-balance sheet gap	65,498,388	-	-	-	-	-	-	-	-	-	-	65,498,388
Total yield risk sensitivity gap		(115,682,737)	27,545,142	97,931,346	12,305,110	755,450	2,120,089	1,272,960	504,552	3,596,982	-	41,969,105
Cumulative yield risk sensitivity gap		(115,682,737)	(88,137,595)	9,793,751	22,098,861	22,854,311	24,974,400	26,247,360	26,751,912	30,348,894	-	72,317,999

Effective yield rate	Total	2021									Non-interest bearing financial instruments	
		Exposed to Yield risk										
		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	-	17,608,396	-	-	-	-	-	-	-	-	-	17,608,396
Balances with other banks	3.24%	9,763,588	8,440,633	-	-	-	-	-	-	-	-	1,322,955
Due from financial institutions	7.00%	403,122	403,122	-	-	-	-	-	-	-	-	-
Investments	7.49%	76,552,495	11,099,111	12,926,810	48,365,351	3,385,514	512,847	-	-	-	-	262,862
Islamic financing and related assets	9.52%	96,202,153	18,391,973	27,927,951	22,853,536	16,887,685	673,666	18,293	107,651	700,486	1,828,548	6,812,364
Other assets	-	6,779,461	-	-	-	-	-	-	-	-	-	6,779,461
		207,309,215	38,334,839	40,854,761	71,218,887	20,273,199	1,186,513	18,293	107,651	700,486	1,828,548	32,786,038
Liabilities												
Bills payable	-	3,978,696	-	-	-	-	-	-	-	-	-	3,978,696
Due to financial institutions	2.00%	8,968,534	-	3,625,459	2,827,017	-	-	-	6,332	1,342,585	-	1,167,141
Deposits and other accounts	4.45%	178,917,138	132,654,512	-	-	-	-	-	-	-	-	46,262,626
Subordinated debt	11.02%	4,624,241	-	1,500,000	1,735,000	1,389,241	-	-	-	-	-	-
Other liabilities	-	6,213,848	-	-	-	-	-	-	-	-	-	6,213,848
		202,702,457	132,654,512	5,125,459	4,562,017	1,389,241	-	-	6,332	1,342,585	-	57,622,311
On-balance sheet gap		4,606,758	(94,319,673)	35,729,302	66,656,870	18,883,958	1,186,513	18,293	101,319	(642,099)	1,828,548	(24,836,273)
Non-financial assets												
Fixed assets		4,193,422										
Intangible assets		1,320,367										
Other assets		2,412,656										
Deferred tax assets		2,881,737										
		10,808,182										
Non-financial liabilities												
Other liabilities		2,000,226										
Total net assets		<u>13,414,714</u>										
Off-balance sheet financial instruments												
Commitments in respect of:												
- forward foreign exchange contracts		48,167,237	-	-	-	-	-	-	-	-	-	48,167,237
- guarantees		14,169,635	-	-	-	-	-	-	-	-	-	14,169,635
- letter of credit		15,979,710	-	-	-	-	-	-	-	-	-	15,979,710
- financing		1,230,203	-	-	-	-	-	-	-	-	-	1,230,203
- acquisition of operating fixed assets		4,656	-	-	-	-	-	-	-	-	-	4,656
- others		2,897,884	-	-	-	-	-	-	-	-	-	2,897,884
Off-balance sheet gap		82,449,325	-	-	-	-	-	-	-	-	-	82,449,325
Total yield risk sensitivity gap			(94,319,673)	35,729,302	66,656,870	18,883,958	1,186,513	18,293	101,319	(642,099)	1,828,548	57,613,052
Cumulative yield risk sensitivity gap			(94,319,673)	(58,590,371)	8,066,499	26,950,457	28,136,970	28,155,263	28,256,582	27,614,483	29,443,031	87,056,083

44.3 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events and Shariah non-compliance. In this regard, an Operational Risk Management unit has been established within the Risk Management Department.

