

HABIBMETRO

ANNUAL REPORT 2017



[Subsidiary of Habib Bank AG Zurich]



هَذَا فَضْلُكَ

OUR VISION

To be the most respected financial institution
based on trust, service and commitment



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CORPORATE INFORMATION

BOARD OF DIRECTORS

CHAIRMAN

Mohamedali R. Habib

PRESIDENT & CHIEF EXECUTIVE OFFICER

Sirajuddin Aziz

DIRECTORS

Ali S. Habib

Anjum Z. Iqbal

Firasat Ali

Mohomed Bashir

Muhammad H. Habib

Sohail Hasan

Tariq Ikram

AUDIT COMMITTEE

Ali S. Habib

Anjum Z. Iqbal

Sohail Hasan

CREDIT COMMITTEE

Anjum Z. Iqbal

Muhammad H. Habib

Sirajuddin Aziz

HUMAN RESOURCE & REMUNERATION COMMITTEE

Mohamedali R. Habib

Firasat Ali

Tariq Ikram

RISK & COMPLIANCE COMMITTEE

Anjum Z. Iqbal

Firasat Ali

Sirajuddin Aziz

COMPANY SECRETARY

Fuzail Abbas (Officiating)

SHARE REGISTRAR

Central Depository Company of Pakistan Limited

CDC House, 99-B, Block-B

S.M.C.H.S., Main Shahra-e-Faisal

Karachi - 74400.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Twenty Sixth Annual General Meeting of the shareholders of Habib Metropolitan Bank Ltd. will be held at the Moosa D. Dessai Auditorium, Institute of Chartered Accountants of Pakistan, G-31/8, Chartered Accountants Avenue, Clifton, Karachi on Thursday, 29 March 2018 at 9:00 a.m. to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Accounts, standalone as well as consolidated, of the Bank for the year ended 31 December 2017 together with the Directors' and Auditors' reports thereon.
2. To approve, as recommended by the Board of Directors, final dividend @ 30% (Rs.3.00 per share) in the form of cash for the year ended 31 December 2017.
3. To appoint Auditors for the financial year ending 31 December 2018 and fix their remuneration. The present Auditors, Messrs. KPMG Taseer Hadi & Co., Chartered Accountants, being eligible, offer themselves for re-appointment.

SPECIAL BUSINESS

4. To enhance remuneration payable to directors for attending Board and its sub-committees' meetings.
5. To approve remuneration paid to the directors during the year ended 31 December 2017.

A statement of material fact under section 134(3) of the Companies Act, 2017 relating to the aforesaid special business to be transacted at the said Annual General Meeting is being sent to the shareholders along with the notice.

ANY OTHER BUSINESS

6. To consider any other business with the permission of the Chair.

By order of the Board

Karachi: 16 February 2018

FUZAIL ABBAS
Company Secretary (Officiating)

NOTES:

1. A member entitled to attend and vote at this meeting may appoint another member as his / her proxy to attend the meeting and vote for him / her. Proxy form is enclosed with the Annual report. A proxy must be a member of the Bank. In order to be effective, proxies must be received at the Registered Office of the Bank, duly stamped, signed and witnessed, not less than 48 (forty-eight) hours before the meeting.

2. CDC account holders and sub-account holders are required to bring with them their original National Identity Card or passport along with the participants' ID numbers and their account numbers in order to facilitate identification. In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee is also required.
3. Members are requested to notify the change of addresses, if any.
4. The share transfer book of the Bank will remain closed from 16 March 2018 to 29 March 2018 (both days inclusive).

BANK ACCOUNT DETAILS FOR PAYMENT OF CASH DIVIDEND

In accordance with the Section 242 of the Companies Act, 2017, any cash dividend shall only be paid through electronic mode directly into the bank account designated by the entitled shareholder. Please provide the following information to the Bank's Share Registrar along with a copy of your valid CNIC:

Details of Shareholder	
Name of shareholder	
Folio / CDS Account No.	
CNIC No.	
Cell number of shareholder	
Landline number of shareholder, if any	
Email Address (Mandatory)	
Details of Bank Account	
Title of Bank Account	
International Bank Account Number (IBAN) "Mandatory"	PK _____ (24 digits)
Bank's name	
Branch Name	
Branch address	
<p>It is stated that the above-mentioned information is correct and in case of any change therein, I / we will immediately intimate Participant / Share Registrar accordingly.</p> <p>_____ Signature of shareholder</p>	

MANDATORY SUBMISSION OF CNIC:

Pursuant to the directives of the Securities & Exchange Commission of Pakistan (SECP), Dividend Warrants shall mandatorily bear the CNIC numbers of shareholders. Therefore, shareholders, having shares in physical form, are requested to submit a copy of their CNIC (if not already provided) to the Bank's Share Registrar without any delay.

Deduction of Withholding Tax from Dividend:

The Government of Pakistan through Finance Act, 2016 has made certain amendments in section 150 of the Income Tax Ordinance, 2001 whereby different rates are prescribed for deduction of withholding tax on the amount of dividend paid by the companies. These tax rates are as under:

- (a) For filers of income tax returns: 15%
- (b) For non-filers of income tax returns: 20%

To enable the Bank to make tax deduction on the amount of cash dividend @ 15% instead of 20%, all members whose names are not entered in the Active Tax-Payers List (ATL) provided on the website of Federal Board of Revenue (FBR), despite the fact that they are filers, are advised to make sure that their names are entered into ATL at the earliest possible (as and when declared) otherwise tax on their cash dividend will be deducted @ 20%.

For Shareholders holding their shares jointly as per the clarification issued by the FBR withholding tax will be determined separately on 'Filer / Non-Filer' status of Principal shareholder as well as joint-holder(s) based on their shareholding proportions. Therefore, all shareholders who hold shares jointly are required to provide shareholding proportions of Principal shareholder and Joint-holder(s) in respect of shares held by them follows:

Folio / CDC Account No.	Total shares	Principal Shareholder		Joint Shareholder(s)	
		Name and CNIC No.	Shareholding Proportion (No. of Shares)	Name and CNIC No.	Shareholding Proportion (No. of Shares)

In case of non-receipt, the shareholding will be divided among the joint-holders equally.

For any query / difficulty / information, the members may contact the Bank's Share Registrar and Share Transfer Agent, at the following address, phone / fax numbers or e-mail address:

Central Depository Company of Pakistan Limited
 CDC House, 99-B, Block-B, P.E.C.H.S., Main Shahra-e-Faisal, Karachi-74400
 Tel: 0800-23275, Fax No. (92-21) 34326053
 Email: info@cdcpak.com URL: www.cdcpakistan.com

STATEMENT OF MATERIAL FACT UNDER SECTION 134(2) OF THE COMPANIES ACT, 2017

This statement sets out the material facts concerning the special business to be transacted at the Annual General Meeting of the Bank to be held on 29 March 2018.

Approval of the shareholders will be sought for the following:

1. To enhance remuneration payable to directors for attending Board and its sub-committees' meeting from 75,000 (Rupees seventy-five thousand only) to Rs. 100,000 (Rupees one hundred thousand only).

"Resolved that the remuneration payable to directors for attending Board and its sub-committees' meeting be and is hereby increased from Rs. 75,000 (Rupees seventy five thousand only) to Rs. 100,000 (Rupees one hundred thousand only)."

2. To approve remuneration paid to the directors during the year ended 31 December 2017 and pass the following resolution as an ordinary resolution, with or without modification, addition or deletion:

"Resolved that the remuneration paid to the Directors of the Bank during the year ended 31 December 2017, as disclosed in the note 37 to the Annual Accounts of the Bank, be and is hereby approved."

None of the Directors are interested except to the extent stated above in the special business.

CHAIRMAN'S REVIEW



Dear Shareholders,

On behalf of the directors of Habib Metropolitan Bank, it gives me immense pleasure to present this report, together with the financial statements of the Bank for the year ended 31 December 2017. The operating financial results and appropriations, as recommended by the Board of Directors, are summarized below:

	Rupees in '000
Profit before provisions and tax	9,054,210
Reversal of provision for non-performing loans, investments & other assets	74,874
Profit before tax	9,129,084
Taxation - Current	(2,755,716)
- Prior years	(413,000)
- Deferred	(451,362)
	(3,620,078)
Profit after tax	5,509,006
Un-appropriated profit brought forward	12,753,139
Transfer from surplus on revaluation of non-banking assets - net of tax	25,662
Other comprehensive income	54
Profit available for appropriation	18,287,861
Appropriations:	
- Transfer to Statutory Reserve	(1,101,801)
- Cash dividend (Rs. 3.00 per share) - 2016	(3,143,494)
	(4,245,295)
Un-appropriated profit carried forward	14,042,566

The Directors are pleased to propose a final cash dividend of Rs. 3/- per share (30%) for the year under review.

By Allah's Grace, your Bank continued to make steady progress. Bank's deposits increased to Rs. 518 billion as compared to Rs. 431 billion at the end of previous year, whereas gross advances increased to Rs. 191 billion at year-end and total assets increased to Rs. 645 billion.

HabibMetro's profit before taxation is over Rs. 9 billion for the year 2017. The performance translates into an earning of Rs. 5.26 per share.

At year-end, HabibMetro's equity stands at Rs. 39.56 billion, with a capital adequacy level of 17.19% against the required 11.275%.

The Board of Directors in its meeting held on 16 February 2018, appointed Mr. Mohsin A. Nathani as President & Chief Executive Officer of the Bank in place of Mr. Sirajuddin Aziz who has been elevated to another assignment within the Group. This transition would be subject to the approval of the State Bank of Pakistan, and is planned for second quarter of 2018. The Board would like to acknowledge the commendable performance of Mr. Sirajuddin Aziz. The Bank under his dynamic leadership over the past six years has transformed and grown significantly. We wish him the best for his new assignment.

Mr. Nathani is a seasoned banker with over 25 years of banking experience, covering Asia (East & South-East), Middle East and Levant regions while serving with various reputed multinational banks. Mr. Nathani is an MBA from Institute of Business Administration, Karachi.

The Board of the Bank is effective and balanced. The current composition includes three independent directors, five non-executive directors and one executive director. The Board with its active engagement with the stakeholders is well poised to govern the Bank and oversee implementation of its strategy.

This review forms an integral part of the Directors' Report to the Shareholders.

I would like to take this opportunity to place on record our sincere gratitude to the Ministry of Finance, the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan for their support and continued guidance. We are also grateful to our valued customers for their trust and support. I would also like to thank our staff members for their devotion and diligence.

We bow our heads to Allah and pray for His blessings and continued guidance.

On behalf of the Board

MOHAMEDALI R. HABIB
Chairman

Karachi: 16 February 2018

DIRECTORS' REPORT TO THE SHAREHOLDERS

Dear Shareholders,

It gives me great pleasure to present to you the annual accounts of Habib Metropolitan Bank (HabibMetro), for the financial year ended 31 December, 2017.

ECONOMIC AND BANKING REVIEW

The economy witnessed buoyance at the back of increased investor confidence and activity - much of this was driven by improved law and order situation, stable economic and political policies and the promise of CPEC. Average inflation for the first half of Fiscal Year 2017-2018 stood at 3.8 percent. Anticipated effects of PKR depreciation and rising international oil prices are likely to push inflation towards the annual upper limit of 6 percent as set by the Government.

Exports posted a growth of 10.8 percent in the first half of FY18, the highest in the last seven years, compared to the decline of 1.4 percent posted in the first half of FY17. Remittances also recorded a growth of 2.5 percent compared to the decline posted in the corresponding period of the previous year. However, these were netted off by a strong growth in imports of goods and services. As a result, the current account deficit widened to USD 7.4 billion during the first half of the current fiscal year.

The SBP's liquid foreign exchange reserves reduced by USD 2.6 billion since June-end 2017 to reach USD 13.5 billion in mid-January 2018. Since November 2017, the PKR has depreciated by around 5 percent. Going forward, revival of exports, favorable external environment and anticipated increase in workers' remittances, are expected to reduce the country's current account deficit.

The banking sector's deposit base, augmented by 12.7 percent year-on-year growth, amounted to Rs. 11.78 trillion at the end of October 2017; meanwhile, advances grew by 19 percent and stood at Rs. 6.15 trillion and investments grew by 16 percent to Rs. 8.34 trillion. As of end of September 2017, the sector's stock of NPLs marked at Rs. 611.81 billion, and the infection ratio stood at 10%.

The State Bank of Pakistan, in its Monetary Policy Statement of January 2018, raised the Policy Rate by 25 bps to 6 percent per annum.

BANK'S PERFORMANCE DURING THE YEAR

By Allah's Grace, the Bank's profit-after-tax amounted to Rs. 5.5 billion at the end of year 2017. EPS marked at 5.26 and return on Shareholder's Equity stood at 14.4 percent.

During the year under review, the Bank's deposits increased to Rs. 518 billion whereas gross Advances were recorded at Rs. 190.7 billion. Net Equity stood at Rs. 39.56 billion with Capital Adequacy at a comfortable 17.19%.

COMMITMENTS

No material changes in commitments affecting the financial position of the Bank have occurred between the end of financial year of the Bank and the date of the report.

CREDIT RATING

By the Grace of Allah, for the seventeenth consecutive year, the credit rating of the Bank has been maintained at AA+ (double A plus) for long term and A1+ (A one plus) for short term by the Pakistan Credit Rating Agency Limited. These ratings denote a high credit quality, a low expectation of credit risk and a strong capacity for timely payment of financial commitments.

AWARDS

HabibMetro was presented with the 'Best SME Trade Deal' award by the Asian Development Bank in 2017. The Bank was also selected as one of the top 25 companies of the Pakistan Stock Exchange. In addition to this, JP Morgan presented HabibMetro the 2017 Elite Quality Recognition Award and Sirat won the 'Best Emerging Brand in Islamic Retail Banking' award by Cambridge Analytica, UK.

ENHANCED REACH TO OUR CUSTOMERS

With Allah's blessings, HabibMetro enhanced its outreach by adding 13 new branches to its network in 2017 and with the addition of 7 new cities the Bank increased its footprint to 320 branches in 94 cities across Pakistan including 29 Islamic banking branches. The Bank's national footprint now comprises 168 branches in the North and 152 branches in the South.

Your Bank enjoys correspondent relationships with banks of repute in over 100 countries, with a large number of banks having formal credit lines for the Bank. HabibMetro provides comprehensive banking services and products, inclusive of specialized trade finance products, along with technologically advanced services like secured SMS and Web Banking services, globally accepted Visa Debit Cards and nationwide ATM network to its customers across the country.

Your Bank's subsidiary company Habib Metropolitan Financial Services (HMFS), provides convenient and trusted equity brokerage and custody services. Furthermore, Habib Metropolitan Modaraba Management has acquired management rights of First Habib Modaraba, which provides robust Islamic financing solutions. The Management Company also floated a new Modaraba during the year - Habib Metro Modaraba.

ALTERNATIVE DELIVERY CHANNELS

Maintaining exemplary service quality remains fundamental to your Bank's strategy. During the year, the Bank installed 25 new Automated Teller Machines (ATMs), including 8 offsite ATMs, taking the total number of ATMs to 345 across the country. The Bank's Visa Debit Cards and SMS & Web Banking subscriptions also witnessed a significant increase during this period.

HUMAN RESOURCES

The total strength of the HabibMetro family has grown from 4,597 to 4,719 during the year. The Bank has been largely catering to the training needs of its human resource by conducting in-house courses as well as sending staff for external trainings.

Your Bank remains an equal opportunity employer providing exciting careers and growth opportunities to prospective bankers.

CORPORATE SOCIAL RESPONSIBILITY

Being a conscientious corporate citizen, your Bank acknowledges its corporate social responsibilities and continues to make regular contributions to a host of non-profit / social organizations. The Bank, during the year, extended assistance in three major areas i.e. education, health care and welfare spending for the under-privileged. These voluntary contributions amounted to Rs. 81.6 million.

The Citizens Foundation remains one of the largest recipients of financial assistance, and through them, the Bank is running six schools in under-privileged rural areas where more than 1,000 children are enrolled. Details of your Bank's social contributions can be found in the notes to the accounts.

Your Bank continues to be one of the nation's leading taxpayers with more than Rs. 3.7 billion paid as direct taxes to the Government of Pakistan during the year 2017. Furthermore, an additional amount of about Rs. 8.57 billion comprising indirect tax and withholding income tax deductions for the exchequer was collected through the Bank's network.

CUSTOMER GRIEVANCES HANDLING

Customer satisfaction is considered as an important driver of the Bank's success. The Bank, for fair and efficient resolution of customer grievances, has further transformed its complaint handling mechanism whereby various initiatives were taken including automation of complaint handling, intimation to the complainant through SMS, swift monitoring of complaints and corrective measures on repetitive complaints.

The Bank maintains a practical and rational approach for fair and amicable resolution of the customer grievances, whilst handling customer complaints received from various channels. During the year 2017, total 6,371 complaints were received and with the effective complaint handling mechanism the average resolution time was approximately 7 days.

Customer grievances handling has been centralized for improved transparency and enhanced control environment. The Bank is committed to providing excellent services and versatile products to its customers.

CORPORATE GOVERNANCE

BOARD MEETINGS

Details of the meetings of the Board of Directors and its Sub-Committees held during the year 2017 and the attendance by each director / committee member are given as under:

Name of Directors	Board of Directors	Audit Committee	Credit Committee	Human Resource & Remuneration Committee	Risk & Compliance Committee
Mr. Mohamedali R. Habib	5/5	–	–	2/2	–
Mr. Ali S. Habib	5/5	4/4	–	–	–
Mr. Anjum Z. Iqbal	5/5	2/2	2/2	–	4/4
Mr. Firasat Ali	5/5	2/2	–	1/1	3/3
Mr. Mohomed Bashir	5/5	–	–	–	–
Mr. Muhammad H. Habib	4/5	–	2/2	–	–
Mr. Sohail Hasan	5/5	2/2	–	–	1/1
Mr. Tariq Ikram	5/5	2/2	–	2/2	–
Mr. Sirajuddin Aziz	5/5	–	2/2	1/1	4/4
Meetings held	5	4	2	2	4

BOARD'S PERFORMANCE EVALUATION

A formal Board's performance evaluation process is in place. An in-house approach is used based on quantitative techniques having a scored questionnaire (using a scale of 1 to 5) covering various aspects like strategic plan & performance, and the Board and its sub-committees' operations. The results are collated and presented to the Board for their review and identification of areas of improvement.

PATTERN OF SHAREHOLDINGS

The pattern of shareholdings as on 31 December 2017 is annexed to the report.

AUDITORS

The present auditors KPMG Taseer Hadi and Co., Chartered Accountants, retire and being eligible offer themselves for reappointment.

As required under the Code of Corporate Governance, the Board Audit Committee has recommended the appointment of KPMG Taseer Hadi and Co., Chartered Accountants as auditors of the Bank for the year ending 31 December 2018.

CORPORATE AND FINANCIAL REPORTING FRAMEWORK

1. The financial statements prepared by the Bank, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of accounts have been maintained by the Bank.
3. Appropriate accounting policies and estimates have been consistently applied in preparation of financial statements.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and departure therefrom, if any, has been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Bank's ability to continue as a going concern.
7. There has been no departure from the best practices of the corporate governance, as detailed in the listing regulations.
8. The key operating and financial data of last six years of the Bank is placed below:

Rs. in millions

	2017	2016	2015	2014	2013	2012
Shareholders' Equity	39,557	37,165	33,120	30,200	27,364	26,002
Paid-up capital	10,478	10,478	10,478	10,478	10,478	10,478
Total assets	644,554	526,606	489,879	397,380	311,454	304,416
Deposits	518,364	430,888	403,355	320,023	247,644	217,798
Advances	174,319	142,962	132,647	134,751	129,834	110,444
Investments	396,637	314,619	292,779	221,761	142,444	160,850
Profit pre-tax	9,129	10,334	12,539	7,312	5,112	5,044
Profit post-tax	5,509	6,119	7,656	4,927	3,526	3,406
Earnings per share (Rs)	5.26	5.84	7.31	4.70	3.37	3.25
Cash dividend (%) - final	30	30	20	25	20	20
- interim	—	—	20	—	—	—
No. of staff	4,719	4,597	4,277	3,914	3,559	3,284
No. of branches / sub branches	320	307	276	240	214	183

Value of investments of Provident Fund and Gratuity Scheme are as under:

- Provident Fund Rs. 2,773 million as at 30 June 2017.

- Gratuity Fund Rs. 1,103 million as at 31 December 2017.

RISK MANAGEMENT

STATEMENT ON RISK MANAGEMENT FRAMEWORK

Risk Management aspects are embedded in HabibMetro's strategy and organization structure. The Bank has devised a cohesive risk management structure for credit, operations, liquidity and market risk, with an integrated approach and strengthened internal controls.

The Bank's entire branch network is on-line and its state-of-the-art processing system is secure and has adequate capacity. Separation of duties is built into the Bank's system and processes. The Internal Audit Division conducts independent, risk-based review and verification of the Bank's branches and major functions throughout the year for evaluation of the control system. Comprehensive internal reports and MIS are additional tools for management in risk control. The Risk Management Division is staffed with professionals, covering all aspects of risks.

The Bank's Central Management Committee, along with Board Risk and Compliance Committee and Board of Directors, oversee the Bank's strategy, efforts and processes related to risk management.

CREDIT RISK

HabibMetro maintains a focused strategy to control and manage credit risk through product, geography, industry and customer diversification. The Bank extends trade and working capital financing, keeping the major portion of its exposure on a short-term and self-liquidating basis. A major portion of the Bank's credit portfolio is priced on a floating rate basis using KIBOR as a reference, which minimizes interest rate risk. The risk inherent in extending credit is further mitigated by robust credit granting procedures, which have been structured to ensure proper evaluation, adequacy of security, and monitoring of exposures on an ongoing basis. This is further augmented by centralized trade processing and credit administration.

MARKET / LIQUIDITY RISK

The Asset and Liability Management Committee reviews, recommends and monitors limits for FX and Money market exposures. The strategy is to balance risk, liquidity and profitability. The Board approved investment policy focuses on, amongst other aspects, asset allocation and operating guidelines. Furthermore, the monitoring of market and liquidity risk is ensured in line with Board approved Market and Liquidity Risk Management Policy.

STRESS TESTING

Stress testing techniques are used to assess risk exposures across the institution and to estimate the changes in the value of the portfolio, when exposed to various risk factors. Risk factors used in stress testing models are Interest Rate, Credit, Equity Price, Exchange Rate and Liquidity. The Bank's stress testing methodology ensures adherence to the SBP guidelines as well. The stress testing results depict a solid and resilient financial position of your Bank.

OPERATIONAL RISK

Operational Risk is prevalent in all area of banking activities and remains a major challenge worldwide. Identification of this risk prior to the events and building mitigating controls for the same, have always been the Bank's priority. The Bank has a dedicated Operational Risk Management Unit for carrying out Risk and Control Self-Assessment. This is reviewed by the process owners (first line of defense) and thereafter by the Bank's Management, Board Committees and the Board. Accordingly, remedial actions are undertaken. All policies and procedures are reviewed by Risk Management, inter alia, by Operational risk and Internal Control Unit of the Bank. This is to enhance the Bank's sustainability and for ensuring achievement of planned objectives. The Bank also has a well-established Business Continuity Plan, an Information Security Unit and strong independent Internal Audit set up.

COMPLIANCE

Your Bank continued to strengthen compliance oversight across its network during the year that included enhancing stringent KYC / AML controls and regulatory compliance awareness. The Compliance function provides support and counsel to management and staff on compliance and regulatory issues. All new policies and procedures, initiatives, products, services, business processes etc. are reviewed from a compliance perspective along with maintaining relationship with regulatory authorities. It is also involved in developing and maintaining a regulatory library that includes circulars issued by the State Bank of Pakistan and other relevant regulatory authorities. Furthermore, facilitation and liaison with the State Bank of Pakistan and its on-site Inspection teams is a key role played by this unit to ensure smooth conduct of the SBP inspection. Moreover, inquiries from Law Enforcement Agencies (LEAs) are also facilitated through this unit.

With the highly challenging and demanding global AML / CFT environment, Bank's AML function is fully committed towards implementation of highest standards of compliance within the Bank and ensures management and employees adhere to these standards. The Bank's state of the art Transaction Monitoring System (TMS) prevents money laundering activities through the Bank's channels, products and services. The TMS monitors out-of-pattern transactions and reviews different transaction activity through multiple AML scenarios embedded in it. In addition, the Bank has a robust Customer Due Diligence (CDD) process that allows the Bank to document / update each profile of customer and conduct comprehensive CDD as per regulatory requirements. Being a trade-oriented bank, Cross Border Transactions are screened and pre-approved by Compliance to ensure that no business is conducted with sanctioned countries. In addition, AML Unit in collaboration with Regulatory Risk and Compliance Unit reviews products and policies from AML perspective.

Your Bank has also participated as a Foreign Financial Institution (FFI) and is fully compliant with the Foreign Account Tax Compliance Act (FATCA) by collecting additional information and documentation from prospective clients, in order to determine whether or not they have any US tax reporting responsibilities. FATCA is a US legislation that came into effect on 1 July 2014, and is aimed at preventing tax evasion by US Persons and Companies. To ensure compliance with the FATCA legislation, Compliance Division facilitates coordination, training, development and monitoring of FATCA requirements.

Common Reporting Standards (CRS) is a global standard approved by the Organisation for Economic Cooperation & Development (OECD) Council and has been translated into domestic law by the Government of Pakistan through Income Tax Ordinance 2001 vide S.R.O 166 (I)/2017. The Bank is compliant with CRS rules and for this purpose accounts are scrutinized to establish their tax residency for further reporting to Federal Board of Revenue (FBR).

Compliance also assures identification, monitoring and resolution of regulatory issues (including follow-up) through on-site reviews by Area Compliance Officers (ACOs), who also provide training to the branch staff. Furthermore, ACOs also play a key role in enhancing the compliance culture in the Bank by ensuring that branches are strictly adhering to highest level of regulatory standards.

Whilst focusing on creativity and innovation, compliance function will continue to increase its effectiveness through professional development of its staff and strengthening of functional solutions.

CONTROLS

The Internal Control Unit (ICU) working as a part of the risk management team of the Bank is responsible for implementing and maintaining a sound system of internal controls to ensure efficiency and effectiveness of operations, compliance with legal requirements and reliability of financial reporting. Adequate systems, processes and controls have been put in place by the management to identify and mitigate the risk of failure to achieve the overall objectives of the Bank.

The Bank's organization structure and lines of authority are well-defined and processes throughout the Bank are governed by policies and procedures which are approved by the Board. Existing policies and procedural manuals are reviewed at regular intervals and improved from time to time, when required. The Board has constituted its subcommittees for oversight of the overall Risk Management Framework, which meet at regular intervals to ensure adequacy of governance.

The Bank's operating system contains control aspects embedded into all processes and functions which are governed through policies and procedures. Moreover, their compliance and effectiveness is verified by independent Internal Audit Division reporting directly to the Board Audit Committee.

SBP Internal Control Guidelines require the Bank's management to evaluate the effectiveness of internal controls. The management believes that the Bank's existing system of Internal Control is considered reasonable in design and is being effectively implemented and monitored. Please refer to the "Statement of Internal Controls" annexed to this Annual Report.

