










ANNUAL REPORT

2021-2022



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

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DPC MILESTONES

AWARENESS & CRISIS MANAGEMENT INITIATIVES

- Outreach of DPC's awareness messages through member banks
- Development of awareness literature and its publication through website
- Verification of Information System of Protected Depositors
- Development of Framework for Reimbursement to Eligible Depositors
- Development of Depositors Verification Form

2022

2021

ENHANCED PROTECTION

- Enhancement of coverage limit
- Orientation sessions for bankers
- Issuance of First Annual Report

COMMUNICATION & INTERNAL CONTROL INITIATIVES

- Website Launch
- Issuance of DPC Rules
- Formulation of Communication Strategy
- Development of Risk Control Self Assessment Framework
- Automation of Investment Portfolio

2020

2019

POLICY INITIATIVES

- Guidelines for Shariah Compliant Deposit Protection Mechanism
- Implementation of Information System for Protected Depositors
- Development of Information System for Protected Depositors
- Membership of IADI

2018

COMMENCEMENT

- Commencement of Operations
- Development and Implementation of Protection Mechanism
- Creation of Deposit Protection Waqf
- Issuance of Shariah Compliant Deposit Protection Mechanism
- Formulation of Investment Policy

VISION & MISSION

Vision

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

Mission

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

Chairperson's Note

With immense pleasure, I present the second annual report of the Deposit Protection Corporation (DPC) for the year 2021-22. It is heartwarming to see that in a short span of only four years since its establishment, DPC has made significant strides to institute an effective deposit insurance system in Pakistan.

As we all know that in the aftermath of Covid-19 pandemic, the world is faced with new challenges like inflation and deteriorating macro-financial conditions that are being exacerbated by the conflict in Eastern Europe, monetary tightening by advanced economies, and issues of supply chain. These events have put additional burden on economies and lives of ordinary people in multiple ways.

While our economy also sustained the brunt of these global phenomena and events, the climate related disaster on our domestic front added additional burden on the current account imbalances. Whereas the State Bank is making all-out efforts to bring price stability and control inflation, the outcomes of cooling down an over-heated economy may take some time to settle.

While banking sector of Pakistan shows adequate resilience to withstand any severe macroeconomic shocks and State Bank of Pakistan – with its proven record of ensuring financial stability – stands ready to ensure financial stability, the Corporation extended its support for the stability of system by significantly increasing the amount of deposit coverage. It enhanced the guarantee amount for all eligible depositors by a hundred percent to PKR 500,000 “per depositor-per bank”.

The review and revision of the coverage level was in line with international practices as the new

coverage amount brought protection at a very decent level that exceeds our coverage levels. Besides enhanced protection for depositors, this revision will also increase their confidence in our banking sector as well as in DPC. I am sure that the Corporation will carry on its practice of review and revision of coverage level in future also, to keep it in line with local macro-economic realities and global practices.

I am also hopeful that DPC would continuously strive to improve its policy and operational framework. In this regard, the Board has also approved a plan to carry out a self-assessment of compliance with IADI's Principles of Effective Deposit Insurance System. This would help to structure our deposit protection framework in line with the recommended international standards.

DPC also has a number of other initiatives lined up for the year ahead, especially ensuring a prompt and efficient response in any payout situation. Such initiatives include preparation of a detailed plan for reimbursement to depositors and improvement in internal processes by developing technology oriented solutions.

Additionally, the Corporation is also working to broaden its scope and enhance its mandate from ‘pay-box only’ to ‘pay-box plus’ which entails changes in its existing legal framework. The pay-box plus mandate would increase the avenues for the Corporation to play a more active role in stability of financial system by providing financial support needed for resolution of member institutions. I am hopeful that DPC and SBP would coordinate closely with each other to make sure that both entities complement each other during the time(s) of crises.

The Corporation is also keenly pursuing capacity enhancement and improvements in the sphere of

public awareness, investments of funds, crises management, reimbursement planning, risk controls assessment and mitigations. More importantly, DPC is also envisaging to enhance its scope of protection by including financial institutions supervised by SBP that receive deposits from public, in addition to scheduled banks, to effectively act as a safety net member.

The Corporation is quite keen to improve the knowledge base and capacity of its officials. For this purpose, three Peer Assistance (PAs) programs were arranged in collaboration with International Association of Deposit Insurers (IADI)- Training and Capacity Building Unit (TCBU) and relevant deposit insurance agencies on “Payout

and Single Depositor View (SDV)” and on “Recovery from the assets of failed member institutions”, more such PAs are planned for the coming year.

I am confident that Board of Directors of DPC will continue to steer the Corporation to meet its objectives of protecting the depositors and contributing towards stability of the financial system.

I would like to express gratitude to my fellow Board members and members of Sharia Advisory Committee of SBP who have provided much needed supervision and guidance to the Corporation since its inception. My sincere appreciation is also due to the Managing Director DPC and his team, for their continuous endeavors towards the achievement of Corporation's objectives.

Sima Kamil

Chairperson, Board of Directors
Deposit Protection Corporation



Message from Managing Director

I am extremely delighted that the second annual report of Deposit Protection Corporation (DPC) has reached your hands. This report provides an overview of activities and developments carried out by DPC's Team during the year 2021-22 to further strengthen the processes and procedures of the Corporation.

Our mission at DPC is to protect depositors of member banks to maintain public confidence in the banking system and contribute towards financial stability by compensating eligible depositors of a member bank in case of its failure.

As I reflect on the past year, the foremost achievement of DPC is the revision of protected amount. We have enhanced the coverage limit for each eligible depositor from PKR 250,000 to PKR 500,000. Considering the fact, that DPC has provided 100% increase in the protected amount without putting any additional premium charge on the member banks and only within three years of commencement of its business, shows our commitment towards the core objective of protecting depositors' funds. This also shows ability to build-up of a credible amount of funds for the protection of depositors in a short span of time.

It gives me immense satisfaction to state that with this amount of coverage, we are already providing full protection to almost 94% of the banking sector's total depositors that would entitle such depositors to take full refund of their deposit in case of failure of their bank. The Corporation is also in process of developing a formal policy towards systematic review and revisions of coverage amount in future.

Moving ahead, the Corporation is also striving to extend its coverage for the customers of institutions other than commercial banks. In this connection, DPC is making its initial assessments for on-boarding entities such as Microfinance Banks, as they carry quite a significant number of public deposits in their books. Bringing them under the ambit of DPC's protection framework would improve the value as well as process of coverage to their depositors.

In addition to reimbursement to depositors in a bank failure scenario, through a credible and swift payment mechanism, a clearly defined resolution mechanism for banks in distress is also a major component of any properly functioning financial safety net. As a part of our future plans, DPC may like to be an active partner of the Resolution Authority i.e., SBP in successful execution of its resolution scheme. The Corporation's role in any such scheme would be protection of depositors' interest providing required financial support to the resolution action in such a manner that will improve the outcomes in terms of both financial stability as well as costs for the system. For this purpose, the current 'pay-box only' mandate of the Corporation may need to be enhanced to 'pay-box plus' by incorporating appropriate changes in the DPC Act.

As a deposit protector, DPC continues to build up its own financial forte, to handle any reimbursement scenario. Significantly, the deposit protection fund (DPF), maintained with regular contributions from the member banks, has been efficiently employed and has surpassed PKR 77 billion (approx. US\$ 340 Million) as of October 2022. DPC would continue to build its funds up to a credible level that can adequately ensure effective compensation to eligible depositors and fulfillment of potential role in the resolution of distressed banks.

Since joining the Corporation as its Managing Director, I have given special attention to increasing public outreach of the Corporation to boost depositors' confidence in the system through information and awareness of all stakeholders. Over the past year alone, DPC has held numerous online awareness sessions with banks' officials at different levels that would not only introduce DPC to bankers at their grass root level, but would also increase the Corporation's outreach to their depositors. Additionally, for awareness of general public and member banks, a set of FAQs has also been released by DPC that attempts to further clarify the concepts of their reader about the Corporation, its functions and about the calculation of protected deposits. In addition, a common information flyer/brochure both in Urdu and English has also been made available in all banks' offices and branches.

Above all, DPC has not only formulated its own Communication Strategy for public awareness but it has also ensured that all member banks have devised their

own communication strategies towards this end. In terms of their own communication plans, banks are disseminating emails and SMS to their depositors at mass level and shall continue to do so on an ongoing basis. I would sincerely appreciate our member banks for their efforts, contribution and support towards increasing awareness of their depositors about the deposit protection scheme.

The protection of deposits by DPC is based on 'per depositor - per bank' basis, it is therefore critical that an accurate and dependable information system be developed by the banks containing detailed depositors' information and determining the outstanding balance of each depositor for providing them compensation from DPC. I am pleased to inform you that the said information system (Single Depositor View)

has now been developed by almost all banks, and the Corporation has now initiated a supervision mechanism for this system to ensure the credibility and readiness of such information.

On this note, I would like to thank the Governor of State Bank of Pakistan, the Chairperson and Directors of DPC's Board for their continuous support. I would also appreciate the members of Shariah Advisory Committee of SBP for their guidance and all my team members at DPC for their dynamism and hard work for these achievements.

Syed Irfan Ali
Managing Director
Deposit Protection Corporation



Deposit Protection Corporation

Overview





Deposit Protection Corporation Overview

Stability of the financial sector is one of the prime objectives of State Bank of Pakistan. To protect the sector from shocks and any potential fiasco, State Bank (the central bank and the banking regulator & supervisor) and Government of Pakistan have instituted a financial safety net structure that is consistent with international standards. This structure Comprises of:

- Regulatory framework which prescribes minimum standards for risk management and provides guidance in key risk areas and operations,
- Risk based supervision system which proactively monitors and addresses micro-and macro-prudential risks,
- lender of last resort facility,
- deposit insurance (protection) system, and

- Bank resolution and crisis management framework.

The effectiveness of SBP's safety net frameworks is reflected by long-standing financial stability of the banking sector which presents quite satisfactory financial soundness indicators and holds sufficient resilience to withstand macroeconomic shocks. The sector's capital adequacy ratio in Jun-2022 stood at 16.1 percent – against the minimum regulatory requirement of 11.5 percent and global standard of 10.5 percent, while a key risk indicator i.e. Non-performing loans ratio – 0.7 percent (net of provision) – remains at one of its lowest levels in last two decades .

Since 2018 an explicit deposit protection (insurance) system for deposit taking institutions (i.e. schedule banks) in Pakistan has been put in place to provide compensation to eligible depositors in case of a bank failure. The Corporation was established under an Act of parliament i.e. the DPC Act 2016 as a subsidiary

of the State Bank with the aim to provide explicit but limited protection to conventional as well Islamic banking depositors, especially the financially unsophisticated segment .

DPC commenced its operations in the year 2018 with a mandate to compensate eligible depositors, in the event of failure of a scheduled bank in Pakistan. Over the period of only four years since its inception, DPC has evolved through continuous multi- dimensional efforts with a sound mechanism of protection for catering to an increasing number of depositors. The three main dimensions of this mechanism are:

- Formulation of policies and procedures related to reimbursement framework for depositors;
- Arrangement of funds sufficient enough to address any requirements of payout; and
- Active public awareness campaign to introduce the concepts of deposit protection and the Corporation itself.