Under basic indicator approach the capital charge for operational risk is a fixed percentage (denoted alpha) of average positive annual gross income of the Bank over the past three years. Figures for any year in which annual gross income is negative or zero, should be excluded from both the numerator and denominator when calculating the average.

The Bank ensures that the key operational risks are managed in a timely and effective manner by raising awareness of operational risk, improving early warning information and allocating risk ownership and responsibilities. The Bank has developed policies, guidelines and manuals necessary for the mitigation of operational risk.

The Bank is also supervised by the Shariah Board which sets out guidelines, policies and procedures for the Bank to ensure that all its activities and products are Shariah compliant. The internal audit function of the Bank performs regular audit on various operations of the Bank and monitors the key risk exposure areas to ensure that internal control procedures are in place and those procedures are able to mitigate risk associated with operational activities.

44.4 Liquidity risk

Liquidity risk is defined as the potential loss arising from the Bank's inability to meet its obligation when due.

The Liquidity Coverage Ratio (LCR) is a quantitative requirement which aims to ensure that a bank maintains an adequate level of unencumbered high quality liquid assets which can easily be converted into cash at little or no loss of value in private markets, to withstand an acute liquidity stress scenario over a 30-day horizon at the entity level.

LCR has been defined as

$$\frac{\text{Stock of high quality liquid assets (HQLAs)}}{\text{Total net cash outflows over the next 30 calendar days}}$$

Liquid assets comprise of high quality assets that can be readily sold or used as collateral to obtain funds in a range of stress scenarios. There are two categories of assets included in the stock of HQLAs, viz. Level 1 and Level 2 assets. Level 1 assets are with 0% haircut while Level 2A assets are with a minimum 15% haircut and Level 2B Assets, with a maximum 50% haircut.

The term "Total net cash outflows" is defined as the total expected cash outflows minus total expected cash inflows in the stress scenario for the subsequent 30 calendar days.

The most significant drivers of the Bank's cash outflow were Retail and unsecured wholesale funding. Unsecured funding transactions include funds provided by non-financial corporate customers, sovereigns, central banks, multilateral development banks and PSEs.

The objective of NSFR is to reduce funding risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress.

NSFR has been defined as

$$\frac{\text{Available amount of Stable Funding (Funding Source)}}{\text{Required amount of Stable Funding (Funding User)}}$$

The amount of available stable funding (ASF) is measured mainly on the broad characteristics of the relative stability of a bank's funding sources (equity & liabilities), contractual maturity of its liabilities and the difference in the tendency to withdraw their funding by different types of funding providers.

The amount of required stable funding (RSF) is measured based on the broad characteristics of the liquidity risk profile of the Bank's assets and off-balance sheet (OBS) exposures.

As per Bank's Investment Policy, ALCO shall be the management's governing committee mainly responsible for Market and Liquidity risks pertaining to balance sheet and off-balance sheet items. It is ALCO's responsibility to establish and monitor liquidity targets as well as strategies and tactics to meet those targets. Furthermore, ALCO will ensure that sufficient liquidity is available for unanticipated contingencies. ALCO monitors the maintenance of liquidity ratios, depositor's concentration both in terms of overall funding mix and avoidance of reliance on large individual deposits. The Board of Directors have approved a comprehensive liquidity management policy.

45 PROFIT / (LOSS) DISTRIBUTION TO DEPOSITOR'S POOL**45.1 General remunerative depositors' pools / IERS pools / Treasury pools****2022**

Remunerative pools	Period	Profit sharing ratio (average)	Profit rate and weightage announcement period	Mudarib share (Rupees in '000)	Percentage of Mudarib Share transferred through Hiba	Profit rate return earned	Profit rate return distributed
General pool - PKR	Jan to Dec 2022	50%	Monthly	280,050	24.6%	12.2%	7.7%
General pool - FCY	Jan to Dec 2022	80%	Monthly	7,743	21.2%	1.3%	0.4%
Islamic export refinance pool	Jan to Dec 2022	72%	Monthly	-	-	8.7%	5.1%
Treasury pool	Jan to Dec 2022	14%	Variable	-	-	10.6%	9.4%
Special depositors' pool	Jan to Dec 2022	17%	Variable	147,599	42.1%	13.7%	12.3%

