

ANNUAL REPORT

2020-21



Deposit Protection Corporation
(A Subsidiary of State Bank of Pakistan)

DPC AT A GLANCE



Deposit Protection Corporation

Commencement of Business	June 01, 2018
Head Office	Karachi, Pakistan
Managing Director	Syed Irfan Ali
Statute	The Deposit Protection Corporation Act, 2016
Member Banks Coverage	All Banks operating in Pakistan Up to PKR 500,000/- 'per depositor-per bank'
Website	www.dpc.org.pk
Address	Deposit Protection Corporation (DPC), SBP Bolton Market Building, M. A. Jinnah Road, Karachi 74000.
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Deposit Protection Corporation (DPC) has been established under the Deposit Protection Corporation Act, 2016 as a subsidiary of the State Bank of Pakistan (SBP). It commenced its operations on June 01, 2018.

The establishment of DPC is one of the key milestones of SBP's Strategic Plan (Vision 2016-2020). It directly supports the strategic goal i.e. to ensure financial stability and preserve public trust in the financial system of the country.



The primary objective of DPC is to protect small and financially unsophisticated depositors in the event of any bank failure by compensating them up to the protected amount.

The current limit of protected/ covered amount for all eligible depositors is up to **PKR 500,000/-** (Rupees Five Hundred Thousand) on the principle of 'per depositor-per bank'.

DPC is governed by a Board of Directors under the Chairmanship of Deputy Governor, State Bank of Pakistan, while management of its affairs vests with the Managing Director.

All scheduled banks operating in Pakistan are mandatory member institutions of the Corporation, and the following deposits / accounts of eligible depositors are currently protected:

- ✓ All types of current and saving accounts
- ✓ All types of branchless banking accounts
- ✓ Fixed term deposits/ accounts
- ✓ Call deposit receipts/ Security deposit receipts
- ✓ Deposit kept as cash margins/ cash collateral or under lien
- ✓ Foreign currency accounts (shall be paid in PKR equivalent)
- ✓ Profit accrued on all of the above accounts



Protection of deposits under DPC scheme is free of cost for all depositors, as no member bank is allowed to recover the premium cost from any of its depositors.

DPC collects premium from all member institutions in two distinct streams i.e. conventional and Shariah-compliant scheme and manages two separate pool of funds in order to compensate the protected depositors in case of failure of any member bank.

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Message from the Chairman

It is a matter of immense pleasure for me to present this maiden edition of Annual Report of Deposit Protection Corporation (DPC) for the year 2020-21. It is a significant effort for the Corporation to reach its stakeholders with this report encompassing its functions, activities and state of affairs. It is also gratifying to see that over the past three years since its establishment, DPC has taken big strides towards fulfilment of its objectives through its focused initiatives.

For the last couple of years, we are passing through testing times and there is consensus that COVID-19 pandemic is not only a global health crisis but it has also disrupted everyday life and has adversely affected our social, cultural and economic wellbeing. It has brought decline in global economic growth and business activities due to which all segments of the global financial system have experienced significant stress. These challenges may remind us of global financial crisis of 2008, which disrupted the global financial system.

In the wake of that financial crisis, comprehensive regulatory reforms were introduced across the globe in the form of Basel-III standards. State Bank of Pakistan (SBP) duly implemented these standards, which significantly enhanced the solvency and liquidity

cushions of the banks and improved their governance and operational capabilities. The ability of our banks to weather the severe financial shocks of the pandemic and to continue with the provision of banking services during highly challenging environment speaks a lot about the resilience of our banking sector. SBP's stress-test results also indicate that our banking sector, in general, has sufficient capacity to maintain the solvency against adverse economic conditions for prolonged period of time.

In order to support economic activities and facilitate banking and financial sector against the pandemic, various support measures have been taken by SBP and the Government. These measures have not only helped the economy and financial sector in withstanding the shocks of pandemic, but also supported the recent revival in economic growth.

The deposits with our banks have exponentially increased to touch an all-time high of PKR 20 trillion in fiscal year ended on June 30, 2021, which are driven by host of factors including; thriving remittances and overall improvement in business activities in post lock-down scenario. It is also a reflection of depositors' trust in the banks in the backdrop of proactive risk-based regulatory supervision.

Trust and confidence of depositors and general public in financial sector, especially during these challenging times, play a pivotal role. As it is our responsibility to safeguard the interest of depositors as one of our key focus areas, therefore in my view, the introduction of explicit Deposit Protection in Pakistan would further cement depositors' trust and confidence in our banking system and will enhance its stability to meet any crisis situation in future.

In order to support this trust, DPC has published this annual report to share its performance on protecting depositors and to promote awareness amongst depositors and general public.

Taking this opportunity, I would like to thank the Governor, State Bank of Pakistan for his continuous patronage for DPC, and my fellow

Board members who have steered the Corporation since its inception. I would also like to extend my gratitude towards the worthy members of Shariah Advisory Committee of SBP. Last but not the least, the Managing Director and his team at DPC also deserve my appreciation for their initiatives and performance.

Jameel Ahmad
Chairman



Message from the Managing Director

By the time, this first Annual Report of Deposit Protection Corporation (DPC) reaches you; I would be in my second year as Managing Director of the Corporation. Upon joining DPC, I declared the year 2020-21, the year of initiatives, communication and public awareness. Hence, by the end of this year, our endeavors have been translated into a few achievements.

At the onset, I would like to thank the Governor State Bank of Pakistan, Chairman and members of Board of Directors for articulating a clear course of actions for DPC, which provided clear direction to us.

DPC has a mandate to protect the funds of, primarily, small and financially unsophisticated depositors. Such depositors have contributed substantially in deepening of financial inclusion and continuous high growth in deposits, especially in the last couple of years.

Being a significant pillar of the financial safety-net, DPC is able to provide coverage to almost 98% of the total depositors and at current coverage level (up to PKR 500,000 'per depositor-per bank'), it provides full protection to the deposits of nearly 95% of the eligible depositors of its member banks.

As a deposit protector, DPC continues to buildup on its own financial strength. The growth

trajectory of our ex-ante fund is pretty decent, which is designed to cover possible compensation to all eligible depositors in case of a bank failure in Pakistan. In addition, we are also working towards a formal and credible backup funding arrangement, which coupled with our legal authority to generate additional funding from our member institutions, would allow us sufficient financial flexibility to meet our obligations effectively.

In addition, we are also making significant strides towards our payout and recovery processes, which will ultimately enable DPC to settle all claims of eligible depositors within mandated seven to thirty days from the date of notification of any bank failure. These initiatives would place DPC in a sound position to manage through any financial uncertainty.

I feel very glad to state that in a very short time period the Corporation has doubled the guarantee amount for the eligible depositors from PKR 250,000 to PKR 500,000. This shows our resolve and commitment towards protection of the depositors' interest and stability of our financial system.

The concept of limited and explicit deposit protection is itself new to our country, considering the nascent nature of our organization. Hence, one of its important strategic goal is to create and enhance public awareness on Deposit Protection Mechanism. Such efforts for awareness are in line with the international best practices and International Association of Deposit Insurers (IADI's) Core Principles of Effective Deposit Insurance System and would augment our preparedness to meet any eventuality. As a significant step towards this goal, DPC successfully launched its own website on October 16, 2020, which is accessible at <http://www.dpc.org.pk>. This website will facilitate the process of learning and acquiring vital information about the management, roles and functions of DPC and its communiqués including circulars and guidelines, for all stakeholders.

The banks are the first point of contact for depositors for their information about their funds. Therefore, it is also crucial that we must keep our member banks involved, as partners and leverage their resources as well, in our efforts towards wider awareness of depositors. I am pleased to engage with all banks and Pakistan Banks' Association in order to involve them in our efforts towards public awareness. Resultantly, banks displayed informatory material on their websites and also created separate links / popups on their websites and disseminated electronic messages and emails at mass level.

At the regional and international levels, DPC has become a member of IADI and Asia Pacific Regional Committee (APRC) soon after commencement of its operations, and has attended Annual and Regional General Meetings and participated in its surveys and seminars to keep itself updated about the global practices.

DPC has also adopted Enterprise Risk Management (ERM) Framework, which ensures that our strategic plan and risk appetite are aligned across the organization. We recognize the risks confronting our organization and take appropriate measures to mitigate them.

In the end, I would like to especially thank the members of Shariah Advisory Committee of SBP, who have always been forthcoming in their guidance and advice to DPC on Shariah matters. My team members also deserve appreciation for embracing the vision of the Corporation and for their efforts and dedication in its direction. My predecessor and founding Managing Director of DPC, Ms. Lubna Farooq Malik also deserves special commendation for successfully dealing with challenges of a nascent organization.

Syed Irfan Ali
Managing Director

OUR VISION

To be an effective provider of deposit protection in line with international standards

OUR MISSION

To protect depositors' funds in order to maintain public confidence in the banking system and support Financial Stability

OUR CORE VALUES

Integrity

- We stand behind our commitments
- We perform our duties professionally and without personal bias
- We perform our duties in an objective, non-partisan and non-ideological manner
- We protect the confidences of individuals and the confidentiality of information we receive
- We do not use our positions to personal advantage

Accountability

- We take responsibility for our actions and decisions
- We take responsibility for achieving goals and outcomes
- We hold ourselves to the highest standards of transparency and public disclosure
- We welcome independent review against international standards of best practice
- We are ready to explain to affected parties the underlying rationale for our decisions

Teamwork

- We share ideas and knowledge and respect the views of others
- We share the workload to leverage each other's strengths to achieve team goals
- We give credit where credit is due
- We subordinate our personal interests to those of the team
- We delegate and trust others to deliver

Courage

- We are willing to make difficult decisions and to take and manage appropriate risks
- We acknowledge and accept mistakes
- We give and accept constructive criticism
- We are prepared to challenge conventional thinking
- We stand on principle regardless of pressure

Excellence

- We are committed to continuous improvement
- We perform all tasks to the best of our ability and strive to be the best at what we do
- We are committed to doing the job right the first time, as effectively and efficiently as possible
- We are forward-looking and flexible in our approach
- We solve rather than avoid problems

Result Oriented

- We understand stakeholders' needs and expectations
- We make timely decisions
- We focus on objectives and set priorities to achieve the most effective outcomes
- We are responsive in resolving conflicts to achieve objectives
- We enjoy challenging tasks and promote thinking outside the box to find solutions

**DEPOSIT PROTECTION CORPORATION
- AN OVERVIEW**

Establishment of Deposit Protection Corporation (DPC) – A Safety Net Participant

Financial stability is the paramount concern for policymakers around the world. Every country endeavors to develop and put in place tools and mechanisms to protect its financial system from various endogenous and exogenous shocks. These tools and mechanisms collectively form the regulatory architecture; the foundation stone on which banks and other financial institutions flourish.

Having a formal Deposit Protection scheme (DPS) is considered a vital component of financial safety net. In terms of International Association of Deposit Insurers' (IADI) statistics on global Deposit Protection Systems as of July 2019, there are 145 jurisdictions (including Pakistan) which have instituted some form of explicit deposit protection, up from 12 in 1974. In addition, there are another 25 jurisdictions, which are considering implementing an explicit deposit protection system.

Since the Great Depression of 1930, a number of institutions were established to provide guaranteed protection to the depositors and creditors of financial sector in various countries, so that confidence in banking and financial system could be maintained. Focus on the establishment of Deposit Protection Agencies had further increased after financial crisis 2008, which resulted in failure of a number of banks around the world. Consequently, deposit protection has almost become a requisite for financial stability. A number of countries have also made improvements in their pre-existing frameworks in view of the lessons learnt from the global financial crisis.

A formal deposit protection scheme offers following wide ranging benefits:

- It contributes towards a stable financial system by minimizing the possibility of bank runs.

- It protects depositors from the loss of at least some portion of their deposits by allocating funds to provide them immediate liquidity.
- Significantly, a formal Deposit Protection Mechanism limits the use of tax payers' money for resolving bank failures, as the funds provided for such protection are raised from the industry.
- A streamlined and formal mechanism for payments to depositors is prepared that facilitates depositors in an organized manner, thus removing uncertainties and keeping the confidence of depositors in the system.
- It is designed to reduce the contagion effect and likelihood of conversion of individual bank failure into a systemic crisis.

The banking system in Pakistan has become increasingly private sector dominated; initially through privatization of the once dominant state-owned banks, and subsequently with the entry of new banks. Consequently, the number and share of public sector banks has reduced. With widening outreach of banking facilities to the rural and remote areas of the country, large numbers of small and unsophisticated depositors have been brought into the banking system.

Thus, need to establish a deposit protector in Pakistan was realized to further strengthen financial stability by means of providing explicit protection to banking depositors especially the financially unsophisticated segment of the country.

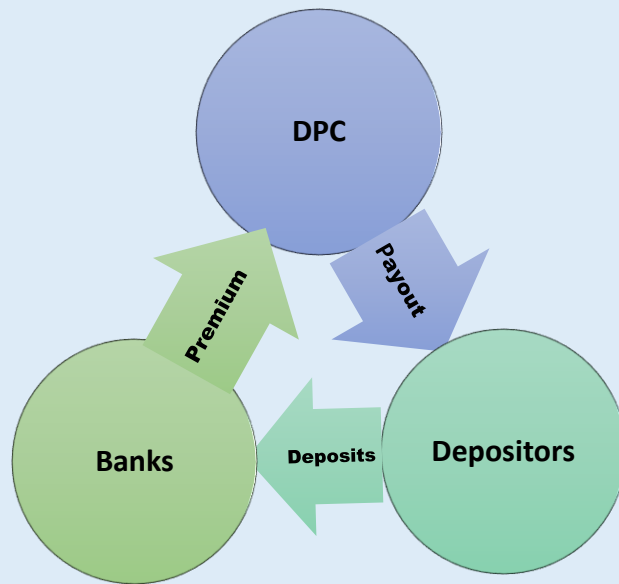
Accordingly, establishment of DPC was envisaged as one of the important objectives in SBP's strategic plan 2016-2020 under the strategic goal of "strengthening the financial system stability regime". Hence, DPC was established as a wholly owned subsidiary of SBP under the Deposit Protection Corporation Act, 2016 with objective to compensate the depositors to the extent of protected deposits in the event of a bank failure.

The design features of DPC are well congruent with “Core Principles for Effective Deposit Insurance Systems” issued by IADI.

Shariah compliant mechanism of Deposit Protection has been put in place as envisaged in the DPC Act.