INTERNAL AUDIT

While broadening risk awareness and assuring regulatory compliance, Internal Audit at HabibMetro is an important and independent pillar of the Bank's control infrastructure that provides independent assurance to the management and the Board in assessing the Bank's control environment. The department performs continuous reviews to improve the quality of the Bank's internal control environment, ensuring an effective balance in safety and performance of processes and adding value towards the Bank's risk mitigation endeavors.

HabibMetro has an active Board Audit Committee functioning under the Code of Corporate Governance as stipulated by SECP and as adopted by the SBP. The members of Board Audit Committee are Non-Executive Directors and its Chairman is an Independent Director.

Reporting directly to the Board Audit Committee, Internal Audit employs a risk-based and proactive approach to branches, operational areas and key activities of the Bank with a significant emphasis on corrective actions and elimination of control lapses. These reviews are focused on related key risk indicators and system weaknesses to identify control, cost and revenue efficiencies.

FUTURE OUTLOOK

Early indicators suggest that Pakistan's economy is well positioned to meet the GDP growth target of 6 percent in FY18 and all three sectors of the economy, agriculture, industry and services are expected to contribute to the improving performance. However, the external account deficit remains a cause of concern.

Going forward, HabibMetro remains committed to protecting its shareholders' interests, while maximizing the value and service offered to its customers through a varied spectrum of financial products architected upon an advanced technological platform. The Bank aims to target organic growth, mobilization of low-cost deposits, improvement of asset quality and enhancement of cost efficiency.

ACKNOWLEDGEMENTS

In the end, I would like to take this opportunity to place on record our sincere gratitude to the Board, the Ministry of Finance, the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan for their support and continued guidance and to our valued customers for their trust and support. I thank the staff members for their devotion, diligence and commendable performance.

On behalf of the Board

Karachi: 16 February 2018

SIRAJUDDIN AZIZ
President & Chief Executive Officer

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

FOR THE YEAR ENDED 31 DECEMBER 2017

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 35 of Chapter XI of listing regulations of Pakistan Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Bank has applied the principles contained in the CCG in the following manner:

1. The Bank encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

Category	Names
Independent Directors	Mr. Firasat Ali
	Mr. Sohail Hasan
	Mr. Tariq Ikram
Non-Executive Directors	Mr. Ali S. Habib
	Mr. Anjum Z. Iqbal
	Mr. Mohamedali R. Habib
	Mr. Mohomed Bashir
	Mr. Muhammad H. Habib
President and Chief Executive Officer	Mr. Sirajuddin Aziz

The independent directors meets the criteria of independence under clause i (b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Bank.
3. All the resident directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred on the board during the year 2017.
5. The Bank has developed a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Bank along with its supporting policies and procedure.
6. The Bank has placed a mechanism for an annual evaluation of Board's own performance.
7. The board has developed a vision / mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
8. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer (CEO), other executives and non-executive directors, have been taken by the board / shareholders.
9. The meetings of the board were presided over by the Chairman and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
10. The Bank is compliant with the requirement of directors training program provided in code.
11. The board has approved appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.

12. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
13. The financial statements of the Bank were duly endorsed by CEO and CFO before approval of the board.
14. The directors, CEO and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
15. The Bank has complied with all the corporate and financial reporting requirements of the CCG.
16. The board has formed an Audit Committee. It comprises three members, all of whom are non-executive directors and the chairman of the committee is an independent director.
17. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Bank and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
18. The board has formed a Human Resource & Remuneration Committee. It comprises three members including an independent director.
19. The board has set up an effective internal audit function.
20. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
21. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
22. The 'closed period', prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange.
23. Material / price sensitive information has been disseminated among all market participants at once through stock exchange.
24. The Bank has complied with the requirements relating to maintenance of register of persons having access to inside information by designated senior management officer in a timely manner and maintained proper record including basis for inclusion or exclusion of names of persons from the said list.
25. The Bank has continued to present the details of all related party transactions before the Audit Committee and upon their recommendation to the board for review and approval. The definition of related party used is in accordance with repealed Companies Ordinance, 1984 and applicable financial reporting frame work as the regulations under Section 208 of the Companies Act, 2017 have not yet been announced.
26. We confirm that all other material principles enshrined in the CCG have been complied with.

On behalf of the Board

SIRAJUDDIN AZIZ

President & Chief Executive Officer

Karachi: 16 February 2018

AUDITORS' REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of Habib Metropolitan Bank Limited ("the Bank") for the year ended 31 December 2017 to comply with the requirements of Listing Rule book number 5.19 of the Pakistan Stock Exchange where the Bank is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code and report if it does not and to highlight any non-compliance with the requirements of the Code. A review is limited primarily to inquiries of the Bank's personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Bank's corporate governance procedures and risks.

The Code requires the Bank to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code as applicable to the Bank for the year ended 31 December 2017.

Karachi: 16 February 2018

KPMG Taseer Hadi & Co
Chartered Accountants
Mazhar Saleem

STATEMENT OF INTERNAL CONTROLS

This statement is being issued in compliance with the Guidelines on Internal Controls, issued by the State Bank of Pakistan vide BSD Circular No. 7 dated 27 May 2004.

MANAGEMENT EVALUATION OF INTERNAL CONTROL SYSTEM

The management of Habib Metropolitan Bank (HabibMetro) remains responsible for implementing strategies and policies as approved by the Board of Directors; maintaining an effective organization structure; instituting appropriate control procedures and monitoring the adequacy / effectiveness of internal control systems. The Board of Directors is ultimately responsible for ensuring that an adequate and effective system of internal controls is established and efforts are made to implement sound control procedures and to maintain a suitable control environment.

The Bank's fundamental policy is to embed controls in each process and make controls an important part of all business activities. Each member of the staff is also responsible for ensuring that the Bank always operates in a controlled manner and inordinate risks are not taken in any activity.

The Bank's organization structure and lines of authority are well-defined and processes throughout the Bank are largely governed by policies and procedures approved by the Board. However, their review and updating to meet regulatory requirements & changing practices remains a continued activity to achieve effective control objectives. The Bank's Operation Manual in accordance with best practices applicable to our environment for key areas is set in place to improve the quality of service, training and product knowledge across the organization. The Bank's accounting policies, practices and methodologies for various estimates have been reviewed by external auditors and there have been no material disputes thereon.

Effectiveness of internal controls is independently reviewed on a regular basis by Internal Audit and Board Audit Committee is updated accordingly. The internal audit framework incorporates extensive risk-based auditing throughout the year. Views expressed by external auditors and regulatory inspectors are also provided utmost importance and corrective actions on all audit / inspection observations are followed-up rigorously. For operating effectiveness, compliance to laws and regulations and reliability of financial reporting, in addition to other control functions, an Internal Control Unit has also been established within Risk Management Division. The Unit provides an ongoing mechanism for establishing and maintaining a sound system and apt control environment duly backed by independent internal audit regime. This would give reasonable assurance to achieve the internal control objectives for continuously evaluating the nature and extent of the significant risks and to manage them effectively and efficiently.

The SBP internal control guidelines require the Bank's management to evaluate the effectiveness of overall set of internal controls including financial reporting controls which are required to be independently reviewed by the external auditors. As part of this exercise, the Bank has formulated a comprehensive Internal Control process and a stage wise roadmap for its implementation across the bank considering an internationally accepted COSO Internal Control - Integrated Framework, as envisaged under the SBP Internal Control Guidelines for Financial Reporting (ICFR). In accordance with this process, the Bank has completed all stages of internal control over Financial Reporting and instituted initiatives for remediation of the identified gaps and also affected a system for testing effectiveness of all significant controls on ongoing basis. It is pertinent to note that although effective remediation of the gaps identified will further strengthen the Bank's existing control environment, management is confident that these gaps do not carry a significant bearing on the Bank's existing operations and related controls. Further, to strengthen the control culture the Bank undertakes awareness sessions for process owners on regular basis.

Internal Controls always manage rather than eliminate possibility of process failures to achieve their objectives and hence, can only provide reasonable assurance against material misstatements or loss.

On an overall basis, internal controls at HabibMetro were operating with reasonable adequacy throughout the year ended 31 December 2017 and reflect improvement from last year in organization structure; effective adherence with lines of authority; automation and effectiveness of processes with enhanced testing of controls.

On behalf of the Board

SIRAJUDDIN AZIZ

President & Chief Executive Officer

Karachi: 16 February 2018

Report of Shari'ah Board

FOR THE YEAR ENDED 31 DECEMBER 2017

In the name of Allah, the Beneficent, the Merciful.

While the Board of Directors and the Management are solely responsible to ensure that the operations of HabibMetro Sirat are conducted in a manner that complies with Shari'ah principles at all times, the Shari'ah Board is required to submit a report on the overall Shari'ah compliance environment of HabibMetro Sirat.

By the Grace of Allah Almighty, the Shari'ah Board (SB) held 7 meetings during the year to review various products, concepts, transactions, processes and their Shari'ah Compliance, referred by the Resident Shari'ah Board Member (RSBM). Further, all the process flows regarding financing facilities approved by the RSBM have also been ratified by the SB.

Thus, to form our opinion as expressed in this report, the Shari'ah Compliance Department of the Bank carried out reviews, on test check basis, of each class of transactions, the relevant documentation and process flows. Further, the Shari'ah Board has also reviewed the periodical reports of RSBM, Shari'ah Compliance Department and Internal Shari'ah Audit Division. The external Shari'ah audit for the year 2017 is in process. Based on the above, Shari'ah Board is of the view that:

- i. HabibMetro Sirat has complied with Shari'ah rules and principles in the light of fatawa, rulings and guidelines issued by its Shari'ah Board.
- ii. HabibMetro Sirat has complied with directives, regulations, instructions and guidelines related to Shari'ah compliance issued by SBP in accordance with the rulings of SBP's Shari'ah Board.
- iii. HabibMetro Sirat has a comprehensive mechanism in place to ensure Shari'ah compliance in their overall operations.
- iv. HabibMetro Sirat has a well-defined system in place sound enough to ensure that any earnings realized from sources or by means prohibited by Shari'ah have been credited to charity account and are being properly utilized.
- v. HabibMetro Sirat has complied with the SBP instructions on profit and loss distribution and pool management. Further, the Islamic Banking Division has Implemented automated pool management system with the help of active involvement and guidance of the RSBM.
- vi. The management has arranged number of trainings for the staff of Islamic Banking as well as for the staff of conventional branches. Also, Shari'ah Board has conducted specific product wise trainings for the staff members of IBBs.
- vii. The level of awareness, capacity and sensitization of the staff, management and the BoD in appreciating the importance of Shari'ah compliance in the products and processes of the Bank, is quite satisfactory.
- viii. The SB has been provided adequate resources enabling it to discharge its duties effectively.

In order to further enhance the scope and controls of Islamic Banking, the Shari'ah Board recommends the following:

- i. The Credit Administration function for Islamic Banking transactions may be centralized and adequately staffed to strengthen the controls over Products' documentation and review.

-
- ii. Dedicated Islamic Banking staff may be appointed in the Risk Management Department for evaluation of risks and their mitigation related to Islamic Banking.
 - iii. Facility of Health Insurance for the employees of Islamic Banking Division may be arranged through Takaful Companies.

May Allah accept our efforts and grant us success in the field of Islamic Finance. We also pray to Allah Almighty and seek His guidance and blessings for further progress, development and prosperity of HabibMetro Sirat.

MUFTI MUHAMMAD ZUBAIR ASHRAF USMANI

Chairman Shari'ah Board

MUFTI ABDUL SATTAR LAGHARI

Resident Shari'ah Board Member

MUFTI MUHAMMAD IBRAHIM ESSA

Shari'ah Board Member

Karachi: 16 February 2018

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed unconsolidated statement of financial position of Habib Metropolitan Bank Limited ("the Bank") as at 31 December 2017 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the un-audited certified returns from the branches except for twenty-eight branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Bank's Board of Directors to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, which in case of loans and advances covered more than sixty percent of the total loans and advances of the Bank, we report that:

- a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- b) in our opinion:
 - i) the unconsolidated statement of financial position and the unconsolidated profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with the accounting policies consistently applied,
 - ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- c) in our opinion and to the best of our information and according to the explanations given to us, the unconsolidated statement of financial position, unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at 31 December 2017, and its true balance of profit, its comprehensive income, its cash flows and its changes in equity for the year then ended; and
- d) in our opinion Zakat deductible at source, under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Karachi: 16 February 2018

KPMG Taseer Hadi & Co
Chartered Accountants
Mazhar Saleem

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Note	2017	2016
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks	8	42,281,977	35,561,885
Balances with other banks	9	1,133,261	2,259,974
Lendings to financial institutions	10	10,914,805	16,750,886
Investments	11	396,636,990	314,619,011
Advances	12	174,319,286	142,962,103
Operating fixed assets	13	3,355,862	3,246,376
Deferred tax assets	14	2,835,318	2,458,685
Other assets	15	13,076,280	8,747,497
		644,553,779	526,606,417
LIABILITIES			
Bills payable	16	9,383,752	8,108,633
Borrowings	17	64,379,366	37,205,175
Deposits and other accounts	18	518,363,802	430,888,036
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	19	11,928,604	10,734,123
		604,055,524	486,935,967
NET ASSETS		40,498,255	39,670,450
REPRESENTED BY			
Share capital	20	10,478,315	10,478,315
Reserves		15,035,676	13,933,875
Unappropriated profit		14,042,566	12,753,139
		39,556,557	37,165,329
Surplus on revaluation of assets - net of tax	21	941,698	2,505,121
		40,498,255	39,670,450
CONTINGENCIES AND COMMITMENTS			
	22		

The annexed notes 1 to 46 and annexures I & II form an integral part of these unconsolidated financial statements.

FUZAIL ABBAS
Chief Financial Officer

SIRAJUDDIN AZIZ
President &
Chief Executive Officer

MOHOMED BASHIR
Director

SOHAIL HASAN
Director

MOHAMEDALI R. HABIB
Chairman

UNCONSOLIDATED PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017	2016
		Rupees in '000	
Mark-up / return / interest earned	24	33,838,124	33,172,071
Mark-up / return / interest expensed	25	(19,867,170)	(21,409,855)
Net mark-up / interest income		13,970,954	11,762,216
(Reversal) / provision against non-performing loans and advances	12.6	(268,970)	811,651
Provision for diminution in the value of investments	11.3	343,096	32,964
Bad debts written off directly	12.8.1	—	—
		(74,126)	(844,615)
Net mark-up / interest income after provisions		13,896,828	10,917,601
Non mark-up / interest income			
Fee, commission and brokerage income		3,390,034	3,030,481
Dividend income		480,251	121,382
Income from dealing in foreign currencies		1,171,725	1,035,989
Gain on sale / redemption of securities - net	26	380,381	4,324,944
Unrealised gain / (loss) on revaluation of investments classified as held-for-trading		—	—
Other income	27	259,155	323,470
Total non mark-up / interest income		5,681,546	8,836,266
		19,578,374	19,753,867
Non mark-up / interest expenses			
Administrative expenses	28	10,420,061	9,359,596
Other provisions / write offs / reversals	29	(149,000)	(172,048)
Other charges	30	178,229	232,572
Total non-mark-up / interest expenses		(10,449,290)	(9,420,120)
		9,129,084	10,333,747
Extra ordinary / unusual items		—	—
Profit before taxation		9,129,084	10,333,747
Taxation – Current	31	(2,755,716)	(3,517,238)
– Prior years	31	(413,000)	(581,308)
– Deferred	14.1	(451,362)	(115,877)
		(3,620,078)	(4,214,423)
Profit after taxation		5,509,006	6,119,324
Unappropriated profit brought forward		12,753,139	9,931,633
Profit available for appropriation		18,262,145	16,050,957
Basic and diluted earnings per share (Rupees)	32	5.26	5.84

The annexed notes 1 to 46 and annexures I & II form an integral part of these unconsolidated financial statements.

FUZAIL ABBAS
Chief Financial Officer

SIRAJUDDIN AZIZ
President &
Chief Executive Officer

MOHOMED BASHIR
Director

SOHAIL HASAN
Director

MOHAMEDALI R. HABIB
Chairman

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017	2016
		Rupees in '000	
Profit after taxation for the year		5,509,006	6,119,324
Other comprehensive income			
Items that are not to be reclassified to profit & loss account in subsequent periods:			
Actuarial gain on defined benefit plan	35.8	83	30,289
Related deferred tax charge	14.1	(29)	(10,601)
		54	19,688
Comprehensive income transferred to equity		5,509,060	6,139,012
Items that may be reclassified to profit & loss account in subsequent periods and not to be reflected in equity:			
Deficit arising on revaluation of available-for-sale securities		(2,447,808)	(2,088,312)
Related deferred tax reversal	14.1	856,732	730,909
		(1,591,076)	(1,357,403)
Total comprehensive income		3,917,984	4,781,609

The annexed notes 1 to 46 and annexures I & II form an integral part of these unconsolidated financial statements.

FUZAIL ABBAS
Chief Financial Officer

SIRAJUDDIN AZIZ
President &
Chief Executive Officer

MOHOMED BASHIR
Director

SOHAIL HASAN
Director

MOHAMEDALI R. HABIB
Chairman

UNCONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017	2016
Rupees in '000			
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		9,129,084	10,333,747
Less: Dividend income		(480,251)	(121,382)
		<u>8,648,833</u>	<u>10,212,365</u>
Adjustments			
Depreciation and amortization on operating fixed assets	28	856,026	707,708
Depreciation on non-banking assets	28.4	22,461	19,866
(Reversal) / provision against non-performing loans and advances - net	12.6	(268,970)	811,651
Provision against other assets - net	29	(149,000)	(173,750)
Provision for diminution in the value of investments - net	11.3	235,151	32,964
Net loss / (gain) on sale of non-banking assets	27.2	51,073	(583)
Net gain on sale of fixed assets	27	(13,692)	(20,959)
		<u>733,049</u>	<u>1,376,897</u>
		<u>9,381,882</u>	<u>11,589,262</u>
(Increase) / decrease in operating assets			
Lendings to financial institutions		5,836,081	(13,950,886)
Advances		(31,088,213)	(11,126,915)
Other assets (excluding dividend and taxation)		(4,024,569)	3,991,955
		<u>(29,276,701)</u>	<u>(21,085,846)</u>
Increase / (decrease) in operating liabilities			
Bills payable		1,275,119	1,764,172
Borrowings		25,912,342	5,245,299
Deposits and other accounts		87,475,766	27,533,079
Other liabilities (excluding current dividend)	19.2	1,163,494	(416,368)
		<u>115,826,721</u>	<u>34,126,182</u>
		<u>95,931,902</u>	<u>24,629,598</u>
Income tax paid		(3,756,301)	(4,910,215)
Net cash generated from operating activities		<u>92,175,601</u>	<u>19,719,383</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(74,552,184)	(28,253,655)
Net investments in held-to-maturity securities		(9,968,754)	4,635,098
Net investments in subsidiary		(180,000)	(342,500)
Dividend received		421,112	119,276
Investments in operating fixed assets		(967,017)	(1,106,740)
Proceeds from sale of non-banking assets		500,000	115,000
Proceeds from sale of operating fixed assets		15,197	83,436
Net cash used in investing activities		<u>(84,731,646)</u>	<u>(24,750,085)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(3,112,424)	(2,096,734)
Net cash used in financing activities	19.2	<u>(3,112,424)</u>	<u>(2,096,734)</u>
Increase / (decrease) in cash and cash equivalents		<u>4,331,531</u>	<u>(7,127,436)</u>
Cash and cash equivalents at beginning of the year		36,931,718	44,059,154
Cash and cash equivalents at end of the year	33	<u>41,263,249</u>	<u>36,931,718</u>

The annexed notes 1 to 46 and annexures I & II form an integral part of these unconsolidated financial statements.

FUZAIL ABBAS
Chief Financial Officer

SIRAJUDDIN AZIZ
President &
Chief Executive Officer

MOHOMED BASHIR
Director

SOHAIL HASAN
Director

MOHAMEDALI R. HABIB
Chairman

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share Capital	Reserves				Un-appropriated Profit	Total
		Share Premium	Statutory Reserve	Special Reserve	Revenue Reserve		
				Rupees in '000			
Balance as at 1 January 2016	10,478,315	2,550,985	8,418,664	240,361	1,500,000	9,931,633	33,119,958
Changes in equity for the year ended 31 December 2016							
Total comprehensive income for the year ended 31 December 2016 - profit for the year	-	-	-	-	-	6,119,324	6,119,324
Other comprehensive income - net of tax	-	-	-	-	-	19,688	19,688
Transfer from surplus on revaluation of non-banking assets - net of tax	-	-	-	-	-	2,022	2,022
Transactions with owners, recorded directly in equity							
Cash dividend (Rs.2.00 per share) for the year ended 31 December 2015	-	-	-	-	-	(2,095,663)	(2,095,663)
Transfer to statutory reserve	-	-	1,223,865	-	-	(1,223,865)	-
Balance as at 31 December 2016	10,478,315	2,550,985	9,642,529	240,361	1,500,000	12,753,139	37,165,329
Changes in equity for the year ended 31 December 2017							
Total comprehensive income for the year ended 31 December 2017 - profit for the year	-	-	-	-	-	5,509,006	5,509,006
Other comprehensive income - net of tax	-	-	-	-	-	54	54
Transfer from surplus on revaluation of non-banking assets - net of tax	-	-	-	-	-	25,662	25,662
Transactions with owners, recorded directly in equity							
Cash dividend (Rs. 3.00 per share) for the year ended 31 December 2016	-	-	-	-	-	(3,143,494)	(3,143,494)
Transfer to statutory reserve	-	-	1,101,801	-	-	(1,101,801)	-
Balance as at 31 December 2017	10,478,315	2,550,985	10,744,330	240,361	1,500,000	14,042,566	39,556,557

The annexed notes 1 to 46 and annexures I & II form an integral part of these unconsolidated financial statements.

FUZAIL ABBAS
Chief Financial Officer

SIRAJUDDIN AZIZ
President &
Chief Executive Officer

MOHOMED BASHIR
Director

SOHAIL HASAN
Director

MOHAMEDALI R. HABIB
Chairman

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. STATUS AND NATURE OF BUSINESS

Habib Metropolitan Bank Limited (the Bank) was incorporated in Pakistan on 3 August 1992, as a public limited company, under the repealed Companies Ordinance, 1984 (now Companies Act, 2017) and is engaged in commercial banking and related services. Its shares are listed on the Pakistan Stock Exchange. The Bank operates 286 (2016: 273) branches, including 29 (2016: 25) Islamic banking branches and 34 (2016: 34) sub branches in Pakistan. The Bank is a subsidiary of Habib Bank AG Zurich - Switzerland (the holding company with 51% shares in the Bank) which is incorporated in Switzerland.

The registered office of the Bank is situated at Spencer's Building, I.I. Chundrigar Road, Karachi.

2. BASIS OF PRESENTATION

2.1 These unconsolidated financial statements represent separate financial statements of the Bank. The consolidated financial statements of the Bank and its subsidiary companies are being separately issued.

2.2 In accordance with the directives of the Federal Government regarding shifting of the banking system to Islamic modes, the State Bank of Pakistan (SBP) has issued various circulars from time to time. Permissible forms of trade related mode of financing include purchase of goods by the Bank from their customers and immediate resale to them at appropriate markup in price on a deferred payment basis. The transaction of purchases and sales arising under these arrangements are not reflected in these unconsolidated financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of profit thereon.

2.3 Key financial figures of the Islamic Banking branches are disclosed in note 44 to these unconsolidated financial statements.

2.4 Basis of measurement

Accounting convention

These unconsolidated financial statements have been prepared under the historical cost convention except that certain investments are stated at market value, non-banking assets and derivative financial instruments are carried at fair value as disclosed in notes 5.4, 5.7 and 5.8 respectively.

3. STATEMENT OF COMPLIANCE

3.1 These unconsolidated financial statements of the Bank have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRS's), Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP), the requirement of the repealed Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the SBP. In case requirements differ, the requirement under the repealed Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the said directives have been followed. The Companies Ordinance, 1984 has been repealed after the enactment of the Companies Act, 2017. However, as allowed by the SECP vide its circular no. 23 dated 4 October 2017, these unconsolidated financial statements have been prepared in accordance with the provisions of the repealed Companies Ordinance, 1984.

3.2 The SBP vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement" and IAS 40 "Investment Property" for banking companies till further instructions. Further, according to a notification of the Securities and Exchange Commission of Pakistan (SECP) through S.R.O. No. 411 (1) / 2008 dated 28 April 2008, IFRS 7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these unconsolidated financial statements. However, investments have been classified and valued in accordance with

the requirements of various circulars issued by the SBP. Moreover, segment information is being disclosed in accordance with the SBP's prescribed format as per BSD Circular No. 4 dated 17 February 2006 which prevails over the requirements specified in IFRS 8 "Operating Segments".

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of these unconsolidated financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgment in the application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and 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.

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

i) Classification of investments

- In classifying investments as held-for-trading, the Bank has determined securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days.
- In classifying investments as held-to-maturity, the Bank follows the guidance provided in the SBP circulars on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.
- The investments which are not classified as held-for-trading or held-to-maturity are classified as available-for-sale.

ii) Provision against non performing loans and advances and debt securities classified as investments

The Bank reviews its loan portfolio and debt securities classified as investments to assess amount of non-performing loans and advances and debt securities and provision required there-against. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower and the forced sale value of the securities, etc. as per the requirement of the Prudential Regulations are considered. For portfolio impairment provision on consumer advances and small enterprise advances, the Bank follows the general provision requirement set out in Prudential Regulations. In addition, the Bank also maintain a general provision against its loan portfolio discussed in note 5.5.

iii) Valuation and impairment of available for sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

iv) Impairment of non-financial assets (excluding deferred tax asset)

Non-financial assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable. If any such indication exists, the Bank estimates the recoverable amount

of the asset and the impairment loss, if any. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of future cash flows from the asset discounted at a rate that reflects market interest rates adjusted for risks specific to the asset. If the recoverable amount of an intangible or tangible asset is less than its carrying value, an impairment loss is recognised immediately in the profit and loss account and the carrying value of the asset is reduced by the amount of the loss. A reversal of an impairment loss on intangible assets is recognised as it arises provided the increased carrying value does not exceed which it would have been had no impairment loss been recognised.

v) Income taxes

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

vi) Fixed assets, depreciation and amortisation

In making estimates of the depreciation / amortisation method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method would be changed to reflect the change in pattern. Such change is accounted for as change in accounting estimates in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

vii) Defined benefits plan

Liability is determined on the basis of actuarial advice using the projected unit credit actuarial cost method, as fully disclosed in note 35 to these unconsolidated financial statements.

viii) Compensated Absences

The Bank uses actuarial valuation for the determination of its compensated absences liability. This method makes certain assumptions, which may change, there by effecting the profit and loss account of future period.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 The principal accounting policies applied in the preparation of these unconsolidated financial statement are set out below. These have been consistently applied to all the years presented.

5.2 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents include cash and balances with treasury banks and balances with other banks less overdrawn nostros and local bank accounts.

5.3 Lendings to / borrowings from financial institutions

The Bank enters into transactions of borrowing (re-purchase) from and lending (reverse re-purchase) to financial institutions, at contracted rates for a specified period of time. These are recorded as under:

Sale under repurchase obligation

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the statement of financial position and are measured in accordance with accounting policies for investments and counter party liability is included in borrowing from financial institutions. The difference between sale and repurchase price is amortised as an expense over the term of the repo agreement.