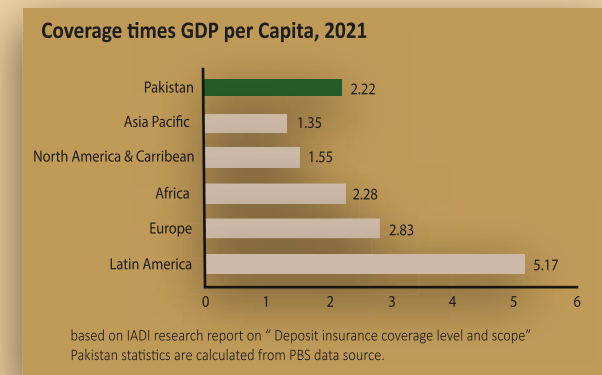
Over the period DPC has partnered with all member banks to build a complete protection structure for depositors on an ongoing basis. In this connect, DPC has issued various directives to banks for maintenance of accurate depositors' information, its readiness and availability, and various other internal plans, policies and procedures.

On the front to arrange funds for any eventual payout scenario, DPC's first and foremost goal is to accumulate credible pools of funds, for both conventional as well as Shariah compliant deposits. The Corporation is also exploring other options of funds' arrangement available under the DPC Act 2016.

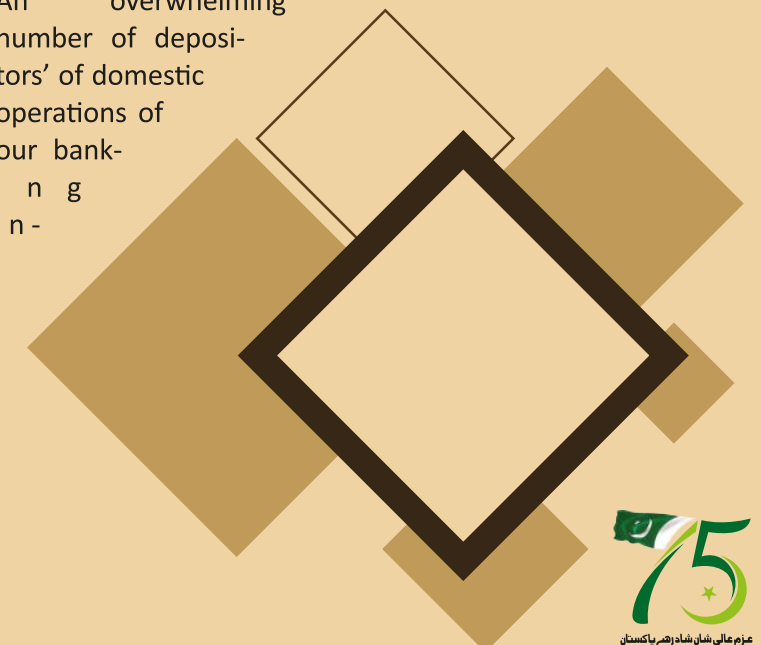
On the public awareness perspective, DPC also endeavors to

acquaint all eligible depositors as well as general public about the concepts and working of deposit protection mechanism.

In our efforts to provide a reasonable coverage to a large majority of depositors, the Corporation has revised the coverage limit and enhanced it from PKR 250,000 to PKR 500,000 in Year 2021-22. This enhanced coverage translates into nearly 1.7 times of GDP per capita income in Pakistan (as of June'22) which was at 2.22 times as of June'21 and was higher than that of many other jurisdictions in Asia-Pacific and other regions around the globe.



An overwhelming number of depositors' of domestic operations of our bank-
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dustry comprises of relatively small ticket size mainly belonging to categories such as small businesses, individuals, sole proprietors etc. that roughly constitute almost 98% of total depositors. Based on the size of deposits of such depositors, their vast majority i.e., around 95% are now entitled to full coverage. The provision of full coverage to such a huge portion of the depositors would strengthen the trust of depositors in our financial system.

Review and Revision of Coverage Level & Scope

Under limited coverage model, Deposit Insurers (DIs) all over the world specify a guarantee amount, up to which deposits are guaranteed under their protection regime. In essence, the guarantee amount is one of the most important measure for efficacy of deposit protection regime. Whereas too large coverage can distort market discipline, too small of it can render the protection regime to be really unconvincing for depositors and may fail to keep their trust in the financial system. For this very reason, it is important to review and revise coverage level in order to align it with overall objectives of the Deposit Insurance system (DIS) and with various macro-economic factors.

Coverage has two main characteristics:

i. Coverage Level: a maximum guarantee amount that a Deposit Protection Agency (DPA) insures is termed as coverage level or coverage limit. It is determined after considering various factors i.e. GDP, average size of deposits etc. Coverage level can be different for different institutions and products i.e. differentiated coverage level. In some jurisdictions, coverage level is either pegged to certain indicators or indexed.

ii. Scope: can include factors such as type of financial institutions, categories of their customers or types of products that may or may not be provided protection under the deposit insurance scheme.

In Pakistan, at the time of its commencement of operations, DPC set the coverage limit for depositors' eligible for protection at PKR 250,000 "per depositor-per bank". This coverage limit was set after consideration of various factors such as target fund size and the estimated time required to accomplish it, GDP per-capita and the size of deposits each bank carried etc.

Three years into its operations, the Corporation reviewed the coverage amount being provided to the eligible depositors and after considering various underlying factors decided a twofold increase in protection taking coverage limit to PKR 500,000 "per depositor-per bank". The Corporation took the decision in this respect in September 2021.

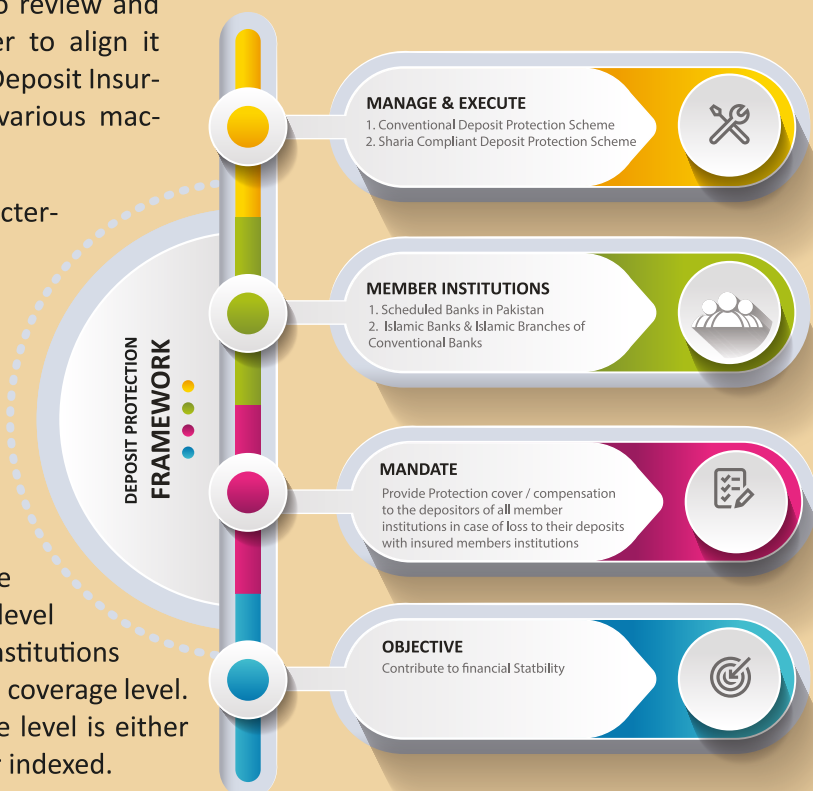


Table 1: Coverage Indicators of DPC at various stages

	PKR 250,000		Revision (PKR 500,000)	
	Coverage at inception	Pre- Revision	Post Revision	Current Levels
		1-Sep-21	30-Sep-21	June 30, 2022
Coverage of GDP ¹ per capita	1.34 times	1.00 times	1.99 times	1.70 times
Coverage ratio (by depositors)	NA	92.10%	95.00%	95.00%
Coverage ratio (by value)	NA	10.00%	16.00%	15.00%

¹ Data for GDP per-capita against each specific year is computed from PBS Table_4.pdf (pbs.gov.pk). Coverage mentioned in the table especially coverage to GDP per-capita may vary from other publications depending upon the GDP per-capita figures used for computation

As stated earlier, sufficiency of coverage amount is important for any deposit protection scheme. Some of the important coverage indicators that demonstrate the adequacy of coverage level are: coverage to GDP per capita, fully covered deposits to eligible deposits and coverage ratio (by depositors) . Table 1 highlights a comparison of important coverage indicators since the commencement of business of the Corporation with previous and revised coverage levels.

The review and revision of coverage amount can be linked to a policy based approach, or can be discretionary. Global practices of coverage review and revision vary among jurisdictions. Core principles for effective deposit insurance by IADI also recommend the review of coverage level at least on quinquennial basis. Considering its linkages with 'target fund size', 'premium rates' and the time required to achieve the target fund size, the duration of review, however, should ideally be based on jurisdiction specific characteristics.

In line with international practices for effective deposit insurance and to keep the coverage amount relevant to local economic dynamics, DPC is also developing an internal policy for review and revision of coverage limit and scope for protection provided to the depositors. The policy for reviewing the scope of coverage will formalize the process of evaluating different types of institutions and categories of depositors for assessment and inclusion in the protection framework, whereas, review

in coverage level will facilitate organization in assessing the adequate coverage amount for providing effective protection to eligible depositors in a bank failure scenario.

Profiling the Depositors- Single Depositor View (SDV)

As the core responsibility of the Corporation is to compensate eligible depositors for the loss of their deposits upon declaration of failure of a member institution (banks) by SBP, therefore, consequent upon issuance of notification by SBP the responsibility of reimbursement of protected amount to eligible depositors of a failed bank lies with DPC.

For a seamless reimbursement of protected depositors, availability of depositors' data is the foremost requirement. Without the availability of updated and efficient data, the reimbursement process may become a daunting task for any DIS. The International Association of Deposit Insurers (IADI)'s Core Principle # 15 stipulates that "in order to provide depositors with prompt access to their funds, the deposit insurer should have access to depositors' records at all times, which includes the authority to require banks to maintain depositor information in a format prescribed by the deposit insurer in order to expedite insured depositor reimbursement". Hence, availability of timely and correct information of depositors is crucial to ensure an effective and seamless reimbursement process.

In this backdrop, DPC had earlier developed a

detailed format for information database pertaining to banks' depositors. The member banks were advised through DPC Circular No. 01 of 2019 dated March 15, 2019 to prepare and update their systems for maintaining comprehensive depositors' information. Thus, all banks have successfully developed the required database of their depositors as per the requirements and instructions of DPC.

In order to ensure accuracy of depositors' data, DPC has taken several measures. One of them is the involvement of Banking Supervision Departments (BSDs) of its parent entity State Bank of Pakistan (SBP). Since BSDs undertake onsite and offsite supervision of these banks, therefore DPC has taken them onboard to verify the accuracy and reliability of depositors' information.