Mandate of Deposit Protection Corporation

Deposit Protection Corporation has been mandated under the DPC Act, 2016 to primarily compensate small and financially unsophisticated depositors, to the extent of protected amount, in the event of a bank failure. Thus, following have been set as the objectives of DPC:



Since it is important to ensure that the design of Deposit Protection Scheme does not encourage moral hazard (appetite for excessive risk taking by banks or institutional depositors), the Deposit Protection Scheme has been designed in a way to cover smaller unsophisticated depositors rather than the entire deposit stock. The protected deposit coverage set at PKR 500,000/- ‘per depositor-per bank’ translates into nearly 2.22 times of GDP per capita in Pakistan as of June’21. Moreover, in order to have a level playing field, all commercial banks are made mandatory members of Deposit Protection Scheme and are liable to pay the prescribed premium. For the purpose of protecting depositors of Islamic Banks, a separate

- To establish a sound and credible Deposit Protection Framework for Conventional and Islamic Member Institutions
- To compensate the depositors, in a timely manner, to the extent of protected deposits in event of failure of a Conventional or Islamic Member Institution
- To collect premium from Conventional and Islamic Member Institutions and make investment thereof
- Create awareness amongst general public and depositors about the Deposit Protection Mechanism/ Scheme
- Coordinate with SBP in bank resolution and allied matters

Board of Directors' Profile



Mr. Jameel Ahmad **Chairman**

Mr. Jameel Ahmad presently holds the position of Deputy Governor (Banking & FMRM) at the State Bank of Pakistan. His illustrious career as an accomplished central banker spans over 30 years at various senior positions at the State Bank of Pakistan and the Saudi Central Bank (SAMA). Prior to his appointment as Deputy Governor in April 2017, he was serving as Executive Director, Banking Supervision and Financial Stability Group. He has also served as Group Head Operations, Banking Policy & Regulations, Development Finance and Financial Resource Management. Apart from State Bank of Pakistan, he has also served SAMA as an Advisor from July 2009 to April 2015. He has contributed significantly in formulating the policy and regulatory framework for the banking systems of Pakistan and Saudi Arabia and monitoring their financial soundness and stability.

Mr. Jameel is currently serving as Chairman of the Board of Directors of Deposit Protection Corporation of Pakistan. He is also serving as the Vice Chairman and member of the Board of Directors of Pakistan Security Printing Corporation and National Institute of Banking & Finance. He is also a member of the Policy Board of Securities and Exchange Commission of Pakistan, National Council of Institute of Cost and Management Accountants of Pakistan and Senior Management Committees of SBP including its Monetary Policy Committee. He also served as member of Board of Directors of the Institute of Corporate Governance of Pakistan and Chairman of the Verification Committee constituted under the Corporate & Industrial Restructuring Corporation (CIRC) Ordinance of Pakistan, and Member/ Secretary of the Task Force on Combating Counterfeiting of Currency Notes and Government Bills constituted by the Prime Minister of Pakistan.

He has also represented SBP on many other national and international committees/ fora including Financial Stability Board's (FSB) Correspondent Banking Coordination Group and was a member of the Basel Committee on Banking Supervision's (BCBS) Task Force on Prudential Treatment of Assets. He was also a member of the Islamic Financial Services Board's (IFSB) Technical Committee and its working Groups on Risk Management, Supervisory Review Process, Capital Adequacy and Determination of Alpha Factor. During his association with the Saudi Central Bank, he represented SAMA on many high profile working groups / task forces of the BCBS, FSB and IFSB.

As Deputy Governor SBP, Mr. Jameel has played an instrumental role in digitization of banking

and payments as well FinTech for offering innovative financial services in the country. He supervised the formulation and issuance of Regulations for e-money Institutions in Pakistan. He also served as the Chairman of Steering Committees on the implementations of Raast – Pakistan’s instant payment system, digital banking regulations and SBP’s Knowledge Management System. He also oversees the development and issuance of Pakistan’s National

Payment Systems Strategy developed jointly by SBP and the World Bank.

Mr. Jameel Ahmad holds an MBA degree from University of Punjab and is a Fellow Member of the Institute of Cost and Management Accountants of Pakistan (FCMA), Institute of Bankers Pakistan (FIBP) and Institute of Corporate Secretaries of Pakistan (FCIS).



Mr. Mehmood Mandviwalla
Director

Mr. Mehmood Mandviwalla is Barrister at Law from Lincoln's Inn, London, UK. He has had his LL.B from London School of Economics and Political Science, London, UK.

Mr. Mehmood Mandviwalla has extensive experience spanning over 39 years in all aspects of commercial and corporate law including banking, corporate finance and securities, arbitration, commercial litigation, energy, international trade, privatizations, investment funds, educational institutions, venture capital, environment, media, arbitration, acquisitions and amalgamations, underwriting agreements, insurance, joint ventures, infrastructure projects, securitization, credit rating etc. and intellectual property litigation.

He has drafted various statutory enactments and regulatory frameworks for Pakistan and has from time to time, assisted Securities and Exchange Commission of Pakistan (SECP) and the SBP in restructuring of the regulatory framework for corporate sector of Pakistan.

Mr. Mehmood Mandviwalla also serves on the Board of Directors of GlaxoSmithKline Pakistan Limited. He has been Director on the Board of SBP from 2013 to 2016, and was also the Caretaker Minister of Law and Prisons in the Caretaker Government of Sindh in 2013.



Mr. Suhbat Ali Talpur
Director

Mr. Suhbat Ali Talpur is a seasoned bureaucrat whose career spans over 25 years. Throughout his career, he has been engaged with public sector institutions. Currently, he is in service with Finance Division, Government of Pakistan for more than a decade where he has been looking after all affairs at Internal Banking Wing.

Prior to his posting at Finance Division, he served at number of other departments in the Federal Government.

Mr. Talpur has attended various international trainings and seminars on banking, AML/ CFT, finance, privatization, investment and quality assurance. It is the reason that Mr. Talpur champions the coordination and better working relationship of all banks and financial institutions under the umbrella of Finance Division.



Syed Irfan Ali **Managing Director**

Syed Irfan Ali currently leads Deposit Protection Corporation as Managing Director. Presently, he is also a key member of SBP's historic initiative of Roshan Digital Account that has drastically changed the landscape of banking in Pakistan by financially connecting millions of overseas Pakistanis.

Mr. Ali is a seasoned central banker. His career spans over a period of almost 30 years, beginning in 1992. Prior to his current role, Mr. Ali held the position of Executive Director, Banking Policy & Regulations Group and Banking Supervision Group at SBP. He has also served as Director General, Financial Monitoring Unit and as Director at various departments of SBP.

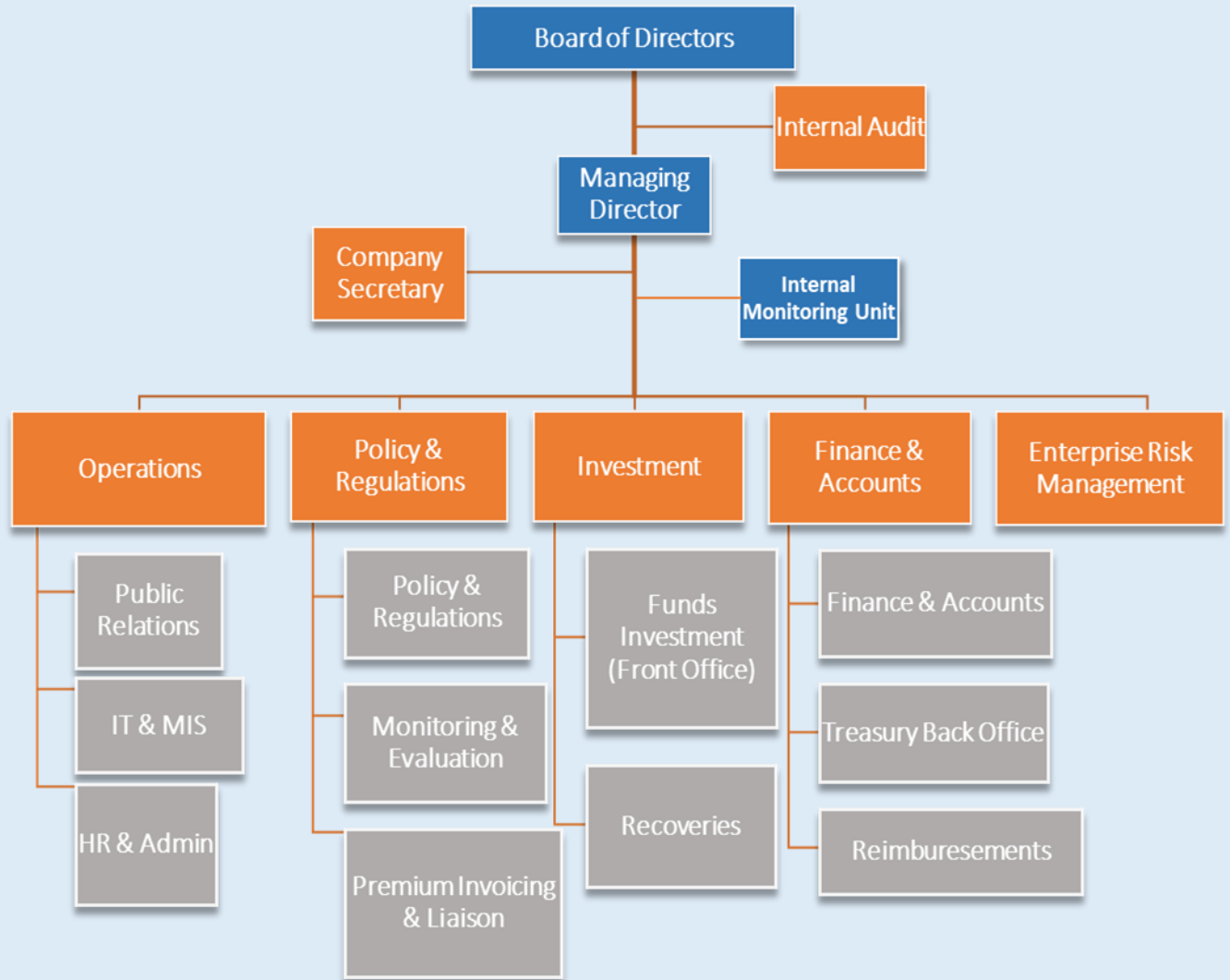
He is banking sector policy expert with core expertise in the areas of banking and non-banking regulations, payment systems, Anti-Money Laundering and Combating the Financing of Terrorism (AML/ CFT), financial markets, and FinTech. He has played lead role in issuance of policy framework for Branchless Banking in Pakistan, Global Depository Receipt (GDR), policy on Corporate Governance and Prudential Regulations.

He has also been instrumental in introduction and amendments in key statutes related to banking and supervision, structuring and restructuring of financial institutions. He has assisted the Government in disinvestment/ privatization process of public sector banks, mergers and acquisitions. He was also instrumental in introduction of thematic inspection concept as a precursor to risk-based supervision. The above are some of his achievements during his services to SBP.

Mr. Ali has also been associated with various committees and working groups and represented SBP at various domestic and international forums like Financial Action Task Force/ Asia Pacific Group (FATF/ APG), International Monetary Fund (IMF) etc.

Syed Irfan Ali is an MBA from the Lahore University of Management Sciences and has done his Masters in Banking and Finance from University of Wales, UK.

Organogram of Deposit Protection Corporation



The DPC Team



Sitting from left to right: Ms. Kashmina Kanwal (Deputy Director), Mr. Khurram Iftikhar (Head Finance and Accounts), Syed Irfan Ali (Managing Director), Mr. Mansoor Zaidi (Head Policy and Regulations) and Ms. Rubana Rashid (Assistant Director).

Standing from left to right: Mr. Shafqat Hameed (Joint Director), Mr. Gulfraz Ahmed (PA to MD-DPC), Mr. Zeeshan Suleman (Joint Director), Mr. Abdul Tawab Ayub (Assistant Director), Mr. Turab Syed (Joint Director), Mr. Shahid Abbas (Joint Director) and Mr. Muhammad Khan (Joint Director)

DEPOSIT PROTECTION FRAMEWORK

Scope of Deposit Protection

Under the provisions of Section 7(1) of the Deposit Protection Corporation Act, 2016, DPC determines coverage limit or protected deposits from time to time. Currently, this limit has been set to cover up to PKR 500,000/- (Five Hundred Thousand) or outstanding deposit balance, whichever is lower. This coverage would be calculated on 'per depositor-per bank' basis as the guaranteed amount for reimbursement to all eligible depositors.

The guaranteed amount may also be referred to as 'protected amount' or 'protected deposit' or 'insured amount'. All eligible depositors of member banks have the right to receive their outstanding deposits up to the guaranteed amount in case of failure of their bank, if it is notified as failed bank by State Bank of Pakistan under Section 21 of DPC Act, 2016. DPC is committed to settle all eligible deposits up to their protected amount within seven to thirty days in order to restore and maintain confidence of public in the financial system.

Currently, following types of deposits and banking accounts are eligible for compensation of guarantee amount by the Corporation in case of any member bank's failure:

- a. All types of current and saving accounts
- b. All types of branchless banking accounts
- c. Fixed term deposits/ accounts
- d. Call deposit receipts/ Security deposit receipts
- e. Deposit balances kept as cash margins/ cash collateral or under lien, that are payable to protected depositors after satisfaction of all dues payable by them to the bank
- f. Foreign currency accounts (under section 21 (7) of the Act, the foreign currency denominated depositors shall be paid the Rupee equivalent of the protected amount at the exchange rate declared by the SBP on the day of the

notification under section 21 (1) of the Act)

- g. Any profit accrued and unpaid (under the terms and conditions of the product) on any or all of the above accounts and instruments
- h. Any other type/ category of accounts or deposits, as may be communicated by the Corporation from time to time

In terms of provision of DPC Act, following types of deposits and banking accounts are exclusively **not protected**; hence, deemed as ineligible for Deposit Protection:

- a. Persons who have been granted preferential interest or return in deviation from the terms and conditions announced by a member institution that it is obliged to apply to all its depositors of similar category
- b. Members of the board of directors and senior management of a member institution including its Chief Executive Officer and Key Executives
- c. Partners of auditing firms responsible to certify the member institution's financial statements
- d. Persons having acquired rights to a deposit after the issuance of the SBP's notification under sub section (1) of Section 21
- e. Spouse, dependent lineal ascendants and descendants and dependent brothers and sisters of the persons specified in (b), (c) and (d) above
- f. Any member institution whose deposits are in its name and on its account
- g. Government or government institutions
- h. A company as defined under the Companies Act, 2017
- i. Any other class of persons or institutions as specified by the Board from time to time; provided, where the Board specifically excludes any class of persons

or institutions, such decisions shall be published by the Corporation in two daily newspapers having wide circulation

- j. Protected deposits shall not cover deposits arising out of or related to transactions or actions constituting “money laundering” within the meaning of the Anti-Money Laundering Act, 2010 (VII of 2010), if the offender has been convicted of such offense
- k. Corporations
- l. Modarbas
- m. Mutual Funds
- n. Branch(es)/ Permanent establishment(s) of foreign entities
- o. Diplomatic Missions and international organizations/ entities like United Nations, World Bank, IFC, ADB, etc.
- p. Autonomous bodies

Enhancement of Protection Payable

Protected or guaranteed amount is the maximum amount payable to eligible depositor, against his/ her aggregate outstanding deposit balance, in case of a bank failure. Such payment is also called payout or reimbursement to depositors. Under the DPC Act, payment of protected deposits to each eligible depositor, has two main underlying conditions:

- a. The guaranteed or protected deposit becomes payable only in case a member bank is declared as failed institution by State Bank of Pakistan. Under no other circumstances, the payment of guaranteed amount to eligible depositors can be invoked; and

- b. The protected deposit amount is calculated on a ‘per depositor-per bank’ basis and is payable on the outstanding balance of eligible depositor (on the date of bank failure) up to a maximum of PKR 500,000/-.

The Board of the Corporation in its 11th meeting held on September 06, 2021 made a decision of revising the protected amount from PKR 250,000/-¹ to PKR 500,000/-. This enhancement has been decided primarily to provide full coverage to more depositors. As a result, fully protected depositors are expected to increase from 92% to 95% of eligible depositors. The increased coverage level will further raise the level of confidence of depositors in our financial system.