Purchase under resale obligation

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

Other borrowings including borrowings from the SBP are recorded at the proceeds received. Mark up on such borrowing is charged to the profit and loss account on a time proportion basis.

Bai Muajjal

The securities sold under Bai Muajjal agreement are derecognised on the date of disposal. Receivable against such sale is recognised at the agreed sale price. The difference between the sale price and the carrying value on the date of disposal is taken to income on straight line basis.

5.4 Investments

5.4.1 Investments in subsidiaries are stated at cost less provision for impairment, if any.

5.4.2 Other investments are classified as follows:

Held-for-trading

These are securities, which are either acquired for generating profit from short-term fluctuation in market prices, interest rate movements and dealers' margin, or are securities included in a portfolio in which a pattern of short-term trading exists.

Held-to-maturity

These are securities with fixed or determinable payments and fixed maturities that are held with the positive intention and ability to hold till maturity.

Available-for-sale

These are investments except for those made in associates, subsidiaries and those that do not fall under the held-for-trading or held-to-maturity categories.

5.4.3 Investments (other than held-for-trading) include transaction costs associated with the investments. In case of held-for-trading investments transaction costs are charged to profit and loss account held-for-trading investments transaction costs are charged to profit and loss account.

In accordance with the requirements of the SBP, quoted securities, other than those classified as held-to-maturity and investment in subsidiaries, are carried at market value. Investments classified as held-to-maturity are carried at amortised cost whereas investments in subsidiaries are carried at cost less impairment losses, if any.

Unrealised surplus / deficit arising on the revaluation of the Bank's held-for-trading investment portfolio is taken to the profit and loss account. Surplus / deficit arising on revaluation of quoted securities classified as available-for-sale is kept in a separate account shown in the statement of financial position below equity. Surplus / deficit arising on these securities is taken to the profit and loss account when actually realised upon disposal or when the investment is considered to be impaired.

Unquoted equity securities are valued at the lower of cost and break-up value. Subsequent decrease in the carrying value are charged to profit and loss account. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments in other unquoted securities are valued at cost less impairment losses, if any.

Provision for diminution in the value of term finance and Sukuk certificates are made as per the criteria prescribed under Prudential Regulation issued by the SBP.

Provision for impairment in the value of available-for-sale and held-to-maturity securities (other than bonds and term finance and sukuk certificates) is made after considering objective evidence of impairment, if any, in their value (as a result of one or more events that may have an impact on the estimated future cash flows of the investments). A significant or prolonged decline in the fair value of an equity investment below its cost is also considered an objective evidence of impairment. Impairment losses are taken to profit and loss account.

All "regular way" purchases and sales of investments are recognised on the trade date, i.e., the date that the Bank commits the purchase or sell the asset. Regular way purchases or sales are purchases or sales of investments that require delivery of assets within the time frame generally established by regulation or convention in the market place.

5.5 Advances (including net investment in finance lease and ijarah arrangements)

Loans and advances

Loans and advances and net investments in finance lease are stated net of provision for loan losses against non-performing advances. Provision for loan losses is made in accordance with the Prudential Regulations issued by the SBP and is charged to profit and loss account. The Bank also maintains general provision in addition to the requirements of the Prudential Regulations on the basis of management's assessment of credit risk characteristics and general banking risk such as nature of credit, collateral type, industry sector and other relevant factors. Murabaha receivables are stated at gross amount receivable less deferred income and provisions, if any.

Finance lease receivables

Leases, where the Bank transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance lease. A receivable is recognised at an amount equal to the present value of the minimum lease payments including guaranteed residual value, if any. Finance lease receivables are included in advances to the customers.

Ijarah

In accordance with the requirements of IFAS 2 for the accounting and financial reporting of "Ijarah", Ijarah arrangements by the Islamic Banking branches are accounted for as 'Assets held under Ijarah' and are stated at cost less accumulated

depreciation, residual value and impairment losses, if any. Accordingly assets subject to Ijarah have been reflected in note 12 to these unconsolidated financial statements under "Advances". Rental income on these Ijarah is recognised in the Bank's profit and loss account on a time proportion basis, while depreciation is calculated on Ijarah assets on a straight line basis over the period of Ijarah from the date of delivery of respective assets to mustajir (lessee) up to the date of maturity / termination of Ijarah agreement and is charged to the profit and loss account. The classification and provisioning of Ijarah assets is done in line with the requirements laid down in the Prudential Regulations and are recognised in the profit and loss account.

Diminishing Musharakah

In Diminishing Musharakah based financing, the Bank enters into a Musharakah based on shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into periodic profit payment agreement for the utilization of the Bank's Mushariki share by the customer. Income from these transactions are recorded on an accrual basis.

Istisna

In Istisna financing, the Bank places an order to purchase some specific goods / commodities from its customers to be delivered to the Bank within an agreed time. The goods are then sold and the amount financed is paid back to the Bank.

Al-Bai

The product is based on the Islamic Mode "Musawamah". Musawamah is a general kind of sale in which price of the commodity to be traded is agreed between seller and the buyer without any reference to the cost incurred and profit charged by the former.

5.6 Fixed assets

Tangible - owned (operating)

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except for freehold land which are stated at cost less accumulated impairment losses, if any.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset at the rates specified in note 13.2. Depreciation on additions during the year is calculated from the date of addition. In case of disposals during the year, the depreciation is charged up till the date of disposal. Depreciation on Ijarah assets referred to in note 44.4 is calculated on a straight line basis over the period of Ijarah from the date of delivery of respective assets to the mustajir (lessee) up to the date of maturity / termination of Ijarah agreed.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognised in the profit and loss account in the year the asset is derecognised.

The residual values, useful lives and depreciation methods are reviewed and changes, if any, are treated as change in accounting estimates, at each statement of financial position date.

Intangible

These are stated at cost less accumulated amortisation and impairment, if any. The cost of intangible assets are amortised from the month when the assets are available for intended use, using the straight line method, whereby the cost of the

intangible asset is amortised over its estimated useful life over which economic benefits are expected to flow to the Bank. The useful life and amortisation method is reviewed and adjusted, if appropriate, at each statement of financial position date.

Capital work-in-progress

These are stated at cost less impairment losses, if any.

5.7 Non-banking assets

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

5.8 Derivative financial instruments

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

5.9 Provisions

Provision against identified non-funded losses is recognised when intimated and reasonable certainty exists for the Bank to settle the obligation. The loss is charged to the profit and loss account net of expected recovery and is classified under other liabilities.

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

5.10 Taxation

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

Current

Provision for current taxation is based on taxable income for the year at the current rates of taxation after taking into consideration available tax credits and rebates. The charge for the current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments framed / finalised during the year consideration available tax credits and rebates. The charge for the current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments framed / finalised during the year.

Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amount used for taxation purposes. Deferred

tax is measured at the tax rate that are expected to be applied on the temporary differences when they reverse, based on the tax rates that have been enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that the future taxable profit will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of assets and actuarial gain / losses recognised in other comprehensive income, which is adjusted against the related deficit / surplus.

5.11 Employees' benefits

5.11.1 Retirement benefits

Defined benefit plan

The Bank operates an approved funded gratuity scheme for all its permanent employees. Retirement benefits are payable to the members of the scheme on the completion of prescribed qualifying period of service under the scheme. Contribution is made in accordance with the actuarial recommendation. The actuarial valuation is carried out annually as at the statement of financial position date using "Projected Unit Credit Actuarial Cost Method".

All actuarial gains and losses are recognised in other comprehensive income as they occur.

Past service cost resulting from changes to defined benefit plan is recognised in the profit and loss accounts.

Defined contribution plan

The Bank operates a recognised provident fund scheme for all its regular employees, which is administered by the Board of Trustees. Contributions are made by the Bank and its employees, to the fund at the rate of 10% of basic salary.

5.11.2 Compensated absences

A provision is made for estimated liability for annual leaves as a result of services rendered by the employees against unavailed leaves, as per term of service contract, up to the statement of financial position date.

The actuarial valuation under the projected unit credit actuarial cost method has been carried out by the Bank for the determination of the liability for compensated absences. Liability so determined is fully recognised by the Bank.

5.12 Revenue recognition

Revenue is recognised to the extent that the economic benefits will flow to the Bank and the revenue can be reliably measured. These are recognised as follows:

a) Advances and investments

Mark-up / return on regular loans / advances and debt securities investments is recognised on a time proportion basis that take into account the effective yield on the asset. Where debt securities are purchased at premium or discount, the same is amortised through the profit and loss account using the effective interest rate method.

Interest or mark-up recoverable on classified loans and advances and investments is recognised on receipt basis. Interest / return / mark-up on classified rescheduled / restructured loans and advances and investments is recognised as permitted by the regulations of the SBP.

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

Gains and losses on sale of investments are recognised in the profit and loss account.

Income on bills discounted are recognised over the period of the bill.

b) Lease financing / Ijarah contracts

Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Unrealised income on classified leases is recognised on receipt basis.

Rental income on ijarah executed by the Islamic Banking branches are accounted for under IFAS 2 (refer note 5.5) is recognised in the profit and loss account on a time proportion basis.

Gains / losses on termination of lease contracts and other lease income are recognised when realised.

c) Fees, commission and brokerage

Fees, commission and brokerage except income from letters of guarantee is accounted for on receipt basis. Income from letter of guarantee is recognised on an accrual basis over the period of the guarantee.

5.13 Off setting

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

5.14 Foreign currencies

Foreign currency transactions are translated into local currency at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the statement of financial position date. Forward exchange contracts are revalued using forward exchange rates applicable to their respective remaining maturities. Exchange gains or losses are included in income currently.

Commitments for outstanding forward foreign exchange contracts disclosed in these financial statements are translated at contracted rates. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the statement of financial position date.

5.15 Segment reporting

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

Business segments

a) Trading and sales

This segment undertakes the Bank's treasury, money market and capital market activities.

b) Retail banking

Retail banking provides services to small borrowers i.e. consumers, small and medium enterprises (SMEs) and borrowers' agriculture sector. It includes loans, deposits and other transactions with retail customers.

c) Commercial banking

This includes loans, deposits and other transactions with corporate customers and SME customers other than those included in retail banking.

Geographical segments

The Bank conducts all its operations in Pakistan.

5.16 Dividend distribution and appropriations

Bonus and cash dividend and other appropriations (except for the appropriations required by law), declared / approved subsequent to statement of financial position date are considered as non-adjusting event and are not recorded in unconsolidated financial statements of the current year. These are recognised in the period in which these are declared / approved.

5.17 Earnings per share

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

5.18 Impairment of assets (other than loans and advances and investments)

At each statement of financial position date, the Bank reviews the carrying amount of its assets (other than deferred tax asset) to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of relevant asset is estimated. Recoverable amount is the greater of the net selling price and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the assets is reduced to its recoverable amount. The resulting impairment loss is recognised as an expense immediately. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

Details of the basis of determination of impairment against loans and advances and investments have been discussed in their respective notes.

5.19 Financial instruments

All financial assets and liabilities are recognised at the time when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Bank loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognised when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to profit and loss account. Financial assets carried on the statement of financial position include cash and bank balances, lendings to financial institutions, investments, advances and certain receivables. Financial liabilities include borrowings, deposits, bills payable and other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy notes associated with them.

6. FUNCTIONAL AND PRESENTATION CURRENCY

These unconsolidated financial statements are presented in Pakistani Rupees, which is the Bank's functional currency. Except as indicated, financial information presented in Pakistani Rupees has been rounded to nearest thousand.

7. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 1 January 2018:

- Classification and Measurement of Share-based Payment Transactions - amendments to IFRS 2 clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 1 January 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognized for new and outstanding awards. The amendments are not likely to have an impact on Bank's financial statements.
- Annual Improvements to IFRSs 2014-2016 Cycle [Amendments to IAS 28 'Investments in Associates and Joint Ventures'] (effective for annual periods beginning on or after 1 January 2018) clarifies that a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on Bank's financial statements.
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognised. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognised. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The amendments are not likely to have an impact on the Bank's unconsolidated financial statements.

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- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax. The application of interpretation is not likely to have an impact on Bank's financial statements.
 - IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 July 2018). IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. The Bank is currently in the process of analyzing the potential impact of changes required in revenue recognition policies on adoption of the standard.
 - IFRS 9 "Financial Instruments" and amendment – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 July 2018 and 1 January 2019 respectively). IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Bank is currently awaiting instructions from the SBP as applicability of IAS 39 (as explained in note 3.2) was deferred by the SBP till further instructions.
 - Annual Improvements to IFRS Standards 2015–2017 Cycle - the improvements address amendments to following approved accounting standards:
 - IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangement" - the amendment aims to clarify the accounting treatment when a company increases its interest in a joint operation that meets the definition of a business. A company remeasures its previously held interest in a joint operation when it obtains control of the business.
 - IAS 12 "Income Taxes" - the amendment clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transaction that generates the distributable profits.
 - IAS 23 "Borrowing Costs" - the amendment clarifies that a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.
 - The above amendments are effective from annual period beginning on or after 1 January 2019 and are not likely to have an impact on Bank's financial statements.
 - In addition, the Companies Act, 2017 was enacted on 30 May 2017 and SECP vide its circular 23 of 2017 has clarified that the companies whose financial year closes on or before 31 December 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984.

	Note	2017	2016
		Rupees in '000	
8. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		6,248,544	6,182,215
Foreign currencies		1,802,683	1,521,597
		8,051,227	7,703,812
With State Bank of Pakistan in			
Local currency current accounts	8.1	17,985,998	16,494,671
Foreign currency current account	8.2	23,880	68,118
Foreign currency deposit accounts			
– cash reserve account	8.3	3,787,089	2,541,535
– special cash reserve account	8.4	11,196,194	7,384,550
		32,993,161	26,488,874
With National Bank of Pakistan in			
Local currency current accounts		1,220,000	1,353,485
National Prize Bonds		17,589	15,714
		42,281,977	35,561,885

8.1 These accounts are maintained to comply with the statutory cash reserve requirements.

8.2 This represents US Dollar collection / settlement account with the SBP.

8.3 This represents account maintained with the SBP to comply with the cash reserve requirement against foreign currencies deposits.

8.4 This represents account maintained with the SBP to comply with the special cash reserve requirement against foreign currencies deposits. The return on this account is declared by the SBP on a monthly basis and, as at 31 December 2017, carries mark-up at the rate of 0.00% (2016: 0.00%) per annum.

9. BALANCES WITH OTHER BANKS

In Pakistan

current accounts		41,399	181,268
deposit accounts	9.1	89,702	44,415
		131,101	225,683

Outside Pakistan

current accounts	9.2	1,002,160	2,034,291
		1,133,261	2,259,974

9.1 These carry mark-up rates of 3.75% (2016: 3.75%) per annum.

9.2 These include balances in current accounts of Rs. 172,044 thousand (2016: Rs. 292,215 thousand) with branches of the holding company.

10. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2017	2016
		Rupees in'000	
Call money lendings	10.2	3,000,000	2,500,000
Repurchase agreement lendings (Reverse Repo)	10.3	346,890	637,421
Bai Muajjal receivable from State Bank of Pakistan	10.4	3,567,915	5,113,465
Islamic Placement - Musharakah	10.5	4,000,000	8,500,000
		<u>10,914,805</u>	<u>16,750,886</u>

10.1 Particulars of lendings

In local currency	<u>10,914,805</u>	<u>16,750,886</u>
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10.2 These carry mark-up rate of 6.45% (2016: 6.65%) per annum, with maturity upto 5 January 2018 (2016: 3 March 2017).

10.3 Securities held as collateral against lending to financial institutions (Reverse repo)

	Note	2017			2016		
		Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
		Rupees in'000					
Market treasury bills	10.3.2	<u>347,663</u>	<u>—</u>	<u>347,663</u>	<u>638,315</u>	<u>—</u>	<u>638,315</u>

10.3.1 These carry mark-up rates ranging from 5.95% to 6.20% (2016: 5.99% to 6.04%) per annum, with maturity upto 18 March 2018 (2016: 1 February 2017).

10.3.2 Market value of securities held as collateral against lendings to financial institutions is Rs. 347,659 thousands (2016: Rs. 638,822).

10.4 These carry profit / return ranging from 5.55% to 5.65% (2016: 5.98%) per annum with maturity upto 21 June 2018 (2016: 10 February 2017).

10.5 These carry profit / return ranging from 5.70% to 5.85% (2016: 4.50% to 5.25%) per annum with maturity upto 12 January 2018 (2016: 6 March 2017).

11. INVESTMENTS

11.1 Investments by types

	Note	2017			2016		
		Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
Rupees in'000							
Available-for-sale securities							
Market treasury bills	11.5	200,324,945	5,713,348	206,038,293	158,277,735	12,042,862	170,320,597
Pakistan investment bonds	11.6	93,614,556	24,235,650	117,850,206	83,538,877	–	83,538,877
Ordinary shares of listed companies		501,310	–	501,310	1,572,398	–	1,572,398
Ordinary shares of unlisted companies		106,991	–	106,991	106,991	–	106,991
Listed term finance certificates		2,787,900	–	2,787,900	2,088,703	–	2,088,703
Unlisted term finance certificates		114,430	–	114,430	314,828	–	314,828
Sukuk certificates and bonds		26,375,865	–	26,375,865	18,542,294	–	18,542,294
Open end mutual funds		1,170,634	–	1,170,634	3,908,757	–	3,908,757
Close end mutual funds		419,685	–	419,685	419,685	–	419,685
		325,416,316	29,948,998	355,365,314	268,770,268	12,042,862	280,813,130
Held-to-maturity securities							
Pakistan investment bonds	11.7	36,360,790	–	36,360,790	27,642,036	–	27,642,036
Certificates of investments	11.8	3,450,000	–	3,450,000	2,200,000	–	2,200,000
		39,810,790	–	39,810,790	29,842,036	–	29,842,036
Subsidiaries							
Habib Metropolitan Financial Services Limited - 29,999,997 (2016: 29,999,997) ordinary shares of Rs. 10/- each		300,000	–	300,000	300,000	–	300,000
Habib Metropolitan Modaraba Management Company (Private) Limited - 34,999,998 (2016: 34,999,998) ordinary shares of Rs. 10/- each		350,000	–	350,000	350,000	–	350,000
Habib Metro Modaraba - 18,000,000 (2016: Nil) certificates of Rs. 10/- each	11.9	180,000	–	180,000	–	–	–
		830,000	–	830,000	650,000	–	650,000
Total Investments at cost		366,057,106	29,948,998	396,006,104	299,262,304	12,042,862	311,305,166
Provision for diminution in the value of investments	11.3	(537,372)	–	(537,372)	(302,221)	–	(302,221)
Investments – net of provisions		365,519,734	29,948,998	395,468,732	298,960,083	12,042,862	311,002,945
Surplus / (deficit) on revaluation of available-for-sale securities - net	21.2	2,544,608	(1,376,350)	1,168,258	3,622,581	(6,515)	3,616,066
Investments after revaluation of available-for-sale securities		368,064,342	28,572,648	396,636,990	302,582,664	12,036,347	314,619,011

	Note	2017	2016
		Rupees in '000	
11.2 Investments by segments			
Federal government securities			
Market treasury bills		206,038,293	170,320,597
Pakistan investment bonds		154,210,996	111,180,913
GOP ijarah sukuk		25,445,379	17,384,845
		<u>385,694,668</u>	<u>298,886,355</u>
Fully paid up ordinary shares			
Listed companies		501,310	1,572,398
Unlisted companies		106,991	106,991
		<u>608,301</u>	<u>1,679,389</u>
Term finance certificates, sukuk certificates and bonds			
Listed term finance certificates		2,787,900	2,088,703
Unlisted term finance certificates		114,430	314,828
Sukuk certificates / bonds		930,486	1,157,449
		<u>3,832,816</u>	<u>3,560,980</u>
Mutual funds			
Open end		1,170,634	3,908,757
Close end		419,685	419,685
		<u>1,590,319</u>	<u>4,328,442</u>
Certificates of investments		<u>3,450,000</u>	<u>2,200,000</u>
Subsidiaries			
Habib Metropolitan Financial Services Limited - 29,999,997 (2016: 29,999,997) ordinary shares of Rs.10/- each		300,000	300,000
Habib Metropolitan Modaraba Management Company (Private) Limited - 34,999,998 (2016: 34,999,998) ordinary shares of Rs. 10/- each		350,000	350,000
Habib Metro Modaraba 18,000,000 (2016: Nil) certificates of Rs. 10/- each		180,000	—
Total investments at cost		<u>396,006,104</u>	<u>311,305,166</u>
Provision for diminution in the value of investments	11.3	<u>(537,372)</u>	<u>(302,221)</u>
Investments - net of provisions		<u>395,468,732</u>	<u>311,002,945</u>
Surplus on revaluation of available-for-sale securities – net	21.2	<u>1,168,258</u>	<u>3,616,066</u>
Investments after revaluation of available-for-sale securities		<u><u>396,636,990</u></u>	<u><u>314,619,011</u></u>

	2017	2016
	Rupees in '000	
11.3 Particulars of provision for diminution in the value of investments		
Opening balance	302,221	269,257
Charge for the year	343,096	45,156
Reversal for the year	—	(12,192)
Net charge for the year	343,096	32,964
Reversal of provision on disposal of investments	(107,945)	—
Closing balance	537,372	302,221

11.3.1 Provision for diminution in respect of type and segment

Available-for-sale securities

Fully paid-up ordinary shares

Listed companies	101,807	83,710
Unlisted companies	78,861	78,029

Term finance certificates, sukuk certificates and bonds

Listed term finance certificates	82,558	82,558
Unlisted term finance certificates	28,840	28,840
Sukuk certificates / bonds	47,800	19,075

Mutual funds

Open end	187,497	—
Close end	10,009	10,009
	537,372	302,221

11.4 Information relating to investments in federal government securities, ordinary shares of listed and unlisted companies, listed and unlisted term finance certificates, sukuk certificates / bonds and open and close end mutual funds required to be disclosed as part of the financial statements under the SBP's BSD Circular No. 4, dated 17 February 2006, is given in Annexure "I" and is an integral part of these unconsolidated financial statements.

11.5 These carry mark-up rates ranging from 5.92% to 6.08% (2016: 5.87% to 6.28%) per annum, with maturity upto 24 May 2018 (2016: 31 August 2017).

11.6 These carry mark-up rates ranging from 7.00% to 12.00% (2016: 7.00% to 12.00%) per annum, with maturity upto 19 July 2022 (2016: 19 July 2022). These includes Rs. 132,000 thousand (2016: Rs. 132,000 thousand) pledged with State Bank of Pakistan against TT / DD discounting facilities and demand loan facilities.

11.7 These carry mark-up rates ranging from 8.75% to 12.00% (2016: 8.75% to 12.00%) per annum, with maturity upto 21 April 2026 (2016: 21 April 2026).

11.8 These carry mark-up rates ranging from 5.75% to 6.40% (2016: 4.50% to 5.25%) per annum, with maturity up to 29 March 2018 (2016: 6 March 2017).

11.9 During the year, investment of Rs. 180,000 thousand was made to acquire 60% shares in the subsidiary.

	Note	2017	2016
		Rupees in '000	
12. ADVANCES			
Loans, cash credits, running finances, etc.			
In Pakistan		139,641,812	125,075,780
Islamic financing and related assets (gross)	44.5	14,259,001	8,802,424
Net investment in finance lease			
In Pakistan	12.2	411,305	568,510
Bills discounted and purchased			
Payable in Pakistan		12,042,855	6,961,624
Payable outside Pakistan		24,390,736	18,484,814
		36,433,591	25,446,438
Advances – gross		190,745,709	159,893,152
Provision against non-performing advances			
- specific		(16,168,582)	(16,796,939)
- general		(257,841)	(134,110)
	12.7	(16,426,423)	(16,931,049)
Advances – net of provisions		174,319,286	142,962,103

12.1 Particulars of advances – gross

12.1.1 In local currency	160,598,582	135,385,329
In foreign currencies	30,147,127	24,507,823
	190,745,709	159,893,152
12.1.2 Short term (for upto one year)	169,896,546	137,879,279
Long term (for over one year)	20,849,163	22,013,873
	190,745,709	159,893,152

12.2 Net investment in finance lease

	2017				2016			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	Rupees in '000							
Lease rentals receivable	70,325	258,834	–	329,159	172,202	329,535	–	501,737
Residual value	40,446	67,904	–	108,350	31,404	87,904	–	119,308
Minimum lease payments	110,771	326,738	–	437,509	203,606	417,439	–	621,045
Financial charges for future periods	(11,110)	(15,094)	–	(26,204)	(13,717)	(38,818)	–	(52,535)
Present value of minimum lease payments	99,661	311,644	–	411,305	189,889	378,621	–	568,510

- 12.3** Advances include Rs. 18,519,849 thousand (2016: Rs. 19,873,142 thousand) which have been placed under non-performing status as detailed below:

Category of classification	2017			2016		
	Classified advances	Provision required	Provision held	Classified advances	Provision required	Provision held
	Rupees in '000					
Substandard	118,214	15,870	15,870	238,382	53,736	53,736
Doubtful	4,996	–	–	118,393	21,945	21,945
Loss	18,396,639	16,152,712	16,152,712	19,516,367	16,721,258	16,721,258
	<u>18,519,849</u>	<u>16,168,582</u>	<u>16,168,582</u>	<u>19,873,142</u>	<u>16,796,939</u>	<u>16,796,939</u>

12.4 Consideration of forced sales value (FSV) for the purposes of provisioning against non-performing loans

During the current year, the Bank availed additional forced sale value (FSV) benefit under BSD Circular No. 1 of 21 October 2011. This has resulted in reduction of provision against non-performing loans and advances by Rs. 360,868 thousand (2016: 2,179,431 thousand). Further, as of 31 December 2017, had the benefit of FSVs (including those availed into previous years) not been taken by the Bank, the specific provision against non-performing advances would have been higher by Rs. 2,260,109 thousand (2016: Rs. 2,838,225 thousand) and accumulated profit would have been lower by Rs. 1,469,071 thousand (2016: Rs. 1,844,846 thousand). This amount of Rs. 1,469,071 thousand (2016: Rs. 1,844,846 thousand) is not available for distribution of cash and stock dividend to the shareholders and bonus to employees.

- 12.5** Exposure amounting to Rs. 4,169,987 thousand relating to certain facilities of Power Holding Private Limited, which is government guaranteed loan, has not been classified as non-performing loan, pursuant to the relaxation given by the SBP in this respect. The relaxation is valid upto 31 December 2017.

12.6 Provision against non-performing advances

Note	2017			2016		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Opening balance	16,796,939	134,110	16,931,049	16,532,837	896,749	17,429,586
Charge for the year	1,052,345	123,731	1,176,076	2,670,552	–	2,670,552
Reversals for the year	(1,445,046)	–	(1,445,046)	(1,096,262)	(762,639)	(1,858,901)
Net (reversal) / charge for the year	(392,701)	123,731	(268,970)	1,574,290	(762,639)	811,651
Amount written off	12.8 (235,656)	–	(235,656)	(1,310,188)	–	(1,310,188)
Closing balance	12.7 <u>16,168,582</u>	<u>257,841</u>	<u>16,426,423</u>	<u>16,796,939</u>	<u>134,110</u>	<u>16,931,049</u>

- 12.6.1** General provision includes provision of Rs. 5,203 thousand (2016: Rs. 3,387 thousand) made against consumer portfolio and Rs. 36 thousand (2016: Rs. 16,814 thousand) made against small enterprises (SEs) portfolio as required by the Prudential Regulation issued by the SBP.