Further, owing to the criticality of depositors' data entry at the time of account opening by staff at regional and branch level of these banks, DPC's team is conducting information sessions for orientation of banks' officials to acquaint them about the concepts and features of deposit protection framework and enable them to understand the importance of availability of correct depositor's information. Prior to this, in the time of strict COVID restrictions, DPC relied on online platforms for the awareness of bank executives stationed at respective head offices as well as auditing firms of these banks. These orientation sessions reflect the Corporation's resolve of onboarding other stake holders to ensure better understanding of existing deposit protection mechanism among them.

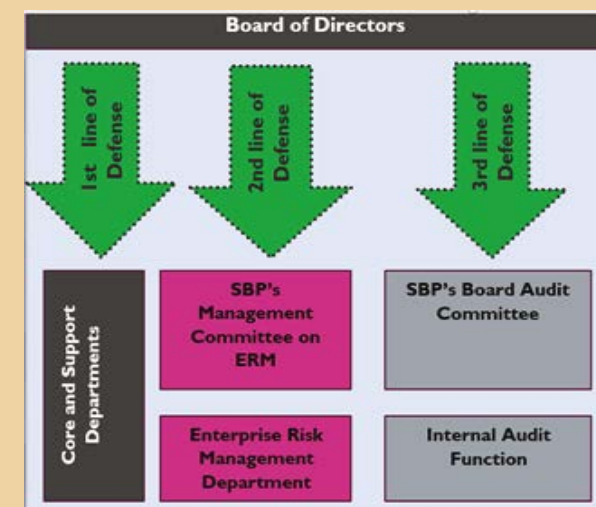
Additionally, DPC has also devised a strategy for the periodic checking and verification of depositors' information by Internal Auditors as well as external auditors of banks. For this purpose, DPC issued a circular letter No. 01 of 2022 dated June 17, 2022 whereby the internal audit function of DPC member banks were advised to conduct annual

audit of their SDV database and share their findings with the Corporation to ensure accuracy and reliability of their depositors' information. Further, member banks were also advised to arrange independent audit of their SDV database from external auditors as and when required by DPC.

Risk Management Framework at DPC

Deposit Protection Corporation is a fully owned subsidiary of State Bank of Pakistan (SBP) and operates as an important constituent of financial safety net for depositors of the banking sector of Pakistan. As a subsidiary, its risk management policies/framework are aligned with Enterprise Risk Management Framework of SBP, therefore, the Corporation's risks are reported to SBP's Management Committee on Enterprise Risk Management. All risks are ranked on the basis of severity, impact and frequency and categorized as per ordinal scale approved by the SBP's Board.

The DPC's ability to achieve its core objectives might be influenced by a variety of internal and external risks related to matters such as; sufficiency and availability of funds, access to timely and accurate depositor information, coordination with banking supervisor and planning for a smooth payout to depositors. In order to address these risks, an effective risk management framework is in place at the Corporation that is being implemented



through Enterprise Risk Management Department (ERMD) of the Corporation.

The primary responsibility for identification and reviewing the risks lies with the respective departments, while ERMD acts as a second line of defense and is responsible for coordination, facilitation, and oversight for the effectiveness and integrity of risk management throughout the Corporation. Departments identify their risks by using the "Risk Control Self-Assessment" techniques in consultation with ERMD and effective controls are put in place with mutual consultation during the periodic assessment exercise at the Corporation level. Risk controls are applied to mitigate all such risks that are beyond risk appetite against the risk taxonomy defined in the risks management framework.

The risks' inventory at DPC is identified through both bottom-up and top-down approaches. Particularly, strategic risk assessment exercise is carried out at senior management level on periodic basis. The risks are discussed extensively with the relevant divisions and departments of the Corporation. High and significant risks along-with their respective mitigation plans are presented to DPC's Board as well as to the Board of Directors of SBP for their review. DPC has adopted three lines of defense model to ensure that risks are managed effectively on an entity level.

The risk arising due to financial transactions of the Corporation, particularly with respect to investment portfolios results in financial risk. The 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 investment decisions at the Corporation are made under the investments policy and guidelines approved by its Board and Management Investment Commit-

tee. These investments are made considering the optimum utilization of funds, type of investment instruments in overall portfolio size, their liquidity in the market and their maturity dates. 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.

Interest rate risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of the changes in interest rate. The Corporation's exposure to the risk of changes in interest rate relates primarily to the Corporation's investment in Pakistan Investment Bonds and Shariah Based Ijara Sukuks. Management of the Corporation estimates that increase/decrease of 100 basis points in the interest rate with all other remaining factors constant would impact the Corporation's surplus by Rs. 651 million. However, practically, actual results may differ from sensitivity analysis.

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 the 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, control and governance processes are adequate and functioning properly. Internal Audit also reviews the application and effectiveness of deposit protection framework, risk management procedures and risk assessment methodologies at various operations and activities of the Corporation.



Audit
Operations
Sharia compliance
Awareness
MIS
Human Resources
Policy
Investments
Governance
Finance & Accounts
Information Technology
International Standards
Strategic Plan
Actions
Risk Management
Sharia compliance
Decisions
Results
Laws & regulations

DPC's Board of Directors



from left to right:

Syed Irfan Ali (Managing Director), Ms. Amna Shabbir (Director – BoD)*, Ms. Sima Kamil (Chairperson),
Mr. Mehmood Mandviwalla (Director – BoD)

*In August 2022, Ms. Amna Shabbir replaced Mr. Sohbat Ali Talpur as ex-officio member of the Board representing the Federal Government

Profile of Board of Directors



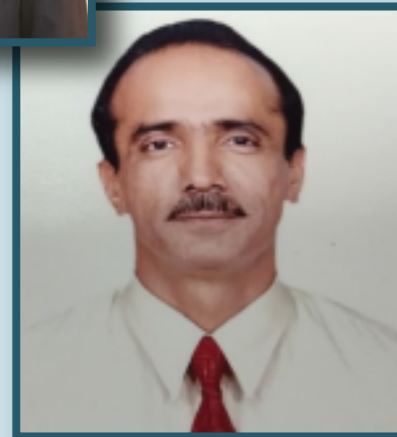
▲ **Ms. Sima Kamil**
Chairperson



◀ **Syed Irfan Ali**
Managing Director



▲ **Mr. Mehmood Mandviwalla**
Director – BoD



▲ **Mr. Suhbat Ali Talpur**
Director – BoD

Ms. Sima Kamil

Chairperson

Ms. Sima Kamil was appointed as the Chairperson of Deposit Protection Corporation's Board by the State Bank of Pakistan (SBP) on June 06, 2022. She also holds the position of Deputy Governor of SBP since August 25, 2020 for a period of 3 years.

Ms. Kamil is the first woman appointed as the Deputy Governor of SBP. She has over 35

years of experience in diverse fields of commercial banking, including Branch Banking; SMEs, Rural, Consumer and Corporate financing; and investment banking. She has worked in various international banks including American Express Bank, ANZ Grindlays Bank and Standard Chartered Bank in areas of Corporate Banking and Risk Management. Before joining SBP, Ms. Kamil was the first-ever woman appointed as President of a private sector commercial bank - United Bank Limited. Earlier she served Habib Bank Limited for 16 years at various senior management

Mr. Suhbat Ali Talpur

Director – BoD

Mr. Suhbat Ali Talpur is a seasoned bureaucrat whose career spans over 36 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 the affairs of public sector banks and financial institutions in the Internal Finance Wing.

Prior to his posting at Finance Division, he served at number of other Ministries/Divisions /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 in 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 the Deposit Protection Corporation (DPC). By virtue of his statutory position, he is entrusted with responsibility to infuse confidence and financial discipline in the banking industry and to protect bank depositors.

Mr. Ali is the key team member of the central bank's initiative to financially integrate all Pakistanis across the world by means of FinTech and digital banking beyond the borders under the flagship project of Roshan Digital Account (RDA). Besides, he is one of the chief developers of SBP's IT Vision for years to come.

levels, including Head of Corporate & Investment Banking and then Head of Branch Banking. Ms. Kamil was also associated with Microfinance sector as Director of the First Microfinance Bank for a number of years.

Ms. Kamil has a degree in business from Kingston University, UK and an MBA from City University, London. In 2019, the Kingston University, UK awarded her an Honorary Doctorate degree in recognition of her outstanding contribution to the banking sector and support of inclusivity in business leadership.

She is also a certified director from Institute of Business Administration (IBA), Karachi.

Mr. Mehmood Mandviwalla

Director – BoD

Mr. Mehmood Mandviwalla is the Senior Partner of the law firm "Mandviwalla & Zafar". He obtained his LLB (Hons) from the London School of Economics and Political Science and qualified as a Barrister from the Hon'ble Society of Lincoln's Inn, London, United Kingdom. He is the President of SAARCLAW (South Asia Association for Regional Co-operation in law).

Mr. Mandviwalla has extensive experience spanning over 39 years in all aspects of commercial and corporate law.

Mr. Mandviwalla is the member of the Board of Director of GlaxoSmithKline (GSK), Director of the Deposit Protection Corporation, Member of the Shariah Advisory Committee (SAC) of the SBP and Chairman of the Securities and Exchange Commission of Pakistan Policy Board.

He has also served as Director General, Financial Monitoring Unit (FMU). In addition to his other achievements, he is also known for fostering the regulatory policy on corporate governance, introduction of thematic inspections as a precursor to the risk-based supervision and introduction and amendment in SBP's Prudential Regulations and key statutes related to banking and supervision, structuring and restructuring of Financial Institutions.