Coverage Methodology²

DPC has adopted the principle of ‘per depositor-per bank’ to determine guaranteed amount for eligible depositors for the sake of compensation. In this regard, following methodology is in place at DPC:

- a. In terms of section 20(1) of the Act, all outstanding balances of deposits and accounts mentioned above, shall be aggregated together even if such accounts are maintained at different branches of the same bank.
- b. Where an account holder maintains individual as well as joint account(s), all the balances and accrued profits in his/ her individual as well as his/ her portion in joint account(s) shall be added

¹ At the time of commencement of its operations on June 01, 2018, the Board of the Corporation determined the guaranteed amount to be PKR 250,000/- (Rupees two hundred and fifty thousand) “per depositor-per bank”.

² These calculations are further explained with the help of

illustrations at the end of this report. Please refer to section on FAQs.

together to arrive at a final liability of the bank towards that depositor.

- c. Where a depositor maintains deposits in conventional branches as well as in Islamic Banking Branches (IBBs) of the same bank, all the amounts so payable by that member bank shall be counted together, without comingling of conventional and Islamic deposits, to arrive at its final accumulated liability towards that depositor. The payment of protected deposit shall be made proportionately from respective Deposit Protection Funds on pro-rata basis,

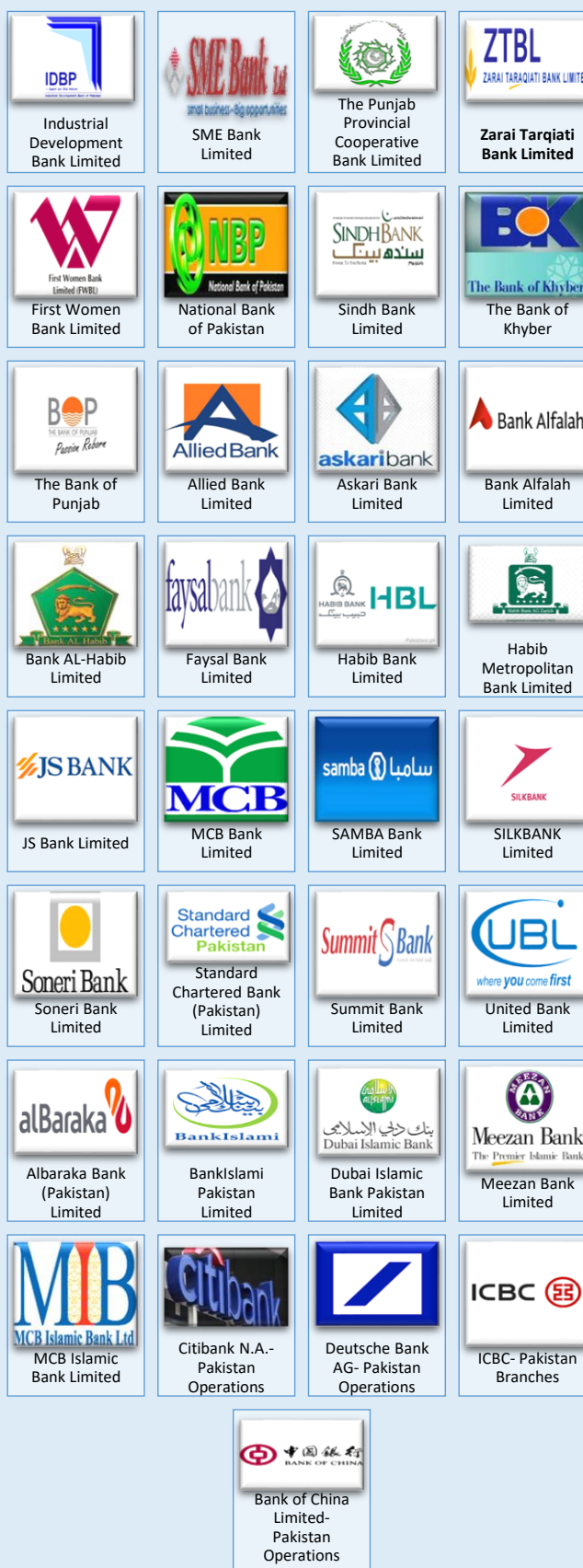
according to the share of conventional and Islamic deposits, subject to the maximum limit of protected amount as mentioned above.

- d. If a depositor has deposits with two or more member banks that merge or amalgamate, the deposits up to the guarantee amount shall continue to be protected separately for a period of one year or full withdrawal or until maturity of the deposits, whichever occurs earlier, from the effective date of merger /amalgamation.

Member Banks of Deposit Protection Scheme in Pakistan

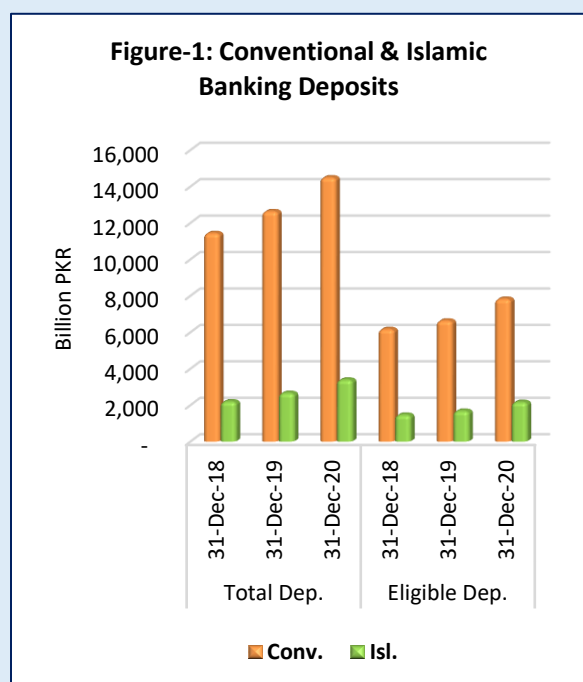
Membership of the DPC is compulsory for all banks scheduled under sub-section (2) of section 37 of the State Bank of Pakistan Act, 1956.

Accordingly, in terms of Section 2 (i) and Section 5 (2) of Deposit Protection Corporation Act, 2016, following scheduled banks in Pakistan are members of Deposit Protection Scheme under DPC:



Deposits with Member Banks

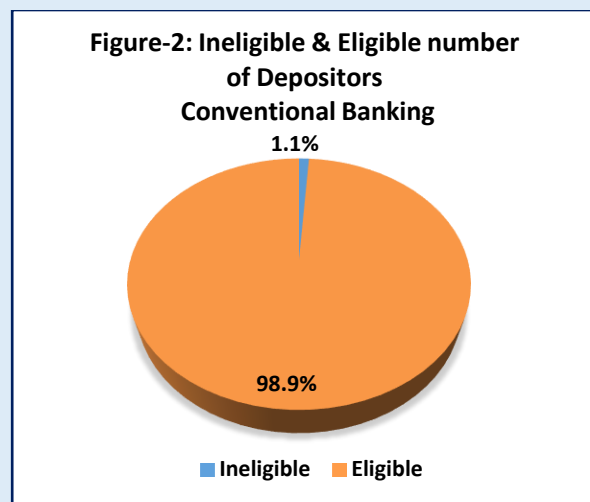
Deposits of Pakistani banks have been growing in recent years with an increasing pace. Figure-1 below shows growth trend in deposits in recent years. As of June'21, bank deposits in Pakistan have further increased and reached an all-time high value of PKR 20 trillion, which in turn has also propelled growth in eligible deposits³.



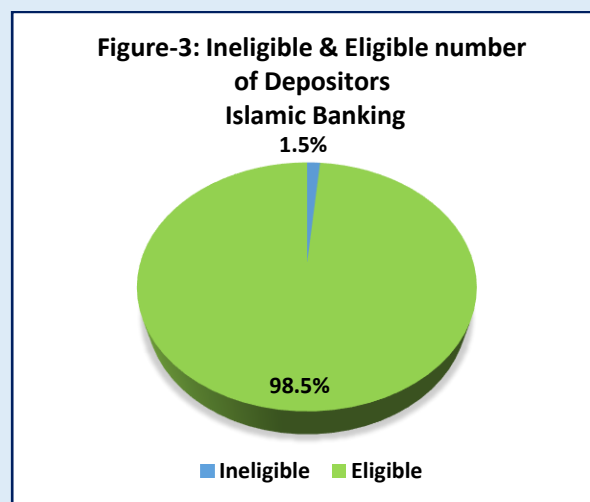
Eligible and Protected Deposits

In line with the objectives of DPC, the Deposit Protection Mechanism currently in place covers a very large number of depositors in Pakistan as majority of account holders are 'small depositors'. As of December 31, 2020, 98.9% of total depositors of conventional banking and 98.5% of Islamic banking are eligible for protection from DPC, in case their bank is declared as failed institution by SBP (see Figure-2 and Figure-3).

³ Consequently, the total eligible deposits as on June 30, 2021 were at PKR 11 trillion, while the value of fully protected deposits is PKR 1.8 trillion.

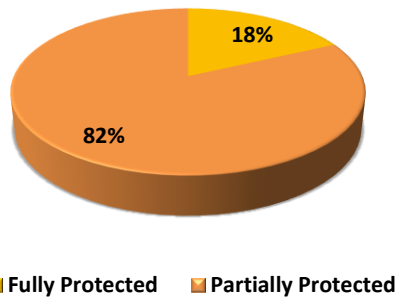


These percentages signify effectiveness of DPC's current coverage level, as it denotes those depositors who are eligible for protection and will be paid a maximum up to PKR 500,000/-.



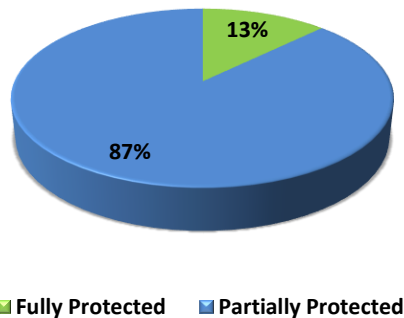
In value terms, based on data as on December 31, 2020, 18% of conventional banking's eligible deposits are fully protected i.e. the amount of money, depositors would receive (up to PKR 500,000) in full satisfaction of their outstanding balances, which is the maximum amount of reimbursement from DPC upon failure of any member bank. On the other hand, 13% of Islamic banking's eligible deposits are fully protected (see Figure-4 and Figure-5).

**Figure-4 Fully protected deposits value
Conventional Banking**



The percentage of fully protected value of deposits in both conventional and Islamic banking institutions shows distribution of deposits in our banking industry, where large value of deposits are being held by numerically fewer depositors. This also exhibit the fact that coverage of DPS is more centered towards retail and financially unsophisticated depositors rather than big-ticket depositors.

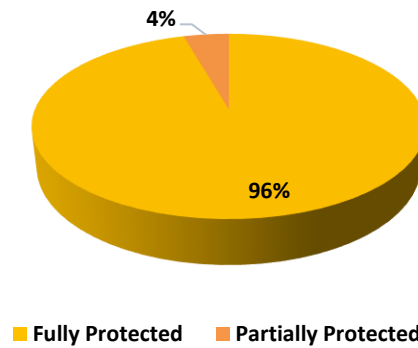
**Figure-5 Fully protected deposits by value
Islamic Banking**



More importantly, in terms of numbers, the fully protected number of depositors of Conventional banking is 96% of its eligible depositors. These depositors will get full recovery of their funds in case of bank failure. This large number of fully covered depositors shows sufficiency of current coverage level of PKR 500,000/- for depositors of banks. It also signifies that vast majority of depositors hold small amounts in their accounts, which will be protected by DPC. The remaining

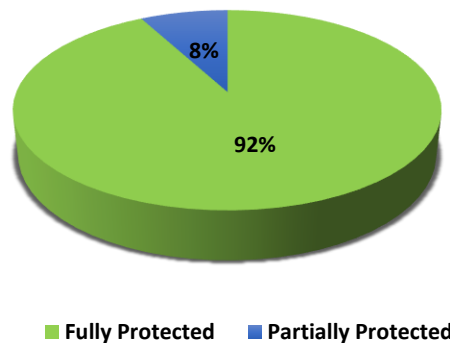
4% depositors are also covered up to PKR 500,000, but their outstanding account balances are more than PKR 500,000 (see Figure-6).

**Figure-6 Fully protected depositors
Conventional Banking**



The fully protected depositors of Islamic Banking segment is 92%, which is lower than the conventional side due to higher concentration of large depositors in Islamic Banking Institutions (IBIs) in their overall deposit mix. However, full coverage to 92% of the depositors is still a decent level for a new scheme like DPC (see Figure-7).

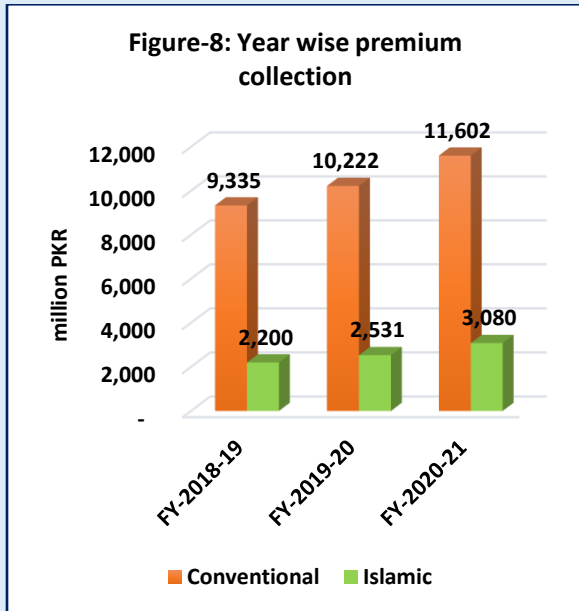
**Figure-7 Fully protected depositors
Islamic Banking**



Premium Collection from Member Banks

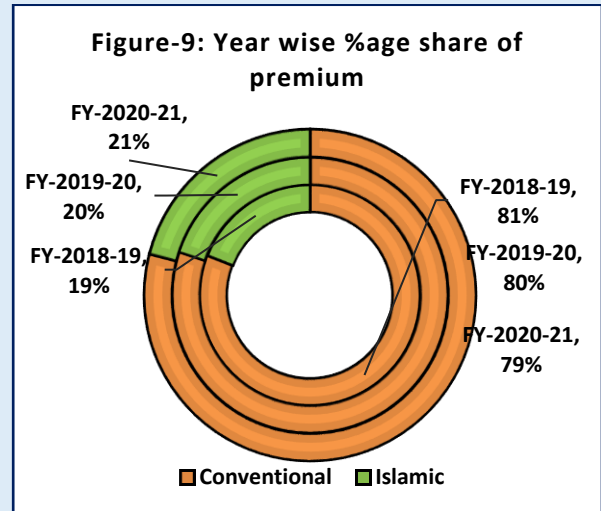
Parallel to growth in total and eligible deposits, increasing trend has also been observed in premium collection from all DPC member banks. As per composition of banking sector in our

country, conventional banks have contributed major chunk of premium since commencement of DPC's operations. However, in terms of percentage, growth in premium collection from IBIs has been recorded higher than premium collection from conventional banks (see Figure-8).



On YoY basis, the growth in premium collection from IBIs remained 15.0% and 21.7% during last two years compared, while the conventional banks premium witnessed a growth of 9.5% and 13.5% for the same periods (see Figure-8).

On overall basis, due to larger share in deposits of banking industry, the conventional banks' premium contribution has been dominant in the overall premium mix of DPC (see Figure-9).