12.7 Particulars of provision against non-performing advances

	2017			2016		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Against local currency exposure	15,875,994	257,841	16,133,835	16,518,304	134,110	16,652,414
Against foreign currencies exposure	292,588	–	292,588	278,635	–	278,635
	<u>16,168,582</u>	<u>257,841</u>	<u>16,426,423</u>	<u>16,796,939</u>	<u>134,110</u>	<u>16,931,049</u>

Note

2017

2016

Rupees in '000

12.8 Particulars of write-offs

12.8.1 Against provisions	12.6	235,656	1,310,188
Directly charged to profit and loss account		–	–
		<u>235,656</u>	<u>1,310,188</u>
12.8.2 Write offs of Rs. 500,000/- and above		235,656	1,310,188
Write offs of below Rs. 500,000/-		–	–
		<u>235,656</u>	<u>1,310,188</u>

12.9 Details of loan write offs of Rs. 500,000/- and above

In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written off loans or any other financial relief of Rs. 500,000 or above allowed to the persons during the year ended 31 December 2017 is enclosed as Annexure II.

12.10 Particulars of loans and advances to directors, associated companies, subsidiaries etc.

Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons:

Balance at the beginning of the year	2,627,156	2,177,624
Loans granted during the year	847,179	987,986
Repayments made during the year	(528,330)	(538,454)
Balance at the end of the year	<u>2,946,005</u>	<u>2,627,156</u>

Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members:

Balance at the beginning of the year	3,184,499	3,967,805
Loans granted during the year	52,776,711	63,535,889
Repayments made during the year	(54,258,678)	(64,319,195)
Balance at the end of the year	<u>1,702,532</u>	<u>3,184,499</u>

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	Note	2017	2016
		Rupees in '000	
Debts due by subsidiary companies, controlled firms and other related parties:			
Balance at the beginning of the year		10,937	–
Loans granted during the year		–	10,937
Repayments made during the year		(10,937)	–
Balance at the end of the year	41	–	10,937

13. OPERATING FIXED ASSETS

Capital work-in-progress	13.1	22,579	86,586
Property and equipment	13.2	3,108,996	2,969,280
Intangible assets	13.3	224,287	190,510
		<u>3,355,862</u>	<u>3,246,376</u>

13.1 Capital work-in-progress

Civil works	13.1.1	17,722	41,172
Equipments, etc.		4,857	45,414
		<u>22,579</u>	<u>86,586</u>

13.1.1 This represents advance against renovation being carried out at various locations.

13.2 Property and equipment

	Cost			Depreciation			Book Value	Rate of depreciation %
	As at 1 January 2017	Additions / (deletions)	As at 31 December 2017	As at 1 January 2017	Charge for the year / (deletions)	As at 31 December 2017	As at 31 December 2017	
	Rupees in '000							
Leasehold land	7,488	–	7,488	1,565	112	1,677	5,811	1.49
		–			–			
Buildings / office premises on freehold land	352,783	–	352,783	155,631	12,408	168,039	184,744	4
Buildings / office premises on leasehold land	1,866,913	33,600	1,900,513	738,971	67,381	806,352	1,094,161	4
Furniture and fixtures, office and computer equipments	2,351,993	558,739 (50,168)	2,860,564	1,458,867	404,780 (49,637)	1,814,010	1,046,554	15 & 25
Vehicles	13,403	24,970 (2,726)	35,647	10,011	3,345 (1,752)	11,604	24,043	20
Leasehold improvements	2,280,292	276,839	2,557,131	1,538,547	264,901	1,803,448	753,683	20
2017	<u>6,872,872</u>	<u>894,148 (52,894)</u>	<u>7,714,126</u>	<u>3,903,592</u>	<u>752,927 (51,389)</u>	<u>4,605,130</u>	<u>3,108,996</u>	

	Cost			Depreciation			Book Value	Rate of depreciation %
	As at 1 January 2016	Additions / (deletions) / (transfer)*	As at 31 December 2016	As at 1 January 2016	Charge for the year/ (deletions) / (transfer)*	As at 31 December 2016	As at 31 December 2016	
	Rupees in '000							
Leasehold land	7,488	–	7,488	1,453	112	1,565	5,923	1.49
Buildings / office premises on freehold land	638,933	– (286,150)*	352,783	203,216	23,607 (71,192)*	155,631	197,152	4
Buildings / office premises on leasehold land	1,941,903	– (74,990)	1,866,913	685,591	67,045 (13,665)	738,971	1,127,942	4
Furniture and fixtures, office and computer equipments	1,831,356	540,215 (19,578)	2,351,993	1,160,384	316,993 (18,510)	1,458,867	893,126	15 & 25
Vehicles	12,362	1,738 (697)	13,403	9,413	1,211 (613)	10,011	3,392	20
Leasehold improvements	1,987,467	300,197 (7,372)	2,280,292	1,292,352	253,567 (7,372)	1,538,547	741,745	20
2016	6,419,509	842,150 (102,637) (286,150)*	6,872,872	3,352,409	662,535 (40,160) (71,192)*	3,903,592	2,969,280	

* This represents amount transferred to non-current assets held for sale refer note 15.1 to the unconsolidated financial statements.

13.2.1 The cost of fully depreciated assets still in use is Rs. 2,255,521 thousand (2016: Rs. 1,838,729 thousand).

13.2.2 Details of fixed assets disposed off with original cost or book value in excess of Rs. 1,000 thousand or Rs. 250 thousand respectively, whichever is lower are as follows:

Particulars	Cost	Book value	Sale proceed	Mode of disposal	Particulars of purchaser
	Rupees in '000				
Office equipment	13,902	1	220	Best available quotation	Sarfaraz Ahmed
Vehicle	640	636	825	Negotiation	Syed Tasawar Ali Warsi (Ex-employee)
Vehicle	277	277	1,500	Insurance claim	Adamjee Insurance
	14,819	914	2,545		

13.3 Intangible assets

	Cost			Amortization			Book Value	Rate of depreciation %
	As at 1 January 2017	Additions / (deletions)	As at 31 December 2017	As at 1 January 2017	Charge for the year/ (deletions)	As at 31 December 2017	As at 31 December 2017	
	Rupees in '000							
Computer software	263,558	136,876	400,434	73,048	103,099	176,147	224,287	33.33
	Cost			Amortization			Book Value	Rate of depreciation %
	As at 1 January 2016	Additions / (deletions)	As at 31 December 2016	As at 1 January 2016	Charge for the year/ (deletions)	As at 31 December 2016	As at 31 December 2016	
	Rupees in '000							
Computer software	27,875	235,683	263,558	27,875	45,173	73,048	190,510	33.33

13.3.1 The cost of fully amortised intangible assets (computer software) still in use is Rs. 27,875 thousand (2016: Rs. 27,875 thousand).

	Note	2017	2016
		Rupees in '000	
14. DEFERRED TAX ASSETS			
Deferred tax debits arising in respect of:			
– Provision against diminution in the value of investments		188,080	105,777
– Provisions against non-performing advances (including off-balance sheet obligations)	31.2	3,248,393	3,761,929
– Provision against other assets		35,440	140,090
– Deferred liability on defined benefit plan		70,220	70,249
		<u>3,542,133</u>	<u>4,078,045</u>
Deferred tax credits arising due to:			
– Surplus on revaluation of investment securities		(408,891)	(1,265,623)
– Surplus on revaluation of non-banking assets		(98,178)	(83,288)
– Accelerated depreciation		(199,746)	(270,449)
		<u>(706,815)</u>	<u>(1,619,360)</u>
Net deferred tax asset	14.1	<u><u>2,835,318</u></u>	<u><u>2,458,685</u></u>

14.1 Reconciliation of deferred tax

	Balance as at 1 January 2016	Recognised in profit & loss account	Recognised in equity	Balance as at 31 December 2016	Recognised in profit & loss account	Recognised in equity	Balance as at 31 December 2017
	Rupees in '000						
Deferred debits arising in respect of							
Provision against diminution in value of investments	94,240	11,537	–	105,777	82,303	–	188,080
Provision against non-performing advances (including off-balance sheet obligations) - note 31.2	3,878,902	(116,973)	–	3,761,929	(513,536)	–	3,248,393
Provision against other assets	200,900	(60,810)	–	140,090	(104,650)	–	35,440
Deferred liability on defined benefit plan	80,850	–	(10,601)	70,249	–	(29)	70,220
	<u>4,254,892</u>	<u>(166,246)</u>	<u>(10,601)</u>	<u>4,078,045</u>	<u>(535,883)</u>	<u>(29)</u>	<u>3,542,133</u>
Deferred credits arising due to							
Surplus on revaluation of investments	(1,996,532)	–	730,909	(1,265,623)	–	856,732	(408,891)
Surplus on revaluation of non-banking assets	–	1,086	(84,374)	(83,288)	13,818	(28,708)	(98,178)
Accelerated depreciation	(319,732)	49,283	–	(270,449)	70,703	–	(199,746)
	<u>(2,316,264)</u>	<u>50,369</u>	<u>646,535</u>	<u>(1,619,360)</u>	<u>84,521</u>	<u>828,024</u>	<u>(706,815)</u>
Net deferred tax asset	<u>1,938,628</u>	<u>(115,877)</u>	<u>635,934</u>	<u>2,458,685</u>	<u>(451,362)</u>	<u>827,995</u>	<u>2,835,318</u>

	Note	2017	2016
		Rupees in '000	
15. OTHER ASSETS			
Income / mark-up / profit accrued in local currency		7,222,763	5,721,088
Income / mark-up / profit accrued in foreign currencies		34,724	31,064
Advances, deposits, advance rent and other prepayments		493,106	502,428
Advance tax (payments less provisions)		692,041	104,456
Branch adjustment account		72	211
Unrealised gain on forward foreign exchange contracts		2,858,857	769,626
Receivable from the SBP against encashment of government securities		232,568	24,197
Stationery and stamps on hand		35,981	34,033
Dividend receivable		61,245	2,106
Non-banking assets acquired in satisfaction of claims	15.1	1,173,361	1,664,871
Non-current assets - held for sale	15.1	214,958	214,958
Others		307,854	78,709
		<u>13,327,530</u>	<u>9,147,747</u>
Provision held against other assets	15.2	<u>(251,250)</u>	<u>(400,250)</u>
		<u>13,076,280</u>	<u>8,747,497</u>

15.1 Non-current assets held for sale represents a property of Rs. 214,958 thousand (2016: Rs. 214,958 thousand) (refer note 13.2) and non-banking assets acquired in satisfaction of claims includes a property amounting to Rs. 398,518 thousand (2016: Rs. 401,764 thousand) against which the Bank has entered into an agreement to sell with a buyer on deferred payment basis. The possession of the properties has been transferred to the buyer against receipt of earnest money, however, the title will be transferred and original property documents will be handed over upon receiving the entire sale consideration.

15.2 Provision held against other assets

Opening balance	400,250	574,000
Charge for the year	150,000	101,250
Reversal for the year	(299,000)	(275,000)
	<u>(149,000)</u>	<u>(173,750)</u>
Closing balance	<u>251,250</u>	<u>400,250</u>

16. BILLS PAYABLE

In Pakistan	<u>9,383,752</u>	<u>8,108,633</u>
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17. BORROWINGS

In Pakistan	58,956,316	34,515,931
Outside Pakistan	5,423,050	2,689,244
	<u>64,379,366</u>	<u>37,205,175</u>

17.1 Particulars of borrowings in respect of currencies

In local currency	58,956,316	34,515,931
In foreign currencies	5,423,050	2,689,244
	<u>64,379,366</u>	<u>37,205,175</u>

	Note	2017	2016
		Rupees in '000	
17.2 Details of borrowings			
Secured			
Borrowings from the State Bank of Pakistan			
Under export refinance scheme		23,796,577	18,749,236
Under long term financing facility - locally manufactured plant and machinery		5,332,802	3,616,963
	17.2.1	29,129,379	22,366,199
Repurchase agreement borrowings (Repo)	17.2.2	28,463,727	12,032,715
Due against bills re-discounting	17.2.3	3,634,271	1,916,120
		61,227,377	36,315,034
Unsecured			
Call borrowing	17.2.4	1,000,000	—
Overdrawn nostro accounts		1,788,779	773,124
Overdrawn local bank accounts		363,210	117,017
		3,151,989	890,141
		64,379,366	37,205,175
17.2.1 These carry mark-up rates ranging between 2.00% to 5.00% (2016: 2.00% to 5.00%) per annum which is payable quarterly or upon maturity of loans, whichever is earlier.			
17.2.2 These carry mark-up rates ranging between 5.76% to 5.90% (2016: 5.75% to 5.90%) per annum having maturity upto 26 March 2018 (2016: 13 January 2017).			
17.2.3 This represents the obligation to the corresponding Banks on discounting of foreign documentary bills purchased by the Bank on discount. The balance carries discount rate at 2.15% to 2.25% (2016: 1.00%) per annum with maturity upto 20 April 2018 (2016: 15 May 2017).			
17.2.4 This carries mark-up rate of 5.90% (2016: Nil) per annum, with maturity upto 2 Jan 2018 (2016: Nil).			
		2017	2016
		Rupees in '000	
18. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		222,302,110	180,348,374
Savings deposits		121,208,383	110,647,888
Current accounts (non-remunerative)		132,984,274	120,721,112
Others		17,446,706	4,320,917
		493,941,473	416,038,291
Financial institutions			
Remunerative deposits		21,854,875	13,191,894
Non-remunerative deposits		2,567,454	1,657,851
		24,422,329	14,849,745
		518,363,802	430,888,036

	Note	2017	2016
		Rupees in '000	
18.1 Particulars of deposits			
In local currency		442,537,607	384,013,986
In foreign currencies		75,826,195	46,874,050
		<u>518,363,802</u>	<u>430,888,036</u>

19. OTHER LIABILITIES

Mark-up / return / interest payable in local currency		6,022,542	6,396,081
Mark-up / return / interest payable in foreign currencies		297,138	104,142
Unearned commission and income on bills discounted		171,687	149,431
Accrued expenses		652,235	445,462
Provision against off-balance sheet obligations	19.1	113,716	113,716
Unclaimed dividend		51,769	20,699
Unrealised loss on forward foreign exchange contracts		1,632,554	917,476
Workers' welfare fund	30.1	730,189	555,189
Excise duty payable		2,063	2,287
Locker deposits		713,227	668,055
Advance against diminishing musharakah		729	223
Advance rental for ijarah		2,681	1,800
Security deposits against leases / ijarah		197,578	171,044
Sundry creditors		570,190	389,937
Withholding tax / duties		201,811	167,093
Provision for compensated absences		203,571	187,527
Deferred liability on defined benefit plan	35.3	197,679	197,816
Others		167,245	246,145
		<u>11,928,604</u>	<u>10,734,123</u>

19.1 Provision against off-balance sheet obligations

Opening balance	113,716	113,716
Charge for the year	—	—
Closing balance	<u>113,716</u>	<u>113,716</u>

19.2 Reconciliation of changes in other liabilities arising from financing activities

Balance as at 1 January	10,734,123	11,889,064
Changes from financing cash flows		
Dividend paid	(3,112,424)	(2,096,734)
Other changes - liability related		
Cash based	1,163,494	(416,368)
Non-cash based		
Actuarial gain on defined benefit plan	(83)	(30,289)
Current taxation (provision less payments)	—	(707,213)
Dividend declared	3,143,494	2,095,663
	<u>4,306,905</u>	<u>941,793</u>
	<u>11,928,604</u>	<u>10,734,123</u>

20. SHARE CAPITAL

20.1 Authorised capital

2017 (Number of shares)	2016		2017	2016
			Rupees in '000	
<u>1,200,000,000</u>	<u>1,200,000,000</u>	Ordinary shares of Rs. 10/- each	<u>12,000,000</u>	<u>12,000,000</u>

20.2 Issued, subscribed and paid-up capital

		Ordinary shares of Rs. 10/- each		
30,000,000	30,000,000	- issued for cash	300,000	300,000
92,500,000	92,500,000	- issued upon amalgamation	925,000	925,000
<u>925,331,480</u>	<u>925,331,480</u>	- issued as bonus shares	<u>9,253,315</u>	<u>9,253,315</u>
<u>1,047,831,480</u>	<u>1,047,831,480</u>		<u>10,478,315</u>	<u>10,478,315</u>

20.3 As of the date of statement of financial position, the holding company held 534,394 thousand (2016: 534,394 thousand) ordinary shares of Rs. 10/- each (51% holding).

	Note	2017	2016
		Rupees in '000	
21. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX			
Non-banking assets	21.1	182,331	154,678
Available for sale securities	21.2	759,367	2,350,443
		<u>941,698</u>	<u>2,505,121</u>
21.1 Non-banking assets			
Surplus on revaluation of non-banking assets as at 1 January		237,966	-
Revaluation of non-banking assets during the year		82,023	258,227
Transferred to unappropriated profit in respect of disposal and incremental depreciation during the period - net of deferred tax		(25,662)	(13,170)
Related deferred tax liability on disposal and incremental depreciation during the period		(13,818)	(7,091)
		<u>42,543</u>	<u>237,966</u>
Surplus on revaluation of non banking assets		<u>280,509</u>	<u>237,966</u>
Less: Related deferred tax liability on:			
Revaluation as at 1 January		83,288	-
Revaluation of non-banking assets during the period		28,708	90,379
Disposal and incremental depreciation during the period		(13,818)	(7,091)
Related deferred tax liability		<u>14,890</u>	<u>83,288</u>
		<u>98,178</u>	<u>83,288</u>
		<u>182,331</u>	<u>154,678</u>

	2017	2016
	Rupees in '000	
21.2 Available-for-sale securities		
Federal government securities		
Market treasury bills	(5,215)	8,896
Pakistan investment bonds	967,602	2,476,838
GOP ijarah sukuk	152,056	387,580
Fully paid-up ordinary shares and mutual funds		
Listed shares and mutual funds	46,933	712,299
Term finance certificates, sukuk certificates and bonds		
Listed term finance certificates	(3,949)	18,123
Unlisted term finance certificates	–	1,342
Sukuk certificates / bonds	10,831	10,988
	1,168,258	3,616,066
Related deferred tax liability - net	(408,891)	(1,265,623)
	759,367	2,350,443

22. CONTINGENCIES AND COMMITMENTS

22.1 Direct credit substitutes

Bank guarantees of indebtedness in favour of banking companies and other financial institutions	–	872
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22.2 Transaction-related contingent liabilities

Includes performance bonds, bid bonds, advance payment guarantees and shipping guarantees favouring:

i) Government	27,732,564	21,036,923
ii) Banking companies and other financial institutions	1,367,885	499,127
iii) Others	13,719,512	16,022,300
	42,819,961	37,558,350

22.3 Trade-related contingent liabilities

Letters of credit	79,477,866	61,829,418
Acceptances	16,144,323	11,400,550

22.4 Commitments in respect of forward exchange contracts

Purchase	78,728,094	76,832,902
Sale	48,559,582	66,117,312

22.5 Commitments in respect of operating leases

Not later than one year	33,266	41,488
Later than one year and not later than five years	15,130	43,205
	48,396	84,693

The Bank has entered into non-cancellable lease agreements with a Modaraba which has been duly approved by the Religious Board as Ijarah transactions. The monthly rental installments are spread over a period of 36 months. When a lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

22.6 Commitments for the acquisition of operating fixed assets	<u>25,281</u>	<u>61,774</u>
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22.7 Claims against bank not acknowledged as debt	<u>22,494,508</u>	<u>23,071,676</u>
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22.8 Commitments in respect of forward lendings

The Bank has made commitments to extend credit in the normal course of its business, but none of these commitments are irrevocable and do not attract any penalty if the facility is unilaterally withdrawn.

22.9 Commitments in respect of syndicate financing	<u>207,279</u>	<u>628,948</u>
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22.10 Taxation

Income tax assessments of the Bank have been finalised upto the tax year 2017 (corresponding to the accounting year ended 31 December 2016). Certain appeals are pending with the Commissioner of Inland Revenue (Appeal) and Appellate Tribunal Revenue (ATIR). However, adequate provisions are being held by the Bank.

22.11 Foreign Exchange repatriation case

While adjudicating Foreign Exchange repatriation cases of exporters, the Foreign Exchange Adjudicating Court of the State Bank of Pakistan has also adjudicated penalty of Rs. 106,056 thousand, arbitrarily on the Bank. The Bank has filed appeals before the Appellate Board and Constitutional Petitions in the Honorable High Court of Sindh against the said judgment. The Honorable High Court has granted relief to the Bank by way of interim orders. Based on merits of the appeals management is confident that these appeals shall be decided in favor of the Bank and therefore no provision has been made against the impugned penalty.

23. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank deals in derivative financial instruments namely forward foreign exchange contracts and foreign currency swaps with the principal view of hedging the risks arising from its trade business.

As per the Bank's policy, these contracts are reported on their fair value at the statement of financial position date. The gains and losses from revaluation of these contracts are included under "income from dealing in foreign currencies". Unrealised gains and losses on these contracts are recorded on the statement of financial position under "other assets / other liabilities".

These products are offered to the Bank's customers to protect from unfavourable movements in foreign currencies. The Bank hedges such exposures in the inter-bank foreign exchange market.

These positions are reviewed on a regular basis by the Bank's Asset and Liability Committee (ALCO).

24. MARK-UP / RETURN / INTEREST EARNED	Note	2017	2016
Rupees in '000			
On loans and advances to:			
Customers		9,685,076	8,734,055
Financial institutions		68,862	106,606
		9,753,938	8,840,661
On investments in:			
Available-for-sale securities		19,376,147	20,039,416
Held-to-maturity securities		3,785,110	3,319,129
		23,161,257	23,358,545
On Bai Muajjal with SBP		139,616	272,366
On deposits with the financial institutions		466,959	439,341
On repurchase agreement lendings (reverse repo)		361,354	261,158
		33,838,124	33,172,071
25. MARK-UP / RETURN / INTEREST EXPENSED			
On deposits		16,159,200	17,626,445
On repurchase agreement borrowings (Repo)		1,928,913	1,428,679
On short term borrowings		1,561,137	2,227,713
On long term borrowings		217,920	127,018
		19,867,170	21,409,855
26. GAIN / (LOSS) ON SALE / REDEMPTION OF SECURITIES - NET			
Federal government securities			
Market treasury bills		33,630	29,588
Pakistan investment bonds		94,997	3,395,821
GOP ijarah sukuk		11,533	(1,435)
Fully paid-up ordinary shares			
Listed companies		151,546	115,841
Mutual funds			
		88,675	785,129
		380,381	4,324,944
27. OTHER INCOME			
Rent on properties		20,050	28,189
Net gain on sale of fixed assets		13,692	20,959
Recovery of charges from customers	27.1	161,711	136,655
Incidental and service charges		70,063	58,307
Gain on sale of ijarah assets		56	32
Income from non-banking assets and gain on sale of such assets	27.2	(46,573)	5,083
Bad debts recovered previously written off		37,788	72,730
Staff notice period and other recoveries		2,368	1,515
		259,155	323,470

27.1 This amount includes courier, telephone and swift charges etc. recovered from customers.

27.2 This includes net loss on sale of properties amounting to Rs. 51,073 thousands (2016: gain of Rs. 583 thousands).

		2017	2016
		Rupees in '000	Rupees in '000
28. ADMINISTRATIVE EXPENSES			
Salaries, allowances etc.		4,987,542	4,683,723
Charge for defined benefit plan	35.5	136,520	149,094
Contribution to defined contribution plan		167,390	151,285
Non-executive directors' fees, allowances and other expenses		10,327	7,800
Brokerage and commission		119,221	135,876
Rent, taxes, insurance, electricity etc.		1,539,839	1,377,478
Legal and professional charges		144,348	121,039
Communication		282,812	249,898
Repairs and maintenance		408,789	265,950
Rentals of operating leases		43,548	33,376
Stationery and printing		165,320	174,250
Management fee		261,171	107,620
Advertisement and publicity		184,777	140,758
Donations	28.2	81,630	92,450
Auditors' remuneration	28.3	15,268	12,110
Depreciation and amortization	13 & 28.4	878,487	727,574
Security charges		392,922	380,539
Travelling and conveyance		168,709	134,754
Computer software maintenance		83,571	101,840
Subscriptions		159,655	140,542
Others		188,215	171,640
		<u>10,420,061</u>	<u>9,359,596</u>

28.1 The administrative expenses includes Rs. 17,240 thousand (2016: Rs. 5,482 thousand) incurred for providing office premises and support staff to the Chairman for carrying out his duties as the Chairman of the Board.