As Executive Director of Banking Policy & Regulations Group of SBP, Mr. Ali championed massive digital disruption prompting digitization of banking services at every level, from front- to back-end. He is one of the key minds behind envisaging digital banks in Pakistan. He is also credited with the issuance of policy framework for Branchless Banking in Pakistan and Global Depository Receipt (GDR). Mr. Ali is known for his expertise in policy and advisory matters, especially in the areas of banking and non-banking regula-

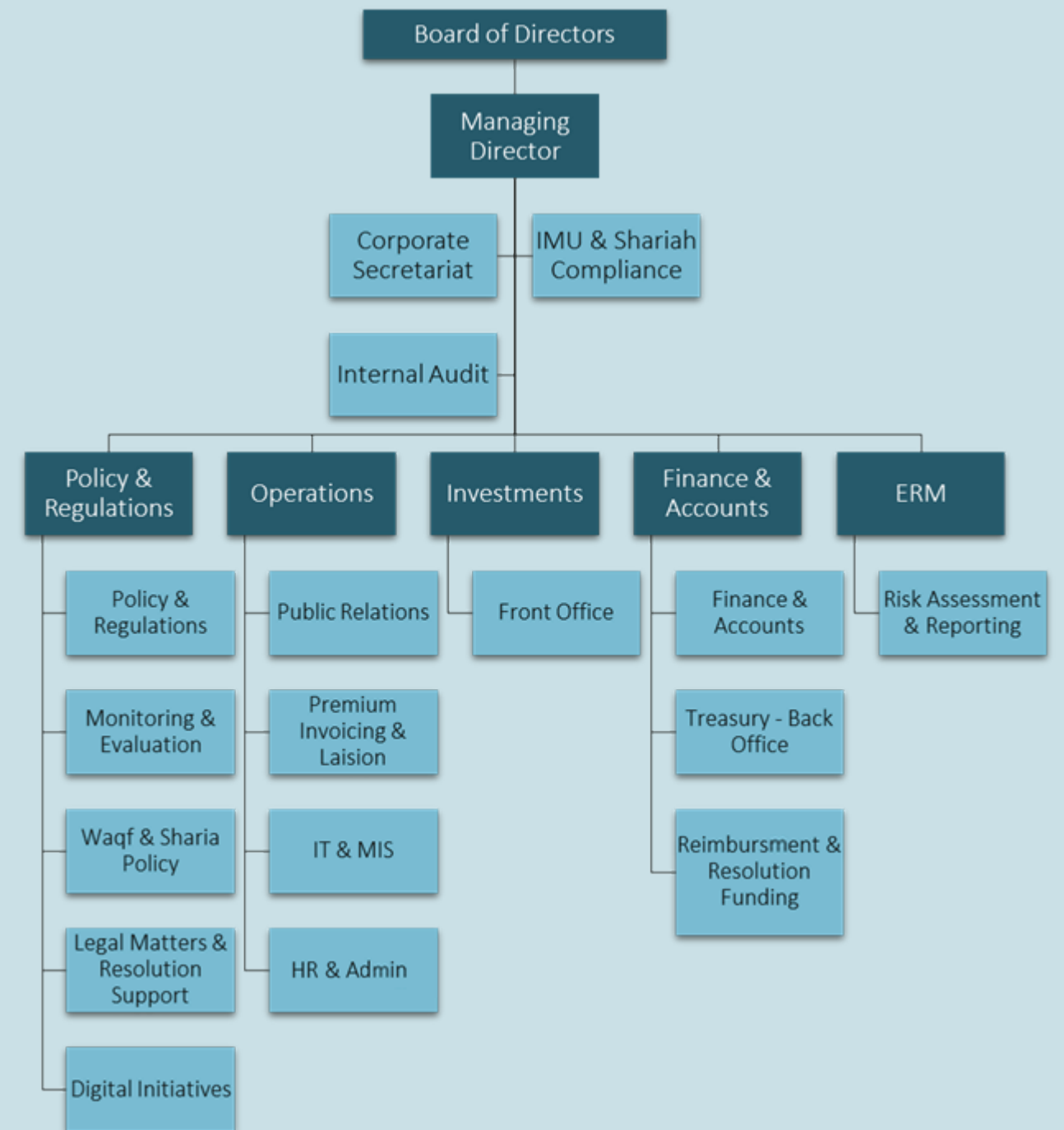
tions, payment systems, AML/CFT, financial markets, and FinTech. He is also a prolific speaker with command over wide range of subjects related to financial sector.

Mr. Ali's extensive career spans over a period of 30 years, beginning in 1992. Prior to his current role, Mr. Ali held the position of Executive Director, Banking Policy & Regulation Group and Banking Supervision Group at SBP.

He assisted the Government in divestment/ privatization process of public sector banks, mergers and acquisition.

Besides, Mr. Ali has also been associated with various committees and working groups and represented DPC and SBP at various domestic and internal forums like International Association of Deposit Insurers (IADI), Financial Action Task Force (FATF)/Asia Pacific Group (APG), International Monetary Fund (IMF).

DPC Organogram



The DPC Team



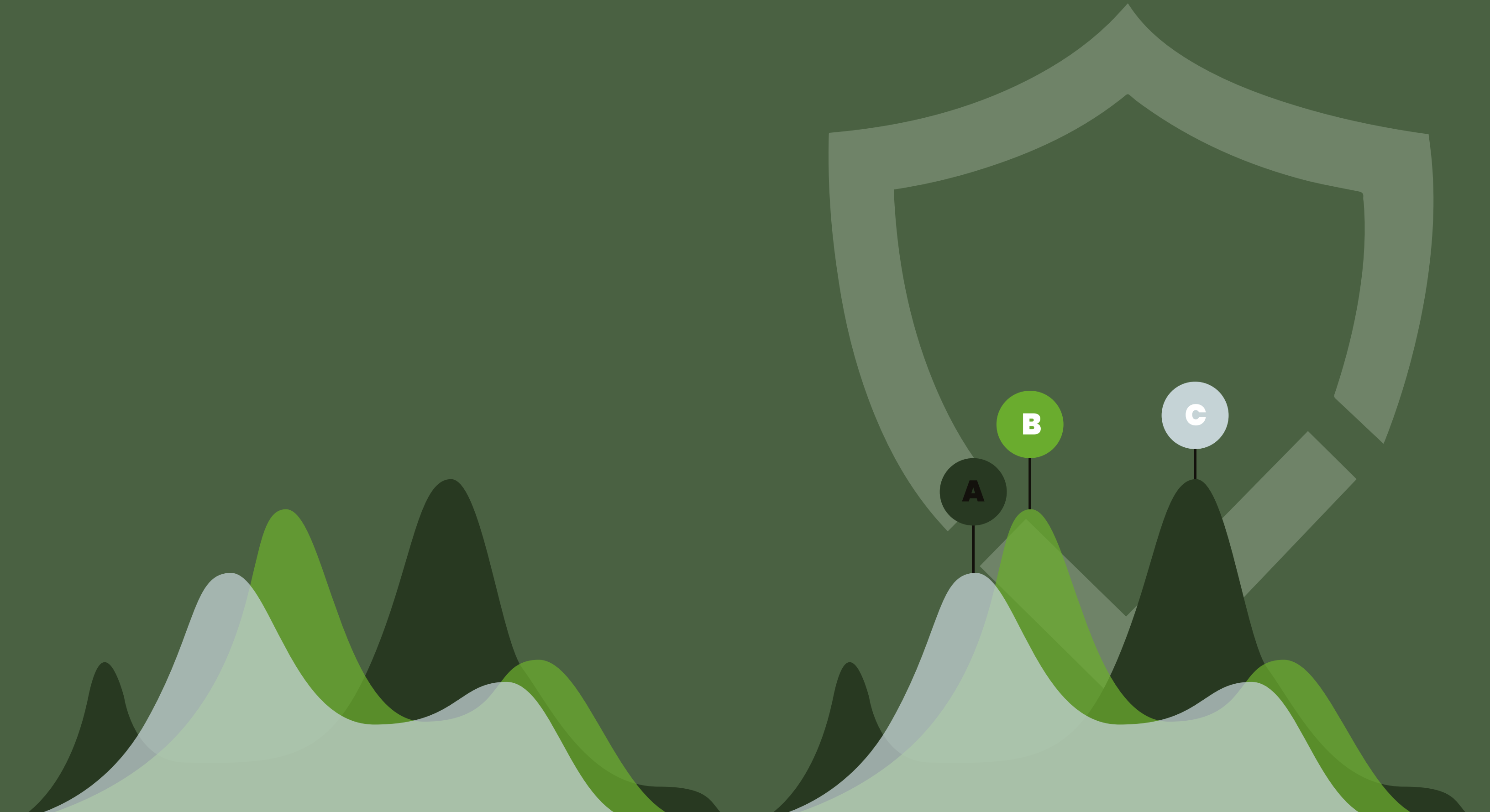
Sitting from left to right:

Syed Ali Zubair Manzar (Joint Director), Mr Khurram Iftikhar (Head Finance & 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. Gulfaraz Ahmed (PA to MD DPC), Mr Shafqat Hameed (Joint Director), Mr. Zeeshan Suleman (Joint Director),
Mr. Turab Syed (Joint Director), Mr. Abdul Tawab Ayub (Assistant Director), Mr. Muhammad Khan Khoso (Joint Director),
Mr. Shahid Abbas (Joint Director)

Deposits, Premium & Changing Trends



Deposits, Premium & Changing Trends

Eligible Deposits of DPC Member banks continued to reflect increasing trend in line with the rise in total deposits. The Total Deposits showed a YoY growth of 15.2% and stood around PKR 22.8 trillion as on June 30, 2022, while the Eligible Deposits grew by 11.4% during the same period to reach PKR 12.2 trillion as on June 30, 2022. Figure-1 reflects the position of Total and Eligible deposits with DPC member banks. The deposits growth can be attributed to factors such as expansion in branch network, higher home remittances, inflows from Roshan Digital Account (RDA) and higher rate of return. During FY 2021-22, sharp decline in COVID cases also led towards normalcy in business routines and supported the growth in deposits.

Eligible and Protected Deposits

In line with the objectives of DPC, the deposit protection mechanism currently in place covers vast majority of depositors in Pakistan.

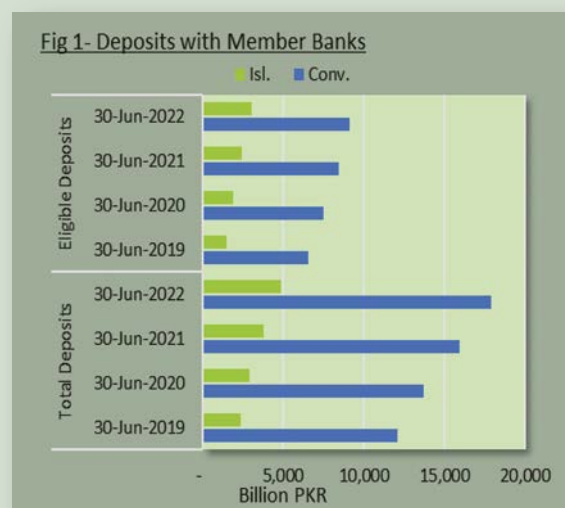
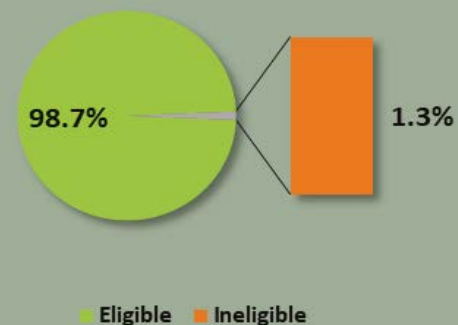


Fig 2: Ineligible & Eligible No. of Depositors- Conventional Banks



Fig 3: Ineligible & Eligible No. of Depositors-Islamic Banks



As on June 30, 2022, 98.9% of total depositors of conventional banking and 98.7% of Islamic banking depositors are eligible for their deposit's protection in case of their bank's failure (**Figure 2 and 3**). This high scope of coverage signifies the effectiveness of the protection offered by DPC.