KEY INITIATIVES

In order to ensure achievement of its objectives in efficient and effective manner, the Corporation continuously strives to further strengthen its governance and operational framework in line with best practices and international standards. In this connection, the following key initiatives are noteworthy:

Transition from Flat-Rate Premium to Risk-Based Premium System

DPC collects annual premium from all member banks on flat rate that is 0.16% of their annual audited eligible deposits figure. This model is termed as 'ex-ante' funding that is currently in practice globally by most of Deposit Protection Agencies (DPAs). Under this model, DPAs usually assess their target fund size to pre-arrange funds for any future payout in case of a bank failure. In this funding model, DPA collects premium from member institutions on 'flat rate basis' or on 'differential (risk-based) rates basis'.

The basic difference between flat rate and differential rate mechanism is that, in case of former, a fixed rate is determined and applied on the assessment base of all member institutions, while in latter, the premium is charged to the assessment base of member banks mainly on the basis of their riskiness to the system.

As the differential (or risk based) premium system is a bit more complex than flat (or fixed); therefore, DPAs around the globe usually start with a fixed rate method and after a certain time period may decide to switchover to the differential premium collection method. By that changeover time, DPAs tend to build up a reasonable/ target fund size as flat rate provides benefit of fast accumulation of premium.

However, both methods have their own pros and cons. The differential premium system, while seemingly more fair and justifiable, is complex to develop and understand. It takes into account

factors like risk of failure of member institution and risks posed by it to the financial system due to its failure. More the probability of bank failure will be, higher would be the premium charge. On the other hand, flat rate treats all banks equally without considering individual bank's risk profile; therefore, it is more prone to induce moral hazard in the system. However, flat rate system is more representative of the claim amount arising out of the failure of an institution as it directly charges premium based on the deposit size.

Upon Commencement of its business in 2018, DPC adopted ex-ante funding model through which it collects premium per annum on a flat rate basis from all member banks at a predetermined regular frequency. The total eligible deposits of each member bank has been determined as the assessment base on which premium rate is applied to determine the annual premium payable amount for each bank.

After considering different aspects of the two premium systems mentioned above, DPC has started its work towards the development of a differential premium system. Initial preparatory work has commenced for the development of a proposed differential premium system. Currently, various risk factors and indicators are being considered that would become components of that system. This system might result in incentivizing member banks to avoid excessive risk taking as banks may try to contain their risks. However, it is not very certain that they might take lesser risks just to avoid a relatively higher premium charge. Secondly, and arguably more important aspect of this system is that it should be able to provide early warning signals about a bank's weakness, which may help the Corporation to get ready for any bank failure or resolution event.

Any differential premium system is primarily based on the subjective and objective factors to assess risks and regulatory compliance issues that affect viability of any member institution. The availability of primary information on these factors usually rests with the banking supervisors; therefore, close coordination

between any DPA and the banking supervisor is of utmost importance in development and successful operations of differential premium system. Hence, close coordination between DPC and SBP - the apex regulator of the banking sector in Pakistan - would be necessary while developing and implementing the differential premium system.

However, in order to ensure stability and continuity in its funding structure, the final implementation of the differential premium system may be linked to the achievement of target fund size of DPC in order to provide an anchor to future financial growth of DPC's funds.

The transition process from 'flat rate' to 'differential' comprises of following four stages:

Stage-1 Development of roadmap;

Stage-2 Mechanism to measure risk profile;

Stage-3 Premium calculation methodology;

Stage-4 Parallel run of both flat rate and differential rate premium systems.

Road map for implementation of differential premium system has already been approved by the DPC's Board and at present work is being done on the stage-2 i.e. 'Mechanism to measure risk profile' under which the qualitative and quantitative factors are being identified based on their relevance and significance with respect to the risk assessment of member banks. Subsequently, the Corporation will move towards stage-3 in which various methodologies of premium calculation will be assessed and an appropriate methodology would be suggested for implementation.

Finally, before implementing any alternate premium calculation method, DPC would assess the local dynamics and prevalent legal and regulatory aspects. As stated earlier, another crucial consideration for such a decision would

be the achievement of appropriate fund-size that could help fulfil DPC's obligations.

Subsequently, subject to getting approval from its Board, in final stage of the transition process, DPC would give a parallel run to both systems to assess the results and the efficacy of the newly proposed differential premium system. Finally, the new premium system will be implemented after approval from the Corporation's Board of Directors.

Single Depositor View (SDV) – Depositors' Database

As already stated in this report, the core objective of DPC is to compensate eligible⁴ depositors for the loss of their deposits upon failure of a member institution, as notified by the SBP, after which the responsibility of reimbursement of protected amount to eligible depositors of a failed bank lies upon DPC. Hence, availability of reliable information of depositors is of paramount importance to ensure effective and seamless process of reimbursement.

In this backdrop, the Corporation took initiative and devised a strategy to have the information ready with all of its member banks. For this purpose, a detailed structure of database was developed by DPC and member banks were advised to develop and install or update their systems for maintaining a comprehensive depositors' information through DPC Circular No. 01 of 2019 dated March 15, 2019.

As various core banking systems are operative across the banking industry, with each system having its unique data structure and alignment of different information fields, it was crucial for the sake of standardization across the banking industry that SDV database should be supplemented with a standardized format having specific arrangement of data fields. Hence, a Standardized Report Format (SRF) was developed to enable banks to compile SDV data

⁴ The terms "Eligible Depositor" or "Protected Depositor" are interchangeably used in literature and in this report as well.

to meet the requirements of a reimbursement process.

A key feature of SDV is its ability to calculate the total liability of a bank towards any single depositor (including any accrued interest/ profit) on any given date, based on all accounts of that depositor.

In order to assist banks in better understanding of this information database, a detailed set of “Explanatory Notes on SDV Data” was also issued with SRF vide DPC Circular Letter No. 01, 2019 dated December 05, 2019. This document explains various terms used in SDV data compilation along with classification guidelines, reporting timelines, medium of reporting and examples on balance calculations.

A member bank, which is notified as failed institution by the SBP, would be required to submit its depositors’ information on SRF to DPC within 48 hours of the notification by the SBP. Consequently, based on the submitted SDV information, DPC would carry out reimbursement to protected depositors of the failed bank.

Risk Management Framework at DPC

The Corporation is a wholly owned subsidiary of SBP and operates as a financial safety net for depositors of banking sector. Its risk management policies/ framework are aligned with that of SBP. Hence, risks are reported to SBP’s Management Committee on Enterprise Risk Management through Risk Management Department of SBP.

DPC identifies risks through bottom-up and top-down approaches. In particular, strategic risk assessment exercise is carried out periodically at senior management level. The responsibility for overseeing the Enterprise Risk Management Framework rests with the Board of Directors of DPC. Potentially high and significant risks are presented to DPC’s Board as well as to SBP’s Board of Directors for their review and consideration.

There are variety of internal and external risks that could influence DPC’s ability to achieve its core objectives i.e. a) to accumulate funds and make credible funding arrangements to address any payout to depositors, and b) to prepare necessary framework for smooth and effective payout to eligible depositors in the event of a bank’s failure. To identify, assess, mitigate and monitor potential risks, DPC has in place an effective risk management framework that is being implemented through Enterprise Risk Management Department (ERMD). The line departments are primarily responsible for their respective risks; however, ERMD acts as a second line of defense and is responsible for coordination, facilitation, and oversight on the effectiveness and integrity of risk management throughout the Corporation.

ERMD ensures implementation of efficient and effective risk management policies/ framework throughout the Corporation. Risks are identified by respective departments independently; analyzed and assessed using the “Risk Control Self-Assessment” techniques in consultation with ERMD. These risks are reviewed at ERMD and are discussed with the concerned departments for designing the effective controls during the periodic assessment exercise at the Corporation level. The inherent and residual scores are determined against each risk and risk ranking is performed according to the Enterprise Risk Management Framework implemented at the parent organization i.e. SBP.

The Corporation’s financial risk management policy seeks to ensure that adequate financial resources are available for the Corporation’s activities and to fulfill its obligations at the time of any potential payout event. The Corporation’s investment policy provides for investments, primarily in Government issued or guaranteed securities for its Conventional and Islamic funds, hence it carries no credit risk and liquidity risk. The interest rate risk on the Corporation’s investments is also very low, as majority of conventional portfolio consists of short term securities i.e., MTBs, while long term Shariah

Based securities i.e., Sukuks are based on variable returns.

Internal Audit at DPC

Internal audit is an independent assurance function that serves as the third line of defense for the Corporation and complements its overall risk management framework. Currently, internal audit of the Corporation is being performed by Internal Audit & Compliance Department of SBP that has no management responsibilities for the functions it examines and directly reports to the Corporation's Board and Board of Directors of SBP. The objectives of internal audit are to examine and evaluate whether the Corporation's framework of risk management, internal controls and governance processes are adequate and functioning properly. Internal Audit also reviews the application and effectiveness of risk management procedures and risk assessment methodologies at various operations and activities of the Corporation.



PUBLIC AWARENESS

Membership of DPC with International Association of Deposit Insurers (IADI)

DPC joined the international community of deposit insurers by becoming member of IADI soon after its establishment in the year 2018. By virtue of being member to IADI, DPC has participated in IADI's working group on Scope and Coverage to collaborate in developing standards, guidance and assessment methodologies to enhance the effectiveness of deposit protection systems.

DPC has also participated in regional workshops, capacity building programs and IADI's annual conferences, and has drawn on IADI's internal surveys of member jurisdictions and research on emerging trends for benchmarking and guidance purposes.

Public Relations and Awareness

Since its establishment, DPC has been striving towards development and implementation of a comprehensive Deposit Protection Framework to play its role in financial stability. However, this framework would become fully effective only when all internal and external stakeholders (general public, depositors, member institutions, employees of DPC, SBP, Federal Government and print & electronic media outlets etc.) are provided awareness and become cognizant about the concept of deposit protection itself and various aspects of this framework. A well-informed public and their confidence in the safety of their deposits with banks is a powerful force in preventing bank runs when financial crises occur. Keeping in view the rapid expansion of banking industry and number of depositors in Pakistan, the Corporation is fully aware of the need to have concerted efforts to expand outreach of various information channels to educate general public and more specifically the depositors about matters relating to Deposit Protection.

International Association of Deposit Insurers

The International Association of Deposit Insurers (IADI) was formed in May 2002 to enhance the effectiveness of Deposit Insurance Systems by promoting guidance and international cooperation. Members of IADI conduct research and produce guidance for the benefit of those jurisdictions seeking to establish or improve a Deposit Insurance System. Members also share their knowledge and expertise through participation in international conferences and other forums.

IADI is a forum for Deposit Insurers from around the world to gather to share knowledge and expertise. It provides training and educational programs and produces research and guidance on matters related to deposit protection.

IADI currently represents 86 Deposit Insurers. IADI is a non-profit organization constituted under Swiss Law and is domiciled at the Bank for International Settlements in Basel, Switzerland.

As our jurisdiction has now formally shifted from an implicit/ blanket guarantee to explicit/ limited guarantee system, DPC is aware that one of the greatest challenge is to inform general public and depositors about this development, without generating any adverse public opinion on the matter. Further, the role of communication in creation of awareness among public and depositors has been enlisted as one of the 'Business and Functions of the Corporation' under Section 6 (I) of the Deposit Protection Corporation Act, 2016.

In order to achieve synergy for this task, the banks are required to develop a communication strategy for making their depositors aware of the

protection, vide Deposit Protection Mechanism issued for banks in 2018. The development of public awareness has also been made part of DPC's Strategic Plan 2019-24.



DPC Communication Strategy

Globally, Deposit Insurers have adopted different communication strategies in accordance with various factors, such as financial literacy, level of financial inclusion of their wider target audience and nature of financial services covered by Deposit Insurers etc. In Pakistan, where financial literacy is still at quite low level, it is crucial to have dynamic communication strategy in place, to provide awareness on Deposit Protection Mechanism.

To address this and such other challenges there was always a need to develop a comprehensive strategy on communication and public awareness. Accordingly, DPC developed a comprehensive communication strategy in year 2021.

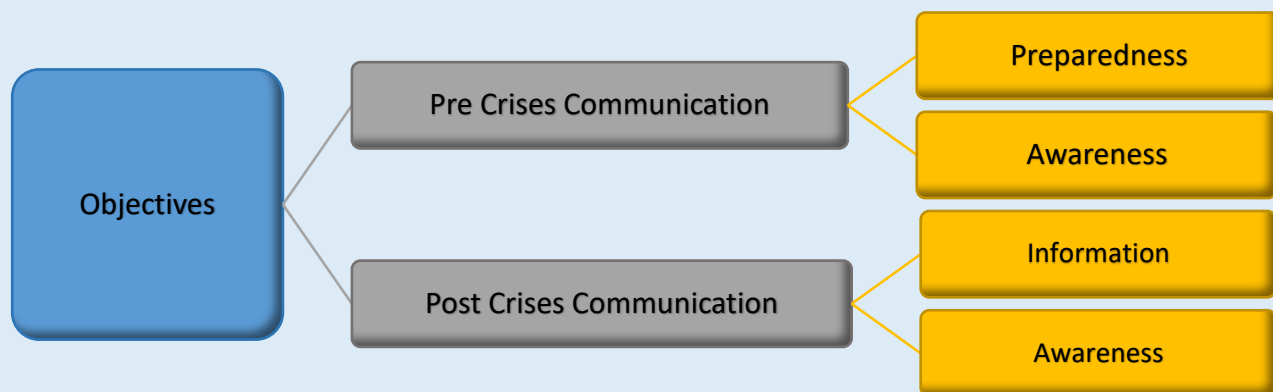
The Corporation recognizes that all stakeholders are partners in its role as protector of deposits/depositors, as they have common interests in enhanced financial stability and development of trust in banking sector. In accordance with its strategy, DPC intends to take its stakeholders into confidence through better communication. Thus, DPC has devised its strategy which evolves around two basic factors i.e. preparedness and awareness.

DPC Communication Strategy endeavors to promote awareness in public on Deposit Protection Mechanism in Pakistan and to coordinate with internal stakeholders for their preparedness for a smooth reimbursement process.

The core objective of this communication strategy is to promote information and awareness on an ongoing basis about the functions and mandate of DPC and the benefits of Deposit Protection to individual depositors and to financial system as a whole. It will enhance public awareness on explicit terms and conditions of the Deposit Protection System along with its benefits and limitations in order to avoid any expectation gaps between the deposit protector and public.

Along these goals, the strategy is further segregated into pre-crisis and post-crisis communication so as to ensure bespoke response in different scenarios. In a pre-crisis communication, public in general and specifically depositors along with other stakeholders may be informed on an ongoing basis about the benefits, limitations and scope of the Deposit Protection System in Pakistan. Further, it also includes communication with the internal stakeholders to make them ready to compensate depositors in stipulated time period.

The post-crisis communication is meant for the scenario of bank failure when depositors will be informed in details about the compensation procedure and reimbursement process.



Thus, the primary objectives of this communication strategy is to promote public awareness on Deposit Protection Mechanism in a manner that create public confidence and trust in financial system.

Keeping in view the important role the communication can play in achieving the objectives of public awareness and institutional preparedness, the goals of this communication strategy have been set as follows, in adherence with its objectives:

- a. To create awareness on the concept of Deposit Protection and publicize the role and mandate of DPC to enhance financial literacy and public confidence in financial system.
- b. Communicate laws, rules, regulations, framework and guidelines on Deposit Protection Scheme in Pakistan to all stakeholders.
- c. Communicate reimbursement policies and compensation procedures to all eligible depositors.

