

3.2 The SBP has deferred the applicability of IAS 40 - 'Investment Property' for Banking Companies in Pakistan through BSD Circular Letter 10 dated August 26, 2002 till further instructions. Further, the SBP has deferred the applicability of IAS 40 - 'Investment Property' and IFRS 7 - 'Financial Instruments: Disclosures' through its notification S R O 033/2014 dated July 10, 2014. 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 prescribed by the SBP through various circulars.

3.3 Standards, Interpretations and amendments that are effective in the current year

There are certain new and amended standards, issued by the IASB, Interpretations and amendments that are mandatory for the Bank's accounting periods beginning on or after January 01, 2026 but are considered not to be relevant or not to have any material effect on the Bank's operations and therefore are not detailed in these financial statements.

3.4 Standards, Interpretations and amendments that are not yet effective

The following standards, amendments and interpretations as notified under the Companies Act, 2017 will be effective for accounting periods beginning on or after January 01, 2027:

Standard, Interpretation or Amendment

Effective date (annual reporting periods beginning on or after)

IFRS 18 - Presentation and Disclosure in Financial Statements January 01, 2027
IFRS 19 - Securities without Public Accountability Disclosures January 01, 2027

The above standards and amendments are not expected to have any significant impact on Bank's financial statements for future periods.

Following standards have been issued by the International Accounting Standards Board (IASB), which are yet to be notified by the Securities and Exchange Commission of Pakistan (SECP) as of June 30, 2026 for the purpose of their applicability in Pakistan:

Standard IFRS 1 First time adoption of International Financial Reporting Standards

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except for the following which are stated at fair value / present values:

- Investments in government securities;
- Right of use assets and corresponding lease liabilities;
- Available-for-sale;
- Payable to defined benefit plan.

These financial statements are presented in Pakistani Rupees (Rs.) which is the Bank's functional and presentational currency. All amounts have been rounded to the nearest Pakistani Rupee, unless otherwise indicated.

5. USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of these financial statements is in conformity with the approved accounting standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions and judgements are based on historical experience and other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about carrying values of assets and liabilities that are readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if revision affects both current and future periods. The areas where various assumptions and estimates are significant to Bank's financial statements are as follows:

- Impairment losses on financial assets	Note 6.9.9
- Property and equipment	6.5.3
- Right-of-use assets	6.6.2
- Intangible assets	6.5.2
- Provision for taxation	6.8
- Recoverability of deferred tax assets	6.8
- Staff retirement benefits	6.9

6. MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policies adopted in the preparation of these financial statements are consistent with those of the corresponding year.

6.1 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement represent cash in hand and balances held with treasury banks and balances held with other banks in current and deposit accounts with maturities of less than three months and are carried at cost.

6.2 Lending to / borrowing from Financial Institutions

Repurchase Transactions Agreement (Repo)
The Bank Securities sold under repurchase agreements (repo) continue to be recognized in the financial statements as investments, while the corresponding obligation to the counterparty is recognized as borrowings. The repo is accounted for as a sale and the agreed repurchase price is recognized as an expense and accounted over the term of the agreement on a time-proportion basis.

Reverse Repurchase Transactions Agreement (Reverse Repo)
The securities acquired under agreements to resell (reverse repo) are not recognized as investments in the financial statements. Instead, the amount provided to the counterparty is recognized as lending. The difference between the purchase price and the agreed resale price is recognized as income and accounted over the tenure of the agreement on a time-proportion basis.

Call Lending and Borrowing
In call lending, a bank places funds with another bank for a very short period and earns call money interest. These placements are unsecured and usually for short-term durations. In call borrowing, a bank borrows funds from other banks to manage its day-to-day liquidity needs.

6.3 Financial Instruments

Financial instruments carried on the statement of financial position include Cash and balances with treasury banks, balances with other banks, Investments, Lending to Financial Institutions, Advances, certain Other assets, Bills payable, Borrowings, Deposits and certain Other liabilities.

6.3.1 Classification of financial assets

Financial assets are classified according to their contractual cash flow characteristics and the business models under which they are held. Instruments will be classified either at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

6.3.2 Financial assets - Initial recognition

All financial assets under IFRS 9 are initially recognized at fair value plus transaction costs. However, transaction costs relating to Financial Assets measured at Fair Value through Profit and Loss, is recognized as an expense when incurred.

6.3.3 Classification and subsequent measurement of financial assets

Financial assets are classified into following categories for measurement subsequent to initial recognition:

- Financial assets at amortized cost;
- Financial assets at fair value through other comprehensive income (FVOCI);
- Financial assets at fair value through profit or loss (FVTPL).

Fair Value Through Profit or Loss (FVTPL) is the residual category which is used for financial assets that are held for trading or if a financial asset does not fall into one of the two business models.