Fig 4: Fully protected deposits by value-Islamic Banks

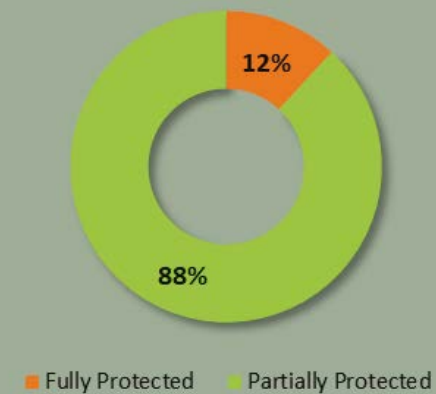
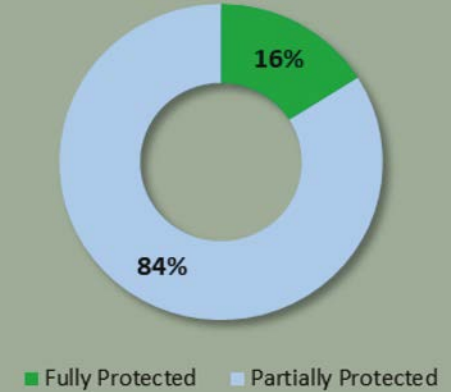


Fig 5: Fully protected deposits by value- Conventional Banks



In value terms, based on data as on June 30, 2022, 16.0% and 12.0% of Conventional and Islamic banking eligible deposits, respectively, are fully protected (**Figure-4 and Figure-5**). Such depositors have outstanding balances equal to or less than the coverage amount of PKR 500,000 and will receive their full deposit amount from DPC in case of bank failure.

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 held by numerically fewer depositors. The combination of number and value of eligible depositors is in line with internationally accepted principles for deposit

Fig 6: Protected Depositors- Conventional Banks

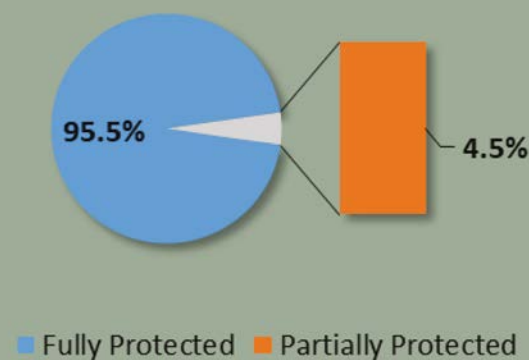


Fig 7: Protected Depositors-Islamic Banks

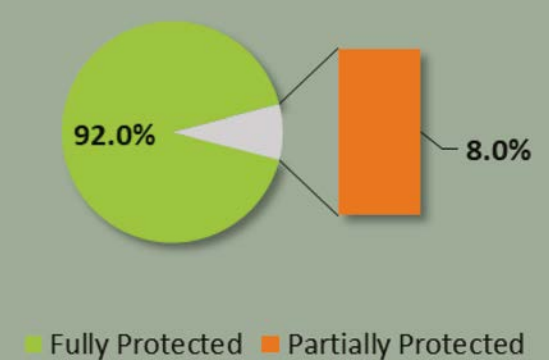


Fig 8: Year wise Premium



insurance that calls for providing protection to majority of depositors while leaving significant number uncovered to promote market discipline. This also exhibits the fact that coverage of Deposit Protection Scheme (DPS) is more

centered towards smaller or financially unsophisticated depositors.

More importantly, in terms of numbers, the fully protected depositors as a part of eligible depositors for Conventional banks and Islamic banks, are 95.5% and 92.0% respectively. The remaining depositors are also covered up to PKR 500,000, but their outstanding account balances are more than PKR 500,000 (**Figure-6 and Figure-7**). Based on the total deposits of domestic operations of member banks, the coverage provided by DPC will fully protect around 94% of all depositors.

Premium Collection from Member Banks

As the premium charged to banks by DPC is linked to their total eligible deposits, thus the increase in premium collection directly corresponds to growth in such deposits of the member banks. Further, as the Conventional banking has a lion's share in the overall size of the industry's assets and liabilities etc, the deposits of Conventional banks and contribu-

Fig 9: % Share of Premium Conventional Banks

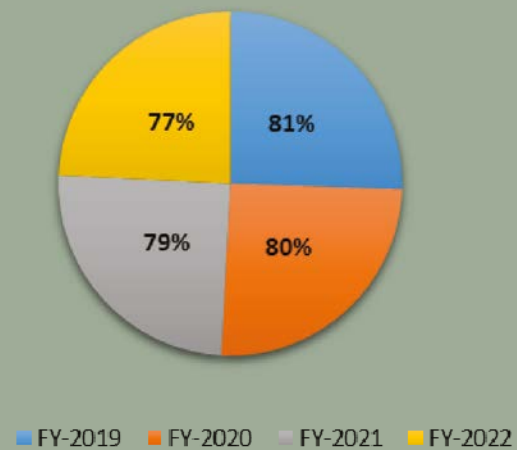
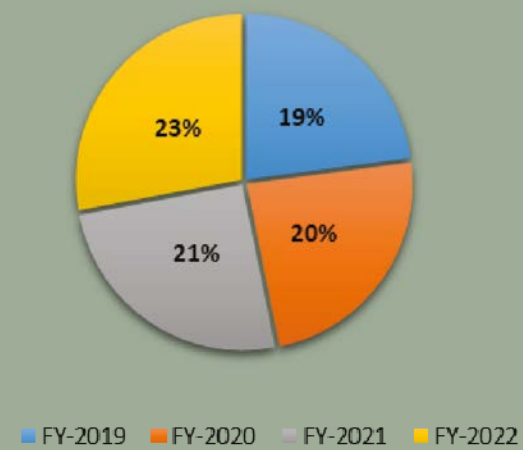


Fig 10: % Share of Premium Islamic Banks



tion of premium therefrom are much larger than those of IBIs. However, as the pace of growth in Islamic Banking is higher than that of conventional banking, therefore, the premium collection from IBIs has recorded higher corresponding increase than premium collection from conventional banks (**Figure-8, Figure-9 and Figure-10**).

On YoY basis, the growth in premium collection from IBIs remained 15.0%, 21.7% and 28.4% during last three years as compared to the growth in conventional banks premium that remained at 9.5%, 13.5% and 12.6% for the same periods (**Figure-11**). The growth in premium depicts that the growth of deposits in Islamic Banking is greater than that of conventional banking.

Fig 11: Growth in Premium Receipts



Public Awareness and Capacity Building



Public Awareness

DPC intensifies public awareness endeavors during 2021-22

DPC embarked upon extensive activities to enhance awareness among general public and to ensure that financial consumers are aware that there is a formal and explicit protection mechanism in Pakistan. These activities were carried out in order to acquaint the stakeholders to understand the benefits and limitations of DPC's protection schemes. These activities were started to provide bank depositors' a clarity, confidence and renewed assurance in the system to mitigate the risk of runs on our member institutions during situations of stress or uncertainty.

Corporation organizes sessions with banks' executives & staff at regional level

Recognizing the fact that commercial banks' regions and branch network are the first

line of communication with general public and their depositors, DPC initiated ongoing interactive awareness sessions for banks' regional and branch executives and staff of commercial banks using SBP-BSC's field offices as a meeting platform. This initiative is intended to create awareness amongst bankers about explicit deposit protection scheme and its various aspects through a multi-pronged strategy.

The first session in the series was held on May 19, 2022 at SBP-BSC, Islamabad. The session was conducted-

ed by DPC team where Mr. Syed Irfan Ali, Managing Director – DPC joined the session via Zoom. The second and third sessions were conducted at SBP-BSC Quetta & Sukkur offices in the month of May & June 2022. The sessions were conducted by DPC team and the Managing Director – DPC also joined all sessions online.

Highlighting the significance of ongoing public awareness on deposit protection, Mr. Irfan Ali stressed upon DPC's role of protecting depositors' funds in event of bank failure. He shared his thoughts with the attendees where he underscored DPC's endeavors towards implementation of a compre-

hensive deposit protection framework to play its critical role towards financial stability. He clarified that this would become effective only when all internal & external stakeholders including general public, depositors and banks are provided ongoing awareness on the concept and features of explicit protection. A well-informed public and their confidence in the safety of their deposits with banks is a powerful force in strengthening financial stability.

In addition to the physical awareness sessions, DPC also held regular online awareness sessions with member banks' executives and head office staff.

- DPC undertook an active public awareness campaign especially from the beginning of last year. It launched its own website www.dpc.org.pk

- DPC has directed each commercial bank to develop its own communication strategy for increasing



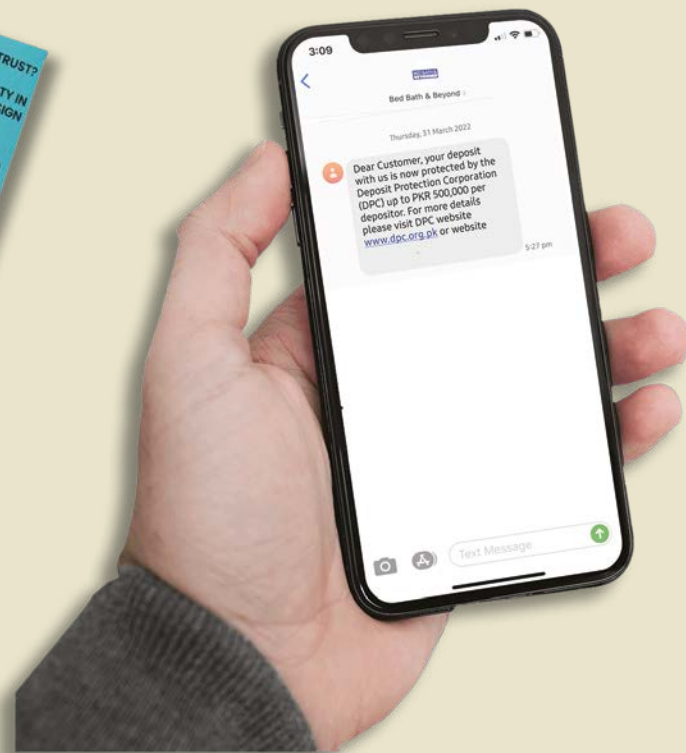
awareness of their depositors regarding explicit deposit protection mechanism. In terms of their communication strategy, banks are now sending periodical emails and SMS to their eligible depositors on the protection of their deposits.

DPC's information brochures are now available in each & every branch of member banks

To further inform the public on deposit protection mechanism, DPC has lately

prescribed a bilingual information brochure / flyer to all member banks.

These brochures have been printed by each member with their logos on it and have made them available in their offices and branches



Capacity building at Deposit Protection Corporation

In order to foster project specific learning and capacity building of DPC team, apart from organizational internal and external trainings, the Corporation has been actively engaged in several Peer Assistance (PA) Programs through IADI's Training and Capacity Building Unit (TCBU). Various subjects were selected for PA programs based on their significance towards our organizational objectives. The subjects included Single Depositor View (SDV), Recovery from the assets of failed member institutions and Reimbursement of protected depositors in the event of failure of member institution. DPC shall continue to seek PA programs in the coming year on subjects especially relevant to its enhanced role and responsibilities in time to come.

For the FY 2021-22 DPC was engaged in PA on "SDV and Reimbursement" with DIA Russia and SDIF Turkiye and PA on "Recovery from the assets of failed member institution" with Instituto Para La Proteccion Al Alhorro Bancario (IPAB) Mexico. TCBU continues to provide support to DPC, in selection of, and coordination with relevant jurisdictions based on the experiences in required field. All the PA sessions were held online using web based meeting platforms.