Launch of DPC website

One of the strategic goals of DPC in terms of its Strategic Plan 2019-24 is to create and enhance public awareness on Deposit Protection Mechanism in Pakistan. In the first phase, following its tactical objectives identified under this strategic goal, DPC has successfully launched its website on October 16, 2020 accessible at <http://www.dpc.org.pk>.

Launching of the website has made it easier for all stakeholders to learn and locate valuable information about the management, roles and functions of DPC and its communiqués including circulars and guidelines. In this regard, a broadcast and press release were also issued by External Relations Department (ERD), SBP that were well taken and reported widely in print media.

Towards Greater Use of Social Media

Given its outreach, ease of connecting with large audience, almost all Deposit Insurers around the world are using social media to keep public posted on developments in general and eligible depositors in particular in accordance with Core Principle 10 of Effective Deposit Insurance Systems issued by IADI. To make most of trending communication channels, DPC is in process of developing its policy for creation and management of its social media channels to target its external stakeholders. The social media channels will be used for public awareness on deposit protection framework during ordinary times and to provide them much needed information on the latest developments, through official channels, on an ongoing basis during extraordinary times viz. failure of a bank.

Orientation Sessions for Member Banks and Auditors

To bring awareness among all stakeholders having direct/ indirect relationship with the affairs of the Corporation, DPC conducted series of orientation sessions with officials of all scheduled banks and their auditors this year. The training sessions primarily targeted staff members of banks who deal in depositors' information, managing information systems and financial and data reporting to DPC.

Public Awareness through Member Banks and Pakistan Banks' Association

Pakistan Banks' Association and all member banks have been encouraged to create awareness programs for customers on Deposit Protection through their branch networks, social media channels, websites, and other means on an ongoing basis.

As a result, banks have started disseminating messages, providing dedicated links on their websites and sending emails and text messages to depositors about coverage of their deposits by DPC.



ANNUAL FINANCIAL STATEMENTS

M/s. Crowe Hussain Chaudhury & Co
Chartered Accountants
Member Crowe Global
F-4/2, Mustafa Avenue,
Behind “The Forum”
Block 9, Clifton, Karachi, Pakistan

INDEPENDENT AUDITOR’S REPORT
To the Board of Directors of Deposit Protection Corporation
Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Deposit Protection Corporation (the Corporation), which comprise the statement of financial position as at June 30, 2021, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and fund, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at June 30, 2021 and of its financial performance and its cash flows for the year then ended in accordance with approved accounting and reporting standards as applicable in Pakistan.

Basis for Opinion

We conducted our audit in accordance with the 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 Corporation 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.

Responsibilities of the Management and Those Charged with Governance for the Financial Statements

The Management is responsible for the preparation and fair presentation of the financial statements in accordance with the approved accounting and reporting standards as applicable in Pakistan, 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 Corporation’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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation’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 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 the 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 Corporation's internal control.
- Evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness on the management's use of 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 Corporation'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 Corporation 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 those charged with governance 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.

Crowe Hussain Chaudhury & Co.
Chartered Accountants

Engagement Partner: Najeeb Moochhala

Karachi

Date: September 06, 2021

DEPOSIT PROTECTION CORPORATION
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2021

	<i>Note</i>	2021	2020
----- (Rupees in '000) -----			
Assets			
Cash and cash equivalents	5	2,683	3,065,540
Investment securities	6	45,306,293	24,597,165
Fixed Assets	7	4,921	3,417
Prepayments and other receivables	8	3,794	22,810
Total assets		45,317,691	27,688,932
Liabilities			
Payable to State Bank of Pakistan	9	26,099	23,933
Other liabilities	10	24,787	2,004
		50,886	25,937
Net assets		45,266,805	27,662,995
Equity and Fund			
Share capital	11	500,000	500,000
Reserves	12	36,269,712	22,141,428
		36,769,712	22,641,428
DP Waqf	13	8,497,093	5,021,567
Total		45,266,805	27,662,995
Contingencies and commitments	14		

The annexed notes from 1 to 24 form an integral part of these financial statements.

Jameel Ahmad
Board Chairman

Syed Irfan Ali
Managing Director

DEPOSIT PROTECTION CORPORATION
STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2021

	<i>Note</i>	2021	2020
		----- (Rupees in '000) -----	
Income from premium contribution	15	14,640,142	12,772,997
Investment income and profit on deposits	16	3,053,713	2,402,242
Total income		17,693,855	15,175,239
General and administrative expenses	17	(90,045)	(80,094)
Net surplus for the year		17,603,810	15,095,145
Other comprehensive income		-	-
Total comprehensive income for the year		17,603,810	15,095,145

The annexed notes from 1 to 24 form an integral part of these financial statements.

Jameel Ahmad
Board Chairman

Syed Irfan Ali
Managing Director

DEPOSIT PROTECTION CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

	Note	2021 ----- (Rupees in '000) -----	2020 -----
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus for the year		17,603,810	15,095,145
<i>Adjustments for:</i>			
Depreciation for the year	7	<u>1,585</u>	<u>1,130</u>
Surplus for the year after non-cash and other items		17,605,395	15,096,275
<i>(Increase) / decrease in assets:</i>			
Pre-payments and other receivables	8	19,016	(22,503)
<i>Increase / (decrease) in liabilities:</i>			
Payable to State Bank of Pakistan		2,166	(22,707)
Other liabilities		<u>22,783</u>	<u>(1,092)</u>
Net cash generated from operating activities		<u>17,649,360</u>	15,049,973
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Investments made during the year		(20,709,128)	(12,031,579)
Additions to fixed assets		<u>(3,089)</u>	<u>(384)</u>
Net cash used in investing activities		<u>(20,712,217)</u>	(12,031,963)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash flow from financing activities		-	-
Increase in cash and cash equivalents during the year		<u>(3,062,857)</u>	3,018,010
Cash and cash equivalents at beginning of the year		<u>3,065,540</u>	47,530
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	5	<u><u>2,683</u></u>	<u><u>3,065,540</u></u>

The annexed notes from 1 to 24 form an integral part of these financial statements.

Jameel Ahmad
Board Chairman

Syed Irfan Ali
Managing Director

DEPOSIT PROTECTION CORPORATION
STATEMENT OF CHANGES IN EQUITY AND FUND
FOR THE YEAR ENDED JUNE 30, 2021

	Note	Share Capital	Reserves	Sub-Total	DP Waqf	Total
----- (Rupees in '000) -----						
Balance as at July 1, 2019	11	500,000	9,829,506	10,329,506	2,238,344	12,567,850
Net surplus for the year	12 & 13	-	12,311,922	12,311,922	2,783,223	15,095,145
Other comprehensive income		-	-	-	-	-
		-	12,311,922	12,311,922	2,783,223	15,095,145
Balance as at June 30, 2020		500,000	22,141,428	22,641,428	5,021,567	27,662,995
Net surplus for the year	12 & 13	-	14,128,284	14,128,284	3,475,526	17,603,810
Other comprehensive income		-	-	-	-	-
		-	14,128,284	14,128,284	3,475,526	17,603,810
Balance as at June 30, 2021		500,000	36,269,712	36,769,712	8,497,093	45,266,805

The annexed notes from 1 to 24 form an integral part of these financial statements.

Jameel Ahmad
Board Chairman

Syed Irfan Ali
Managing Director

DEPOSIT PROTECTION CORPORATION

Notes to the Financial Statements

FOR THE YEAR ENDED ON JUNE 30, 2021

1. STATUS AND NATURE OF OPERATIONS

Deposit Protection Corporation (the Corporation) was established in 2016 through an Act of Parliament named Deposit Protection Corporation Act, 2016 (the Act) for protection of small depositors in order to ensure financial stability of, and maintain public trust in, the financial system of Pakistan. The objective of the Corporation under the Act is to compensate the small depositors for losses incurred by them to the extent of protected deposits, up to the prescribed amount i.e. Rs 250,000, on per depositor per bank basis, in the event of failure of a member institution as and when notified by the State Bank of Pakistan (SBP) under section 21(1) of the Act. Pursuant to section 9 of the Act, initial capital contribution of Rs.500 million was made by SBP upon which no dividend is payable.

Subsequent to year ended on June 30, 2021, the Corporation's Board in its meeting held on September 06, 2021 decided to enhance the limit of protected deposits up to Rs. 500,000 per depositor per bank.

The Corporation is incorporated and domiciled in Pakistan and commenced its business with effect from June 01, 2018 having perpetual succession. The head office of the Corporation is located at State Bank of Pakistan Building, Bolton Market, M.A. Jinnah Road, Karachi, in the province of Sindh, Pakistan.

The Corporation provides separate Deposit Protection Mechanism (DPM) for Conventional and Islamic Banking Institutions (IBIs). Shariah compliant DPM for IBIs is approved by SBP's Shariah Advisory Committee and the Corporation's Board. The statement of financial position, statement of profit or loss and statement of cash flows of Islamic operations of the Corporation are separately presented in Note 18".

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

- International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB); and
- Provisions of and directives issued by SBP.

Where provisions of and directives issued under the IFRS differ from the provisions of and directives issued by SBP, the provisions of and directives issued by SBP have been followed.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except as disclosed otherwise.

2.3 Functional and presentation currency

These financial statements are presented in Pakistani Rupees (PKR), which is the Corporation's functional and presentation currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2.4 Uses of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgments about the carrying values of assets and liabilities and income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions 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 the revision affects both current and future periods.

Judgments made by the management in the application of IFRS and estimates that have a significant risk of material adjustment to the carrying amounts of assets and are as follows:

2.4.1 Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

When the fair values of financial assets recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values.

Judgements and estimates may include items like considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

2.4.2 Expected credit loss allowance on financial asset

The measurement of the Expected Credit Loss allowance (ECL) for financial assets measured at amortized cost and Fair Value through Other Comprehensive Income (FVOCI) is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determine criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

2.4.3 Useful life and residual value of fixed assets

Estimates of useful life and residual value of fixed assets are based on the management's best estimate.

2.4.4 Provision against protected deposits

Estimates of the provisions or obligation arising in the event of failure of member institutions are accounted for in accordance with SBP's Instructions as described in note 4.8.

3. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

3.1 Standards, amendments to approved accounting standards effective in current year

New and amended standards and interpretations mandatory for the first time for the financial year beginning July 1, 2020:

**Effective date
(01-Jan-20)**

IAS 1 & 8 Definition of material

Amendments to IAS 1, 'Presentation of Financial Statements' and IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' are intended to make the definition of material in IAS 1 easier to understand and are intended to alter the underlying concept of materiality in IFRS. In addition, the IASB has also issued guidance on how to make materiality judgements when preparing their general-purpose financial statements in accordance with IFRS. Refined definition of materiality - Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The other new standards, amendments to approved accounting standards and interpretations that are mandatory for the financial year beginning on July 1, 2020 are considered not to be relevant or to have any significant effect on the Corporation's financial reporting and operations.

3.2 Standards, amendments to approved accounting standards and interpretations that are not yet effective and have not been early adopted by the Corporation

	Effective date (Annual periods beginning on or after)
IAS 37 Onerous contracts	January 1, 2022
IAS 16 Proceeds before an asset's intended use	January 1, 2022

There are number of other standards, amendments and interpretations to the approved accounting standards that are not yet effective and are also not relevant to the Corporation and therefore, have not been presented here.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below.

4.1 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with subsidiary of SBP, which is SBP Banking Service Corporation i.e. (SBP-BSC), and Commercial banks. Cash equivalents are carried at amortised cost in the statement of financial position, which approximates fair value due to their short-term nature.

4.2 Financial Assets and Financial Liabilities

Financial assets represent a contractual right to receive cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions favorable to the Corporation.

Financial instruments carried on the statement of financial position includes Cash and cash equivalents, Investment securities and Premium receivable. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each financial instrument.

All financial assets are initially recognised on the trade date, i.e. the date that the Corporation becomes a party to the contractual provisions of the instruments. This includes purchase or sale of financial assets that require delivery of asset within the time frame generally established by regulations in market conventions.

The Corporation classifies its financial assets in three following categories: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) and financial assets held at amortized cost. The Corporation classifies its financial assets based on both:

- a) the Corporation's business model for managing those financial assets and;
- b) the contractual cash flow characteristics of the financial assets.

Financial assets are not reclassified subsequent to their initial recognition unless the Corporation were to change its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

4.2.1 Financial assets and financial liabilities at 'fair value through 'profit or loss'

These assets and liabilities are either acquired / assumed for generating a profit from short term fluctuations in market price, interest rate movements, dealer's margin or securities included in a portfolio in which a pattern of short term profit making exists. These are initially recognised at fair value and transaction costs associated with the instrument are taken directly to the profit or loss account. These instruments are subsequently re-measured at fair value. All related realised and unrealised gains and losses are recognised in the profit or loss account directly. Derivatives are also categorised as financial assets and financial liabilities at 'fair value through profit or loss'.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Fair value is based on quoted prices for securities traded in active markets including recent arm's length transactions, discounted cash flow analyses and other valuation techniques commonly used by market participants, for securities not traded in active markets. Gains or losses arising from sales and changes in fair value of financial assets in this category are recognized as a part of net income in the profit or loss account in the financial period in which they arise.

4.2.2 Financial assets and financial liabilities at fair value through 'other comprehensive income'

Financial assets are classified and measured at fair value through other comprehensive income if these are held in a business model whose objective is to collect contractual cash flows and selling financial assets and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest. Certain equity investments are also classified under this category either at the time of initial recognition or at the time of transition to IFRS 9.

Changes in the carrying amount of financial assets at fair value through other comprehensive income are recognized through 'other comprehensive income'.

4.2.3 Financial assets and financial liabilities at 'amortized cost'

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interests.

Subsequent to initial recognition these assets are measured at amortized cost using the effective interest rate / profit method, less any impairment.

Financial liabilities with a fixed maturity are measured at amortized cost using the effective interest rate / profit method.

4.3 Derecognition of financial assets and financial liabilities

a) Financial assets

The Corporation derecognizes a financial asset when the contractual rights to receive the cash flows from the financial asset expires, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the profit or loss account.

b) Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of new liability, and the difference in the respective carrying amount is recognised in the profit or loss account.

4.4 Impairment of financial assets

The Corporation assesses its financial assets measured at amortized cost and debt instruments at FVOCI for 'Expected Credit Loss' (ECL). The Corporation recognizes the 12 month expected credit losses (the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date) if credit risk has not significantly increased since initial recognition (stage 1), and lifetime expected credit losses for financial assets for which the credit risk has increased significantly since initial recognition (stage 2) or which are credit impaired (stage 3). The Corporation has adopted following policy for migration of financial assets from stage 1 to stage 2 and stage 3.

Stage 1: includes financial instruments that not have a significant increase in credit risk since initial recognition or that has low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognized and interest revenue is calculated on the gross carrying amount of the asset (i.e. without deduction for credit allowance). 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date.

Thus, Corporation considers financial assets at Stage 1 and do not conduct assessments for significant increase in credit risk as long as the minimum credit rating of such assets remains investment grade.

The Corporation classifies financial assets held under Market Treasury Bills, Pakistan Investment Bonds and GoP Ijara Sukuks as Stage 1 assets since the assets held under these portfolios deemed to have low credit risk.

Stage 2: includes financial instruments that have a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognized, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

The Corporation will classify financial assets as Stage 2 assets if the minimum credit rating of financial assets fall below investment grade credit rating i.e. BBB-.