6.3.4 Financial assets at amortized cost
The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. The Bank classifies its financial assets at amortized cost only if both of the following conditions are met:

- The financial asset is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income at EIR are recognised in the statement of profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce, the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to statement of profit or loss. The accumulated loss recognised in OCI is recycled to the statement of profit or loss upon derecognition of the assets.

On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to statement of profit or loss.

As per 'IFRS 9 Financial Instruments application instructions' issued by SBP via PRD Circular No. 03 of 2020 Government Securities are exempt from the application of ECL Framework.

6.3.5 Financial assets and financial liabilities at FVTPL

Financial assets and financial liabilities in this category are those that are:

- held for trading, that is, they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together; or where there is evidence of a recent pattern of short-term profit taking; or
- not held for trading and have been designated by management upon initial recognition, or mandatorily required to be measured at fair value under IFRS 9.

Financial assets are recorded in the statement of financial position at fair value. Changes in fair value are recorded in statement of profit or loss.

6.3.7 Financial liabilities at amortised cost

Financial liabilities with a fixed maturity are measured at amortised cost. These include bills payable, borrowings, deposits and certain items within other liabilities.

6.3.8 Derecognition of financial assets

6.3.8.1 Derecognition other than due to substantial modification of terms and conditions
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired. The Bank also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

6.3.8.2 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

6.3.9 Impairment of financial assets

6.3.9.1 Overview of the ECL principles

IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing incurred loss approach with a forward-looking ECL approach. From 1 January 2024, the Bank has been recording the allowance for credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss) and is measured at the end of each reporting period. Both LTCECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Other than the DPDs, the management may assess certain portfolios on subjective basis as Non-Performing Loans (NPL).

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI as described below:

Stage 1 When loans are first recognized, the Bank recognizes an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2 When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTCECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3 Loans considered credit-impaired. The bank records an allowance for the LTCECLs.

POCI Purchased or originated credit impaired (POCI) assets are financial assets that are credit-impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

6.3.9.2 The calculation of ECLs

The Bank calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the fair value of cash flows to be received in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio. The concept of PDs is further explained in note 45.2.8.

LGD The Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral or credit enhancements that are integral to the loan. It is usually expressed as a percentage of the EAD. The LGD is further explained in note 45.2.9.

EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

When estimating the ECLs, the Bank considers three scenarios (a base case, an upside and a downside). The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier. Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarized below:

Stage 1 The 12mECL is calculated as the portion of LTCECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.

Stage 2 When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTCECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated at the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3 For loans considered credit-impaired, the Bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

POCI POCI assets are financial assets that are credit-impaired on initial recognition. The Bank only recognizes the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the three scenarios, discounted by the credit-adjusted EIR.

6.3.9.3 Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank only recognizes the cumulative changes in LTCECL since initial recognition in the loss allowance.

6.3.9.4 Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth;
- Consumer price indices.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs is explained in note 45.2.10.

6.3.9.5 Credit enhancements: collateral

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral may come in various forms, such as gold, vehicle, house etc. Collateral, unless it is covered by a legal charge, is not included in the Bank's statement of financial position. However, the fair value of eligible collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a requirement basis.

6.3.9.6 Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. The Bank also follows Prudential regulations issued by SBP for write off of its advances.

6.3.9.7 ECL on government guaranteed credit exposure

ECL on credit exposure (in local currency) that have been guaranteed by the Government of Pakistan and Government Securities, has not been estimated due to exemption available under IFRS instructions issued by SBP through circular No. 3 of 2022 dated July 05, 2022.

6.3.9.8 Two track approach for stage 3 loans

As per instructions issued by SBP, the Bank used two track approach for ECL assessment on stage 3 loans. As per this approach, the Bank calculates provision / ECL, both under PDs and IFRS 9 and higher amount at segment level has been taken as final ECL.

6.4 Advances

Advances are stated net of expected credit losses. The outstanding principal and mark-up of the loans and advances under stage work progress, are then transferred to specific assets as and when these are available for use. Capital work-in-progress is stated at cost less accumulated impairment losses, if any.

6.5 Operating fixed assets

6.5.1 Capital work-in-progress

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

6.5.2 Intangible assets

Expenditure incurred to acquire computer software is capitalized as intangible assets and stated at cost less accumulated amortization and any identified impairment loss. These are amortized using the straight line method over their estimated useful life.

Full month's amortization is charged in the month of addition while no amortization is charged in the month of deletion.

6.5.3 Property and equipment

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific assets to which it relates.

The residual value, useful life and amortization method is reviewed and adjusted, if appropriate, at each reporting date.

6.5.4 Impairment

The Bank assesses at each reporting date whether there is any indication that assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying amounts exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in statement of profit or loss. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Where an impairment loss is recognized, the depreciation / amortization charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the amount which would have been deemed had there been no impairment. Reversal of impairment loss is recognized as income.

6.6 Leases

6.6.1 Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate. The Bank determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in statement of profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The finance cost is charged to the statement of profit or loss as mark-up expense over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

6.6.2 Right of use assets

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred.