Peer Assistance with Saving Deposit Insurance Fund (SDIF) of Turkiye

Introductory session with SDIF Turkiye was held on 25th February and PA sessions were arranged on 5th & 6th April, 2022. SDIF and

DPC shared important information pertaining to the banking sector and policy developments related to banking and deposit insurance scheme in their respective jurisdictions.

Sessions were kicked off with the general introduction of Turkish banking structure, historical background of SDIF; its basic features and inter-agency relationship with other financial safety net participants. As the PA was organized for reimbursement and Single Customer View (SDV), the SDIF team shed light on reimbursement process, different reimbursement options and strategies for opting a particular reimbursement option. Different phases in reimbursement, data validation, monitoring and follow-up in reimbursement payments, in line with recent developments in SDV and swift assessment mechanism for eligible depositors was also elaborated.

Most important aspect during bank failure and subsequent reimbursement to protected depositors is communication by the DIS, thus matters pertaining to communication strategy during payout were also part of discussions.

Peer Assistance with Deposit Insurance Agency (DIA) of Russia

As part of the IADI coordinated Peer assistance program, in February, 2022 a virtual session with DIA Russia was conducted with the aim to build DPC's capacity in the "Insurance Reimbursement" framework.

Besides sharing regulatory and supervisory structure and history of DPC and DIA, the session swiftly transformed into discussion on reimbursement methodologies and resolutions undertaken by the DIA.

It was apprised that DIA has been mandated with variety of roles including liquidation of banks, non-governmental pension funds and insurance organizations. Moreover, it has enhanced its scope by involvement in resolution of banks, administration of foreign insurance organizations' security deposits and temporary administration of a financial institu-

tion. At the moment, the DIA has evolved into an advanced "Risk Minimizer" resolution methodology.

Though DIA does not have any specific supervisory role but can take part in onsite inspection of member banks along with the Bank of Russia. During discussion on Single Depositor View "SDV" the DIA appreciated progress made by DPC in full implementation of SDV in Pakistan's member banks. DIA has its own set of sophisticated tools and techniques for verification of depositor's data. This includes an automated fraud prevention and detection tool which incorporates various scenarios to detect any untoward attempt towards sanctity of the insurance claims. Relevant officials of DIA explained various red flags configured in their systems to prevent any untoward fraudulent attempt during the payout process. The session being very fruitful, concluded with an exchange of pleasantries among the participants.

TA with IPAB [Instituto Para La Proteccion Al Alhorro Bancario] Mexico

As part of training assistance made possible by IADI, in June 2022, two sessions were conducted with DIC of Mexico called as IPAB. The sophistication of IPAB's resolution functions were key drivers of these sessions.

In the first session, the panelists from IPAB demystified the Financial Safety Net of Mexico which encompasses a wide array of member institutions like Banks, NBFIs, Credit Bureaus as well as Investment Funds and Stock & Derivatives markets. IPAB has been entrusted with the role of a Resolution Authority with loss minimizer mandate. The safety net is a depiction of well-coordinated supervision by IPAB, Ministry of Finance and Central Bank of Mexico.

The session proceeded with debriefing and discussion on various topics like legal coverage of resolution, fund coverage, fund size, resolution planning and execution till liquidation. It was also apprised that besides others, IPAB possesses resolution power of Temporary Open Bank Assistance [TOBA] wherein an administrator is appointed who is entrusted with selling the shares of the failed institution through extended credit or financial support by IPAB. Team DPC also appreciated the level of technol-

ogy being used by IPAB in maintaining SDV as well as automated processes during claims and payouts resulting in minimal turnaround times in the event of crisis.

Team IPAB also apprised about some of the recent failures in Mexico and resolution strategies implemented by IPAB in these situations. Just like the first session, the second session proved to be fruitful for DPC with productive discussions on important topics like liquidation activities, contingency planning, target fund size of IPAB as well as further de-briefing on TOBA.

Bank Resolution Online Course

DPC team members participated in Bank Resolution Online Course (BROC) to familiarize the team with requirements emanating from the "pay-box plus" role of the Corporation. This course was jointly organized by Monetary and Capital Markets Department of International Monetary Fund (IMF), Financial Stability Institute (FSI) of the Bank for International Settlement and International Association of Deposit Insurers (IADI). The course consisted of webinars, self-study and web-based materials. The contents of the training were:

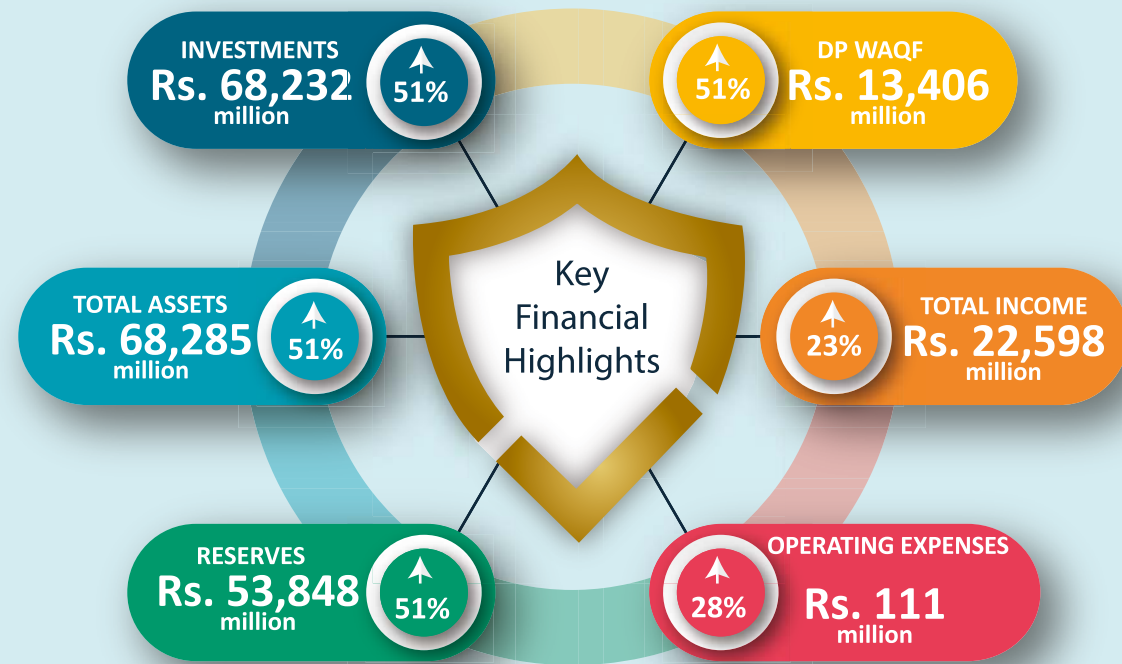
- Dealing with weak and failing banks, exploring the common drivers for bank failures and international standards on bank resolution regime.
- Resolution tools and their application in case of bank failure.
- Resolution planning, strategies and modalities for international cooperation.
- Protecting depositors, international standards for deposit insurance and modalities of combination of these practices with resolution tools.

- Making resolution operational, funding in resolution, loss absorbing capacity and operational preparedness for resolution.

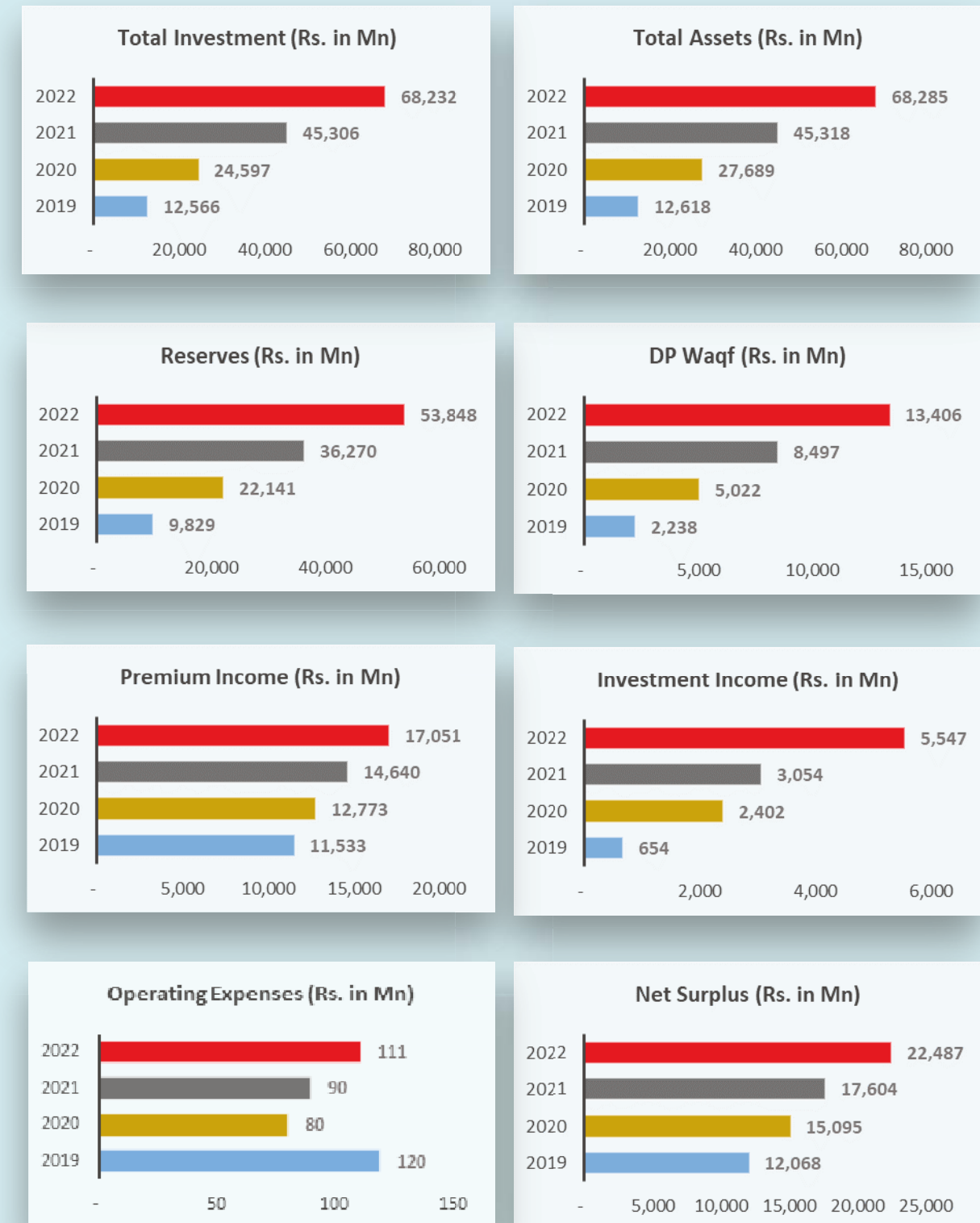
In addition to above the officials of DPC team actively participated in various local and foreign training sessions. The domestic training sessions were primarily based in NIBAF, while all foreign training sessions were conducted online.