Exposures move back to stage 1 once they no longer meet the criteria for a significant increase in credit risk as specified above.

Stage 3: includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognized and interest revenue is calculated on the net carrying amount (i.e. net of credit allowance).

4.5 Premium receivable

As of June 30, 2021, premium contributions receivable comprise of premium due but not received from respective member institution(s). Premium receivable is carried at amortised cost in the statement of financial position.

4.6 Impairment of non-financial assets

The carrying amounts of the Corporation's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated. The recoverable amount is higher of an asset's fair value less cost to sell and value in use. In assessing the value in use, future cash flows are estimated which are discounted to present value using a discount rate that reflects the current market assessments of the time value of money and the risk specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. An impairment loss is recognised in the profit or loss account whenever the carrying amount of an asset or a group of assets exceeds its recoverable amount. Impairment loss on revalued assets is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

4.7 Fixed Assets

4.7.1 Recognition and measurement

Fixed assets are measured at cost less accumulated depreciation and any impairment losses. Cost includes all expenditures that are directly attributable to the acquisition of the asset. Any gain or loss on disposal of an item of fixed asset (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

4.7.2 Subsequent costs

A subsequent expenditure is capitalized only when it is probable that the future economic benefits from the expenditure will flow to the Corporation. Ongoing repairs and maintenance are expensed as incurred.

4.7.3 Depreciation

Depreciation is calculated to write off the cost of items of fixed assets less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is recognised in profit or loss.

The estimated useful lives for the current and comparative periods of significant items of fixed assets are as follows:

- Furniture and Fixtures - 10 Years
- Office Equipment - 5 Years
- Motor Vehicles - 5 Years
- EDP Equipment - 3 Years

4.8 Provision against protected deposits

Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and are adjustable to reflect the current best estimates.

In line with SBP's directive, the Corporation shall start accruing its provision against protected deposits and related liabilities only on and from the date on which SBP issues a notification under section 21(1) of the Act declaring a member as a failed institution on the occurrence of specified statutory events.

4.9 Revenue recognition

4.9.1 Premium contribution

Premium revenue is recognized at the fair value of the consideration received against deposit protection services and reported as income proportionately over the fiscal year. Premiums are legislated by the DPC Act and are determined annually based on the amount of eligible deposits held by member institutions as at December 31st of the preceding calendar year, and they are

payable quarterly in four equal installments.

4.9.2 Interest income/ profit earned

Interest income/ profit earned is recognised in the statement of profit or loss using the effective interest rate/ profit method. The effective interest/ profit rate is the rate that exactly discounts the estimated future cash receipts and payments through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. When calculating the effective interest/ profit rate, the Corporation estimates future cash flows considering all contractual terms of the financial instrument.

The calculation of the effective interest rate/ profit includes all transaction costs and fees paid or received that are an integral part of the transaction. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset.

4.10 Expenses

Expenses are recognized on actual as well as on accrual basis.

4.11 Share capital

Share capital comprise the contribution paid by the State Bank of Pakistan in accordance with Section 9 of the Act.

4.12 Reserves

Reserves reflects the accumulated surplus from conventional operations of the Corporation.

4.13 DP Waqf

DP Waqf has been presented separately to disclose the results of Islamic operations under Shariah Compliant Deposit Protection Mechanism for Islamic Banking Institutions (IBIs) as stated under Section 7(3) of the Act.

Each member IBI contributes premium contribution into a separately maintained Islamic bank account of the Corporation. The Corporation opens and maintains separate Shariah Compliant account(s) for managing resources of the Corporation related to Islamic operations with prior approval of its Board.

The DP Waqf of Corporation consist of the following:

- (i) Periodic premium contribution received from member IBIs net of expenses allocated to Islamic operations.
- (ii) Return on Shariah compliant investments.

4.14 Taxation

The income of the Corporation is exempt from tax under section 31 of the Act, and clause 66 (Ixiv)) of Part I of the second Schedule to the Income Tax Ordinance, 2001.

5 CASH AND CASH EQUIVALENTS

	2021		
	Conventional	Islamic	Total
	----- (Rupees in '000) -----		
Current accounts with SBP - BSC	2,010	524	2,534
Cash in hand	1	-	1
Balance with Commercial Banks	-	148	148
	2,011	672	2,683

	2020		
	Conventional	Islamic	Total
	----- (Rupees in '000) -----		
Current accounts with SBP - BSC	4,967	1,458,557	1,463,524
Cash in hand	3	-	3
Balance with Commercial Banks	-	1,602,013	1,602,013
	4,970	3,060,570	3,065,540

	2021	2020
	----- % per annum -----	
Profit on Balance with Commercial Banks (%)	2.75 - 6.5	3.0 - 12.5

6 INVESTMENT SECURITIES

	Note	2021		
		Conventional	Islamic	Total
		----- (Rupees in '000) -----		
Government securities - at amortised cost				
Market Treasury Bills - MTBs	6.1	30,334,853	-	30,334,853
Pakistan Investment Bonds-PIBs	6.2	6,448,712	-	6,448,712
Government of Pakistan (GoP) Ijara Sukuks	6.3	-	8,522,728	8,522,728
		36,783,565	8,522,728	45,306,293

	2020		
	Conventional	Islamic	Total
	----- (Rupees in '000) -----		
Government securities - at amortised cost			
Market Treasury Bills - MTBs	19,519,219	-	19,519,219
Pakistan Investment Bonds-PIBs	3,116,098	-	3,116,098
Government of Pakistan (GoP) Ijara			-
Sukuks	-	1,961,848	1,961,848
	22,635,317	1,961,848	24,597,165

- 6.1** It represents investments in Government securities of Market Treasury Bills (MTBs) held at amortised cost with original maturities of twelve months or less.
- 6.2** It represents investments in Pakistan Investment Bonds issued by GOP having stated maturity of 3 years or less.
- 6.3** It represents investments in GOP Ijara Sukuks having stated maturity of 5 years.
- 6.4** The above investments issued by the Government are held at amortised cost. The profile of return on these securities are as follows:

	2021	2020
	-----% per annum-----	
Mark-up on MTBs	7.29 - 7.75	7.32 - 13.80
Mark-up on PIBs	7.33 - 9.00	9.00
Government of Pakistan Ijara Sukuks	5.95 - 7.48	6.63

9	PAYABLE TO STATE BANK OF PAKISTAN	2021	2020
		----- (Rupees in '000) -----	
	Payable to State Bank of Pakistan	26,099	23,933

9.1 This represents the amount payable to State Bank of Pakistan (SBP) in respect of financial arrangements made to facilitate the operations of the Corporation. As per understanding with SBP, no interest is payable on this financial arrangement.

10	OTHER LIABILITIES	2021	2020
		----- (Rupees in '000) -----	
	Payable to auditors and others	1,072	639
	Advance premiums - Conventional Institution(s)	174	1,176
	Advance premiums - Islamic Institution(s)	23,541	189
		<u>24,787</u>	<u>2,004</u>

11 SHARE CAPITAL

	2021	2020		2021	2020
	----- (Number of shares) -----			----- (Rupees in '000) -----	
	Authorized Share Capital				
	<u>1,000</u>	<u>1,000</u>	Ordinary shares of Rs. 1,000,000 each	<u>1,000,000</u>	<u>1,000,000</u>
	Issued, subscribed and paid-up capital				
	<u>500</u>	<u>500</u>	Fully paid-up ordinary shares of Rs. 1,000,000 each	<u>500,000</u>	<u>500,000</u>

Initial contribution of Rs. 500 million was paid by the State Bank of Pakistan on July 03, 2018 and recognized as share capital in the statement of financial position. The Corporation has allocated Rs. 1 million from paid up capital as seed money for Shariah compliant deposit protection mechanism for Islamic Banking Institutions.

12	RESERVES	<i>Note</i>	2021	2020
			----- (Rupees in '000) -----	
	Opening		22,141,428	9,829,506
	Net surplus for the year		14,128,284	12,311,922
	Accumulated surplus		36,269,712	22,141,428
			<hr/> <hr/>	<hr/> <hr/>
13	DP Waqf			
	Opening		5,021,567	2,238,344
	Net surplus for the year		3,475,526	2,783,223
	Accumulated surplus		8,497,093	5,021,567
			<hr/> <hr/>	<hr/> <hr/>
14	CONTINGENCIES AND COMMITMENTS			
	There were no contingencies and commitments as at June 30, 2021 (June 30, 2020: Nil)			
15	INCOME FROM PREMIUM CONTRIBUTION		2021	2020
			----- (Rupees in '000) -----	
15.1	Premium contribution income for the current year consists of the following:			
	Premium contribution income on eligible deposits from Member Institutions			
	- Conventional		11,585,181	10,239,804
	- Islamic		3,054,961	2,533,193
			14,640,142	12,772,997
			<hr/> <hr/>	<hr/> <hr/>
15.2	For the year ended June 30, 2021, the Corporation recorded income of annual premium contribution from 33 member institutions, starting from July 2020. The amount of annual premium payable to the Corporation by the member banks under Section 5(2) of the Act has been calculated by multiplying 0.16% (sixteen hundredths of one percent) with their respective eligible deposits, as appearing in the last audited accounts of respective member institutions.			
16	INVESTMENT INCOME AND PROFIT ON DEPOSITS		2021	2020
			----- (Rupees in '000) -----	
	Interest income - Conventional securities	16.1	2,614,944	2,136,751
	Profit earned - Islamic securities	16.2	430,896	211,991
	Profit earned - Balances with Banks	16.3	7,873	53,500
			3,053,713	2,402,242
			<hr/> <hr/>	<hr/> <hr/>
16.1	Interest Income includes income on Market Treasury Bills (MTBs) and Pakistan Investment Bonds (PIBs) carried at amortised cost.			
16.2	Profit earned includes income on Government of Pakistan (GoP) Ijara Sukuks carried at amortised cost.			
16.3	Profit earned consist of the amount held as deposit with various commercial banks.			
16.4	The amounts reported above include interest income / profit earned calculated using effective interest / profit method.			

	2021	2020
	-----% per annum-----	
Interest / profit profile are as under:		
Interest rate on MTBs	6.53 to 13.77	7.32 to 13.95
Interest rate on PIBs	7.46 to 12.03	7.47 to 12.04
Profit rate on GoP Sukuk	6.25 to 7.12	5.23 to 10.82

17 GENERAL AND ADMINISTRATIVE EXPENSES

		2021		
	Note	Conventional	Islamic	Total
		----- (Rupees in '000) -----		
Salaries and other benefits	17.1	65,197	16,521	81,718
Electricity, gas and water		30	8	38
Depreciation		1,265	320	1,585
Repairs & maintenance		428	109	537
Training		742	188	930
Books and newspapers		48	12	60
Postages, telegram / telex and telephone		46	12	58
Legal and professional		263	67	330
Auditors' remuneration	17.2	401	101	502
Annual membership fee		3,228	818	4,046
Stationery		37	9	46
Others		156	39	195
		71,841	18,204	90,045

GENERAL AND ADMINISTRATIVE EXPENSES

		2020		
	Note	Conventional	Islamic	Total
		----- (Rupees in '000) -----		
Salaries and other benefits	17.1	58,256	13,932	72,188
Travelling expenses		611	146	757
Electricity, gas and water		30	7	37
Depreciation		912	218	1,130
Training		342	82	424
Books and newspapers		7	2	9
Postages, telegram / telex and telephone		6	2	8
Legal and professional		253	61	314
Auditors' remuneration	17.2	373	89	462
Annual membership fee		3,414	817	4,231
Stationery		107	25	132
Advertisement		220	53	273
Others		102	27	129
		64,633	15,461	80,094

17.1 Salaries and other benefits to the Corporation's employees are paid through SBP.

17.2 Auditor's Remuneration

	2021	2020
	----- (Rupees in '000) -----	
Audit fee	486	448
Out of pocket expenses	16	14
	<u>502</u>	<u>462</u>

- 17.3** In accordance with a mechanism as approved by SBP's Shariah Advisory Committee and DPC's Board, general and administrative expenses have been allocated between Conventional and Islamic operations on the basis of eligible deposits of conventional and Islamic member institutions.

18 ISLAMIC OPERATIONS

The statement of financial position, statement of profit or loss account and cash flow statement of Islamic Operation of the Corporation as at June 30, 2021 and for the year from July 1, 2020 to June 30, 2021 are as follows:

18.1 Statement of financial position as at June 30, 2021

		2021	2020
		----- (Rupees in '000) -----	
Assets			
Cash and cash equivalents		672	3,060,570
Investment Securities	6.3	8,522,728	1,961,848
Premium from Islamic Member Institution and other Receivables		3,787	5,029
Total assets		<u>8,527,187</u>	<u>5,027,447</u>
Liabilities			
Other liabilities	18.1.1	<u>29,094</u>	<u>4,880</u>
Net assets		<u>8,498,093</u>	<u>5,022,567</u>
DP Waqf			
Seed Money (allocated from paid up capital)		1,000	1,000
Accumulated surplus		8,497,093	5,021,567
Total		<u>8,498,093</u>	<u>5,022,567</u>

- 18.1.1** This includes balance amounting to Rs. 5.6 million (2020: Rs. 4.7 million) payable by DP Waqf with respect to allocated expenses in accordance with a mechanism as approved by SBP's Shariah Advisory Committee and DPC's Board.

18.2 Statement of profit or loss account and other comprehensive income

	2021	2020
	----- (Rupees in '000) -----	
Income from premium contribution	3,054,961	2,533,193
Investment income on Islamic securities	430,896	211,991
Profit earned on deposits with Banks	7,873	53,500
Total Income	<u>3,493,730</u>	<u>2,798,684</u>
General and administrative expenses	(18,204)	(15,461)
Net surplus for the year	3,475,526	2,783,223
Other comprehensive income	-	-
Total comprehensive income for the year	<u>3,475,526</u>	<u>2,783,223</u>

18.3 Statement of Cash flows

	2021	2020
	----- (Rupees in '000) -----	-----
Cash flows from operating activities		
Net surplus for the year	3,475,526	2,783,223
Adjustments for non-cash and other items	-	-
Profit for the year after non-cash and other items	<u>3,475,526</u>	<u>2,783,223</u>
<i>(Increase) / decrease in assets:</i>		
Other assets	1,242	(4,976)
<i>Increase / (decrease) in liabilities:</i>		
Other liabilities (includes amount allocated to Islamic operations)	<u>24,214</u>	<u>(18,792)</u>
Net cash generated from operating activities	<u>3,500,982</u>	<u>2,759,455</u>
Cash flows from investing activities		
Investments made during the year in Islamic Securities	<u>(6,560,880)</u>	300,694
Net cash used in investing activities	<u>(6,560,880)</u>	300,694
Cash flows from financing activities		
Seed Money	-	-
Net cash flow from financing activities	-	-
Increase in cash and cash equivalents during the year	<u>(3,059,898)</u>	3,060,149
Cash and cash equivalents at beginning of the year	<u>3,060,570</u>	421
Cash and cash equivalents at end of the year	<u><u>672</u></u>	<u><u>3,060,570</u></u>

19 FINANCIAL INSTRUMENTS

19.1 Classification of financial instruments

The table below sets out the carrying amounts of the Corporation's financial assets and financial liabilities, all of which are measured at amortized cost in accordance with IFRS 9.