	2017	2016
	Rupees in '000	Rupees in '000

28.2 Donations paid in excess of Rs. 100,000 to a single party during the year are as follows:

DONEE

Habib Metropolitan Employees Endowment Fund	15,000	25,000
The Citizens Foundation	14,400	13,500
Habib University Foundation	12,000	12,000
Patients' Aid Foundation	10,030	10,030
Sindh Institute of Urology and Transplantation	2,500	5,000
Mohamedali Habib Welfare Trust	2,000	2,000
Al-Sayyeda Benevolent Trust	1,960	960
The Indus Hospital	1,450	250
Masoomen Hospital Trust	1,000	1,500
Fatimiyah Education Network	1,000	1,000

	2017	2016
	Rupees in '000	
DONEE		
Alleviate Addiction Suffering Trust	1,000	1,000
Abdul Sattar Edhi Foundation	1,000	500
The Aga Khan Hospital and Medical College Foundation	1,000	500
Habib Medical Trust	960	960
Habib Poor Fund	960	960
RehmatBai Habib Food & Clothing Trust	960	960
Abbas-e-Alamdar Hostel	960	960
RehmatBai Habib Widows & Orphan Trust	960	960
The Society for the Rehabilitation of Special Children	800	–
The Layton Rehmatulla Benevolent Trust	700	–
Zehra Homes	640	1,140
Pakistan Memon Educational & Welfare Society	600	600
Memon Educational Board	500	500
Pakistan Memon Women Educational Society	500	500
Karachi Down Syndrome Program	500	500
Poor Patients Aid Society Civil Hospital	500	500
National Academy of Performing Arts	500	–
Panah Trust	500	–
School Of Leadership Foundation	500	–
Shaukat Khanum Memorial Trust	500	–
Habib Girls School	400	–
Habib Public School	350	1,000
Marie Adelaide Leprosy Centre	350	500
Friends of Burns Centre	300	–
Memon Health and Education Foundation (Memon Medical Institute)	300	–
Developments in Literacy	250	550
Afzaal Memorial Thalassemia Foundation	250	500
Al-Umeed Rehabilitation Association	250	250
Anjuman Behbood-e-Samat-e-Atfal	250	250
Bantva Memon Jamat	250	250
Bantva Memon Rahat Committee	250	250
Pak Medical and Welfare Trust	250	250
Friends of Pink Ribbon	250	–
Publican Alumni Trust	250	–
The Pakistan Institute of International Affairs	250	–
Ahmed Abdullah Foundation	200	200
Kashmir Education Foundation	200	200
Dhoraji Association	150	150
Bantva Anjuman Himayat-e-Islam	150	150
Academy of Quaranic Studies	120	120
Dhoraji Youth Services Foundation	100	200
Aziz Tabba Foundation (Tabba Heart Institute)	–	1,000
Habib Education Trust	–	1,000
MBJ Health Association	–	500
The Health Foundation	–	500
Vocational Welfare Society for Mentally Retarded Markaz-e-Umeed	–	300
Institute of Business Administration	–	300
Child Aid Association	–	300
Rotary Club of Karachi Continental	–	300
Caravan of Life (Pak) Trust	–	250

	2017	2016
	Rupees in '000	
DONEE		
Dow '86 Children Critical Care Foundation	—	250
Health Oriented Preventive Education	—	250
The Medical Aid Foundation	—	250
The Patients Behbud Society	—	250
Family Educational Services Foundation	—	200

None of the directors, executives and their spouses had interest in the donations disbursed during the years 2017 and 2016, except for donations paid to:

Name of Donee	Directors	Interest in Donee as
Habib Education Trust	Mr. Muhammad H. Habib Mr. Mohamedali R. Habib Mr. Ali S. Habib	Member of the Board of Trustees Member of the Board of Trustees Member of the Board of Trustees
Habib Medical Trust	Mr. Mohamedali R. Habib	Member of the Board of Trustees
Habib Poor Fund	Mr. Mohamedali R. Habib	Member of the Board of Trustees
Habib University Foundation	Mr. Ali S. Habib Mr. Mohamed Bashir Mr. Mohamedali R. Habib Mr. Muhammad H. Habib	Member of the Board of Directors Member of the Board of Directors Member of the Board of Directors Member of the Board of Directors
Mohamedali Habib Welfare Trust	Mr. Ali S. Habib	Member of the Board of Trustees
RahmatBai Habib Food & Clothing Trust	Mr. Mohamedali R. Habib Mr. Muhammad H. Habib	Member of the Board of Trustees Member of the Board of Trustees
RahmatBai Habib Widows & Orphans Trust	Mr. Muhammad H. Habib	Member of the Board of Trustees

28.3 Auditors' remuneration	Note	2017	2016
		Rupees in '000	
Audit fee		2,400	2,200
Review of half-yearly financial statements		896	750
Certifications and agreed upon procedures engagements		10,694	7,723
Out-of-pocket expenses		1,278	1,437
		<u>15,268</u>	<u>12,110</u>

28.4 This amount includes Rs. 22,461 thousand (2016: Rs. 19,866 thousand) charged against non-banking assets.

29. OTHER PROVISIONS / WRITE OFFS / REVERSALS

Reversal of provision against other assets	15.2	(149,000)	(173,750)
Other write offs		—	1,702
		<u>(149,000)</u>	<u>(172,048)</u>

	Note	2017	2016
		Rupees in '000	
30. OTHER CHARGES			
Penalties imposed by the SBP		3,229	18,572
Workers' welfare fund	30.1	175,000	214,000
		<u>178,229</u>	<u>232,572</u>

30.1 Under the Workers' Welfare Ordinance 1971, the Bank is liable to pay workers' welfare fund (WWF) @ 2% of accounting profit before tax or taxable income, whichever is higher.

The Bank has made full provision for WWF based on profit for the respective years.

The Supreme Court of Pakistan vide its order dated 10 November 2016 has held that the amendments made in the law introduced by the Federal Government for the levy of WWF were not lawful. The Federal Board of Revenue has filed review petitions against this order which are currently pending.

Legal advice obtained on the matter indicates that consequent to filing of these review petitions the judgement may not currently be treated as conclusive. Accordingly the Bank maintains its provision in respect of WWF.

31. TAXATION

For the year			
Current		2,755,716	3,517,238
Deferred	14.1	451,362	115,877
		<u>3,207,078</u>	<u>3,633,115</u>
For prior year			
Current		413,000	581,308
	22.10 & 31.1	<u>3,620,078</u>	<u>4,214,423</u>

31.1 Relationship between tax expense and accounting profit

Profit before taxation	<u>9,129,084</u>	<u>10,333,747</u>
Tax at the applicable tax rate of 35% (2016: 35%)	3,195,179	3,616,811
Prior years' taxation	413,000	581,308
Others	11,899	16,304
Tax charge for the year	<u>3,620,078</u>	<u>4,214,423</u>

31.2 Through Finance Act, 2010 certain amendments have been introduced in Seventh Schedule to the Income Tax Ordinance, 2001. The provision for advances & off balance sheet items are allowed at 5% of total gross advances for consumer and SMEs (as defined in SBP Prudential Regulation). The provision for advances and off balance sheet items other than those falling in definition of consumer & SMEs are allowed up to 1% of such total gross advances.

Further, Rule 8(A) of Seventh Schedule allows for amounts provided for in tax year 2008 and prior to said tax year for doubtful debts, which were neither claimed nor allowed as tax deductible in any year shall be allowed as deduction in tax year in which such doubtful debts are written off.

With reference to allowability of provision, the management has carried out an exercise at period end and concluded that full deduction of provision in succeeding years would be allowed and accordingly recognized deferred tax asset on such provision amounting to Rs. 3,248,393 thousand (2016: Rs. 3,761,929 thousand).

	Note	2017	2016
		Rupees in '000	
32. BASIC AND DILUTED EARNINGS PER SHARE			
Profit after taxation		<u>5,509,006</u>	<u>6,119,324</u>
		(Number in '000)	
Weighted average number of ordinary shares		<u>1,047,831</u>	<u>1,047,831</u>
		(Rupees)	
Basic and diluted earnings per share		<u>5.26</u>	<u>5.84</u>
33. CASH AND CASH EQUIVALENTS			
		Rupees in '000	
Cash and balances with treasury banks	8	<u>42,281,977</u>	<u>35,561,885</u>
Balances with other banks	9	<u>1,133,261</u>	<u>2,259,974</u>
Overdrawn nostro accounts	17.2	<u>(1,788,779)</u>	<u>(773,124)</u>
Overdrawn local bank accounts	17.2	<u>(363,210)</u>	<u>(117,017)</u>
		<u>41,263,249</u>	<u>36,931,718</u>
34. STAFF STRENGTH			
		(Number)	
Permanent		<u>3,744</u>	<u>3,646</u>
Temporary / on contractual basis		<u>264</u>	<u>265</u>
Bank's own staff strength at end of the year		<u>4,008</u>	<u>3,911</u>
Outsourced		<u>711</u>	<u>686</u>
Total staff strength		<u>4,719</u>	<u>4,597</u>

35. DEFINED BENEFIT PLAN

35.1 General description

The benefits under the funded gratuity scheme are payable on retirement at the age of 60 or earlier cessation of service. The benefit is equal to one month's last basic salary drawn for each year of eligible service subject to a maximum of 24 months last drawn basic salary. The minimum qualifying period for eligibility under the plan is five years of continuous service.

35.2 Principal actuarial assumptions

The latest actuarial valuation was carried out on 31 December 2017 using "Projected Unit Credit Actuarial Cost Method". The main assumptions used for the actuarial valuation were as follows:

	Note	2017	2016
Discount rate - percent (per annum)		9.25	9.25
Expected rate of return on plan assets - percent per annum		9.25	9.25
Long term rate of salary increase - percent per annum		8.75	8.75
Mortality rates (for death in service)		Adjusted SLIC 2001-2005	Adjusted SLIC 2001-2005
Rate of employees turnover		Moderate	Moderate

35.3 Reconciliation of payable to defined benefit plan

		Rupees in '000	
Fair value of plan assets	35.6	1,102,616	998,280
Present value of defined benefit obligation	35.7	(1,300,295)	(1,196,096)
Amount payable to the plan (deficit)		<u>(197,679)</u>	<u>(197,816)</u>

The above balance includes actuarial gain of Rs. 83 thousand (2016: actuarial loss of Rs. 30,289 thousand).

35.4 Movement in payable to defined benefit plan

Opening balance		197,816	228,105
Defined benefit charge to profit and loss account	35.5	136,520	149,094
Defined benefit charged to other comprehensive income - actuarial gain for the year	35.8	(83)	(30,289)
Contribution to the fund	35.6	(136,574)	(149,094)
Closing balance		<u>197,679</u>	<u>197,816</u>

35.5 Charge for defined benefit plan

Current service cost	35.7	118,654	126,284
Net interest	35.7	106,928	110,415
Expected return on plan assets	35.6	(89,062)	(87,605)
Total charge recognised in the profit and loss account		<u>136,520</u>	<u>149,094</u>

The expected gratuity cost for the year 2018 is Rs. 146,981 thousand as per actuarial valuation.

35.6 Movement in fair value of plan assets

Opening balance		998,280	915,700
Expected return on plan assets	35.5	89,062	87,605
Actuarial loss recognised in other comprehensive income	35.8	(41,058)	(74,825)
Benefits paid	35.7	(70,899)	(79,294)
Benefits due but not paid		(9,343)	-
Contribution to the fund	35.4	136,574	149,094
Closing balance		<u>1,102,616</u>	<u>998,280</u>

	Note	2017	2016
		Rupees in '000	
35.7 Movement in present value of defined benefit obligation			
Opening balance		1,196,096	1,143,805
Current service cost	35.5	118,654	126,284
Interest cost	35.5	106,928	110,415
Actuarial gain recognised in other comprehensive income	35.8	(41,141)	(105,114)
Benefits paid	35.6	(70,899)	(79,294)
Benefits due but not paid		(9,343)	–
Closing balance		<u>1,300,295</u>	<u>1,196,096</u>
35.8 Annual actuarial loss / (gain) recognised in other comprehensive income			
Experience (gain) / loss on obligation	35.7	(41,141)	(105,114)
Experience loss on plan assets	35.6	41,058	74,825
Total gain recognised during the year	35.4	<u>(83)</u>	<u>(30,289)</u>
35.9 Actual return on plan assets		<u>48,004</u>	<u>12,780</u>
35.10 Plan assets comprise the following:			
	Note	2017	2016
		(Rupees in '000)	(Rupees in '000)
Bank deposits	35.10.1	225,265	527,193
Federal government securities (Pakistan Investment Bonds)		877,353	471,088
		<u>1,102,618</u>	<u>998,281</u>
		20.43	52.81
		79.57	47.19
		<u>100.00</u>	<u>100.00</u>

35.10.1 The amount represents balance which is deposited with the branches of the Bank.

35.11 Re-measurements recognised in other comprehensive income during the year

	Note	2017	2016
		Rupees in '000	
Actuarial (gain) / loss on obligation			
– Financial assumptions		–	(438)
– Experience adjustment		(41,141)	(104,676)
Return on plan assets over interest income		(48,004)	(12,780)
Adjustment for mark-up		89,062	87,605
Total re-measurements recognised in other comprehensive income	35.8	<u>(83)</u>	<u>(30,289)</u>

35.12 Sensitivity analysis

Sensitivity analysis has been performed by varying one assumption keeping all other assumptions constant and calculating the impact on the present value of the defined benefit obligations under the various employee benefit schemes. The increase / (decrease) in the present value of defined benefit obligations as a result of change in each assumption is summarized below:

	2017 Rupees in '000
Increase in discount rate by 1 %	(127,875)
Decrease in discount rate by 1 %	150,836
Increase in expected future increment in salary by 1%	150,089
Decrease in expected future increment in salary by 1%	(129,513)
Increase in expected withdrawal rate by 10%	234
Decrease in expected withdrawal rate by 10%	(235)
Increase in expected mortality rate by 1%	249
Decrease in expected mortality rate by 1%	(225)

Although the analysis does not take account of the full distribution of expected cash flows, it does provide an approximation of the sensitivity of the assumptions shown.

35.13 Historical information

	2017	2016	2015	2014	2013
	Rupees in '000				
Present value of defined benefit obligation	1,300,295	1,196,096	1,143,805	961,616	816,018
Fair value of plan assets	(1,102,616)	(998,280)	(915,700)	(762,904)	(518,394)
Deficit	197,679	197,816	228,105	198,712	297,624
Actuarial (gain) / loss on obligation	(41,141)	(105,114)	21,035	(16,895)	80,322
Actuarial loss / (gain) on assets	41,058	74,825	11,253	9,327	24,126

35.14 The average duration of defined benefit obligation is 11 years.

36. DEFINED CONTRIBUTION PLAN

The Bank operates a contributory provident fund scheme for permanent employees. The employer and employee each contribute 10% of the basic salary to the funded scheme every month. Investment made out of provident fund have been made in accordance with the provision of Section 227 of the Companies Ordinance 1984.

36.1 Following information relates to provident fund scheme based on audited accounts as of June 2017:

	Note	2017	2016
		Rupees in '000	
Size of the fund		3,135,980	2,631,087
Cost of investments made	36.1.1	2,801,733	2,398,340
Percentage of investments made		89%	91%
Fair value of investments		2,772,932	2,474,435

	Note	2017	2016
		Rupees in '000	
36.1.1 Breakup of investments made			
Pakistan Investment Bonds		704,707	1,248,340
Mutual funds		350,000	–
Bank balances		97,026	–
Special saving certificates		200,000	–
Term Deposits Receipts		1,450,000	1,150,000
		<u>2,801,733</u>	<u>2,398,340</u>

Number of the members participating in the fund at the end of the year as per audited accounts are 3,304 (2016: 3,087).

37. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President & Chief Executive		Directors		Executives	
	2017	2016	2017	2016	2017	2016
	Rupees in '000					
Fees	–	–	3,400	7,800	–	–
Managerial remuneration	59,100	59,100	–	–	2,492,812	2,483,664
Charge for defined benefit plan	2,314	2,767	–	–	80,404	89,723
Contribution to defined contribution plan	3,300	3,300	–	–	103,825	95,204
Utilities	–	–	970	–	–	–
Bonus	8,250	8,250	–	–	279,132	263,639
Others	–	–	5,957	–	–	–
	<u>72,964</u>	<u>73,417</u>	<u>10,327</u>	<u>7,800</u>	<u>2,956,173</u>	<u>2,932,230</u>
Number of persons	<u>1</u>	<u>1</u>	<u>6</u>	<u>6</u>	<u>1,229</u>	<u>1,208</u>

37.1 The Chief Executive and certain executives are provided with free use of car and household equipment in accordance with their terms of employment. The Chief Executive is also provided with leave fare assistance.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of traded investments is based on quoted market prices except for tradable securities classified by the Bank as held-to-maturity. These securities are being carried at amortized cost in order to comply with the requirements of BSD Circular No. 14 dated 24 September 2004, and have been disclosed in "Annexure I".

Fair value of unlisted equity investments is determined on the basis of breakup value of these investments as per the latest available financial statements.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to the absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.4.

The maturity and repricing profile and effective rates are stated in notes 43.5.3 and 43.4 respectively.

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

38.1 Off-balance sheet financial instruments

	2017		2016	
	Contracted Value	Fair Value	Contracted Value	Fair Value
Rupees in '000				
Forward purchase of foreign exchange contracts	78,728,094	81,575,492	76,832,902	76,022,687
Forward sale of foreign exchange contracts	48,559,582	50,180,677	66,117,312	66,779,677

38.2 The table below analyses financial instruments measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

		2017			
	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
		Rupees in '000			
Financial assets measured at fair value					
- Investments					
- Available-for-sale securities					
Federal government securities	350,448,321	–	350,448,321	–	350,448,321
Sukuk certificates and bonds	893,517	–	893,517	–	893,517
Ordinary shares of listed companies	436,755	436,755	–	–	436,755
Mutual funds	1,402,494	1,402,494	–	–	1,402,494
Listed term finance certificates	2,701,393	2,701,393	–	–	2,701,393
Unlisted term finance certificates	85,590	–	85,590	–	85,590
Financial assets not measured at fair value					
- Cash and balances with treasury banks	42,281,977	–	–	–	–
- Balances with other banks	1,133,261	–	–	–	–
- Lending to financial institutions	10,914,805	–	–	–	–
- Investments					
- Held-to-maturity securities					
Federal government securities	36,360,790	–	–	–	–
Certificates of investments	3,450,000	–	–	–	–
- Available-for-sale securities					
Ordinary shares of unlisted companies	28,130	–	–	–	–
- Subsidiaries					
Ordinary shares of unlisted companies	830,000	–	–	–	–
- Advances	174,319,286	–	–	–	–
- Other assets	11,410,052	–	–	–	–
	636,696,371	4,540,642	351,427,428	–	355,968,070
Financial liabilities not measured at fair value					
- Bills Payable	9,383,752	–	–	–	–
- Deposits and other accounts	518,363,802	–	–	–	–
- Borrowings	64,379,366	–	–	–	–
- Other liabilities	10,732,216	–	–	–	–
	602,859,136	–	–	–	–
	33,837,235	4,540,642	351,427,428	–	355,968,070

	2016				
	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
	Rupees in '000				
Financial assets measured at fair value					
- Investments					
- Available-for-sale securities					
Federal government securities	274,117,633	—	274,117,633	—	274,117,633
Sukuk certificates and bonds	1,149,362	—	1,149,362	—	1,149,362
Ordinary shares of listed companies	1,840,554	1,840,554	—	—	1,840,554
Mutual funds	4,678,866	4,678,866	—	—	4,678,866
Listed term finance certificates	2,024,268	2,024,268	—	—	2,024,268
Unlisted term finance certificates	287,330	—	287,330	—	287,330
Financial assets not measured at fair value					
- Cash and balances with treasury banks	35,561,885	—	—	—	—
- Balances with other banks	2,259,974	—	—	—	—
- Lending to financial institutions	16,750,886	—	—	—	—
- Investments					
- Held-to-maturity securities					
Federal government securities	27,642,036	—	—	—	—
Certificates of investments	2,200,000	—	—	—	—
- Available-for-sale securities					
Ordinary shares of unlisted companies	28,962	—	—	—	—
- Subsidiaries					
Ordinary shares of unlisted companies	650,000	—	—	—	—
- Advances	142,962,103	—	—	—	—
- Other assets	6,731,246	—	—	—	—
	518,885,105	8,543,688	275,554,325	—	284,098,013
Financial liabilities not measured at fair value					
- Bills Payable	8,108,633	—	—	—	—
- Deposits and other accounts	430,888,036	—	—	—	—
- Borrowings	37,205,175	—	—	—	—
- Other liabilities	9,815,265	—	—	—	—
	486,017,109	—	—	—	—
	32,867,996	8,543,688	275,543,325	—	284,098,013

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

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

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

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

39. TRUST ACTIVITIES

The Bank is currently not engaged in any trust activities.

40. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The segment analysis with respect to business activities is as follows:

	2017			
	Trade & Sales	Retail banking	Commercial banking	Total
	Rupees in '000			
Total income *	24,386,526	2,723,729	25,689,545	52,799,800
Total expenses *	(20,084,557)	(2,439,903)	(21,146,256)	(43,670,716)
Net income	4,301,969	283,826	4,543,289	9,129,084
Segment assets	412,761,182	8,698,613	223,093,984	644,553,779
Segment non performing loans	–	4,237	18,515,612	18,519,849
Segment provision required	–	4,237	16,164,345	16,168,582
Segment liabilities	36,906,619	73,904,395	493,244,510	604,055,524
Segment return on net assets (ROA) (%)	5.91%	3.69%	5.21%	
Segment cost of funds (%)	4.87%	3.30%	4.29%	

	2016			
	Trade & Sales	Retail banking	Commercial banking	Total
	Rupees in '000			
Total income *	27,916,813	3,837,879	27,795,710	59,550,402
Total expenses *	(20,947,981)	(2,738,219)	(25,530,455)	(49,216,655)
Net income	6,968,832	1,099,660	2,265,255	10,333,747
Segment assets	334,350,424	2,363,424	189,892,569	526,606,417
Segment non performing loans	–	4,554	19,868,588	19,873,142
Segment provision required	–	4,554	16,792,385	16,796,939
Segment liabilities	14,822,820	65,055,739	407,057,408	486,935,967
Segment return on net assets (ROA) (%)	8.35%	5.90%	6.83%	
Segment cost of funds (%)	6.27%	4.21%	6.27%	

* Includes Rs. 13,280,130 thousand (2016: Rs. 17,542,065 thousand) of inter-segment revenues and expenses.

41. TRANSACTIONS WITH RELATED PARTIES

The Bank has related party relationships with its holding company, subsidiaries, companies with common directorship, key management personnel, directors and employees' retirement benefit plans.

Contributions in respect of employees' retirement benefits are made in accordance with actuarial valuation and terms of contribution plan. Salaries & allowances of the key management personnel are in accordance with the terms of their employment. Other transactions are at agreed terms.

	31 December 2017						
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	Rupees in '000						
Deposits							
At beginning of the year	503,799	444,329	19,992,444	129,686	538,535	1,666,278	23,275,071
Received during the year	15,941,979	90,144,382	1,576,800,196	689,483	3,844,414	2,089,157	1,689,509,611
Repaid during the year	(15,714,073)	(89,506,739)	(1,575,716,335)	(650,630)	(3,706,991)	(1,375,476)	(1,686,670,244)
At end of the year	<u>731,705</u>	<u>1,081,972</u>	<u>21,076,305</u>	<u>168,539</u>	<u>675,958</u>	<u>2,379,959</u>	<u>26,114,438</u>
Advances							
At beginning of the year	–	10,937	3,184,499	144,644	–	–	3,340,080
Disbursed during the year	–	–	52,776,711	81,721	–	–	52,858,432
Recovered during the year	–	(10,937)	(54,258,678)	(53,780)	–	–	(54,323,395)
At end of the year	<u>–</u>	<u>–</u>	<u>1,702,532</u>	<u>172,585</u>	<u>–</u>	<u>–</u>	<u>1,875,117</u>
Certificate of Investments	<u>–</u>	<u>1,950,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,950,000</u>
Bank balances held							
by the Bank	<u>172,044</u>	<u>–</u>	<u>53,133</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>225,177</u>
Overdrawn bank balances held							
by the Bank	<u>–</u>	<u>–</u>	<u>9,459</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>9,459</u>
Mark-up / return / interest receivable	<u>–</u>	<u>15,415</u>	<u>5,960</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>21,375</u>
Mark-up / return / interest payable	<u>–</u>	<u>3,879</u>	<u>282,402</u>	<u>3,808</u>	<u>2,162</u>	<u>542,823</u>	<u>835,074</u>
Management fee payable for technical and consultancy services *	<u>225,673</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>225,673</u>
Prepayments / Advance deposits	<u>–</u>	<u>–</u>	<u>8,388</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>8,388</u>
Dividend Receivable	<u>–</u>	<u>60,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>60,000</u>
Insurance premium and other payables	<u>–</u>	<u>–</u>	<u>2,929</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,929</u>
Transaction-related contingent liabilities	<u>–</u>	<u>–</u>	<u>6,604,326</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>6,604,326</u>
Trade-related contingent liabilities	<u>–</u>	<u>–</u>	<u>2,444,319</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,444,319</u>
Commitment against operating leases	<u>–</u>	<u>48,396</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>48,396</u>

* Management fee is as per the agreement with the holding company.

31 December 2016

	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	Rupees in '000						
Deposits							
At beginning of the year	304,504	152,334	17,875,031	66,322	498,364	1,121,035	20,017,590
Received during the year	22,750,934	68,102,830	1,433,239,459	758,702	2,016,849	2,406,913	1,529,275,687
Repaid during the year	(22,551,639)	(67,810,835)	(1,431,122,046)	(695,338)	(1,976,678)	(1,861,670)	(1,526,018,206)
At end of the year	<u>503,799</u>	<u>444,329</u>	<u>19,992,444</u>	<u>129,686</u>	<u>538,535</u>	<u>1,666,278</u>	<u>23,275,071</u>
Advances							
At beginning of the year	-	-	3,967,805	128,974	-	-	4,096,779
Disbursed during the year	-	10,937	63,535,889	61,857	-	-	63,608,683
Recovered during the year	-	-	(64,319,195)	(46,187)	-	-	(64,365,382)
At end of the year	<u>-</u>	<u>10,937</u>	<u>3,184,499</u>	<u>144,644</u>	<u>-</u>	<u>-</u>	<u>3,340,080</u>
Bank balances held by the Bank	<u>292,215</u>	<u>-</u>	<u>29,364</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>321,579</u>
Overdrawn bank balances held by the Bank	<u>-</u>	<u>-</u>	<u>6,472</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,472</u>
Mark-up / return / interest receivable	<u>-</u>	<u>-</u>	<u>1,457</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,457</u>
Mark-up / return / interest payable	<u>-</u>	<u>94</u>	<u>325,084</u>	<u>4,954</u>	<u>2,169</u>	<u>351,899</u>	<u>684,200</u>
Management fee payable for technical and consultancy services *	<u>180,265</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>180,265</u>
Prepayments / Advance deposits	<u>-</u>	<u>-</u>	<u>26,265</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,265</u>
Insurance premium and other payables	<u>-</u>	<u>-</u>	<u>830</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>830</u>
Transaction-related contingent liabilities	<u>-</u>	<u>-</u>	<u>4,670,305</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,670,305</u>
Trade-related contingent liabilities	<u>-</u>	<u>-</u>	<u>5,041,474</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,041,474</u>

* Management fee is as per the agreement with the holding company.

Transactions during the year

	For the year ended 31 December 2017						
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	Rupees in '000						
Mark-up/return / interest earned	<u>–</u>	<u>78,846</u>	<u>70,622</u>	<u>7,415</u>	<u>–</u>	<u>–</u>	<u>156,883</u>
Mark-up/return / interest expensed	<u>–</u>	<u>16,581</u>	<u>1,152,788</u>	<u>9,624</u>	<u>21,002</u>	<u>203,851</u>	<u>1,403,846</u>
Commission / Brokerage / Bank charges recovered	<u>5,343</u>	<u>210</u>	<u>190,721</u>	<u>–</u>	<u>231</u>	<u>–</u>	<u>196,505</u>
Commission / Brokerage / Bank charges paid	<u>1,303</u>	<u>248</u>	<u>1,049</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,600</u>
Dividend income	<u>–</u>	<u>60,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>60,000</u>
Rent income	<u>5,616</u>	<u>1,200</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>6,816</u>
Salaries and allowances	<u>–</u>	<u>–</u>	<u>–</u>	<u>377,261</u>	<u>–</u>	<u>–</u>	<u>377,261</u>
Directors' fees	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>10,327</u>	<u>–</u>	<u>10,327</u>
Charge for defined benefit plan	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>136,520</u>	<u>136,520</u>
Charge for defined contribution plan	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>167,390</u>	<u>167,390</u>
Operating Lease Rentals / Rent expenses	<u>–</u>	<u>32,299</u>	<u>12,072</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>44,371</u>
Insurance premium expenses	<u>–</u>	<u>–</u>	<u>77,441</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>77,441</u>
Maintenance, Electricity, Stationery and Entertainment	<u>–</u>	<u>–</u>	<u>57,940</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>57,940</u>
Management fee expense for technical and consultancy services*	<u>261,171</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>261,171</u>
Donation paid	<u>–</u>	<u>–</u>	<u>32,840</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>32,840</u>
Professional / Other charges paid	<u>–</u>	<u>–</u>	<u>257</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>257</u>

* Management fee is as per the agreement with the holding company.