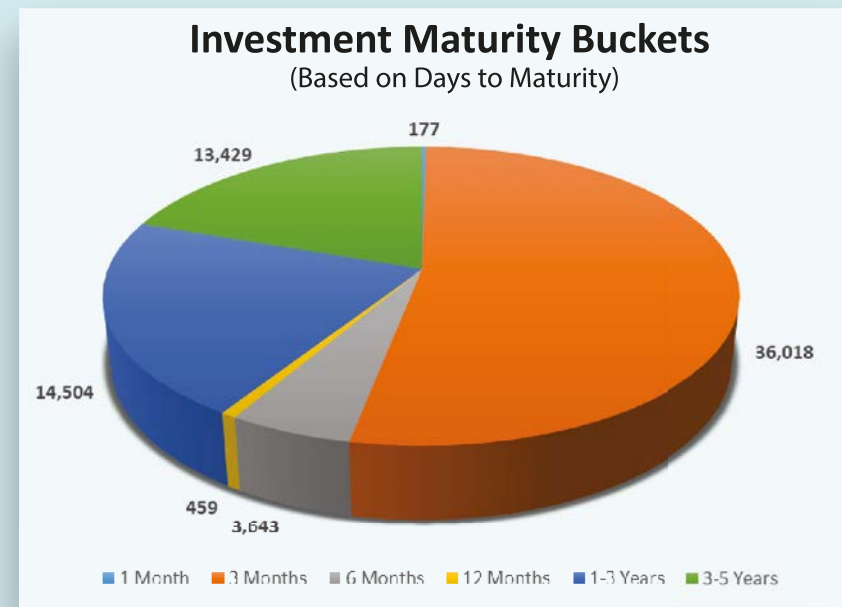


FINANCIAL PERFORMANCE



Graphical Presentation





Four Years Vertical Analysis

Statement of Financial Position

Assets	2022		2021		2020		2019	
	Rs. in Mn	%	Rs. in Mn	%	Rs. in Mn	%	Rs. in Mn	%
Cash and cash equivalents	3	0.00%	3	0.01%	3,066	11.07%	48	0.38%
Investment securities	68,232	99.92%	45,306	99.97%	24,597	88.84%	12,566	99.59%
Fixed assets	7	0.01%	5	0.01%	3	0.01%	4	0.03%
Prepayments and other receivables	44	0.07%	4	0.01%	23	0.08%	0	0.00%
	68,286	100.00%	45,318	100.00%	27,689	100.00%	12,618	100.00%
Liabilities								
Payable to SBP	45	0.07%	26	0.06%	24	0.09%	47	0.37%
Other liabilities	487	0.71%	25	0.05%	2	0.01%	3	0.02%
	532	0.78%	51	0.11%	26	0.09%	50	0.39%
Net Assets	67,754	99.22%	45,267	99.89%	27,663	99.91%	12,568	99.61%
Represented By:								
Share capital	500	0.73%	500	1.10%	500	1.81%	500	3.98%
Reserves	53,848	78.86%	36,270	80.03%	22,141	79.96%	9,830	78.21%
DP Waqf	13,406	19.63%	8,497	18.75%	5,022	18.14%	2,238	17.81%
	67,754	99.22%	45,267	99.89%	27,663	99.91%	12,568	99.61%

Statement of Profit or Loss

Head of Account	2022		2021		2020		2019	
	Rs. in Mn	%	Rs. in Mn	%	Rs. in Mn	%	Rs. in Mn	%
Income from premium contribution	17,051	75.45%	14,640	82.74%	12,773	84.17%	11,533	94.63%
Investment income and profit on deposits	5,547	24.55%	3,054	17.26%	2,402	15.83%	654	5.37%
Total income	22,598	100.00%	17,694	100.00%	15,175	100.00%	12,187	100.00%
General and admin. expenses	-111	-0.49%	-90	-0.51%	-80	-0.53%	-120	-0.98%
Net Surplus	22,487	99.51%	17,604	99.49%	15,095	99.47%	12,067	99.02%

Note:

For Vertical Analysis, percentages has been calculated based on total assets, and for statement of profit or loss, it is calculated based on total income which is the sum of income from premium contribution and investment income.

**DEPOSIT PROTECTION CORPORATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

**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, 2022, 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, 2022 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 Moomhala

Karachi

UDIN No. #AR202210207bR3xPC1IH

DEPOSIT PROTECTION CORPORATION
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2022

	Note	2022	2021
		------(Rupees in '000)-----	
Assets			
Cash and cash equivalents	5	2,866	2,683
Investment securities	6	68,231,599	45,306,293
Fixed assets	7	6,640	4,921
Prepayments and other receivables	8	44,465	3,794
Total assets		68,285,570	45,317,691
Liabilities			
Payable to State Bank of Pakistan	9	45,048	26,099
Other liabilities	10	486,810	24,787
		531,858	50,886
Net assets		67,753,712	45,266,805
Equity and Fund			
Share capital	11	500,000	500,000
Reserves	12	53,847,626	36,269,712
		54,347,626	36,769,712
DP Waqf	13	13,406,086	8,497,093
Total		67,753,712	45,266,805
Contingencies and commitments	14		

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

Sima Kamil
Board Chairperson

Syed Irfan Ali
Managing Director

DEPOSIT PROTECTION CORPORATION
STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2022

	Note	2022	2021
		------(Rupees in '000)-----	
Income from premium contribution	15	17,050,683	14,640,142
Investment income and profit on deposits	16	5,547,142	3,053,713
Total income		22,597,825	17,693,855
General and administrative expenses	17	(110,918)	(90,045)
Net surplus for the year		22,486,907	17,603,810
Other comprehensive income		-	-
Total comprehensive income for the year		22,486,907	17,603,810

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

Sima Kamil
Board Chairperson

Syed Irfan Ali
Managing Director

DEPOSIT PROTECTION CORPORATION
STATEMENT OF CHANGES IN EQUITY AND FUND
FOR THE YEAR ENDED JUNE 30, 2022

	Note	Share Capital	Reserves	Sub-Total	DP Waqf	Total
		----- (Rupees in '000) -----				
Balance as at July 1, 2020	11	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
Net surplus for the year	12 & 13	-	17,577,914	17,577,914	4,908,993	22,486,907
Other comprehensive income		-	-	-	-	-
		-	17,577,914	17,577,914	4,908,993	22,486,907
Balance as at June 30, 2022		500,000	53,847,626	54,347,626	13,406,086	67,753,712

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

Sima Kamil
Board Chairperson

Syed Irfan Ali
Managing Director

DEPOSIT PROTECTION CORPORATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2022

	Note	2022	2021
		----- (Rupees in '000) -----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus for the year		22,486,907	17,603,810
Adjustments for:			
Depreciation	7	1,594	1,585
Fixed Assets and others		582	-
Surplus for the year after non-cash and other items		22,489,083	17,605,395
(Increase) / decrease in assets:			
Pre-payments and other receivables	8	(40,671)	19,016
Increase / (decrease) in liabilities:			
Payable to State Bank of Pakistan		18,949	2,166
Other liabilities		462,023	22,783
Net cash generated from operating activities		22,929,384	17,649,360
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Investments made during the year		(22,925,306)	(20,709,128)
Additions to fixed assets		(3,895)	(3,089)
Net cash used in investing activities		(22,929,201)	(20,712,217)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution from State Bank of Pakistan		-	-
Net cash flow from financing activities		-	-
Increase/(decrease) in cash and cash equivalents during the year		183	(3,062,857)
Cash and cash equivalents at beginning of the year		2,683	3,065,540
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	5	2,866	2,683

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

Sima Kamil

Board Chairperson

Syed Irfan Ali

Managing Director

DEPOSIT PROTECTION CORPORATION

Notes to the Financial Statements

FOR THE YEAR ENDED ON JUNE 30, 2022

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 500,000, 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. The Corporation was established as a subsidiary of SBP and pursuant to section 9 of the Act, initial capital contribution of Rs. 500 million was made by SBP upon which no dividend is payable.

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 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 (IFRSs), 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 IFRSs 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 IFRSs 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 recognised 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 IFRSs 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. Judgments 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 amortised 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 behaviour (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 obligations 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

There were certain amendments to approved accounting standards and interpretations that are mandatory for the financial year beginning on July 01, 2021. However, these are considered not to be relevant or to have any significant effect on the Corporation's financial reporting and operations and, therefore, have not been disclosed in these financial statements.

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

There is a standard and certain other amendments to accounting and reporting standards that are not yet effective and are considered neither to be relevant nor to have any significant impact on the Corporation's financial statements and operations and, therefore, have not been disclosed in these financial statements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in 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 Services Corporation i.e. (SBP-BSC) and Islamic Banking Institutions (IBIs). 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 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 derecognises 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 derecognised 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, the 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 sukuk 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, 2022, 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 capitalised 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's 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 comprises the contribution paid by the State Bank of Pakistan in accordance with Section 9 of the Act.

4.12 Reserves

Reserves reflect 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 accounts for managing resources of the Corporation related to Islamic operations with prior approval of its Board.

The DP Waqf of Corporation consists 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

	2022		
	Conventional	Islamic	Total
	(Rupees in '000)		
Current accounts with SBP - BSC	2,057	618	2,675
Cash in hand	26	-	26
Balance with IBIs	-	165	165
	2,083	783	2,866

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

	2022	2021
	% per annum	
Profit on Balance with IBIs (%)	2.46 - 6.62	2.75 - 6.5%

6 INVESTMENT SECURITIES

		2022		
	Note	Conventional	Islamic	Total
		(Rupees in '000)		
Government securities - at amortised cost				
Market Treasury Bills - MTBs	6.1	34,120,376	-	34,120,376
Pakistan Investment Bonds-PIBs	6.2	20,681,567	-	20,681,567
Government of Pakistan (GoP) Ijara Sukuk	6.3	-	13,429,656	13,429,656
		54,801,943	13,429,656	68,231,599

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

- 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 Sukuk 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:

	2022	2021
	% per annum	
Mark-up on MTBs	10.65 - 15.08	7.29 - 7.75
Mark-up on PIBs	9.00 - 15.40	7.33 - 9.00
Government of Pakistan (GoP) Ijara Sukuk	10.45 - 14.85	5.95 - 7.48

7 FIXED ASSETS

	2022				
	Furniture and fixtures	Office equipment	EDP equipment	Motor vehicles	Total
	Rupees in '000				
As at July 1, 2021					
Cost	2,495	1,499	1,988	2,877	8,859
Accumulated Depreciation	837	808	1,909	384	3,938
Net book value	1,658	691	79	2,493	4,921
Additions during the year	-	-	-	3,895	3,895
As at June 30, 2022	1,658	691.50	79	6,388	8,816
Adjustments					
Cost	(906)	(190)	(52)	-	(1,148)
Accumulated depreciation	355	165	46	-	566
	(551)	(25)	(6)	-	(582)
Depreciation charge during the year	(227)	(290)	(47)	(1,030)	(1,594)
As at June 30, 2022	(227)	(290)	(47)	(1,030)	(1,594)
Carrying amounts					
As at June 30, 2022	880	376	26	5,358	6,640
Rate of Depreciation	10%	20%	33%	20%	
	2021				
	Furniture and fixtures	Office equipments	EDP equipments	Motor vehicles	Total
	Rupees in '000				
As at July 1, 2020					
Cost	2,495	1,287	1,988	-	5,770
Accumulated Depreciation	588	519	1,246	-	2,353
Net book value	1,907	768	742	-	3,417
Additions during the year	-	212	-	2,877	3,089
As at June 30, 2021	1,907	980	742	2,877	6,506
Adjustments					
Cost	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-
	-	-	-	-	-
Depreciation charge during the year	(249)	(289)	(663)	(384)	(1,585)
As at June 30, 2021	(249)	(289)	(663)	(384)	(1,585)
Carrying amounts					
As at June 30, 2021	1,658	691	79	2,493	4,921
Rate of Depreciation	10%	20%	33%	20%	