	2021	2020
	----- (Rupees in '000) -----	-----
Financial assets		
Cash and cash equivalents	2,682	3,065,537
Investment securities	45,306,293	24,597,165
Other receivables	<u>3,787</u>	<u>22,795</u>
	<u>45,312,762</u>	<u>27,685,497</u>
Financial liabilities		
Payable to State Bank of Pakistan	26,099	23,933
Other liabilities	<u>1,072</u>	<u>639</u>
	<u>27,171</u>	<u>24,572</u>

19.2 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction and is usually determined by the quoted market price

The Corporation's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred.

Carrying amount of all financial assets and liabilities approximates their fair values.

20 FINANCIAL RISK MANAGEMENT

The Corporation's financial risk management policy seeks to ensure that adequate financial resources are available for the Corporation's activities whilst managing interest rate and rate of return, liquidity, market and credit risks. The Corporation operates within guidelines that are approved by the Board of Directors and the Corporation's Investment Policy prescribes to only invest in Government issued or guaranteed securities.

Financial risks that arise from transacting and holding financial instruments include credit, liquidity and market risks.

20.1 Credit risk and concentration of credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Corporation's portfolio of financial instruments is held in Government securities or securities backed by the Government which are not subject to credit risk as these represent claims against the Government.

20.2 Interest Rate Risk

Yield/ interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

a) Sensitivity analysis of variable rate instruments

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in interest rates. The Corporation's exposure to the risk of changes in interest rates relates primarily to the Corporation's investment in Ijarah Sukuks and Pakistan Investment Bonds.

Management of the Corporation estimates that increase/ decrease of 100 base point in the interest rate with all other factors remaining constant, would increase/ decrease the Corporation's surplus by Rs. 19.61 million (2020: Nil). However, in practice the actual results may differ from the sensitivity analysis.

b) Sensitivity analysis of fixed rate instruments

Fixed rate instruments comprise of Market Treasury Bills, Pakistan Investment Bonds measured at amortised cost. Therefore, the Corporation's income from these investments is substantially independent of changes in market interest rates.

20.3 Liquidity risk

Liquidity risk is defined as the risk that funds will not be available to the Corporation to honour its cash obligations, whether on- or off-balance sheet, as they arise. As at June 30, 2021, the Corporation is not exposed to any liquidity risk.

20.4 Price Risk

Price risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in 'market prices' (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market. The Corporation is not exposed to any price risk.

21 CAPITAL RISK MANAGEMENT

The Corporation is not subject to any externally imposed capital requirements. Premium received from members institutions are available and are sufficient to continue the Corporation's operations.

22 RELATED PARTY TRANSACTIONS

22.1 Transactions with related parties

The Corporation enters into transactions with related parties in its normal course of business. Related parties include key management personnel of the Corporation and State Bank of Pakistan.

Transactions with related parties during the year and the balances outstanding with related parties as at June 30, 2021 are disclosed in the relevant notes to the financial statements.

22.2 Key Management Personnel

Key management personnel of the Corporation include members of the Board and Managing Director who have responsibility for planning, directing and controlling the activities of the Corporation.

Compensation of key management personnel was as follows

	2021	2020
	---- (Rupees in '000) ----	
Short term benefits	31,115	31,124
Post-employment benefits	2,724	2,822
Total remuneration of key management personnel	<u>33,839</u>	<u>33,946</u>

The remuneration of key management personnel includes the remuneration of the Managing Director of the Corporation.

23 POST BALANCE SHEET EVENTS

No adjusting event occurred at the date of authorization of these financial statements by the Board of Directors, which may have impact on these financial statements.

24 DATE OF AUTHORISATION

These financial statements were authorised for issue on September 06, 2021 by the Board of Directors.

Jameel Ahmad
Board Chairman

Syed Irfan Ali
Managing Director

Frequently Asked Questions (FAQs) For Depositors

Disclaimer: These FAQs are being issued for information and general understanding only and shall not constitute any legal obligation on the part of Deposit Protection Corporation (DPC). These FAQs are subject to updates from time to time by the DPC. The Deposit Protection Corporation Act, 2016, rules and regulations issued thereunder shall be applicable on all the member institutions.

Q#1: What is Deposit Protection?

Deposit Protection is a system established to protect the deposits of eligible depositors up to a specified limit in the event of a bank being declared as a failed bank by State Bank of Pakistan (SBP).

Q#2: What is Deposit Protection Corporation (DPC) and what is role of it?

Deposit Protection Corporation (DPC) is a subsidiary of State Bank of Pakistan (SBP) established under the Deposit Protection Corporation Act, 2016. The role of the Corporation is to provide a robust Deposit Protection Mechanism to ensure payment of protected amount to the eligible depositors of a DPC member bank, in the event of it being declared as a failed bank by State Bank of Pakistan (SBP).

Q#3: What is the protected amount determined by DPC for the protection of eligible depositors?

Presently, a protected amount of up to PKR 500,000/- 'per depositor-per bank' has been determined by DPC for the protection of eligible depositors.

Q#4: What is the benefit of Deposit Protection?

Deposit Protection will provide prompt access to the guaranteed amount i.e. up to PKR 500,000/- to the eligible depositors of a bank declared as failed by State Bank of Pakistan.

Q#5: How do I know if my bank is a member bank of DPC or Not?

Presently all scheduled banks operating in Pakistan are members of DPC. Following is the list of banks that are members of DPC. This list is also available at DPC's website:

<http://www.dpc.org.pk/Circulars/2020/CL1-Annex-A.pdf>

1. Industrial Development Bank Limited
2. SME Bank Limited
3. The Punjab Provincial Cooperative Bank Limited
4. Zarai Taraqiati Bank Limited
5. First Women Bank Limited
6. National Bank of Pakistan
7. Sindh Bank Limited
8. The Bank of Khyber
9. The Bank of Punjab
10. Allied Bank Limited
11. Askari Bank Limited
12. Bank Alfalah Limited
13. Bank AL Habib Limited
14. Faysal Bank Limited
15. Habib Bank Limited

16. Habib Metropolitan Bank Limited
17. JS Bank Limited
18. MCB Bank Limited
19. SAMBA Bank Limited
20. Silkbank Limited
21. Soneri Bank Limited
22. Standard Chartered Bank (Pakistan) Limited
23. Summit Bank Limited
24. United Bank Limited
25. Albaraka Bank (Pakistan) Limited
26. BankIslami Pakistan Limited
27. Dubai Islamic Bank Pakistan Limited
28. Meezan Bank Limited
29. MCB Islamic Bank Limited
30. Citibank N.A. - Pakistan Operations
31. Deutsche Bank AG - Pakistan Operations
32. Industrial and Commercial Bank of China Limited- Pakistan Branches
33. Bank of China Limited - Pakistan Operations

Q#6: How do I know if my deposit is eligible for Deposit Protection or Not?

The deposit is eligible for protection, if it does not belong to any of the following categories:

- a. Government or Government Institutions.
- b. Member institutions of DPC
- c. Companies as defined under Companies Ordinance, 1984/ Companies Act, 2017
- d. Corporations, Modarbas, Mutual Funds
- e. Branch(es)/ Permanent establishment(s) of foreign entities
- f. Diplomatic Missions and international organizations/ entities like United Nations, World Bank, IFC, and ADB etc.
- g. Autonomous Bodies
- h. Deposits on which preferential interest or return has been granted by the bank
- i. Members of Board of Directors and senior management of a DPC member bank
- j. Partners of auditing firm responsible to certify DPC member bank financial statements
- k. Persons acquired rights to a deposit after SBP's notification of Bank failure under DPC Act, 2016.
- l. Spouses, dependent lineal ascendants and descendants and dependent brothers and sisters of the persons specified at No. i, j & k above.
- m. Deposits arising out of or related to transactions or actions constituting 'money laundering within the meaning of the Anti-Money Laundering Act, 2010, if the offender has been convicted of such offence.
- n. Amounts reported under unclaimed deposits by a member bank in compliance of section 31 of Banking Companies Ordinance, 1962.
- o. Deposits maintained at branches and subsidiaries of Pakistani banks operating outside Pakistan and branches located in Export Processing Zones (EPZ).

Q#7: I am an eligible depositor; how do I know if my account is also eligible for Deposit Protection?

Following types of accounts of eligible depositors are protected by DPC:

- a. All current and saving accounts including Roshan Digital Accounts (RDA).
- b. All type of branchless banking accounts
- c. Fixed term deposits
- d. Call Deposit Receipts (CDR)/ Security Deposit Receipts (SDR)
- e. Deposit balance kept as cash margins/ collateral or under lien, that are payable to depositors after satisfaction of all dues that are payable by them to the bank.
- f. Foreign currency deposits. However, equivalent PKR shall be reimbursed at the exchange rate declared by SBP on bank failure notification date.
- g. Profit accrued till cut-off date on all of the above type of accounts.
- h. Any other type of deposits communicated by DPC from time to time.

Q#8: Does DPC provide protection to my deposits held at an overseas branch of a Pakistani bank?

DPC does not provide protection to depositors of overseas branches of Pakistani banks and branches located in Export Processing Zones (EPZ) across Pakistan.

Q#9: I am a foreign national temporarily living in Pakistan. Does my account maintained in a domestic branch of Pakistani bank is eligible for deposit protection or Not?

Yes, Nationality/ residential status of a depositor would not affect the eligibility of a depositor for Deposit Protection. However, the bank should be a member institution of DPC. This can be verified from the list of banks available in FAQ#5. The list of member banks is also available on the DPC website at <http://www.dpc.org.pk/Circulars/2020/CL1-Annex-A.pdf>

Q#10: Do I need to apply for Deposit Protection?

No, all eligible depositors of member banks of DPC shall automatically stand qualified for Deposit Protection.

Q#11: I have a joint account with my wife in a bank. Does each of us enjoy separate Deposit Protection by DPC in case of bank failure?

Yes, each eligible depositor of a joint account enjoys separate protection by DPC. However, any pre-defined share or proportionate share of each depositor in a joint account shall add up to his/ her other deposit balances in the same bank for calculating the protected amount for reimbursement to that depositor.

Q#12: Can I claim an additional protection from DPC over and above the maximum protected amount of PKR 500,000?

No, the maximum protected deposit currently prescribed by DPC is PKR 500,000/-.

Q#13: What happens to unprotected portion of my deposits?

Depositor may claim for the unprotected portion of their deposits from the official liquidator.

Q#14: Does DPC provide separate coverage for conventional & Islamic deposits of a single depositor?

No. DPC provides a total coverage of up to PKR 500,000/- to each eligible depositor against all of his/ her conventional and Islamic deposits, held in the same bank.

Q#15: Whether DPC provides separate protection against multiple accounts of an eligible depositor maintained with different banks?

Yes, a single depositor can receive a protection of up to PKR 500,000/- against all his/ her deposits maintained with each member bank. However, maximum protection is capped at PKR 500,000/- for all accounts in one bank based on 'per depositor-per bank principle'.

Q#16: In which currency the protected amount shall be reimbursed to eligible depositors?

The protected amount shall be reimbursed to eligible depositors in Pak Rupees. Foreign currency deposits shall also be reimbursed in equivalent Pak Rupees on the conversion rates declared by SBP for this purpose.

Q#17: Can a bank recover the cost of Deposit Protection from its depositors?

No, banks are not allowed to recover any cost associated with Deposit Protection from their depositors.

Q#18: If my bank fails, would DPC pay any interest on my protected deposits at the time of reimbursement?

No. DPC will not pay any further interest or profit on the total claim of the depositor on a failed member bank.

Q#19: I have advised my bank to issue a pay order/ bankers cheque from my account. In addition, I have received a pay order from my insurance company that is forwarded to the bank for credit in my account. What happens to items in transit that are not cleared/ settled on the date of bank failure?

The issues related to instruments in transit that are not settled/ cleared on the date of bank failure shall be addressed during liquidation process. DPC would make payment to eligible depositors based on the outstanding balance(s) available in their deposit account(s) on the date of bank failure as declared by State Bank of Pakistan.

Q#20: I have two accounts in the same bank, one as an individual and other as a Sole Proprietor. Does DPC provide separate protection to both accounts at the time of bank failure?

DPC does not provide separate protection to persons having accounts as an individual and a Sole Proprietor in the same bank. The calculation of protected amount for such depositors is depicted below:

Depositor	Category	No. of Accounts	Deposits (In PKR)	Protected Amount (In PKR)
Mr. XYZ Khan	Individual	1	200,000	---
Mr. XYZ Khan	Sole Proprietor	1	340,000	---
Total	---	2	540,000	500,000

Q#21: How DPC would assess the protected amount for different categories of eligible depositors?

The protected amount would be assessed against all deposits of a single depositor held with a failed bank on the date of notification by the State Bank of Pakistan.

The following table clarifies the process of evaluating guaranteed amount for different categories of depositors:

Depositor	Category	No. of A/Cs*in Same Bank	Total Deposits (In PKR)	Protected Amount (In PKR)
Mr. XYZ Khan	Individual and Sole Proprietor	3	600,000	500,000
Ms. ABC Bibi	Individual	1	300,000	300,000
Mr. RAZ	Sole Proprietor	4	1,000,000	500,000
ABC Consultancy Ltd	Partnership Firm	2	700,000	500,000
WBC Builders	Partnership Firm	3	1,500,000	500,000
MNP Fitness Club	Sole Proprietor	6	1,000,000	500,000
SINCOS Foundation	Trust	1	200,000	200,000
TANG-ONN	Other (Adventure Club)	1	100,000	100,000

*represents either conventional or Islamic or both type of accounts held by a single depositor

Q#22: How would I know if my bank (DPC member institution) has failed?

After the issuance of notification by State Bank of Pakistan (SBP), the Corporation (DPC) shall inform general public through leading newspapers having wide circulation in the country. The information shall include the date after which depositors will receive protected amount from the Corporation and the procedure for payments.

Q#23: How would DPC validate my total deposits held with a failed member institution (bank)?

Deposit balances of all eligible depositors shall be validated on the basis of a comprehensive depositor's database reported by the failed member institution (bank).

Q#24: If my bank (DPC member institution) fails, when will I receive the coverage amount guaranteed against my deposits from DPC?

DPC shall begin the process of reimbursement to eligible depositors as early as possible after the issuance of failure notification of a member institution by SBP. DPC shall ensure payments to most of the protected depositors are made or tendered within seven working days and that all payments are made or tendered within thirty days at the latest, provided that there is no legal dispute on the deposit(s) or account(s) in question.

Q#25: I have deposits in two member institutions (banks) of DPC. What happens to my deposits if they merged?

Your deposits up to the guarantee amount shall continue to be protected separately for a period of one year or full withdrawal or until maturity of the deposits, whichever occurs earlier, from the effective date of merger.

Q#26: Can legal heirs of a deceased depositor of a failed bank claim the guaranteed amount from DPC?

Yes. However, the legal heirs will be required to prove their right to claim the guaranteed amount by acquiring all necessary documents as per the applicable laws.

Q#27: Where should I contact for further information on Deposit Protection in Pakistan?

You may visit our website <http://www.dpc.org.pk> to access further details on Deposit Protection in Pakistan. You can also write to us electronically at info@dpc.org.pk or through surface mail at the following address:

DEPOSIT PROTECTION CORPORATION

2nd Floor, SBP Bolton Market Building,
M.A. Jinnah Road, Karachi.