2021

Remunerative pools	Period	Profit sharing ratio (average)	Profit rate and weightage announcement period	Mudarib share (Rupees in '000)	Percentage of Mudarib Share transferred through Hiba	Profit rate return earned	Profit rate return distributed
General pool - PKR	Jan to Dec 2021	50%	Monthly	2,010,319	12.3%	7.1%	4.0%
General pool - FCY	Jan to Dec 2021	80%	Monthly	36,758	10.3%	0.7%	0.2%
Islamic export refinance pool	Jan to Dec 2021	87%	Monthly	-	-	6.6%	1.9%
Treasury pool	Jan to Dec 2021	19%	Variable	-	-	8.3%	7.1%
Special depositors' pool	Jan to Dec 2021	50%	Variable	2,870,038	45.8%	9.5%	6.9%

46 COMPLAINT MANAGEMENT**46.1 Mechanism of the Complaint Management Unit (CMU)**

The Bank seeks to maintain its reputation as one of the market players who believe in delivering high quality Islamic Banking Services, and is committed to maintain responsiveness to the needs and concerns of its customers. The Bank has a designated separate and independent Complaint Management Unit (CMU) under Corporate Communication Department to handle complaints / grievances of the customers as per the Consumer Grievances Handling Mechanism (CGHM) policy issued by the SBP. The unit is efficiently performing its role and it is totally independent in scrutinizing, investigating and efficient closures of the complaints / queries raised by customers.

CMU is the responsible unit whose role is to be an effective intermediary between the customers and the core units of the Bank to get customer complaints properly responded and answered. The unit's core focus is the quick and efficient resolution of the complaints, analyses root cause of complaints and taking necessary measures to ensure its non-recurrence and to improve the service quality. The statistical data provided by CMU enables the concerned departments / units in improving performance and provision of quality service to the customers.

46.2 Lodgment of complaints

The complaint lodgment procedure is adequately displayed in all our branches as well as on our corporate website www.albaraka.com.pk. Further, details regarding lodgment of a complaint to Banking Mohtasib Pakistan and State Bank of Pakistan are also prominently displayed.

All complaints of the customers that are received through various channels are logged in a Complaint Management System to keep track of their resolution. The Bank has a complaint escalation mechanism whereby all complaints are escalated to the senior management if not resolved within the stipulated time.

The Bank receive complaints from following sources:

- 1) Phone banking / call centre
- 2) Letter / CEO office / drop box / registers / email / e-forms
- 3) Banking Mohtasib Pakistan / SBP / Prime Minister Portal
- 4) Social media / website / survey

During 2022, the Bank received 10,862 complaints through different channels, out of which 98% were resolved with average resolution TAT of 8 days. The Bank follows defined standards, practices and regulatory requirements in resolution of complaints lodged with the Bank.

46.3 Steps of complaint resolution or handling of complaint

Fundamental steps of complaint handling as defined by SBP in BC & CPD Circular No. 01 of 2016 & BC&CPD Circular Letter No. 02 of 2021, being followed in the Bank are as follows:

- 1) Acknowledgment of complaint receipt.
- 2) Investigation and tagging of complaint to relevant department / branches.
- 3) Interim update to customer, if complaint resolution exceeds the defined timeline.
- 4) Intimation of resolution of complaint to customer.
- 5) Root cause analysis of the complaint.
- 6) Suggestions for required actions and its recurrence.
- 7) Issuing daily MIS to all the stakeholders.
- 8) Sending SMS at least on bi-annual basis to all customers informing them about modes of complaint lodgement.

46.4 New initiatives

The Bank consistently endeavours to provide superior customer services and in order to give better customers experience, below are the few initiatives taken by the Bank during 2022.

