

HABIBMETRO

ANNUAL REPORT

2018



[Subsidiary of Habib Bank AG Zurich]



هَذَا فَضْلُكَ

OUR VISION

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



CONTENTS

Corporate Information	02
Notice of Annual General Meeting	03
Chairman's Review to the Shareholders	07
Directors' Report to the Shareholders	09
Statement of Compliance with the Code of Corporate Governance	16
Independent Auditor's Review Report to the Members on Statement of Compliance with the Code of Corporate Governance	18
Statement of Internal Controls	19
Shari'ah Board's Report	21
Independent Auditor's Report to the Members	23
Unconsolidated Statement of Financial Position	28
Unconsolidated Profit and Loss Account	29
Unconsolidated Statement of Comprehensive Income	30
Unconsolidated Statement of Changes in Equity	31
Unconsolidated Cash Flow Statement	32
Notes to the Unconsolidated Financial Statements	33
Pattern of Shareholdings	111
Consolidated Financial Statements	115
شریعیہ بورڈ رپورٹ	204
ڈائریکٹرز رپورٹ برائے شیئر ہولڈرز	211
Branch Network	212
Proxy Form	

CORPORATE INFORMATION

BOARD OF DIRECTORS

CHAIRMAN

Mohamedali R. Habib

PRESIDENT & CHIEF EXECUTIVE OFFICER

Mohsin A. Nathani

DIRECTORS

Ali S. Habib

Anjum Z. Iqbal

Firasat Ali

Mohomed Bashir

Muhammad H. Habib

Sohail Hasan

Tariq Ikram

BOARD COMMITTEES

AUDIT

Ali S. Habib

Anjum Z. Iqbal

Sohail Hasan

CREDIT

Anjum Z. Iqbal

Mohamedali R. Habib

Mohsin A. Nathani

Muhammad H. Habib

INFORMATION TECHNOLOGY

Anjum Z. Iqbal

Firasat Ali

Mohsin A. Nathani

RISK & COMPLIANCE

Anjum Z. Iqbal

Firasat Ali

Mohsin A. Nathani

HUMAN RESOURCE & REMUNERATION

Firasat Ali

Mohsin A. Nathani

Tariq Ikram

COMPANY SECRETARY

Ather Ali Khan

REGISTERED OFFICE

Ground Floor, Spencer's Building,
I. I. Chundrigar Road,
Karachi – 74200, Pakistan.

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 Seventh Annual General Meeting of the shareholders of Habib Metropolitan Bank Limited will be held at the Jinnah Auditorium, The Institute of Bankers Pakistan, Moulvi Tamizuddin Khan (M. T. Khan) Road, Karachi - 74200 on Thursday, 28 March 2019 at 9.15 a.m. to transact the following 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 2018 together with the Directors' and Auditors' reports thereon.
2. To approve, as recommended by the Board of Directors, final dividend @ 20% (Rs. 2.00 per share) in the form of cash for the year ended 31 December 2018.
3. To appoint Auditors for the financial year ending 31 December 2019 and fix their remuneration. The present Auditors, Messrs. KPMG Taseer Hadi & Co., Chartered Accountants, being eligible, offer themselves for re-appointment.

By order of the Board

ATHER ALI KHAN

Company Secretary

Karachi: 7 March 2019

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 March 15, 2019 to March 28, 2019 (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, if not already provided:

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	
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.	
_____ Signature of shareholder	

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 as 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.

Shareholders who could not collect their dividend / physical shares are advised to contact our Share Registrar to collect / enquire about their unclaimed dividend or shares, if any.

For any query / difficulty / information, 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 Shahrah-e-Faisal, Karachi-74400
 Tel: 0800-23275, Fax No. (92-21) 34326053
 Email: info@cdcpak.com, URL: www.cdcpakistan.com

Availability of Annual Audited Accounts:

The audited accounts of the Bank for the year ended December 31, 2018 have been made available on the Bank's website (www.habibmetro.com). In addition the annual and quarterly accounts for the prior years are also available.