8 PREPAYMENTS AND OTHER RECIEVABLES

	Note	2022 ------(Rupees in '000)-----	2021 ------(Rupees in '000)-----
Prepayments		-	7
Premium Receivable - Conventional		34,575	-
Premium Receivable - Islamic		6,103	-
Withholding Tax Receivable		3,787	3,787
		44,465	3,794

9 PAYABLE TO STATE BANK OF PAKISTAN

		2022 ------(Rupees in '000)-----	2021 ------(Rupees in '000)-----
Payable to State Bank of Pakistan	9.1	45,048	26,099

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

	2022 ------(Rupees in '000)-----	2021 ------(Rupees in '000)-----
Payable to auditors and others	1,981	1,072
Advance premiums - Conventional Institution(s)	461,183	174
Advance premiums - Islamic Institution(s)	23,646	23,541
	486,810	24,787

11 SHARE CAPITAL

	2022 ------(Number of shares)-----	2021 ------(Number of shares)-----	2022 ------(Rupees in '000)-----	2021 ------(Rupees in '000)-----
Authorized Share Capital				
1,0001,000Ordinary shares of Rs. 1,000,000 each			1,000,0001,000,000	
Issued, subscribed and paid-up capital				
500500Fully paid-up ordinary shares of Rs. 1,000,000 each			500,000500,000	

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	2022 ----- <i>(Rupees in '000)</i> -----	2021
	Opening	36,269,712	22,141,428
	Net surplus for the year	17,577,914	14,128,284
	Accumulated surplus	53,847,626	36,269,712
13	DP Waqf		
	Opening	8,497,093	5,021,567
	Net surplus for the year	4,908,993	3,475,526
	Accumulated surplus	13,406,086	8,497,093
14	CONTINGENCIES AND COMMITMENTS		
	There were no contingencies and commitments as at June 30, 2022 (June 30, 2021: Nil)		
15	INCOME FROM PREMIUM CONTRIBUTION	2022 ----- <i>(Rupees in '000)</i> -----	2021
15.1	Premium contribution income for the current year consists of the following:		
	Premium contribution income on eligible deposits from Member Institutions		
	- Conventional	13,073,883	11,585,181
	- Islamic	3,976,800	3,054,961
		17,050,683	14,640,142
15.2	For the year ended June 30, 2022, the Corporation recorded income of annual premium contribution from 33 member institutions, starting from July 2021. 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	Note	2022 ----- <i>(Rupees in '000)</i> -----	2021
	Interest income - Conventional securities	16.1	4,590,863	2,614,944
	Profit earned - Islamic securities	16.2	955,607	430,896
	Profit earned - Balances with IBIs	16.3	672	7,873
			5,547,142	3,053,713
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 Sukuk carried at amortised cost.			
16.3	Profit earned consist of the amount held as deposit with various IBIs.			
16.4	The amounts reported above include interest income / profit earned calculated using effective interest / profit method.			
			2022 ----- <i>% per annum</i> -----	2021
	Interest / profit profile are as under:			
	Interest rate on MTBs		7.10 to 15.08	6.53 to 13.77
	Interest rate on PIBs		7.46 to 12.13	7.46 to 12.03
	Profit rate on GoP Ijara Sukuk		8.23 to 14.50	6.25 to 7.12

17 GENERAL AND ADMINISTRATIVE EXPENSES

		2022		
	Note	Conventional	Islamic	Total
		(Rupees in '000)		
Salaries and other benefits	17.1	68,475	18,992	87,467
Travelling expenses		70	20	90
Electricity, gas and water		38	11	49
Depreciation		1,248	346	1,594
Repairs & maintenance		10,263	2,846	13,109
Training		1,037	288	1,325
Books and newspapers		51	14	65
Postages, telegram / telex and telephone		66	18	84
Legal and professional		311	86	397
Auditors' remuneration	17.2	435	121	556
Annual membership fee		3,707	1,028	4,735
Stationery & Publication		141	39	180
Others		990	277	1,267
		86,832	24,086	110,918

GENERAL AND ADMINISTRATIVE EXPENSES

		2021		
	Note	Conventional	Islamic	Total
		(Rupees in '000)		
Salaries and other benefits	17.1	65,197	16,521	81,718
Travelling expenses		-	-	-
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 & Publication		37	9	46
Others		156	39	195
		71,841	18,204	90,045

- 17.1** Salaries and other benefits to the Corporation's employees are paid through SBP. The retirement benefits of the Corporation's employees are accounted for in the books of SBP.

17.2 Auditor's Remuneration

	2022	2021
	----- (Rupees in '000) -----	
Audit fee	538	486
Out of pocket expenses	18	16
	556	502

- 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 operations of the Corporation as at June 30, 2022 and for the year from July 1, 2021 to June 30,2022 are as follows:

18.1 Statement of financial position as at June 30, 2022

		2022	2021
		----- (Rupees in '000) -----	
Assets			
Cash and cash equivalents		783	672
Investment securities	6.3	13,429,656	8,522,728
Premium from Islamic Member Institution and other receivables		9,890	3,787
Total assets		13,440,329	8,527,187
Liabilities			
Other liabilities	18.1.1	33,243	29,094
Net assets		13,407,086	8,498,093
DP Waqf			
Seed Money (allocated from paid up capital)		1,000	1,000
Accumulated surplus		13,406,086	8,497,093
Total		13,407,086	8,498,093

18.1.1 This includes balance amounting to Rs. 9.6 million (2021: Rs. 5.6 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	2022	2021
	----- (Rupees in '000) -----	
Income from premium contribution	3,976,800	3,054,961
Investment income on Islamic securities	955,607	430,896
Profit earned on deposits with IBIs	672	7,873
Total Income	4,933,079	3,493,730
General and administrative expenses	(24,086)	(18,204)
Net surplus for the year	4,908,993	3,475,526
Other comprehensive income	-	-
Total comprehensive income for the year	4,908,993	3,475,526

18.3 Statement of Cash flows

Cash flows from operating activities

Net surplus for the year	4,908,993	3,475,526
Adjustments for non-cash and other items	-	-
Profit for the year after non-cash and other items	4,908,993	3,475,526

(Increase) / decrease in assets:

Other assets	(6,103)	1,242
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Increase / (decrease) in liabilities:

Other liabilities (includes amount allocated to islamic operations)	4,149	24,214
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Net cash generated from operating activities	4,907,039	3,500,982
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Cash flows from investing activities

Investments made during the year in Islamic securities	(4,906,928)	(6,560,880)
Net cash used in investing activities	(4,906,928)	(6,560,880)

Cash flows from financing activities

Seed Money	-	-
Net cash flow from financing activities	-	-

Increase/(decrease) in cash and cash equivalents during the year	111	(3,059,898)
Cash and cash equivalents at beginning of the year	672	3,060,570
Cash and cash equivalents at end of the year	783	672

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.

	2022	2021
	----- (Rupees in '000) -----	
Financial assets		
Cash and cash equivalents	2,866	2,682
Investment securities	68,231,599	45,306,293
Other receivables	44,465	3,787
	68,278,930	45,312,762
Financial liabilities		
Payable to State Bank of Pakistan	45,048	26,099
Other liabilities	1,981	1,072
	47,029	27,171

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 of 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 GOP Ijarah Sukuk and Pakistan Investment Bonds.

Management of the Corporation estimates that increase / decrease of 100 basis points in the interest rate with all other factors remaining constant, would increase / decrease the Corporation's surplus by Rs. 651 million (2021: Rs. 118 million). 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 and 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, 2022, 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, 2022 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 , Managing Director who have responsibility for planning, directing and controlling the activities of the Corporation.

Compensation of key management personnel is as follows;

	2022	2021
	---- (Rupees in '000) ----	
Short term benefits	36,937	31,115
Post-employment benefits	3,336	2,724
Total remuneration of key management personnel	40,274	33,839

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 October 18, 2022 by the Board of Directors.

Sima Kamil
Board Chairperson

Syed Irfan Ali
Managing Director

Glossary

Backup Funding

Additional Funding arrangements to supplement the Deposit insurance funds in situations where the cumulated funds are insufficient to meet the needs of intervention and failure Resolution, including depositor reimbursement.

Bridge Bank

An entity that is established to temporarily takeover and maintain certain assets, liabilities and operations of a failed Bank as part of the Resolution process.

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).

Failed Bank

A member institution that has been notified by the State Bank of Pakistan “As a Failed Institution” under sub-section (1) of section 21 of DPC Act 2016.

Loss Minimizer

A Mandate in which the Deposit Insurer actively engages in a selection from a range of least-cost Resolution strategies.

Mandate

A set of official instructions describing the Deposit Insurer’s roles and responsibilities. There is no single Mandate or set of Mandates suitable for all Deposit Insurers. When assigning a Mandate to a Deposit insurer, jurisdiction-specific circumstances must be taken into account. Mandates can range from narrow “paybox” systems to those with extensive responsibilities, such as preventive action and loss or risk minimisation/management, with a variety of combinations in between. These can be broadly classified into four categories: Paybox, Paybox plus, Loss Minimiser and Risk Minimiser.

Moral Hazard

Arises when parties have incentives to accept more risk because the costs that arise from such risk are borne, in whole or in part, by others.

Member Bank

A Banking company or a financial institution which is notified by the Corporation as a member institution and which is required to pay premium to the Corporation under the provision of DPC Act 2016.

Premium

The amount that a Member Institution pays to the Deposit Protection Corporation in the manner and time frame prescribed in Deposit Protection Mechanism.

Payment Agent

Entities (e.g. Banks, postal banks) authorised by a Deposit Insurer to reimburse Insured Depositors on its behalf.

Pay box

A Mandate in which the Deposit Protection Agency is only responsible for the reimbursement of Insured Deposits.

Pay box Plus

A Mandate in which the Deposit Protection Agency has additional responsibilities, such as certain Resolution functions (e.g. financial support).

Risk Minimizer

A Mandate in which a Deposit Protection Agency has comprehensive risk minimization functions, including risk assessment/ management, a full suite of Early Intervention and Resolution Powers, and in some cases, prudential oversight responsibilities.

Recovery

The amount of collections from the assets of a failed Bank.

Resolution Authority

A public authority that, either alone or together with other authorities, is responsible for the Resolution of Financial Institutions established in its jurisdiction (including resolution planning functions).

Target Fund Size

The size of the Ex ante Deposit Protection fund, typically measured as a proportion of the assessment base (e.g. total or insured deposits), sufficient to meet the expected future obligations and cover the operational and related costs of the Deposit Protection Institution.