The right-of-use assets are subsequently depreciated on a straight line basis over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits. The right-of-use assets are reduced by impairment losses, if any, and adjusted for certain amendments or lease modifications.

6.6.3 Short-term leases

The Bank has elected not to recognize right-of-use assets and lease liabilities for some leases having a lease term less than 12 months from the commencement date and do not contain a purchase option. The lesser payments associated with these leases are recognized as an expenses on a straight-line basis over the lease term.

6.7 Grants

Grants are initially recognized at fair value in the statement of financial position when there is reasonable assurance that the grants will be received and the Bank will comply with all the attached conditions. Grants that compensate the Bank for expenses incurred are recognized as other income in the statement of profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Bank for losses are recognized as recognized in the statement of profit or loss as other income on a systematic basis over the useful life of the asset.

6.8 Taxation

Income tax on the profit or loss for the year comprises of current and deferred tax. Income tax is recognized in the statement of profit or loss, except to the extent that it relates to items recognized in the statement of other comprehensive income, in which case it is recognized in statement of other comprehensive income.

Current tax

Provision for current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using the tax rates or tax liabilities expected to apply to the profit for the year, if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for taxation made in previous years arising from assessments formed during the year for such years.

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

6.9 Staff retirement benefits

6.9.1 Defined contribution plan - provident fund

The Bank operates an approved defined contribution provident fund scheme for all permanent employees with a qualifying period of three years. From June 2020 the Bank has recognized / registered the benefit plan. Eligible employees are entitled to one month's basic salary for each completed year of service upon their departure from the Bank. The latest actuarial valuation was carried out as at June 30, 2026 using Projected Unit Credit Method. Actuarial gains and losses arising from the actuarial valuation are recognized immediately in other comprehensive income.

The Bank determines the net interest expense on the net defined liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in the statement of profit or loss.

Deposits are recorded at the proceeds received. Markup accrued on these deposits, if any, is recognized separately as part of other liabilities, and is charged to statement of profit or loss over the period.

6.10 Borrowings

Loans and borrowing are initially recorded at proceeds received. In subsequent periods, borrowings are stated at amortized cost using the effective interest rate method.

Related finance costs are accounted for on an accrual basis and are included in other liabilities to the extent of the amount remaining unpaid.

6.12 Subordinated debt

Sub-ordinated loans are initially recorded at the amount of proceeds received and subsequently measured at amortized cost. Markup accrued on these loans is charged to statement of profit or loss over the period of the effective interest rate.

Related finance costs are accounted for on an accrual basis and are included in other liabilities to the extent of the amount remaining unpaid.

6.13 Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation 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 obligation can be made. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimates.

6.14 Statutory reserve

The Bank is required under the requirements of the Microfinance Institutions Ordinance, 2001 and Prudential Regulation, to maintain a statutory reserve to which an appropriation equal to 20% of the annual profit after tax is made until the reserve fund equals the paid up capital of the Bank. Thereafter, a sum not less than 5% of its annual profits after tax is required to be transferred to the said reserve.

6.15 Depositors' protection fund

The Bank is required under the Microfinance Institutions Ordinance, 2001 to contribute 5% of its annual tax profit and profit earned on the investments of the Depositors' protection fund to be credited to the Depositors' protection fund for the purpose of providing security or guarantee to persons depositing money in the Bank.

6.16 Cash reserve requirement

In compliance with the related regulatory requirements, the Bank is required to maintain a cash reserve equivalent to not less than 3% of its deposits (including demand deposits and time deposits with tenor of less than 1 year) in a current account opened with the State Bank of Pakistan, subject to a daily minimum requirement of 2%.

6.17 Statutory liquidity requirement

In compliance with the related regulatory requirements, the Bank is required to maintain liquidity equivalent to at least 12% of its total demand liabilities and time liabilities with tenor of less than one year in form of liquid assets i.e. cash, gold, unencumbered treasury bills, Pakistan Investment Bonds and Government of Pakistan Sukuk Bonds. Treasury bills and Pakistan Investment Bonds under Depositor Protection Fund are excluded for the purpose of determining liquidity.

6.18 Income recognition

Mark-up / return / interest on performing advances is recognised on an accrual basis using the effective interest method. Mark-up on advances classified under the Prudential Regulations is recognised on receipt basis.

Mark-up / return on investment is recognised on an accrual basis using the effective interest method. Fee, commission and brokerage income is recognised when services are rendered.

Gains and losses on sale of investments are included in the statement of profit or loss in the period in which sale / settlement occurs.

Return on balances with other banks is recognised in the statement of profit or loss on an accrual basis.

Other income is recognised on an accrual basis.

6.19 Foreign currency transactions and translation

All monetary assets and liabilities in foreign currencies are translated into rupees at exchange rates prevailing at the reporting date. Transactions in foreign currencies are translated into rupees at the spot rate on the date of transaction. All non-monetary items are translated into rupees at the