Frequently Asked Questions (FAQs) For Member Banks

Disclaimer: These FAQs are being issued for information and general understanding only and shall not constitute any legal obligation on the part of Deposit Protection Corporation (DPC). These FAQs are subject to updates from time to time by the DPC. The Deposit Protection Corporation Act, 2016, rules and regulations issued thereunder shall be applicable on all the member institutions.

Q#1: What is Deposit Protection?

Deposit Protection is a system established to protect the deposits of eligible depositors up to a specified limit in the event of a bank being declared as a failed bank by State Bank of Pakistan (SBP).

Q#2: What is Deposit Protection Corporation (DPC) and what is its role?

Deposit Protection Corporation (DPC) is a subsidiary of State Bank of Pakistan (SBP) established under the Deposit Protection Corporation Act 2016 (DPC Act). The role of the Corporation is to provide a robust Deposit Protection Mechanism to ensure payment of protected amount to the eligible depositors of a DPC member bank, in the event of it being declared as a failed bank by State Bank of Pakistan (SBP).

Q#3: What is the protected amount determined by DPC for the protection of eligible depositors?

Presently, a protected amount of up to PKR 500,000/- 'per depositor-per bank' has been determined by DPC for the protection of eligible depositors.

Q#4: What does the term "Eligible Depositor/ Protected Depositor" mean?

Categories of depositors that have been guaranteed payment up to the protected amount under the existing Deposit Protection Mechanism of DPC are referred as "Eligible Depositors/ Protected Depositors".

Q#5: What is the difference between "Eligible Deposits" and "Protected Deposits"?

Total Deposits held by an eligible depositor in a bank are referred to as "Eligible Deposits". The maximum amount of reimbursement that an eligible depositor can receive from Deposit Protection Corporation (DPC) at the time of bank failure declared failed by State Bank of Pakistan is referred as "Protected Deposit".

The following example aims to clarify the difference between Eligible and Protected Deposits:

Depositor	Category	N. of A/Cs* in Same Bank	Total Eligible Deposits (In PKR)	Protected Deposits (In PKR)
Mr. XYZ Khan	Individual and Sole Proprietor	3	600,000	500,000
Ms. ABC Bibi	Individual	1	300,000	300,000
Mr. RAZ	Sole Proprietor	4	1,000,000	500,000
ABC Consultancy Ltd	Partnership Firm	2	700,000	500,000
WBC Builders	Partnership Firm	3	1,500,000	500,000
MNP Fitness Club	Sole Proprietor	6	1,000,000	500,000
SINCOS	Trust	1	200,000	200,000
TANG-ONN	Other (Adventure Club)	1	100,000	100,000

*represents either conventional or Islamic or both type of accounts held by a single depositor

Q#6: Who are the member banks of DPC?

Presently all scheduled banks operating in Pakistan are members of DPC. The List is available at DPC's website: <http://www.dpc.org.pk/Circulars/2020/CL1-Annex-A.pdf>

Q#7: Is there any formal mechanism for the protection of deposits in DPC member institutions (banks)?

Yes. DPC has developed a Deposit Protection Mechanism for its member institutions (banks). For further details, please refer to DPC Circular No. 04 of 2018 dated June 22, 2018 available at DPC's website: <http://www.dpc.org.pk/Circulars/2018/C4-Annex-A.pdf>

Q#8: Is there a separate Deposit Protection Mechanism for Islamic Banking Institutions?

Yes. There is a separate Shariah Compliant Deposit Protection Mechanism for Islamic Banking Institutions. For details, please refer to DPC Circular No. 05 of 2018 dated November 05, 2018 available at DPC's website: <http://www.dpc.org.pk/Circulars/2018/C5-Annex-A.pdf>

Q#9: Which Categories of Deposits are excluded from Deposit Protection?

The following Categories of Deposits are excluded from Deposit Protection:

- a. Government or Government Institutions.
- b. Member institutions of DPC
- c. Companies as defined under Companies Ordinance, 1984/ Companies Act 2017
- d. Corporations, Modarbas, Mutual Funds
- e. Branch(es)/ Permanent establishment(s) of foreign entities
- f. Diplomatic Missions and international organizations/ entities like United Nations, World Bank, IFC, and ADB etc.
- g. Autonomous Bodies
- h. Deposits on which preferential interest or return has been granted by the bank
- i. Members of Board of Directors and senior management of a DPC member bank
- j. Partners of auditing firm responsible to certify DPC member bank financial statements
- k. Persons acquired rights to a deposit after SBP's notification of Bank failure under DPC Act, 2016.
- l. Spouses, dependent lineal ascendants and descendants and dependent brothers and sisters of the persons specified at sr. no i, j & k above.
- m. Deposits arising out of or related to transactions or actions constituting 'money laundering within the meaning of the Anti-Money Laundering Act, 2010, if the offender has been convicted of such offence.
- n. Amounts reported under unclaimed deposits by a member bank in compliance of section 31 of Banking Companies Ordinance, 1962.
- o. Deposits maintained at branches and subsidiaries of Pakistani banks operating outside Pakistan and branches located in Export Processing Zones (EPZ).

Q#10: Which Type of Accounts are protected by DPC?

Eligible deposits maintained in following Type of Accounts are protected by DPC:

- a. All current and saving accounts including Roshan Digital Accounts (RDA).
- b. All types of branchless banking accounts
- c. Fixed term deposits
- d. Call Deposit Receipts (CDR)/ Security Deposit Receipts (SDR)

- e. Deposit balance kept as cash margins/ collateral or under lien, that are payable to depositors after satisfaction of all dues that are payable by them to the bank.
- f. Foreign Currency Deposits. In case of an eventuality, the equivalent PKR at the exchange rate declared by SBP on notification date shall be reimbursed to the protected depositors.
- g. Profit on any of the above deposits accrued till cut-off date.
- h. Any other type of deposits communicated by DPC from time to time.

Q#11: What are the basis of charging premium from DPC member institutions (banks)?

The amount of “eligible deposits” disclosed by a member institution (bank) in its annual audited and AGM approved financial statements forms the basis of premium charge from banks.

For Example: Premium charged from a bank during calendar year 2021 would be based on the eligible deposits disclosed in annual audited and AGM approved accounts of the bank for the year 2020.

Q#12: What are the basis of charging premium from banks if the annual audited accounts of previous year are not available/ AGM approved?

A bank would calculate premium payable to DPC on the basis of eligible deposits disclosed in last available annual audited and AGM approved financial statements and keep doing so until the required financial statements become available. Upon the availability of approved annual audited financial statements, the bank would recalculate the premium for relevant calendar year(s) and any difference shall be settled accordingly within seven working days.

Q#13: What is the rate of premium charge?

DPC has determined a fixed rate of 0.16% of eligible deposits disclosed by a bank in its annual audited and AGM approved financial statements of preceding year. The premium is payable in four equal quarterly installments.

Q#14: Can a bank recover the cost of premium from its depositors?

No. Banks are explicitly prohibited from recovering costs of premium from their depositors.

Q#15: What is “Per Depositor-Per Bank” principle? How DPC would calculate the protected amount payable to its eligible depositors on the cut-off date (Bank failure date)?

“Per Depositor-Per Bank” principle is used to determine the coverage available to any eligible depositor up to the protected amount at the cut-off date (the date a DPC member bank is declared failed by SBP).

The following examples are intended to explain the “Per Depositor-Per Bank” principle.

Example # 1: Mr. A maintains a current account with a conventional bank having account balance of PKR 200,000/-. At the cut-off date (Bank failure date), the total liability of the bank towards Mr. A shall be PKR 200,000/- only. Accordingly, he shall receive the coverage of PKR 200,000/- from DPC.

Conventional/ Islamic	Account Type	Account Balance	Accrual Balance	Total Balance	Protected Deposit
Conventional	Current	200,000	0	200,000	200,000
Total Liability & Coverage				200,000	200,000

Example # 2: Mr. A holds a term deposit in an Islamic bank with account balance of PKR 200,000/- and an accrued profit of PKR 10,000/ at the cut-off date (Bank failure date). The total liability of the bank towards Mr. A shall be PKR 210,000/-. Accordingly, Mr. A shall receive the coverage of PKR 210,000/- from DPC.

Conventional/ Islamic	Account Type	Account Balance	Accrual Balance	Total Balance	Protected Deposit
Islamic	Term Deposit	200,000	10,000	210,000	210,000
Total Liability & Coverage				210,000	210,000

Example # 3: Mr. A holds a term deposit in an Islamic banking branch of a conventional bank with account balance of PKR 200,000/- and a profit of PKR 10,000/- at a given date. He holds another current account in conventional banking branch of the same bank with account balance of PKR 400,000/- on the same date. The total liability of the bank towards Mr. A shall be PKR 610,000/-. Accordingly, he shall receive the maximum limit of prescribed protected amount i.e. PKR 500,000/-. Moreover, the protected amount shall be proportionally distributed between Islamic and Conventional deposits of Mr. A.

Conventional/ Islamic	Account Type	Account Balance	Accrual Balance	Total Balance	% Share in Total Deposits	Protected Deposit
Islamic	Fixed	200,000	10,000	210,000	34.43	172,131.15
Conventional	Current	400,000	0	400,000	65.57	327,868.85
Total Liability & Coverage				610,000	100.00	500,000

Example # 4: As an individual, Mr. A holds a current account of PKR 400,000/- and a term deposit of PKR 200,000 with an accrued profit of PKR 10,000/- in an Islamic banking branch of a conventional bank at the cut-off date (Bank failure date). Also in the capacity of sole proprietor, Mr. A holds two more current accounts in conventional banking branch of the same bank with account balances of PKR 400,000/- and PKR 200,000/- respectively. The total liability of the bank towards Mr. A shall be PKR 1,210,000/-. Accordingly, he shall receive the maximum limit of prescribed protected amount i.e. PKR 500,000/-. The protected amount shall proportionally distribute between Islamic and Conventional deposits of Mr. A.

Conventional/ Islamic	Account Type	Account Balance	Accrual Balance	Total Balance	% Share in Total Deposits	Protected Deposit
Islamic	Current	400,000	0	400,000	33.06	165,289.26
Islamic	Fixed	200,000	10,000	210,000	17.35	86,776.86

Conventional	Current	400,000	0	400,000	33.06	165,289.26
Conventional	Current	200,000	0	200,000	16.53	82,644.63
Total Liability & Coverage				1,210,000*	100.00	500,000

*All account Balances kept by an individual depositor including Sole Proprietors shall add together to arrive at the total liability of a bank towards the depositor.

Example # 5: Mr. A holds a current account of PKR 400,000/- and a joint current account with Mr. B having account balance PKR 200,000/- in an Islamic banking branch of a bank. Mr. A holds two more current accounts in conventional banking branch of the same bank with account balances of PKR 400,000/- and PKR 200,000/- respectively. At the cut-off date (Bank failure date), the total liability of the bank towards Mr. A shall be PKR 1,100,000/- while total liability of the bank towards Mr. B shall be PKR 100,000/-. Accordingly, Mr. A shall receive the maximum limit of prescribed protected amount i.e. PKR 500,000/- while Mr. B shall receive a separate coverage of PKR 100,000/-. The protected amount allocated for Mr. A shall proportionally distribute between Islamic and Conventional deposits.

Conventional/ Islamic	Account Type	Account Balance	Accrual Balance	Total Balance	% Share in Total Deposits	Protected Deposit
Islamic	Current	400,000	0	400,000	36.36	181,818.18
Islamic	Current	100,000*	0*	100,000	9.09	45,454.55
Conventional	Current	400,000	0	400,000	36.36	181,818.18
Conventional	Current	200,000	0	200,000	18.19	90,909.09
Total Liability & Coverage for Mr. A				1,100,000	100.00	500,000

Conventional/ Islamic	Account Type	Account Balance	Accrual Balance	Total Balance	Protected Deposit
Islamic	Current	100,000*	0*	100,000	100,000
Total Liability & Coverage for Mr. B				100,000	100,000

*For a joint account, any outstanding amount shall split between the accounts holders according to the terms of account opening or equally (in the absence of such terms).

Example # 6: Mr. A has availed a running finance facility of PKR 400,000/- against his current account deposit of PKR 1,000,000/- maintained with a conventional banking branch of a bank. He also holds another current account deposit of PKR 200,000/- with an Islamic banking branch of the same bank. At the cut-off date (Bank failure date), the total liability of the bank towards Mr. A shall be PKR 800,000/- i.e. net-off amount payable to bank by Mr. A. Accordingly, Mr. A shall receive the maximum limit of prescribed protected amount i.e. PKR 500,000/-. The protected amount allocated for Mr. A shall proportionally distribute between Islamic and Conventional deposits.

Conventional/ Islamic	Account Type	Account Balance	Accrual Balance	Total Balance	Total Balance Net-off Lien	% Share in Total Deposits (Net-off Lien)	Protected Deposit
Conventional	Current	1,000,000	0	1,000,000	600,000	75.00	375,000
Islamic	Current	200,000	0	200,000	200,000	25.00	125,000
Total Net Liability & Coverage					800,000	100.00	500,000

Example # 7: Mr. A maintains a current account of PKR 200,000/- with a conventional bank. The same bank has mobilized a current account deposit of PKR 1,000,000/- from a partnership firm “ABC Consultancy Firm” which is jointly owned by Mr. A, Mr. B & Mr. C. At the cut-off date (Bank failure date), the total liability of the bank towards Mr. A shall be PKR 200,000/- while the total liability of bank towards ABC Consultancy Firm shall be PKR 1,000,000/-. Here, Mr. A shall receive a coverage of PKR 200,000/- while ABC Consultancy Pvt. Ltd shall receive a separate coverage of PKR 500,000/-.

Conventional/ Islamic	Account Type	Account Balance	Accrual Balance	Total Balance	Protected Deposit
Conventional	Current	200,000	0	200,000	200,000
Total Liability & Coverage for Mr. A				200,000	200,000

Conventional/ Islamic	Account Type	Account Balance	Accrual Balance	Total Balance	Protected Deposit
Conventional	Current	1,000,000	0	1,000,000	500,000
Total Liability & Coverage for ABC Consultancy Pvt. Ltd				1,000,000	500,000

Q#16: For further queries/ clarifications on Deposit Protection, where should a bank contact?

You may visit our website <http://www.dpc.org.pk> to access further details on Deposit Protection in Pakistan. You may also write to us electronically at info@dpc.org.pk or through surface mail at the following address:

DEPOSIT PROTECTION CORPORATION

2nd Floor, SBP Bolton Market Building,
M.A. Jinnah Road, Karachi.

Acronyms

ADB	Asian Development Bank
AGM	Annual General Meeting
AML/ CFT	Anti-Money Laundering/ Combating the Financing of Terrorism
BCBS	Basel Committee on Banking Supervision
BCO	Banking Companies Ordinance, 1962
DPA	Deposit Protection Agency
DPC	Deposit Protection Corporation
DPC Act	Deposit Protection Corporation Act, 2016
ERD	External Relations Department (SBP)
ERM	Enterprise Risk Management
ERMD	Enterprise Risk Management Department
FSB	Financial Stability Board
GDP	Gross Domestic Product
Government	Federal/ Provincial Government
IADI	International Association of Deposit Insurers
IBIs	Islamic Banking Institutions
IFC	International Finance Corporation
IFSB	Islamic Financial Services Board
MTBs	Market Treasury Bills
PBA	Pakistan Banks' Association
PIBs	Pakistan Investment Bonds
SAMA	Saudi Arabian Monetary Authority
SBP	State Bank of Pakistan
SDV	Single Depositor View
SECP	Securities and Exchange Commission of Pakistan