Transactions during the year

	For the year ended 31 December 2016						
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	Rupees in '000						
Mark-up / return / interest earned	–	79	101,224	5,459	–	–	106,762
Mark-up / return/interest expensed	–	3,867	1,145,812	5,815	23,557	173,421	1,352,472
Commission / Brokerage / Bank charges recovered	5,568	190	164,783	–	79	–	170,620
Commission / Brokerage / Bank charges paid	295	244	756	–	–	–	1,295
Rent income	5,615	1,200	–	–	–	–	6,815
Salaries and allowances	–	–	–	329,416	–	–	329,416
Directors' fees	–	–	–	–	7,800	–	7,800
Charge for defined benefit plan	–	–	–	–	–	149,094	149,094
Charge for defined contribution plan	–	–	–	–	–	151,285	151,285
Rent expenses	–	–	11,441	–	–	–	11,441
Insurance premium expenses	2,752	–	43,859	–	–	–	46,611
Maintenance, electricity, stationery and entertainment	–	–	52,769	–	–	–	52,769
Management fee expense for technical and consultancy services *	107,620	–	–	–	–	–	107,620
Donation paid	–	–	43,840	–	–	–	43,840
Professional / Other charges paid	–	–	209	–	–	–	209

* Management fee is as per the agreement with the holding company.

42. CAPITAL ASSESSMENT AND ADEQUACY

42.1 Scope of Applications

The State Bank of Pakistan (SBP) through its BPRD Circular No 6 dated 15 August 2013 has issued Basel III Capital instructions for Banks / DFIs. The revision to the previously applicable Capital Adequacy regulations pertain to components of eligible capital and related deductions. The amendments have been introduced with an aim to further strengthen the existing capital related rules. Basel III instructions have become effective from 31 December 2013; however, there is a transitional phase during which the complete requirements would become applicable with full implementation by 31 December 2019. This Capital Adequacy framework is applicable to the Bank.

The Bank's capital adequacy is reported using the rules and ratios provided by the State Bank of Pakistan. The capital adequacy ratio is a measure of the amount of a Bank's capital expressed as a percentage of its risk weighted assets (RWAs). Banking operations are categorized as either Trading Book or Banking Book and RWAs are determined according to specific treatments as per the requirement of the SBP that measure the varying levels of risk attached to on balance sheet and off-balance sheet exposures. Under the current capital adequacy regulations, credit risk and market risk exposures are measured using the Standardized Approach and operational risk is measured using the Basic Indicator Approach. Credit risk mitigants are also applied against the Bank's exposures based on eligible collateral.

42.1.1 Capital Management

The objective of managing capital is to safeguard the Bank's ability to continue as a going concern. It is the policy of the Bank to maintain a strong capital base so as to maintain investor, depositor and market confidence and to sustain future development of the business. The Bank aims to maintain an optimum level of capital along with maximizing shareholders' return.

Statutory minimum capital requirement and Capital Adequacy Ratio

The SBP through its BSD Circular No. 07 dated 15 April 2009 has prescribed the minimum paid-up capital (net of accumulated losses) for Banks to be raised to Rs.10 billion by the year ending 31 December 2013. The paid-up capital of the Bank for the year ended 31 December 2017 stood at Rs. 10,478 million (2016: Rs. 10,478 million) and is in compliance with the SBP requirements.

Banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 11.275% of the risk weighted exposures of the Bank. Further, under Basel III instructions, Banks are also required to maintain a Common Equity Tier 1 (CET 1) ratio and Tier 1 ratio of 6.00% and 7.50%, respectively, as at 31 December, 2017. As at 31 December 2017 the Bank was fully compliant with prescribed ratios as the Bank's CAR was 17.19% whereas CET 1 and Tier 1 ratios both stood at 16.82%. The Bank and its individually regulated operations have complied with all capital requirements throughout the year.

Tier 1 capital comprises of Common Equity Tier 1 (CET 1) and Additional Tier 1 (AT 1) capital.

CET 1 capital includes fully paid-up capital, balance in share premium account, general reserves as per the financial statements, net un-appropriated profits meeting the eligibility criteria.

AT 1 capital includes instruments meeting the prescribed SBP criteria e.g. perpetual non-cumulative preference shares.

The deductions from Tier 1 capital include mainly;

- i) Book value of goodwill / intangibles;
- ii) Deficit on revaluation of available for sale investments,;
- iii) Reciprocal cross holdings in equity capital instruments of other banks, financial institutions and insurance companies;
- iv) Investment in mutual funds above a prescribed ceiling;
- v) Threshold deductions applicable from 2014 on deferred tax assets and certain investments;
- vi) 20% of investments in majority owned securities or other financial subsidiaries not consolidated in the statement of financial position, during transition phase.

Tier 2 capital includes general provisions for loan losses, surplus on the revaluation of assets - net of tax, foreign exchange translation reserves and subordinated debts (meeting the revised eligibility criteria). The deductions from Tier 2 include mainly:

- i) Reciprocal cross holdings in other capital instruments of other banks, financial institution and insurance companies;
- ii) 20% of investments in majority owned securities or other financial subsidiaries not consolidated in the statement of financial position, during transition phase.

42.2 Capital Structure

	Note	31 December 2017	31 December 2016	Source based on reference number from Note 42.3.2
————— Rupees in '000 —————				
Common equity tier 1 capital (CET1): Instruments and reserves				
Fully paid-up capital / capital deposited with the SBP		10,478,315	10,478,315	(s)
Balance in share premium account		2,550,985	2,550,985	(s)
Reserve for issue of bonus shares		—	—	
Discount on issue of shares		—	—	
General / statutory reserves		12,484,691	11,382,890	(u)
Gain / (losses) on derivatives held as cash flow hedge		—	—	
Unappropriated / unremitted profits		14,042,566	12,753,139	(w)
Minority interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)		—	—	(x)
CET 1 before regulatory adjustments		39,556,557	37,165,329	
Total regulatory adjustments applied to CET1	42.2.1	526,487	1,060,732	
Common equity tier 1		39,030,070	36,104,597	
Additional tier 1 (AT 1) capital				
Qualifying additional tier-1 instruments plus any related share premium		—	—	
of which: classified as equity		—	—	(t)
of which: classified as liabilities		—	—	(m)
Additional tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)		—	—	(y)
of which: instrument issued by subsidiaries subject to phase out		—	—	
AT1 before regulatory adjustments		—	—	
Total regulatory adjustment applied to AT1 capital	42.2.2	—	—	
Additional tier 1 capital after regulatory adjustments		—	—	
Additional tier 1 capital recognized for capital adequacy		—	—	
Tier 1 capital (CET1 + admissible AT1)		39,030,070	36,104,597	

	Note	31 December 2017	31 December 2016	Source based on reference number from Note 42.3.2
———— Rupees in '000 ————				
Tier 2 Capital				
Qualifying Tier 2 capital instruments under Basel III plus any related share premium		—	—	(n)
Tier 2 capital instruments subject to phase out arrangement issued under pre-Basel III Rules		—	—	
Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)		—	—	(z)
of which: instruments issued by subsidiaries subject to phase out		—	—	
General provisions or general reserves for loan losses-up to maximum of 1.25% of credit risk weighted assets		257,841	134,110	(g)
Revaluation reserves (net of taxes)		—	—	portion of(aa)
of which: revaluation reserves on fixed assets		—	—	(aaa)
of which: unrealized gains / losses on AFS		675,837	1,833,346	
Foreign exchange translation reserves		—	—	(v)
Undisclosed / other reserves (if any)		—	—	
T2 before regulatory adjustments		933,678	1,967,456	
Total regulatory adjustment applied to T2 capital	42.2.3	(83,000)	(130,000)	
Tier 2 capital (T2) after regulatory adjustments		850,678	1,837,456	
Tier 2 capital recognized for capital adequacy		850,678	1,837,456	
Portion of Additional Tier 1 capital recognized in Tier 2 capital		—	—	
Total tier 2 capital admissible for capital adequacy		850,678	1,837,456	
Total capital (T1 + admissible T2)		39,880,748	37,942,053	
Total risk weighted assets (RWA)	42.5	231,978,712	209,026,637	
Capital ratios and buffers (in percentage of risk weighted assets)				
CET1 to total RWA		16.82%	17.27%	
Tier-1 capital to total RWA		16.82%	17.27%	
Total capital to total RWA		17.19%	18.15%	
Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)		6.00%	6.00%	
of which: capital conservation buffer requirement		—	—	
of which: countercyclical buffer requirement		—	—	
of which: D-SIB or G-SIB buffer requirement		—	—	
CET1 available to meet buffers (as a percentage of risk weighted assets)		10.82%	11.27%	
National minimum capital requirements prescribed by SBP				
CET1 minimum ratio		6.00%	6.00%	
Tier 1 minimum ratio		7.50%	7.50%	
Total capital minimum ratio		11.275%	10.65%	

422.1 Common Equity Tier 1 capital: Regulatory adjustments

	31 December 2017	Amounts subject to Pre-Basel III treatment	31 December 2016	Source based on reference number from Note 42.3.2
	Rupees in '000			
Goodwill (net of related deferred tax liability)	-	-	-	
All other intangibles (net of any associated deferred tax liability)	224,287	-	190,510	(h) - (p)
Shortfall in provisions against classified assets	-	-	-	
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-	-	
Defined-benefit pension fund net assets	-	-	-	
Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities	219,200	-	740,222	(d)
Cash flow hedge reserve	-	-	-	
Investment in own shares/ CET1 instruments	-	-	-	
Securitization gain on sale	-	-	-	
Capital shortfall of regulated subsidiaries	-	-	-	
Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	-	-	-	
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	-	
Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-	-	
Amount exceeding 15% threshold	-	-	-	
of which: significant investments in the common stocks of financial entities	-	-	-	
of which: deferred tax assets arising from temporary differences	-	-	-	
National specific regulatory adjustments applied to CET1 capital	-	-	-	
Investment in TFCs of other banks exceeding the prescribed limit	-	-	-	
Any other deduction specified by SBP	-	-	-	
Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	83,000	83,000	130,000	
Total regulatory adjustments applied to CET1	526,487	83,000	1,060,732	

42.2.2 Additional Tier 1 Capital: regulatory adjustments

	31 December 2017	Amounts subject to Pre-Basel III treatment	31 December 2016	Source based on reference number from Note 42.3.2
	Rupees in '000			
Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	-	-	
Investment in own AT1 capital instruments	-	-	-	
Reciprocal cross holdings in Additional Tier 1 capital instruments	-	-	-	
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-	
Portion of deduction applied 50:50 to Tier 1 and Tier 2 capital I based on pre-Basel III treatment which, during transitional period, remain subject to deduction from additional tier-1 capital	-	-	-	
Adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-	-	
Total of regulatory adjustment applied to AT1 capital	-	-	-	

42.2.3 Tier 2 Capital: Regulatory Adjustments

Portion of deduction applied 50:50 to tier 1 and tier 2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	83,000	83,000	130,000	
Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities	-	-	-	
Investment in own Tier 2 capital instrument	-	-	-	
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-	
Amount of regulatory adjustment applied to T2 capital	83,000	83,000	130,000	

31 December 2017	31 December 2016
Rupees in '000	

42.2.4 Additional Information

Risk weighted assets in respect of amounts subject to pre-basel III treatment

Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment)

of which: deferred tax assets	—	—
of which: defined-benefit pension fund net assets	—	—
of which: recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity	—	—
of which: recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity	—	—

Amounts below the thresholds for deduction (before risk weighting)

Non-significant investments in the capital of other financial entities	3,105,522	3,023,453
Significant investments in the common stock of financial entities	664,000	390,000
Deferred tax assets arising from temporary differences (net of related tax liability)	2,933,496	2,541,973

Applicable caps on the inclusion of provisions in Tier 2

Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	257,841	134,110
Cap on inclusion of provisions in Tier 2 under standardized approach	2,435,020	2,102,633
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	—	—
Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	—	—

42.3 Capital Structure Reconciliation

42.3.1 Step 1

The accounting consolidation is identical to the scope of regulatory consolidation.

42.3.2 Step 2

	2017		
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Ref.
	31 December 2017		
	Rupees in '000		
ASSETS			
Cash and balances with treasury banks	42,281,977	42,281,977	
Balances with other banks	1,133,261	1,133,261	
Lendings to financial institutions	10,914,805	10,914,805	
Investments	396,636,990	396,636,990	
of which: non-significant investments in capital instruments of banking, financial and insurance entities exceeding 10% threshold	–	–	a
of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold	–	–	b
of which: mutual funds exceeding regulatory threshold	–	–	c
of which: reciprocal crossholding of capital instrument (separate for CET1, AT1, T2)	219,200	219,200	d
of which: others	–	–	e
Advances	174,319,286	174,319,286	
shortfall in provisions / excess of total EL amount over eligible provisions under IRB	–	–	f
general provisions reflected in Tier 2 capital	257,841	257,841	g
Fixed Assets	3,355,862	3,355,862	
of which intangibles	224,287	224,287	h
Deferred Tax Assets	2,835,318	2,835,318	
of which: DTAs that rely on future profitability excluding those arising from temporary differences	–	–	i
of which: DTAs arising from temporary differences exceeding regulatory threshold	–	–	j
Other assets	13,076,280	13,076,280	
of which: goodwill	–	–	k
of which: defined-benefit pension fund net assets	–	–	l
Total assets	644,553,779	644,553,779	

	2017		Ref.
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	
	31 December 2017		
	Rupees in '000		
Liabilities & Equity			
Bills payable	9,383,752	9,383,752	
Borrowings	64,379,366	64,379,366	
Deposits and other accounts	518,363,802	518,363,802	
Sub-ordinated loans	—	—	
of which: eligible for inclusion in AT1	—	—	m
of which: eligible for inclusion in Tier 2	—	—	n
Liabilities against assets subject to finance lease	—	—	
Deferred tax liabilities	—	—	
of which: DTLs related to goodwill	—	—	o
of which: DTLs related to intangible assets	—	—	p
of which: DTLs related to defined pension fund net assets	—	—	q
of which: other deferred tax liabilities	—	—	r
Other liabilities	11,928,604	11,928,604	
Total liabilities	604,055,524	604,055,524	
Share capital	13,029,300	13,029,300	
of which: amount eligible for CET1	13,029,300	13,029,300	s
of which: amount eligible for AT1	—	—	t
Reserves	12,484,691	12,484,691	
of which: portion eligible for inclusion in CET1			
(statutory reserve, special reserve & revenue reserve)	12,484,691	12,484,691	u
of which: portion eligible for inclusion in Tier 2	—	—	v
Unappropriated profit / (losses)	14,042,566	14,042,566	w
Minority Interest	—	—	
of which: portion eligible for inclusion in CET1	—	—	x
of which: portion eligible for inclusion in AT1	—	—	y
of which: portion eligible for inclusion in Tier 2	—	—	z
Surplus on revaluation of assets	941,698	941,698	aa
of which: Revaluation reserves on non-banking assets	182,331	182,331	
of which: Unrealized Gains / Losses on AFS–Recognised	675,837	675,837	aaa
of which: Unrealized Gains / Losses on AFS–Unrecognised	83,530	83,530	
In case of Deficit on revaluation (deduction from CET1)	—	—	
Total Equity	40,498,255	40,498,255	
Total liabilities and Equity	644,553,779	644,553,779	

42.4 Main features template of regulatory capital instruments

1	Issuer	Habib Metropolitan Bank Ltd.
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	HMB
3	Governing law(s) of the instrument	Capital Market Law
	Regulatory treatment	
4	Transitional Basel III rules	Common Equity Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1
6	Eligible at solo / group / group & solo	Group & standalone
7	Instrument type	Common Shares
8	Amount recognized in regulatory capital (Currency in PKR thousand, as of reporting date)	39,880,748
9	Par value of instrument	PKR 10
10	Accounting classification	Shareholder equity
11	Original date of issuance	1992
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Not Applicable
15	Optional call date, contingent call dates and redemption amount	Not Applicable
16	Subsequent call dates, if applicable	
	Coupons / dividends	Not Applicable
17	Fixed or floating dividend / coupon	Not Applicable
18	coupon rate and any related index / benchmark	Not Applicable
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Not Applicable
23	Convertible or non-convertible	Non Convertible
24	If convertible, conversion trigger (s)	Not Applicable
25	If convertible, fully or partially	Not Applicable
26	If convertible, conversion rate	Not Applicable
27	If convertible, mandatory or optional conversion	Not Applicable
28	If convertible, specify instrument type convertible into	Not Applicable
29	If convertible, specify issuer of instrument it converts into	Not Applicable
30	Write-down feature	Not Applicable
31	If write-down, write-down trigger(s)	Not Applicable
32	If write-down, full or partial	Not Applicable
33	If write-down, permanent or temporary	Not Applicable
34	If temporary write-down, description of write-up mechanism	Not Applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not Applicable
36	Non-compliant transitioned features	Not Applicable
37	If yes, specify non-compliant features	Not Applicable

42.5 Risk Weighted Assets

The risk weighted assets to capital ratio, calculated in accordance with the SBP's guidelines on capital adequacy is as follows:

Credit risk

Portfolios subject to standardised approach (Simple)

On-balance sheet

	Capital Requirements		Risk Weighted Assets	
	2017	2016	2017	2016
	Rupees in '000			
Cash and cash equivalents	—	—	—	—
Government of Pakistan and SBP	—	—	—	—
Public sector entities	236,674	206,003	2,366,735	2,060,031
Banks	924,220	727,202	9,242,203	7,272,022
Corporate	11,568,352	9,504,482	115,683,517	95,044,818
Retail	699,340	510,882	6,993,398	5,108,816
Residential mortgage finance	84,491	77,413	844,909	774,128
Past due loans	262,889	356,783	2,628,886	3,567,825
Operating fixed assets	313,158	305,587	3,131,578	3,055,866
Other assets	1,068,607	916,420	10,686,066	9,164,196
	15,157,731	12,604,772	151,577,292	126,047,702

Off-balance sheet

Non market related	3,865,512	3,772,404	38,655,120	37,724,037
Market related	131,504	86,924	1,315,040	869,238
	3,997,016	3,859,328	39,970,160	38,593,275

Equity Exposure Risk in the Banking Book

Under simple risk weight method
e.g. Listed, Unlisted

Under Internal models approach

	325,413	356,964	3,254,127	3,569,637
	—	—	—	—
	325,413	356,964	3,254,127	3,569,637
Total Credit Risk	19,480,160	16,821,064	194,801,579	168,210,614

Market risk

Capital requirement for portfolios
subject to Standardised Approach

Interest rate risk	2,006	39,842	25,075	498,025
Equity position risk	220,193	671,075	2,752,413	8,388,432
Foreign exchange risk	35,330	50,216	441,619	627,700
Total Market risk	257,529	761,133	3,219,107	9,514,157

Operational risk

Capital requirement for operational
risks subject to Basic Indicator Approach

	2,716,642	2,504,149	33,958,026	31,301,866
Total Risk Weighted Assets	22,454,331	20,086,346	231,978,712	209,026,637

Capital adequacy ratio

	2017		2016	
	Required	Actual	Required	Actual
	%		%	
CET1 to total RWA	6.00%	16.82%	6.00%	17.27%
Tier-1 capital to total RWA	7.50%	16.82%	7.50%	17.27%
Total capital to total RWA including capital conversion buffer	11.275%	17.19%	10.65%	18.15%

42.6 Credit risk - General disclosures

The Bank uses the 'Standardised Approach' in calculation of credit risk and capital requirements.

The Bank uses reputable and SBP approved rating agencies for deriving risk weight to specific credit exposures. These are applied consistently across the Bank credit portfolio for both on - balance sheet and off - balance sheet exposures. The methodology applied for using External Credit Assessment Institutions (ECAI's) inclusive of the alignment of alpha numerical scale of each agency used with risk bucket is as per SBP guidelines as is given below:

Types of exposures and ECAI's used

Exposures	2017				
	JCR-VIS	PACRA	S & P	Fitch	Moody's
Corporate	✓	✓	–	–	–
Banks	✓	✓	✓	✓	✓
Sovereigns	–	–	–	–	–
SME's	✓	✓	–	–	–
Securitisation	–	–	–	–	–
Others	–	–	–	–	–

42.7 Credit Exposures subject to Standardised Approach

Exposures	Rating category	2017			2016		
		Amount outstanding	Deduction CRM	Net amount	Amount outstanding	Deduction CRM	Net amount
		Rupees in '000					
Corporate	1	15,658,351	1,054,176	14,604,175	10,902,240	37,409	10,864,831
	2	10,896,405	135,481	10,760,924	5,930,650	892,506	5,038,144
	3,4	1,481,014	—	1,481,014	494,949	—	494,949
	5,6	—	—	—	—	—	—
Claims on banks with original maturity of three months or less		9,882,982	260,168	9,622,814	11,646,102	478,066	11,168,036
Retail		15,204,886	3,951,956	11,252,930	12,048,722	3,162,578	8,886,144
Public sector entities	1	9,598,961	59,425	9,539,536	5,957,423	14,273	5,943,150
	2,3	3,357,187	—	3,357,187	1,405,364	—	1,405,364
Others		481,925,960	11,468,000	470,457,960	388,827,871	12,093,000	376,734,871
Unrated		154,703,349	23,326,692	131,376,657	134,090,357	17,339,243	116,751,114

The forms of collateral that are deemed eligible under the 'Simple Approach' to credit risk mitigation as per the SBP guidelines are used by the Bank and primarily includes cash, government and rated debt securities.

The Bank applies the SBP specified haircut to collateral for credit risk mitigation. Collateral management is embedded in the Bank's risk taking and risk management policy and procedures. A standard credit granting procedure exists which has been well-disseminated down the line, ensuring proper pre-sanction evaluation, adequacy of security, pre-examination of charge / control documents and monitoring of each exposure on an ongoing basis.

Collateral information is recorded diligently in the Bank's main processing systems by type of collateral, amount of collateral against relevant credit exposures. A cohesive accounting / risk management system facilitates effective collateral management for Basel II reporting.

42.8 Leverage Ratio

The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as a percentage. As at 31 December 2017 the Bank's Leverage ratio stood at 4.92% (2016: 5.66%) which is well above the minimum requirement of 3.0%.

	Note	2017	2016
		Rupees in '000	
Total assets		644,553,779	526,606,417
Less: Total regulatory adjustments applied to CET1	42.2	526,487	1,060,732
Total assets net of regulatory adjustments		644,027,292	525,545,685
Commitments in respect of derivatives - off balance sheet items		1,180,313	1,283,686
Total off-balance sheet commitments excluding derivatives		148,302,992	111,574,256
Total exposures (A)		793,510,597	638,403,627
Tier-1 Capital (B)	42.2	39,030,070	36,104,597
Leverage Ratio (B/A)		4.92%	5.66%

43. RISK MANAGEMENT

Risk management aspects are embedded in the Bank's strategy, organization structure and processes. The Bank has adopted a cohesive risk management structure for credit, operations, liquidity, market risk with an integrated approach to strengthen the process and system as controls are more effective and valuable when built into the process. Effective risk management is considered essential in the preservation of the assets and long-term profitability of the Bank. Clear guidelines and limits, which are under regular review, are backed by a system of internal controls and independent audit inspections. Internal reporting / MIS are additional tools for measuring and controlling risks. Separation of duties is also embedded in the Bank's system and organization.

43.1 Credit risk

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises principally in relation to the lending and trade finance business carried out by the Bank.

As per Basel II methodology the gross credit risk weighted exposure incorporating relevant credit conversion factor is Rs. 194,801,579 thousand (2016: Rs. 168,210,614 thousand) as depicted in note 42.5.

The Bank's strategy is to minimize credit risk through a strong pre-disbursement credit analysis, approval and risk measurement process added with product, geography and customer diversification. The Bank, as its strategic preference, extends trade and working capital financing, so as to keep the major portion of exposure (funded and non-funded) on a short-term, self-liquidating basis. Major portion of the Bank's credit portfolio is priced on flexible basis with pricing reviewed on periodic basis.

Centralized Credit and Trade processing centres staffed with experienced resource provide strength to post-disbursement aspect of credit risk management.

The Bank's credit policy / manual defines the credit extension criteria, the credit approval and monitoring process, the loan classification system and provisioning policy.

The Bank continually assesses and monitors credit exposures. The Bank follows both objective and subjective criteria of SBP regarding loans classification. The subjective assessment process is based on management's judgment with respect to the borrower's character, activity, cash flow, capital structure, security, quality of management and delinquency.

43.1.1 Segmental information

Segment by class of business	2017					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rs. in '000)	%	(Rs. in '000)	%	(Rs. in '000)	%
Agriculture, forestry, hunting and fishing	921,481	0.48	17,983,640	3.47	102,120	0.04
Automobile and transportation equipment	1,988,904	1.04	20,214,938	3.90	10,653,493	3.69
Cement	2,185,148	1.15	9,498,720	1.83	3,609,032	1.25
Chemicals and pharmaceuticals	7,746,238	4.06	23,511,642	4.54	13,597,391	4.71
Construction	2,353,647	1.23	18,951,802	3.66	875,421	0.30
Commodity Finance	11,468,000	6.01	—	—	—	—
Electronics and electrical appliances	4,033,242	2.11	32,723,030	6.31	4,871,753	1.69
Exports / imports	3,943,570	2.07	12,912,469	2.49	4,599,957	1.59
Financial	3,401,067	1.78	21,683,039	4.18	113,118,944	39.21
Footwear and leather garments	794,423	0.42	13,122,880	2.53	802,071	0.28
Individuals	3,282,612	1.72	25,720,097	4.96	144,340	0.05
Insurance	—	—	244,774	0.05	—	—
Mining and quarrying	150,835	0.08	34,539,920	6.66	12,835,396	4.45
Power (electricity), gas, water, sanitary	28,405,545	14.89	19,601,725	3.78	9,740,365	3.38
Services	7,424,429	3.89	31,023,582	5.98	9,667,530	3.35
Sugar	468,568	0.25	1,921,790	0.37	933,179	0.32
Textile	77,823,572	40.80	36,843,286	7.11	57,325,899	19.87
Transport, storage and communication	2,028,672	1.06	18,402,376	3.55	2,829,072	0.98
Wholesale and retail trade	7,199,496	3.77	9,879,135	1.91	16,489,797	5.72
Others	25,126,260	13.19	169,584,957	32.72	26,309,530	9.12
	<u>190,745,709</u>	<u>100.00</u>	<u>518,363,802</u>	<u>100.00</u>	<u>288,505,290</u>	<u>100.00</u>

Segment by sector	2017					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rs. in '000)	%	(Rs. in '000)	%	(Rs. in '000)	%
Public / Government	26,223,053	13.75	86,625,168	16.71	14,343,263	4.97
Private	164,522,656	86.25	431,738,634	83.29	274,162,027	95.03
	<u>190,745,709</u>	<u>100.00</u>	<u>518,363,802</u>	<u>100.00</u>	<u>288,505,290</u>	<u>100.00</u>

Details of non-performing advances and specific provisions by class of business segment

	2017		2016	
	Classified advances	Specific provision held	Classified advances	Specific provision held
	Rupees in '000			
Agriculture, forestry, hunting and fishing	10,681	1,756	—	—
Automobile and transportation equipment	1,507,153	1,506,436	1,519,602	1,518,885
Chemicals and pharmaceuticals	332,746	306,773	339,687	301,854
Construction	124,088	64,412	189,056	68,412
Electronics and electrical appliances	284,000	284,000	523,887	523,887
Exports / imports	139,497	19,918	99,020	—
Footwear and leather garments	29,077	13,930	17,430	17,430
Individuals	6,211	5,446	6,691	5,671
Power (electricity), gas, water, sanitary	23,229	23,229	23,229	23,229
Services	90,033	56,766	100,384	51,785
Sugar	158,286	115,660	—	—
Textile	13,609,823	11,838,455	14,728,045	12,284,223
Transport, storage and communication	8,403	3,007	5,619	4,999
Wholesale and retail trade	363,015	289,984	427,690	303,006
Others	1,833,607	1,638,810	1,892,802	1,693,558
	<u>18,519,849</u>	<u>16,168,582</u>	<u>19,873,142</u>	<u>16,796,939</u>

Details of non-performing advances and specific provisions by sector

	2017		2016	
	Classified advances	Specific provision held	Classified advances	Specific provision held
	Rupees in '000			
Private	<u>18,519,849</u>	<u>16,168,582</u>	<u>19,873,142</u>	<u>16,796,939</u>

Geographical segment analysis

	2017			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees in '000			
Pakistan	<u>9,129,084</u>	<u>644,553,779</u>	<u>40,498,255</u>	<u>288,505,290</u>

Total assets employed include intra group items of Rs. 172,044 thousand (2016: Rs. 292,215 thousand).