- The Bank has arranged training sessions for empowering the front end staff to comprehend the concept of Handling Customer's Complaints & Grievances.
- The Bank conducts extensive surveys regarding the complaint management to gauge customers' satisfaction and their experience. This research activity also help to identify customers expectations associated with Bank. ABPL has introduced a Digital Survey Platform for customers where they can provide their feedback through website.
- The Bank has also upgraded its Complaint Management System V2 by launching a state-of-the-art solution which resulted in process automation and efficient handling of customer complaints.
- The Bank also enhanced its complaint monitoring mechanism by introducing Complaint Management Dashboard which is regularly reviewed by the senior management to ensure timely resolution of customer complaints.
- Complaint Management System has been modified in terms of its functionality - Complaint's aging will be calculated on an hourly basis for more efficient handling of customer complaints. Acknowledgements are being routed with more accuracy with minimum discrepancy ratio.
- The voice of customer complaint closure survey score was 88% in 2022.

47 CORRESPONDING FIGURES

Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate comparison and better presentation. There were no significant reclassifications / restatements during the year.

48 GENERAL

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

49 DATE OF AUTHORISATION

These financial statements were authorised for issue on 02 March 2023 by the Board of Directors of the Bank.

Chief Executive Officer

Chief Financial Officer

Chairman

Director

Director

STATEMENT SHOWING WRITTEN-OFF FINANCING OR ANY OTHER FINANCIAL RELIEF OF RUPEES 500,000 OR ABOVE DURING THE YEAR ENDED 31 DECEMBER 2022

Rupees in thousands

Sr. No.	Name of the borrower	Name of individuals / partners / directors (with N.I.C. No.)	Father's name	Outstanding Liabilities at beginning of year				Written-off		Waiver	Total (9+10+11)
				Principal	Profit	Other financial relief	Total (5+6+7)	Principal	Profit	Other financial relief	
1	2	3	4	5	6	7	8	9	10	11	12
1	GULSHAN WEAVING MILLS LTD	Mr. Sheikh Sarfraz Farooq Qadri CNIC #. 35202-2450924-9 Muhammad Rauf CNIC #. 35201-7242093-7	Sheikh Mazhar Farooq Qadri Gul Nawaz	268,645	24,518	-	293,163	258,952	24,518	-	283,470
2	TUWAIQI STEEL MILLS LTD	Dr. Hilal Hussain S Al Tuwairqi Saudi Passport # F059999 Mr. Mohammad Tariq Barlas CNIC # 904030-110072-1 Mr. Amir Barlas CNIC # 35201-1251527-5 Mr. Zaigham Adil Rizvi CNIC # 35202-2889684-3 Mr. Nadeem Khalid Awan CNIC # 45504-1115734-5	Mr. Abdul Waheed Mr. Syed Saeed Ahmed Rizvi	188,712	76,488	-	265,200	88,964	76,488	-	165,452
3	TARIQ MATEEN KHAN / ANJUM TARIQ	Mr. Tariq Mateen Khan CNIC # 42301-3491357-9	Mr. Abdul Mateen Khan	25,000	9,368	-	34,368	-	12,336	5,310	17,646
4	Z.R CORPORATION	Mr. Zubair Abdul Aziz CNIC # 42201-7489041-1	Mr. Abdul Aziz	25,934	1,291	2,938	30,163	7,074	1,291	-	8,365
5	WAQAS SAADAT ALI	Mr. Waqas Saadat Ali CNIC # 35202-2995268-3	Muhammad Saadat Ali	18,757	3,035	22	21,814	-	5,669	-	5,669
6	HARESH KUMAR	Mr. Hareesh Kumar CNIC # 41303-3413794-9	Mr. Pehlaj Mal	11,123	4,980	-	16,103	-	5,002	-	5,002
7	ABDUL GHANI	Mr. Abdul Ghani Sheikh CNIC # 45203-0801458-5	Mr. Ali Muhammad	2,231	771	-	3,002	-	968	-	968
8	MUHAMMAD ASHFAQ CHISTI	Mr. Muhammad Ashfaq Chishti CNIC # 42201-7417458-7	Mr. Manzoor Ahmed Chishti	1,543	385	147	2,075	-	511	170	681
				541,945	120,836	3,107	665,888	354,990	126,783	5,480	487,253