43.2 Market risk

Market Risk is the risk of loss in earnings and capital due to adverse changes in interest rates, foreign exchange rates, equity prices and market conditions.

The Board of Directors oversees the Bank's strategy for market risk exposures. Asset and Liability Committee (ALCO) which comprises of senior management oversees the statement of financial position of the Bank, assesses the impact of interest rate change on the Bank's investment portfolio through stress testing, and performs oversight function to ensure sound asset quality, liquidity and pricing. The investment policy amongst other aspects covers the Bank asset allocation guidelines inclusive of equity investments. While market risk limits are in place and are monitored effectively, the Bank has also formalized liquidity and market risk management policies which contain action plans to strengthen the market risk management system and a middle office function oversees limit adherence. Market risk can be categorised into Interest Rate Risk, Foreign Exchange Risk and Equity Position Risk.

43.3 Foreign exchange risk

Foreign exchange risk is the probability of loss resulting from adverse movement in exchange rates.

The Bank's business model for foreign exchange risk is to serve trading activities of its clients in an efficient and cost effective manner. The Bank is not in the business of actively trading and market making activities and all FX exposures are backed by customer's trade transaction. A conservative risk approach backed by Bank's business strategy to work with export oriented clients gives the ability to meet its foreign exchange needs.

2017				
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
Pakistan Rupee	596,594,676	522,697,261	(33,529,114)	40,368,301
United States Dollar	44,463,953	74,102,310	30,028,086	389,729
Euro	2,392,602	2,180,402	(221,678)	(9,478)
Great Britain Pound	535,394	4,267,095	3,725,676	(6,025)
Asian Currency Unit	447,339	743,499	–	(296,160)
Japanese Yen	14,885	48,123	39,722	6,484
Arab Emirates Dirham	62,042	18	(51,102)	10,922
Canadian Dollar	–	4,299	8,410	4,111
Australian Dollar	4,675	–	–	4,675
Saudi Riyal	3,344	–	–	3,344
Other Currencies	34,869	12,517	–	22,352
	47,959,103	81,358,263	33,529,114	129,954
	<u>644,553,779</u>	<u>604,055,524</u>	<u>–</u>	<u>40,498,255</u>

2016				
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
Pakistan Rupee	488,714,936	437,298,381	(11,969,666)	39,446,889
United States Dollar	33,997,469	43,817,954	10,425,758	605,273
Euro	2,594,738	1,240,805	(1,355,104)	(1,171)
Great Britain Pound	551,032	3,696,076	3,145,172	128
Asian Currency Unit	465,943	868,699	–	(402,756)
Japanese Yen	63,265	685	(57,502)	5,078
Arab Emirates Dirham	201,991	17	(202,186)	(212)
Canadian Dollar	–	6,472	9,925	3,453
Australian Dollar	696	–	–	696
Saudi Riyal	441	–	–	441
Other Currencies	15,906	6,878	3,603	12,631
	37,891,481	49,637,586	11,969,666	223,561
	<u>526,606,417</u>	<u>486,935,967</u>	<u>–</u>	<u>39,670,450</u>

43.4 Interest rate risk

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. Interest rate risk is also controlled through flexible credit pricing mechanism and variable deposit rates. Duration analysis and stress testing are being carried out regularly to estimate the impact of adverse changes in the interest rates on bank's fixed income portfolio. Optimization of yield is achieved through the Bank's investment strategy which aims on attaining a balance between yield and liquidity under the strategic guidance of the ALCO. The advances and deposits of the Bank are repriced on a periodic basis based on interest rates scenario. Details of the interest rate profile of the Bank based on the earlier of contractual repricing or maturity date is as follows:

2017											
Effective yield/ interest rate %	Exposed to yield / interest risk										
	Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years	Non-interest bearing financial instruments
Rupees in '000											
On-balance sheet financial instruments											
Assets											
-	42,281,977	-	-	-	-	-	-	-	-	-	42,281,977
3.75%	1,133,261	89,702	-	-	-	-	-	-	-	-	1,043,559
5.55% to 6.45%	10,914,805	7,346,890	-	3,567,915	-	-	-	-	-	-	-
5.75% to 12.00%	396,636,990	24,705,679	172,290,832	13,199,999	13,754,546	38,171,279	22,366,826	91,160,446	17,911,826	-	3,075,557
1.00% to 20.50%	174,319,286	22,095,349	132,671,615	12,031,743	606,776	881,666	1,015,473	1,139,129	1,777,776	2,099,759	-
-	11,410,052	-	-	-	-	-	-	-	-	-	11,410,052
	636,696,371	54,237,620	304,962,447	28,799,657	14,361,322	39,052,945	23,382,299	92,299,575	19,689,602	2,099,759	57,811,145
Liabilities											
-	9,383,752	-	-	-	-	-	-	-	-	-	9,383,752
2.00% to 5.90%	64,379,366	31,540,780	18,055,771	7,600,346	313,350	749,429	757,956	1,005,225	1,218,582	971,213	2,166,714
0.25% to 16.67%	518,363,802	117,644,695	89,900,481	120,292,184	29,536,880	1,659,105	3,366,492	2,965,533	-	-	152,998,432
-	10,732,216	-	-	-	-	-	-	-	-	-	10,732,216
	602,859,136	149,185,475	107,956,252	127,892,530	29,850,230	2,408,534	4,124,448	3,970,758	1,218,582	971,213	175,281,114
	33,837,235	(94,947,855)	197,006,195	(99,092,873)	(15,488,908)	36,644,411	19,257,851	88,328,817	18,471,020	1,128,546	(117,469,969)
Off-balance sheet financial instruments											
	78,728,094	-	-	-	-	-	-	-	-	-	78,728,094
	(48,559,582)	-	-	-	-	-	-	-	-	-	(48,559,582)
	30,168,512	-	-	-	-	-	-	-	-	-	30,168,512
	64,005,747	(94,947,855)	197,006,195	(99,092,873)	(15,488,908)	36,644,411	19,257,851	88,328,817	18,471,020	1,128,546	(87,301,457)
	64,005,747	(94,947,855)	102,058,340	2,965,467	(12,523,441)	24,120,970	43,378,821	131,707,638	150,178,658	151,307,204	64,005,747

2016

	Effective yield/ interest rate %	Exposed to yield / interest risk										Non-interest bearing financial instruments
		Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years	
Rupees in '000												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	35,561,885	-	-	-	-	-	-	-	-	-	35,561,885
Balances with other banks	3.75%	2,259,974	44,415	-	-	-	-	-	-	-	-	2,215,559
Lendings to financial Institutions	4.50% to 6.65%	16,750,886	3,492,366	13,258,520	-	-	-	-	-	-	-	-
Investments	6.10% to 12.00%	314,619,011	2,289,380	121,821,854	50,000,871	10,233,533	20,725,550	24,381,025	47,774,106	30,022,561	-	7,370,131
Advances	1.15% to 20.55%	142,962,103	13,182,387	107,146,489	15,812,764	588,782	745,821	966,999	1,428,159	2,118,485	972,217	-
Other assets	-	6,731,246	-	-	-	-	-	-	-	-	-	6,731,246
		518,885,105	19,008,548	242,226,863	65,813,635	10,822,315	21,471,371	25,348,024	49,202,265	32,141,046	972,217	51,878,821
Liabilities												
Bills payable	-	8,108,633	-	-	-	-	-	-	-	-	-	8,108,633
Borrowings	1.00% to 5.90%	37,205,175	17,319,993	7,139,554	6,641,393	2,016,461	521,870	581,186	944,096	1,149,018	1,462	890,142
Deposits and other accounts	0.25% to 16.67%	430,888,036	110,713,312	52,606,915	104,729,501	27,085,389	2,015,855	1,665,452	5,371,721	-	-	126,699,891
Other liabilities	-	9,815,265	-	-	-	-	-	-	-	-	-	9,815,265
		486,017,109	128,033,305	59,746,469	111,370,894	29,101,850	2,537,725	2,246,638	6,315,817	1,149,018	1,462	145,513,931
On-balance sheet gap		32,867,996	(109,024,757)	182,480,394	(45,557,259)	(18,279,535)	18,933,646	23,101,386	42,886,448	30,992,028	970,755	(93,635,110)
Off-balance sheet financial instruments												
Forward purchase		76,832,902	-	-	-	-	-	-	-	-	-	76,832,902
Forward sale		(66,117,312)	-	-	-	-	-	-	-	-	-	(66,117,312)
Off-balance sheet gap		10,715,590	-	-	-	-	-	-	-	-	-	10,715,590
Total yield / interest risk sensitivity gap		43,583,586	(109,024,757)	182,480,394	(45,557,259)	(18,279,535)	18,933,646	23,101,386	42,886,448	30,992,028	970,755	(82,919,520)
Cumulative yield / interest risk sensitivity gap		43,583,586	(109,024,757)	73,455,637	27,898,378	9,618,843	28,552,489	51,653,875	94,540,323	125,532,351	126,503,106	43,583,586
43.4.1 Reconciliation of assets and liabilities exposed to yield / interest rate risk with total assets and liabilities												
Reconciliation to total assets		2017	2016	Reconciliation to total liabilities		2017	2016					
		(Rupees in '000)				(Rupees in '000)						
Total financial assets		636,696,371	518,885,105	Total financial liabilities		602,859,136	486,017,109					
Add: Non financial assets				Add: Non financial liabilities								
Operating fixed assets		3,355,862	3,246,376	Other liabilities		1,196,388	918,858					
Deferred tax assets		2,835,318	2,458,685									
Other assets		1,666,228	2,016,251									
		7,857,408	7,721,312									
Balance as per statement of financial position		644,553,779	526,606,417	Balance as per statement of financial position		604,055,524	486,935,967					

43.5 Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to raise funds to meet its commitments.

Governance of Liquidity risk management

ALCO manages the liquidity position on a continuous basis.

Liquidity and related risks are managed through standardized processes established in the Bank. The management of liquidity risk within the Bank is undertaken within limits and other parameters set by the BoD. The Bank's treasury function has the primary responsibility for assessing, monitoring and managing the Bank's liquidity and funding strategy while overall compliance is monitored and coordinated by the ALCO. The BoD and senior management are apprised of the Bank's liquidity profile to ensure proactive liquidity management. Treasury middle office being part of the risk management division is responsible for the independent identification, monitoring and analysis of intrinsic risks of treasury business. The Bank has in place duly approved treasury investment policy and strategy along with liquidity risk tolerance / appetite levels. These are communicated at various levels so as to ensure effective liquidity management for the Bank.

Funding Strategy

The Bank's liquidity model is based on "self-reliance" with an extensive branch network to diversify the Bank deposit base. Further, the Bank can also generate liquidity from interbank market against government securities to fund its short term liquidity requirement, if any. The Bank as a policy invests significantly in highly liquid government securities that can be readily converted into cash to meet unforeseen liquidity requirements, besides yielding attractive returns. Furthermore, long term loans are generally kept at an amount lower than the Bank's capital / reserves.

Liquidity Risk Mitigation techniques

Various tools and techniques are used to measure and monitor the possible liquidity risk. These include monitoring of different liquidity ratios which are monitored regularly against approved triggers and communicated to senior management and the ALCO. Further, Bank also prepares the maturity profile of assets and liabilities to monitor the liquidity gaps over different time buckets. The Bank also ensures that statutory cash and liquidity requirements are maintained at all times.

Liquidity Stress Testing

As per the SBP BSD Circular No. 1 of 2012, Liquidity stress testing is being conducted under well-defined stress scenarios. Results of same are escalated at the senior level so as to enable the senior management to take proactive actions to avoid liquidity crunch for the Bank.

Contingency Funding Plan

Contingency Funding Plan (CFP) is a part of liquidity management framework of the Bank which defines and identifies the factors that can instigate a liquidity crisis and the actions to be taken to manage the crisis. The Bank has a comprehensive liquidity contingency funding plan in place, which highlights liquidity management strategy to be followed under stress condition. Contingency event management parameters and responsibilities are also incorporated in order to tackle the liquidity crisis. Moreover, CFP highlights possible funding sources focusing on self-reliance, in case of a liquidity crisis.

LCR and NSFR results

The Bank calculates the liquidity coverage ratio (LCR) on monthly basis as per SBP Basel III Liquidity Standards issued under BPRD Circular No 8 dated 23 June 2016. The objective of LCR is to ensure the short-term resilience of the liquidity risk profile of the Bank and requires banks to maintain sufficient High Quality Liquid Assets (HQLAs) to meet stressed cash outflows over a prospective 30 calendar-days period. As of 31 December 2017, the Bank's LCR stood at 312% against the SBP's minimum requirement of 90%.

The objective of Net Stable Funding Ratio (NSFR) is to reduce funding risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress. Banks are expected to meet the NSFR requirement of atleast 100% on an ongoing basis from 31 December 2017. As of 31 December 2017, the Bank's NSFR stood at 255%.

Main drivers of LCR results

Main drivers of LCR results are HQLA and net cash outflows. Net cash outflows are mainly deposit outflows net of cash inflows which consist of inflows from financing and money market placements upto 1 month. The inputs for calculation of LCR are as prescribed by the SBP.

Composition of High Quality Liquid Assets (HQLA)

High Quality Liquid Assets composed of Level 1 assets which can be included in the stock of liquid assets at 100% of their market value. The Bank has taken cash & treasury balances, investments in government securities classified as available-for-sale. Further, Level 2-B asset category includes investment in qualifying corporate bonds and equity investments classified as available-for-sales.

Currency mismatch in the LCR

Currency mismatch is minimal as PKR deposits are 85% of the Bank's total deposits.

43.5.1 Liquidity coverage ratio

	Total Unweighted Value (Average)	Total Weighted Value (Average)
Rupees in '000		
High quality liquid assets		
Total high quality liquid assets (HQLA)		301,679,059
Cash outflows		
Retail deposits and deposits from small business customers of which:		28,193,245
Stable deposit	—	—
Less stable deposit	281,932,448	28,193,245
Unsecured wholesale funding of which:		99,978,817
Operational deposits (all counterparties)	16,510,724	4,127,681
Non-operational deposits (all counterparties)	182,084,468	72,833,787
Unsecured debt	23,017,349	23,017,349
Secured wholesale funding	36,655,684	—
Additional requirements of which:		6,225,099
Outflows related to derivative exposures and other collateral requirements	—	—
Outflows related to loss of funding on debt products	—	—
Credit and Liquidity facilities	124,226,946	6,225,099
Other contractual funding obligations	—	—
Other contingent funding obligations	—	—
Total cash outflows (A)		134,397,161
Cash inflows		
Secured lending	4,527,118	—
Inflows from fully performing exposures	54,522,589	27,261,294
Other cash inflows	13,173,769	10,491,221
Total cash inflows (B)		37,752,515
Total adjusted value		
Total HQLA		301,679,059
Total net cash outflows (A - B)		96,644,645
Liquidity coverage ratio (%)		312

43.5.2 Net stability funds ratio

	unweighted value by residual maturity				weighted value
	No Maturity	< 6 months	6 months to < 1 yr	≥ 1 yr	
Available stable funding (ASF) items					
Capital:					
Regulatory capital	40,490,235	–	–	–	40,490,235
Other capital instruments	–	–	–	–	–
Retail deposits and deposit from small business customers:					
Stable deposits	–	–	–	–	–
Less stable deposits	–	273,538,398	15,444,556	6,264,267	266,348,926
Wholesale funding:					
Operational deposits	30,208,589	–	–	–	15,104,295
Other wholesale funding	–	182,786,667	14,180,723	6,429,268	104,912,962
Other liabilities:	–	–	–	–	–
NSFR derivative liabilities	–	–	–	–	–
All other liabilities and equity not included in Other categories	–	75,203,057	–	–	–
Total ASF					426,856,419
Required stable funding (RSF) items					
Total NSFR high-quality liquid assets (HQLA)	–	–	–	–	36,293,419
Deposits held at other financial institutions for operational purposes	–	2,353,260	–	–	1,176,630
Performing loans and securities:	–	–	–	–	–
Performing loans to financial institutions secured by Level 1 HQLA	–	346,890	–	–	34,689
Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	–	7,166,443	492,968	–	1,567,934
Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	–	–	–	–	–
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	–	34,291,098	2,235,362	2,769,079	36,090,999
Securities that are not in default and do not qualify as HQLA including exchange- traded equities.	–	–	–	–	–
Other assets:	–	–	–	–	–
Physical traded commodities, including gold	–	–	–	–	–
Assets posted as initial margin for derivative contracts	–	–	–	–	–
NSFR derivative assets	–	–	–	–	–
NSFR derivative liabilities before deduction of variation margin posted	–	–	–	–	–
All other assets not included in the above categories	–	168,208,279	13,087,628	18,080,085	78,767,236
Off-balance sheet items	–	246,676,156	12,827,354	6,616,114	13,305,985
Total RSF					167,236,892
Net stable funding ratio (%)					255

2016

[illegible]

43.5.4 Maturities of assets and liabilities - based on historical pattern of assets and liabilities of the Bank

The maturity profile set out below has been prepared by the ALCO, keeping in view the historical pattern of those current and saving deposit accounts which do not have contractual maturity.

2017

[illegible]

2016

		Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
Total										
Rupees in '000										
Assets										
Cash and balances with treasury banks	35,561,885	35,561,885	-	-	-	-	-	-	-	-
Balances with other banks	2,259,974	2,259,974	-	-	-	-	-	-	-	-
Lendings to financial institutions	16,750,886	3,492,366	13,258,520	-	-	-	-	-	-	-
Investments	314,619,011	8,868,221	120,134,421	44,586,020	10,471,460	25,030,964	24,966,164	48,525,086	31,386,675	650,000
Advances	142,962,103	37,890,893	46,131,950	25,903,482	11,021,905	5,336,734	5,094,967	6,237,958	4,152,544	1,191,670
Operating fixed assets	3,246,376	178,742	184,312	276,468	552,936	797,370	161,381	177,792	444,480	472,895
Deferred tax assets	2,458,685	1,349,137	557,592	393,585	314,175	(47,783)	(2,216)	(79,587)	(9,159)	(17,059)
Other assets	8,747,497	6,546,713	387,025	202,831	1,215,536	73,739	238,137	22,474	30,446	30,596
	526,606,417	96,147,931	180,653,820	71,362,386	23,576,012	31,191,024	30,458,433	54,883,723	36,004,986	2,328,102
Liabilities										
Bills payable	8,108,633	8,108,633	-	-	-	-	-	-	-	-
Borrowings	37,205,175	18,210,135	7,139,554	6,641,393	2,016,461	521,870	581,186	944,096	1,149,018	1,462
Deposits and other accounts	430,888,036	57,562,702	77,003,765	65,008,377	149,069,628	38,611,124	38,260,721	5,371,720	-	-
Other Liabilities	10,734,123	4,734,305	1,813,883	1,223,043	1,591,286	76,678	63,923	845,662	385,343	-
	486,935,967	88,615,775	85,957,202	72,872,813	152,677,375	39,209,672	38,905,830	7,161,478	1,534,361	1,462
Net assets / (liabilities)	39,670,450	7,532,157	94,696,618	(1,510,427)	(129,101,363)	(8,018,648)	(8,447,397)	47,722,245	34,470,625	2,326,640
Share capital	10,478,315									
Reserves	13,933,875									
Unappropriated profit	12,753,139									
Surplus on revaluation of assets - net of tax	2,505,121									
	39,670,450									

43.6 Operational risk

The Bank operates in a controlled manner and operational risk is generally managed effectively. With the evolution of operation risk management into a separate distinct discipline, the Bank's strategy is to further strengthen risk management system along new industry standards.

The Bank's operational risk management strategy takes guidance from Basel framework, Committee of Sponsoring Organization of Treadway Commission (COSO) publications, the SBP guidelines and standard industry practices. The operational risk management manual addresses enterprise wide risk drivers inclusive of technology infrastructure, software hardware and I.T. security.

The Bank's ORM framework includes Risk Control Self-Assessment (RCSA), Key Risk Indicators (KRIs), Operational Risk Events Management, and Operational Risk Reporting. The ORM unit engages with Bank's business / support units and regularly collaborates in determining and reviewing the risks, and assessment of residual risk leading to improved quality of control infrastructure and strengthening of the processes (sub processes) & management information.

The Bank's business continuity plan includes risk management strategies to mitigate inherent risk and prevent interruption of mission critical services caused by disaster event. The Bank's operational risk management infrastructure has been further strengthened through the establishment of a separate operational and risk control unit.

The Bank uses Basic Indicator Approach (BIA) for regulatory capital at risk calculation for operational risk. Under BIA the capital charge for operational risk is a fixed percentage of average positive annual gross income of the Bank over the past three years. Figures of capital charge of operation risk for the year is Rs. 2,716,642 thousand (2016: Rs. 2,504,149 thousand).

44. KEY ISLAMIC BANKING OPERATIONS

44.1 The Bank is operating 29 (2016: 25) Islamic banking branches in Pakistan. The statement of financial position and profit and loss account of these branches as at 31 December 2017 and for the year are as follows:

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Note	2017	2016
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks		2,540,250	2,723,811
Balances with other banks		—	—
Due from financial institutions		7,567,915	13,613,465
Investments		28,340,952	20,540,621
Islamic financing and related assets	44.5	13,872,126	8,429,751
Operating fixed assets		107,070	79,530
Deferred tax assets		—	—
Other assets		1,378,555	1,414,567
		<u>53,806,868</u>	<u>46,801,745</u>
LIABILITIES			
Bills payable		658,486	304,581
Due to financial institutions		1,850,668	860,517
Deposits and other accounts		48,306,291	43,154,644
— Current deposits		8,057,204	7,660,817
— Saving deposits		13,597,942	10,641,554
— Term deposits		17,123,561	16,415,145
— Others		270,810	111,661
— Deposits from financial institutions - remunerative		9,104,551	8,321,653
— Deposits from financial institutions - non - remunerative		152,223	3,814
Due to head office		—	—
Other liabilities		542,718	506,326
		<u>51,358,163</u>	<u>44,826,068</u>
NET ASSETS		<u>2,448,705</u>	<u>1,975,677</u>
REPRESENTED BY			
Islamic banking fund		2,002,760	1,402,615
Reserves		—	—
Unappropriated profit		283,058	191,936
		<u>2,285,818</u>	<u>1,594,551</u>
Surplus on revaluation of assets		162,887	381,126
		<u>2,448,705</u>	<u>1,975,677</u>

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
	Rupees in '000	
Profit / return on financing, investments and placements earned	2,543,055	2,752,564
Profit / return on deposit & other dues expensed	(1,865,993)	(2,306,490)
Net spread earned	677,062	446,074
Provision against non performing financing	14,201	15,852
Provision for diminution in the value of investments	—	—
Provision for consumer financing Ijarah	—	—
Bad debts written off directly	—	—
	(14,201)	(15,852)
Net spread after provisions	662,861	430,222
OTHER INCOME		
Fee, commission and brokerage income	90,112	40,746
Dividend income	—	—
Income from dealing in foreign currencies	20,830	23,661
Gain on sale / redemption of securities	17,594	66,907
Unrealized gain / (loss) on revaluation of investments classified as 'held-for-trading'	—	—
Other income	12,573	44,146
Total other income	141,109	175,460
	803,970	605,682
OTHER EXPENSES		
Administrative expenses	518,109	413,464
Other provisions / write offs	—	—
Other charges	2,803	282
Total other expenses	(520,912)	(413,746)
	283,058	191,936
Extra-ordinary / unusual items	—	—
PROFIT BEFORE TAXATION	283,058	191,936
44.2 Remuneration to Shariah Advisor / Board	8,081	7,747
44.3 Charity Fund		
Opening balance	327	491
Additions during the year		
Received from customer on delayed payments	152	550
Payments / utilization during the year		
Education	—	(148)
Health	—	(566)
	—	(714)
Closing balance	479	327

	2017	2016
	Rupees in '000	
44.4 Financings / investments / receivables		
Murabaha financing		
Murabaha receivable - gross	4,348,615	4,257,445
Less: Deferred murabaha income	(126,098)	(125,683)
Advance against murabaha	300,727	109,071
	4,523,244	4,240,833
Provision against murabaha financing	(362,163)	(345,550)
	4,161,081	3,895,283
Ijarah		
Asset held for ijarah	549,812	367,292
Less: Accumulated depreciation	(138,701)	(115,788)
Ijarah financing	-	-
Less: Unearned income	-	-
Advance against ijarah	114,290	32,218
	525,401	283,722
Provision against ijarah financing	(22,821)	(23,796)
	502,580	259,926
Diminishing musharakah		
Diminishing musharakah - gross	5,405,867	3,477,592
Less: Unrealised income on diminishing musharakah	(765,831)	(779,718)
Advance against diminishing musharakah	324,624	146,306
	4,964,660	2,844,180
Provision against diminishing musharakah	(1,891)	(3,327)
	4,962,769	2,840,853
Export refinance murabaha		
Export refinance murabaha receivable - gross	636,827	95,142
Less: Deferred export refinance murabaha income	(8,810)	(1,247)
Advance against murabaha IERF	6,880	6,673
	634,897	100,568
Istisna financing		
Istisna financing - gross	562,381	44,645
Less: Deferred istisna income	(153,474)	(13,394)
Advance against istisna	364,896	146,308
	773,803	177,559
Advance against export refinance istisna		
Export refinance istisna receivable - gross	764,706	13,226
Less: Deferred export refinance istisna income	(114,706)	(2,645)
Advance against istisna IERF	600,000	754,400
	1,250,000	764,981
Al-Bai financing	13,104	-
Al-Bai goods	172,892	55,081
Istisna goods	-	29,500
Working capital musharakah	1,401,000	306,000
44.5 Islamic mode of financing		
Financings / investments / receivables	12,374,692	7,522,867
Assets / inventories	172,892	84,581
Advances	1,711,417	1,194,976
Gross islamic financing and related assets	14,259,001	8,802,424
Provision against financing and related assets	(386,875)	(372,673)
	13,872,126	8,429,751

44.6 Following pools are maintained by the Bank's Islamic Banking Division (IBD)

- **General pool - local currency and foreign currency**
Deposit accepted in general pool local and foreign currency is based on Modaraba. Profit is distributed to depositors as per pre agreed weightages.
- **Special pool**
Deposit accepted in special pools are based on Modaraba. Profit is distributed to depositors as per pre agreed profit sharing ratio.
- **Islamic Export Refinance Scheme musharakah pool**
The IERS Pool caters the 'Islamic Export Refinance' requirements based on the guidelines issued by the SBP.

44.6.1 Nature of general / specific pools local and foreign currencies

a) Consideration attached with risk and reward

- Period, return, safety, security and liquidity of investment.
- All financing proposals under process at various stages and likely to be extended in near future.
- Expected withdrawal of deposits according to the maturities affecting the deposit base.
- Maturities of funds obtained under modaraba arrangement from head office, Islamic Banking financial institutions.
- Element of risk associated with different kind of investments
- Regulatory requirement
- Shariah compliance.

b) Priority of utilization of funds

- Depositors' funds
- Equity funds
- Placement / investments of other IBI
- Modaraba placement of HabibMetro (head office)

c) Weightages for distribution of profits

Profits are calculated on the basis of weightages assigned to different tiers and tenors (General pool). These weightages are announced at the beginning of the period, while considering weightages emphasis shall be given to the quantum, type and the period of risk assessed by applying following factors.

- Contracted period, nature and type of deposit / fund.
- Payment cycle of profit on such deposit / fund, i.e. monthly, quarterly or on maturity.
- Magnitude of risk.

Any change in profit sharing weightages of any category of deposit / fund providers shall be applicable from the next month (where applicable).

d) Identification and allocation of pool related income and expenditure:

The allocation of income and expenditure to different pools is being done based on pre-defined basis and accounting principles as mentioned below:

The direct expenditure shall be charged to respective pool, while indirect expenses including the establishment cost shall be borne by Habib Metro IBD as Mudarib. The direct expenses to be charged to the pool may include depreciation of ijarah assets, insurance / takaful expenses of pool assets, stamp fee or documentation charges, brokerage fee for purchase of securities, impairment / losses due to physical damages to specific assets in pools etc. However, this is not an exhaustive list; Habib Metro IBD pool management framework and the respective pool creation memorandum may identify and specify these and other similar expenses to be charged to the pool.

44.6.2 Islamic export refinance scheme musharakah pool

All the features and other details of this pool are in accordance with the SBP IERS Scheme and all circulars and instructions issued from time to time in this regard.

44.7 Avenues / sectors of economy / business where modaraba based deposits have been deployed

- Agriculture, foresting, hunting and fishing
- Automobile and transportation equipment
- Chemical and pharmaceuticals
- Electronic and electrical appliances
- Financial
- Production and transmission of energy
- Footwear and leather garments
- Textile
- Cement
- Others

44.8 Parameters used for allocation of profit, charging expenses and provisions etc.

a) Basis of profit allocation

	From January 01, 2017 to December 31, 2016	
	Local Currency	Foreign Currency
- Rabbul Maal	50%	10%
- Mudarib	50%	90%

b) Charging expenses

The direct expenses are charged to respective pool, while indirect expenses including the establishment cost shall be borne by IBD as Mudarib.

c) Provisions

During the year, specific provision amounting to Rs. 14,201 thousand (2016: Rs. 15,852 thousand) has been made.

44.9 Mudarib share (in amount and percentage of distributable income)

	2017		2016	
	Rupees in '000	%	Rupees in '000	%
Rabbul Maal	996,612	44.23	1,237,019	44.23
Mudarib	1,390,650	55.77	1,560,018	55.77
Distributable Income	2,387,562	100.00	2,797,037	100.00

44.10 Amount and percentage of mudarib share transferred to depositors through Hiba (if any)

	2017	2016
	Rupees in '000	
Mudarib share	1,390,950	1,560,018
Hiba	382,825	551,899
Hiba percentage of mudarib share	27.52%	35.38%

44.11 Profit rate earned vs. profit rate distributed to the depositors during the year

	2017	2016
	%	
Profit rate earned	5.74	6.32
Profit rate distributed to depositors	4.26	4.82

45. GENERAL

45.1 These financial statements have been prepared in accordance with the revised forms of annual financial statements of the Banks' issued by the State Bank of Pakistan through its BSD Circular No. 04 dated 17 February 2006.

45.2 Non adjusting event after statement of financial position date

The Board of Directors in its meeting held on 16 February 2018 has proposed a final cash dividend of Rs. 3.00 per share amounting to Rs. 3,143,494 thousand (2016: final cash dividend of Rs. 3.00 per share amounting to Rs. 3,143,494 thousand) for approval by the members of the Bank in the forthcoming Annual General Meeting.

46. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 16 February 2018 by the Board of Directors of the Bank.

FUZAIL ABBAS
Chief Financial Officer

SIRAJUDDIN AZIZ
President &
Chief Executive Officer

MOHOMED BASHIR
Director

SOHAIL HASAN
Director

MOHAMEDALI R. HABIB
Chairman

ANNEXURE "I" AS REFERRED TO IN NOTE 11.4 OF THE UNCONSOLIDATED FINANCIAL STATEMENTS

1. MARKET TREASURY BILLS

These securities have a maturity period of 1 year, with yield ranging between 5.98% to 6.05% (2016: 5.87% to 6.28%) per annum.

2. PAKISTAN INVESTMENT BONDS

These securities have a maturity period of 3 to 10 years with interest rates ranging between 7.00% to 12.00% (2016: 7.00% to 12.00%) per annum.

3. FULLY PAID-UP ORDINARY SHARES - LISTED

	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	Rating
	No. of shares of Rs. 10/- each		Paid up value		Market Value		Cost		Rupees in '000				
Allied Bank Limited	580,500	582,500	5,805	5,825	49,331	69,440	65,492	66,611	AA+	AA+	AA+	AA+	AA+
Amreli Steel Limited	200	1,375,000	2	13,750	19	91,561	10	71,562	A	A	A	A	A
Bank Al Habib Limited	687,737	2,237,737	6,877	22,377	40,135	132,004	30,354	96,728	AA+	AA+	AA+	AA+	AA+
Bank Alfalah Limited	22,000	1,822,000	220	18,220	935	69,163	601	49,742	AA+	AA+	AA+	AA+	AA
Cherat Cement Company Limited	521,160	571,060	5,212	5,711	57,802	99,387	61,517	62,594	A	A	A	A	A
DGK Cement Limited	85,000	435,000	850	4,350	11,366	96,453	14,589	74,662	**	**	**	**	**
Engro Food Limited	800	81,800	8	818	64	15,701	132	11,929	A+	A+	A+	A+	A+
Engro Fertilizer Limited	135,000	1,005,000	1,350	10,050	9,142	68,320	8,877	65,598	AA-	AA-	AA-	AA-	AA-
Fatima Fertilizers Company Limited	489,000	2,371,500	4,890	23,715	15,100	87,485	15,143	73,323	AA-	AA-	AA-	AA-	AA-
Fauji Fertilizers Bin Qasim Limited	107,000	897,000	1,070	8,970	3,803	45,935	5,240	41,370	**	**	**	**	AA
Fauji Fertilizers Company Limited	162,200	662,200	1,622	6,622	12,832	69,114	18,326	74,818	AA	AA	AA	AA	AA
Habib Bank Limited	160	197,960	2	1,980	27	54,093	35	41,592	AAA	AAA	AAA	AAA	AAA
Hi-Tech Lubricants Limited	8,000	164,500	80	1,645	568	18,896	776	13,966	**	**	**	**	**
Honda Atlas Cars (Pakistan) Limited	28,700	50,100	287	501	14,706	33,499	20,093	29,349	**	**	**	**	**
Hub Power Company Limited	6,525	934,425	65	9,344	594	115,383	515	73,811	AA+	AA+	AA+	AA+	AA+
Kot Addu Power Company Limited	-	942,000	-	9,420	-	74,230	-	73,163	AA+	AA+	AA+	AA+	AA+
Lucky Cement Limited	7,000	56,400	70	564	3,622	48,856	5,705	40,562	**	**	**	**	**
MCB Bank Limited	3,000	263,000	30	2,630	637	62,546	798	70,354	AAA	AAA	AAA	AAA	AAA
Meezan Bank Limited	2,000	524,500	20	5,245	134	35,724	107	28,135	AA	AA	AA	AA	AA
National Bank of Pakistan	7,000	1,055,000	70	10,550	340	79,008	478	74,408	AAA	AAA	AAA	AAA	AAA
Nishat Power Limited	-	326,000	-	3,260	-	20,893	-	17,068	A+	A+	A+	A+	A+
Oil and Gas Development Corporation Limited	94,700	529,700	947	5,297	15,416	87,584	20,354	123,215	AAA	AAA	AAA	AAA	AAA
Pakistan Petroleum Limited	12,000	347,000	120	3,470	2,471	65,296	2,449	71,238	**	**	**	**	**
Pakistan Oilfield limited	116,100	353,200	1,161	3,532	68,994	188,828	47,040	141,644	**	**	**	**	**
Pakistan International Bulk Terminal Limited	1,050,000	-	10,500	-	15,698	-	30,254	-	**	**	**	-	-
Pakistan Stock Exchange	3,369,965	-	33,700	-	75,487	-	94,359	-	**	**	**	-	-
The General Tyre & Rubber Company of Pakistan Limited	199,100	55,800	1,991	558	37,491	15,543	58,026	15,230	**	**	**	**	**
United Bank Limited	218	400,218	2	4,002	41	95,612	40	69,726	AAA	AAA	AAA	AAA	AAA
					436,755	1,840,554	501,310	1,572,398					

** Unrated

4. FULLY PAID-UP ORDINARY SHARES - UNLISTED

	Percentage of holding	No. of shares held	Cost	Breakup value of investment	Based on audited financial statements	Name of Chief Executive	Credit rating
			— Rupees in '000 —				
Pakistan Export Finance Guarantee Limited	5.26%	1,136,088	11,361	—	—	Under liquidation	**
DHA Cogen Limited	1.77%	5,000,000	50,000	—	31 December 2014	Mr. M. Waqas Mohsin	**
Dawood Family Takaful Limited	4.67%	3,500,000	35,000	17,500	31 December 2016	Mr. Nasir Mehmood	A-
Society for World Wide Inter Bank Fund Transfer (SWIFT)	—	43	10,630	21,320	31 December 2016	Mr. Gottfried Liebbrandt	**
			<u>106,991</u>				

** Unrated

5. TERM FINANCE CERTIFICATES - LISTED

	2017	2016	2017	2016	2017	2016	2017	2016
	No. of certificates of Rs. 5,000/- each		Market Value		Cost		Rating	
			Rupees in '000					
Askari Bank Limited - V	50,000	50,000	250,299	254,446	249,700	249,800	AA-	AA-
Bank Al Habib Limited - TFC 2016	54,000	54,000	270,107	273,185	269,838	269,946	AA	AA
Bank Alfalah Limited - V	7,350	7,350	37,338	37,660	36,684	36,699	AA	AA-
Bank Al Habib Limited	140,000	—	700,000	—	700,000	—	AA-	AA-
Habib Bank Limited (TFC Rs 100,000/- each)	10,000	10,000	990,764	1,002,500	999,600	1,000,000	AAA	AAA
NIB Bank Limited	40,000	40,000	202,836	202,078	199,720	199,800	AAA	A+
Soneri Bank Limited	50,000	50,000	250,049	254,398	249,800	249,900	A+	A+
World Call Telecom Limited - III	42,000	42,000	82,558	82,559	82,558	82,558	**	**
			<u>2,783,951</u>	<u>2,106,826</u>	<u>2,787,900</u>	<u>2,088,703</u>		

** Unrated

5.1 Other particulars of listed term finance certificates are as follows:

	Coupon rate		Payment	Maturity date
	2017	2016		
Askari Bank Limited - V	6 months KIBOR plus 120 bps		Semi annually	30-Sep-21
Bank Al Habib Limited - TFC 2016	6 months KIBOR plus 75 bps		Semi annually	17-Mar-26
Bank Alfalah Limited - V	6 months KIBOR plus 125 bps		Semi annually	20-Feb-21
Bank Al Habib Limited - TFC 2017	6 months KIBOR plus 115 bps		Semi annually	Perpetual
Habib Bank Limited (TFC Rs 100,000/- each)	6 months KIBOR plus 50 bps		Semi annually	21-Dec-25
NIB Bank Limited	6 months KIBOR plus 115 bps		Semi annually	19-Jun-22
Soneri Bank Limited	6 months KIBOR plus 135 bps		Semi annually	31-Mar-23
World Call Telecom Limited - III	6 months KIBOR plus 160 bps		Semi annually	7-Apr-17

6. TERM FINANCE CERTIFICATES - UNLISTED

	No. of certificates of Rs. 5,000/- each		Cost Rupees in '000		Rating	
	2017	2016	2017	2016	2017	2016
New Allied Electronics Industries (Private) Limited (Chief Executive: Mr. Mian Pervaiz Akhtar)	10,000	10,000	21,138	21,138	**	**
Pakistan International Airlines Corporation Limited (Managing Director: Mr. Musharaf Rasool Cyan)	27,411	27,411	85,590	111,268	**	**
Bank Alfalah Limited - IV (Chief Executive: Mr. Noman Ansari)	-	15,000	-	49,870	AA-	AA-
Faysal Bank Limited - III (Chief Executive: Mr. Yousuf Hussain)	-	30,000	-	74,850	-	AA-
Security Leasing Corporation Limited (Chief Executive: Ms. Farah Azeem)	10,000	10,000	7,702	7,702	**	**
Standard Chartered Bank Limited - II (Chief Executive: Mr. Shahzad Dada)	-	10,000	-	50,000	-	**
			114,430	314,828		

** Unrated

6.1 Other particulars of unlisted term finance certificates are as follows:

	Coupon rate	Payment	Maturity date
New Allied Electronics Industries (Private) Limited	3 months KIBOR plus 275 bps	Quarterly	14-Feb-17
Pakistan International Airlines Corporation Limited	6 months KIBOR plus 125 bps	Semi annually	19-Feb-20
Security Leasing Corporation Limited	Fixed at the rate 6% per annum	Semi annually	28-Jan-22

7. SUKUK CERTIFICATES AND BONDS

	2017	2016	2017	2016	2017	2016
	No. of certificates of Rs. 5,000/- each		Cost Rupees in '000		Rating	
Al-Baraka Bank Limited (Sukuk Rs 1,000,000/- each) - Issue 2014	250	250	142,857	178,571	A	A
Al-Baraka Bank Limited (Sukuk Rs 1,000,000/- each) - Issue 2017	100	-	100,000	-	**	**
Engro Foods Limited	-	20,000	-	42,500	-	**
GOP Ijarah Sukuk-15th Issue	-	700,000	-	3,510,666	-	**
GOP Ijarah Sukuk-16th Issue	772,387	770,000	3,861,934	3,874,180	**	**
GOP Ijarah Sukuk-17th Issue	2,000,000	2,000,000	10,000,000	10,000,000	**	**
GOP Ijarah Sukuk-18th Issue	2,316,689	-	11,583,444	-	**	**
Liberty Power Technology Limited	109,942	109,942	263,639	326,674	A+	A+
Pakistan Mobile Communication	40,000	40,000	133,334	200,000	AA	AA
Sitara Peroxide Limited	20,000	20,000	38,300	38,300	**	**
Three Star Hosiery Mills Limited	1,900	1,900	9,500	9,500	**	**
WAPDA Sukuk Bonds 2nd Issue	-	70,000	-	58,333	-	**
WAPDA Sukuk Bonds 3rd Issue	85,000	85,000	242,857	303,570	**	**
			26,375,865	18,542,294		

** Unrated

7.1 Other particulars of Sukuk Certificates / Bonds are as follows:

	Coupon rate	Payment	Maturity date
Al-Barka Bank Limited (Sukuk Rs 1,000,000/- each) Issue 2014	6 months KIBOR plus 125 bps	Semi annually	26-Sep-24
Al-Baraka Bank Limited (Sukuk Rs 1,000,000/- each) Issue 2017	6 months KIBOR plus 75 bps	Semi annually	22-Aug-24
GOP Ijarah Sukuk-16th Issue	6 months weighted average T-bills rate minus 50 bps	Semi annually	18-Dec-18
GOP Ijarah Sukuk-17th Issue	Fixed at the rate 6.10% per annum	Semi annually	15-Feb-19
GOP Ijarah Sukuk-18th Issue	Fixed at the rate 5.59% per annum	Semi annually	29-Mar-19
Liberty Power Technology Limited	3 months KIBOR plus 300 bps	Quarterly	18-Mar-21
Pakistan Mobile Communication	3 months KIBOR plus 88 bps	Quarterly	22-Dec-19
Sitara Peroxide Limited	3 months KIBOR plus 100 bps	Quarterly	19-Feb-20
Three Star Hosiery Mills Limited	6 months KIBOR plus 325 bps	Semi annually	4-Aug-17
WAPDA Sukuk Bonds 3rd Issue	6 months KIBOR plus 100 bps	Semi annually	14-Oct-21

8. OPEN END MUTUAL FUNDS

	2017	2016	2017	2016	2017	2016	2017	2016
	Number of Units		Net Asset Value		Cost		Rating	
ABL Stock Fund	7,206,999	17,627,151	100,188	331,977	100,000	300,000	**	**
AKD Aggressive Income Fund	-	980,483	-	52,244	-	50,000	-	BBB+(f)
AKD Opportunity Fund	178,300	448,833	14,514	51,015	20,177	50,000	4 Star	4 Star
Atlas Stock Market Fund	51,871	254,742	30,163	170,233	33,126	150,000	**	**
Alfalakh GHP Islamic Value Fund	247,865	-	25,002	-	25,000	-	**	-
Alfalakh GHP Stock Fund	791,427	-	103,789	-	134,738	-	4 Star	-
Al Ameen Islamic Aggressive Income Fund	323,230	312,600	32,816	31,931	26,060	25,000	-	BBB+(f)
Askari High Yield Scheme	272,258	979,270	28,229	102,119	27,952	100,000	BBB+(f)	A(f)
BMA Chundrigar Road Savings Fund	-	3,014,627	-	25,465	-	25,000	-	A+(f)
HBL Islamic Asset Allocation Fund	208,879	195,843	21,296	21,693	21,377	20,000	**	**
HBL Mustahkem Sarmaya Fund 1	-	516,814	-	54,923	-	50,000	-	**
HBL Stock Fund	997,705	2,392,928	101,770	305,148	133,879	300,000	**	**

	Number of Units		Net Asset Value		Rupees in '000		Cost		Rating	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Lakson Equity Fund	901,417	2,553,836	100,067	366,161	100,000	303,063	3 Star	3 Star	3 Star	3 Star
JS Large Cap Fund	-	460,596	-	68,067	-	50,000	-	-	-	-
Lakson Asset Allocation Developed Market Fund	-	187,015	-	21,834	-	20,324	-	-	-	**
Lakson Income Fund	-	491,366	-	51,070	-	50,000	-	-	-	A+(f)
MCB Pakistan Stock Market Fund	1,183,769	3,948,270	107,748	442,798	136,415	403,260	4 Star	4 Star	**	**
NAFA Income Opportunity Fund	-	18,728,536	-	207,081	-	200,000	-	-	-	A(f)
NAFA Islamic Energy Fund	-	9,394,834	-	131,851	-	99,554	-	-	-	**
NAFA Stock Fund	2,918,639	42,960,523	41,014	752,253	54,477	704,049	5 Star	5 Star	**	**
National Investment Unit Trust	3,478,563	1,198,322	245,483	104,902	314,855	100,000	**	**	AM2+	AM2+
Pak Oman Advantage Asset Allocation Fund	197,688	407,365	10,046	27,456	12,133	25,000	3 Star	3 Star	2 Star	2 Star
PIML Asset Allocation Fund	-	153,563	-	16,180	-	15,000	-	-	-	**
PIML Income Fund	-	4,419,559	-	449,513	-	436,507	-	-	-	A+(f)
PIML Value Equity Fund	-	106,015	-	14,528	-	10,000	-	-	-	**
Primus Strategic Multi Asset	-	216,848	-	26,427	-	22,000	-	-	-	**
UBL Stock Advantage Fund	348,570	5,587,732	23,174	437,352	30,445	400,000	**	**	**	**
			985,299	4,264,221	1,170,634	3,908,757				

** Unrated

9. CLOSE END MUTUAL FUNDS

	Number of Units		Market Value		Rupees in '000		Cost		Rating	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Dolmen City RIET	35,417,833	35,417,833	389,596	384,992	387,869	387,869	RRI	RRI	**	**
PICIC Growth Fund	973,500	973,500	27,599	29,653	31,816	31,816	**	**	**	**
			417,195	414,645	419,685	419,685				

** Unrated

- 10.** Break-up value per ordinary share of Habib Metropolitan Financial Services Limited, Habib Metropolitan Modaraba Management Company (Private) Limited and Habib Metro Modarba (subsidiaries) based on their audited financial statements as of 31 December 2017 amounted to Rs. 11.07, Rs. 11.10 and 10 respectively (2016: Rs. 11.45, Rs. 10 and Nil) per share.

S. No.	Name and address of the borrower	Name of individuals / partners / directors (with CNIC / NIC Number)	Father's / Husband's Name	Outstanding liabilities at beginning of the year				Principal written-off	Interest / mark-up written-off	Other financial relief provided	Total
				Principal	Interest / mark-up	Others	Total				
1	2	3	4	Rupees in '000				9	10	11	12
1	Century 21 Textile & Sportswear Private Limited Plot No C-55, KDA Scheme No 1, Main Karsaz Road, Karachi	Zahid Razzak 42000-0571249-5 Mrs Ambreen Zahid 42000-0514201-6	Abdul Razzak Zahid Razzak	655,721	154,480	-	810,201	164,191	154,480	-	318,671
2	National Thread Private Limited 1st Floor, Dada Chambers, M A Jinnah Road, Karachi	Marium Ali Muhammad 42201-5815076-4 Amin Ali Muhammad 42201-1392870-5 Anwar Ali Muhammad 42201-2468168-3 Aslam Ali Muhammad 42201-6769103-5 Ashraf Ali Muhammad 42201-0159986-1	Ali Muhammad Ali Muhammad Ali Muhammad Ali Muhammad Ali Muhammad	96,555	-	15,147	111,702	6,555	-	15,147	21,702
3	Atlas Cables Private Limited Atlas Rubber & Plastic Industries Private Limited 9th Floor, Textile Plaza, Mumtaz Hassan Road, Karachi	Sheikh Arshad Javed 42201-0255323-3 Sheikh Danish Javed 42201-0255323-7 Sheikh Adeel Javed 42201-3385330-5 Sheikh AL Aman Javed 42201-0430580-9	Sheikh Nazir Hussain Sheikh Arshad Javed Sheikh Arshad Javed Sheikh Arshad Javed	238,041	84,481	99,384	421,906	64,910	84,481	99,384	248,775

S. No.	Name and address of the borrower	Name of individuals / partners / directors (with CNIC / NIC Number)	Father's / Husband's Name	Outstanding liabilities at beginning of the year				Principal written-off	Interest / mark-up written-off	Other financial relief provided	Total	
				Principal	Interest / mark-up	Others	Total					
1	2	3	4	5	6	7	8	9	10	11	12	
				Rupees in '000								
4	Asif Javaid & Company P-13/2, Ex-Punjab Cold Store, New Khalid Abad, Faisalabad	Javaid Ahmad 33100-6310595-7	Sheikh Abdur Rasheed	9,886	843	-	10,729	-	843	-	843	
5	Hassan Zaman Private Limited 21/B, M-Block, Gulberg III, Lahore	Muhammad Saleem Rana 35202-2052703-5 Muhammad Saeed Akhtar 35202-2631584-3	Hassan Muhammad Khan Malik Muhammad Zaman Awan	-	8,563	14,452	23,015	-	-	14,452	14,452	
6	Hameed Steel Furnance Near Awan Chowk, Grid Station, Gujranwala	Saleem Akhtar 34101-4907725-7	Malik Abdul Majeed	29,995	898	-	30,893	-	1,141	-	1,141	
7	Seignior Pharma Seignior House, 245/1/D, Block 6, PECHS Karachi	Sher Afgan Khan 42201-0263524-5	Abdul Sattar Khan	6,941	910	3,765	11,616	-	351	3,765	4,116	
8	Azmat Garments Plot # 7-B, Street # 2, Sector # 12-C Industrial Area North Karachi, Karachi.	Syed Azmat Ali 42000-3892716-5	Syed Farhat Ali	24,251	436	392	25,079	-	308	392	700	
				1,061,390	250,611	133,140	1,445,141	235,656	241,604	133,140	610,400	

PATTERN OF SHAREHOLDINGS

AS ON 31 DECEMBER 2017

Number of shareholders	Size of shareholding Rs. 10 each			Total shares held
367	1	–	100	9,230
328	101	–	500	110,913
279	501	–	1000	242,800
774	1001	–	5000	2,080,121
263	5001	–	10000	1,996,268
340	10001	–	15000	4,135,913
65	15001	–	20000	1,193,157
70	20001	–	25000	1,664,317
28	25001	–	30000	778,080
25	30001	–	35000	830,869
29	35001	–	40000	1,093,810
46	40001	–	50000	2,172,715
28	50001	–	60000	1,542,757
32	60001	–	80000	2,253,106
42	80001	–	100000	3,887,417
43	100001	–	150000	5,457,289
17	150001	–	200000	2,985,887
20	200001	–	250000	4,448,802
50	255001	–	500000	18,838,993
41	500001	–	1000000	28,664,890
17	2020001	–	2650000	39,189,028
12	2715001	–	4040000	41,768,538
12	4085001	–	10000000	74,060,044
10	10270001	–	52050000	239,112,223
1	534390001	–	534395000	534,394,054
2,965				1,047,831,480

COMBINED PATTERN OF SHAREHOLDINGS

AS ON 31 DECEMBER 2017

Categories of Shareholders	Number of Shareholders	Number of Shares held	(%)
Directors and their spouse(s) and minor children			
Mr. Mohamedali R. Habib	1	1,612,524	0.15
Mr. Ali S. Habib	1	1,510,994	0.14
Mr. Anjum Z. Iqbal	1	500	0.00
Mr. Mohomed Bashir	1	16,340,985	1.56
Mr. Muhammad H. Habib	1	2,069,454	0.20
Mr. Sohail Hasan	1	500	0.00
Mr. Tariq Ikram	1	600	0.00
Mr. Sirajuddin Aziz	1	1,000	0.00
Mrs. Farah Fatimah Muhammad H. Habib	1	1,037,157	0.10
Mrs. Munizeh Ali S. Habib	1	604,374	0.06
Mrs. Sayeda Mohamedali R. Habib	1	805,065	0.08
Associated Companies, undertakings and related parties			
Habib Bank AG Zurich	1	534,394,054	51.00
Habib Insurance Company Limited	2	3,352,924	0.32
Executives	5	692,636	0.07
Public Sector Companies and Corporations	6	12,984,886	1.24
Banks, development finance institutions, non-banking finance companies, insurance companies, takaful, modarabas and pension funds	17	60,416,693	5.77
Mutual Funds			
CDC - Trustee MCB Pakistan Stock Market Fund	1	2,248,000	0.21
CDC - Trustee AKD Index Tracker Fund	1	101,568	0.01
CDC - Trustee NIT-Equity Market Opportunity Fund	1	406,000	0.04
CDC - Trustee National Investment (Unit) Trust	1	45,847,107	4.38

Categories of Shareholders	Number of Shareholders	Number of Shares held	(%)
General Public			
a. Local	2812	164,067,186	15.66
b. Foreign	6	867,101	0.08
Foreign Companies	26	110,035,642	10.50
Others	75	88,434,530	8.44
Totals	2965	1,047,831,480	100.00

Shareholders holding five percent or more voting interest in the listed company

Habib Bank AG Zurich	534,394,054	51.00
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