Statement showing charity paid of Rs. 500,000 or above during the year ended 31 December 2022

Names	31 December 2022	31 December 2021
	-----Rupees in '000-----	
Shahid Afridi Foundation	15,500	1,000
Alamgir Welfare Trust International	11,000	7,680
Indus Hospital	9,500	2,500
Jamia Darul- Uloom Karachi	5,000	-
Pakistan Aid Foundation	5,000	-
The Citizen Foundation	3,400	-
Baitussalam Welfare Trust	3,000	-
Alkhidmat Foundation Pakistan	3,000	1,000
Green Crescent Trust	2,726	1,380
Afzaal Memorial Thalassemia Foundation - AMTF	2,500	4,000
Shaukat Khanum Memorial Trust	2,500	2,500
Lahore Businessmen Association	2,000	-
The Layton Rahmatullah Benevolent Trust - LRBT	2,000	2,000
Professional Education Foundation	2,000	1,750
Anjuman Akhwan Us Safa	2,000	1,650
Patients Welfare Association, Jinnah Hospital	2,000	1,036
Health And Nutrition Development Society (HANDS)	2,000	1,000
Al Mustafa Welfare Society	1,900	-
Million Smiles Foundation	1,500	-
Health Education and Livelihood Promoter (HELP)	1,500	2,500
Family Educational Services Foundation - FESF	1,500	2,150
Pakistan Red Crescent Society	1,500	2,000
Saylani Welfare International Trust	1,500	2,000
The Hunar Foundation	1,500	500
Pakistan Children's Heart Foundation	1,500	500
Dua Foundation	1,175	-
Ihsan Trust	1,000	-
Memon Health and Education Foundation	1,000	-
Tameer-e-Millat Foundation	1,000	-
Orange Tree Foundation - OTF	1,000	2,000
Patel Hospital - Patel Foundation	1,000	1,920
Cancer Care Hospital & Research Center	1,000	1,000
The Cancer Foundation	1,000	1,000
Karachi Down Syndrome Program (KDSP)	1,000	1,000
National Disability & Development Forum (NDF)	1,000	1,000
Pakistan Association of the Blind (Sindh)	1,000	1,000
Nice Welfare Society	992	-
Arif Memorial Trust	820	500
FMD Distributor	570	-
Marghzar Welfare Society	500	-
Mother & Child Rehabilitation	500	-
Parents Voice Association	500	-
Society for Advancement of Health, Education and the Environment (SAHEE)	500	500
Aiwan-e-Tijarat o Sanat Hospital Trust	500	500
Friends of Burn Centre (Civil Hospital)	500	500
Karwan-e-Hayat	500	500
Neurology Research & Patient Welfare Fund (National Epilepsy Center)	500	500
Chal Foundation	500	500
Bint-e-Fatima Foundation	500	500
IBA Karachi (CEIF)	-	5,170
Sina Health Education & Welfare Trust	-	4,000
Al Mustafa Trust	-	3,000
Dawood Global Foundation	-	3,000
Roshni Homes Trust	-	1,800
Sayeban Pakistan	-	1,770
Caravan of Life Pakistan Trust	-	1,000
Dhoraji Youth Services Foundation	-	500
The Helpcare Society	-	500
Help International Welfare Trust	-	500
Lady Dufferin Hospital	-	500
Patients' Welfare Association - Civil Hospital	-	500
Dar-ul-Sukun	-	500
Aziz Jehan Begum Trust for the Blind (AJBT)	-	500
Network of Organizations Working for People with Disabilities Pakistan (NOWPDP)	-	500
Pakistan Disabled Foundation	-	500
Pakistan Foundation Fighting Blindness	-	500
Society For Audiological & Developmental Ailments (SADA)	-	500
TOTAL	106,083	75,306