Further, in accordance with SRO # 470(I)/2016 dated May 31, 2016, the Members of Habib Metropolitan Bank Limited in AGM held on March 30, 2017 had accorded their consent for transmission of annual reports including annual audited accounts and other information contained therein of the Bank through CD / DVD / USB instead of transmitting the same in hard copies. The members who wish to receive hard copies of the aforesaid documents may send their request to the Company Secretary / Share registrar. The standard request form is available on the Bank's website ([http://www.habibmetro.com/wp-content/uploads/2018/12/Request %20 form%20for%20Annual%20Reports.pdf](http://www.habibmetro.com/wp-content/uploads/2018/12/Request%20form%20for%20Annual%20Reports.pdf)). The Bank will provide the aforesaid documents to the shareholders on demand, free of cost, within one week of such demand.

The Members who are interested in receiving the annual reports and notice of annual general meeting electronically through email in future are requested to send their email addresses on the consent form placed on the Bank's website.

Video Conference Facility

In terms of the Companies Act, 2017, members residing in a city holding at least 10% of the total paid-up share capital may demand the facility of video-link for participating in the annual general meeting. The request for video-link facility shall be received by the Share Registrar at the address given herein above at least 7 days prior to the date of the meeting on the Standard Form available on the website of the Bank.

Conversion of Physical Shares into Book-entry Form:

The Shareholders having physical shareholding are advised to open CDC sub-account with any of the Stock Brokers or Investor Account Services with CDC to place their physical shares into book-entry form. This will facilitate them in number of ways including safe custody and easy sale of shares at the time of need, as the trading of physical shares is not permitted under existing regulations of the Pakistan Stock Exchange Limited. Further, Section 72 of the Companies Act, 2017 states that every existing company shall be required to replace its physical shares with book-entry form in a manner as may be specified and from the date notified by the Commission, within a period not exceeding four years from the commencement of this Act.

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 2018. The operating financial results and appropriations, as recommended by the Board of Directors, are summarized below:

	Rupees in '000
Profit before provisions and tax	10,456,807
Provisions and write offs - net	(382,429)
Profit before tax	10,074,378
Taxation	(3,913,794)
Profit after tax	6,160,584
Un-appropriated profit brought forward	14,042,566
Transfer from surplus on revaluation of non-banking assets - net of tax	2,870
Other comprehensive income	(905)
Profit available for appropriation	20,205,115
Appropriations:	
- Transfer to Statutory Reserve	(1,232,117)
- Cash dividend (Rs. 3.00 per share) - 2017	(3,143,494)
	(4,245,295)
Un-appropriated profit carried forward	15,829,504

The Directors are pleased to propose a final cash dividend of Rs. 2/- per share (20%) for the year under review.

By Allah's Grace, your Bank continued to make steady progress. Bank's deposits increased to Rs. 543.6 billion as compared to Rs. 508.1 billion at the end of previous year, whereas gross advances increased to Rs. 243.3 billion at year-end and total assets increased to Rs. 673.4 billion.

HabibMetro earned profit before taxation of Rs. 10.074 billion for the year 2018. The performance translates into an earning of Rs. 5.88 per share.

At year-end, HabibMetro's equity stands at Rs. 37 billion, with a capital adequacy level of 13.12% against the required 11.90%.

The Board of the Bank is effective and balanced comprising of three independent directors, five non-executive directors. The Board with its active engagement with the stakeholders is well positioned and have participated in overseeing the implementation of the Bank's strategic objectives. The Board has provided guidance and policies to the Management for achieving maximum business performance with a blend of optimum control environment to manage affairs of the Bank professionally and efficiently. This valuable contribution and performance of the Board is reflected in the strong and resilient balance sheet and financial results of the Bank for the year.

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 and to our valued customers for their trust and support. I thank the 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: 21 February 2019

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, 2018.

ECONOMIC AND BANKING REVIEW

The year 2019 commenced with existing challenges persisting on Pakistan's macroeconomic horizon. Despite having narrowed, the current account deficit remained significant, as did the fiscal deficit and inflationary pressures. Average headline CPI inflation marked at 6.0 percent for the first half of FY19, against 3.8 percent during the same period last year. While moderation in inflationary pressures was witnessed in the last two months, the projected range of inflation for FY19 remains unchanged at 6.5 to 7.5 percent.

Driven by a deceleration in imports and a marginal increase in exports, along with healthy growth in remittances, the current account deficit recorded a reduction of 4.4 percent year-on-year during the second half of 2018 and amounted to USD 8 billion. Non-oil imports reduced by 4.4 percent against an increase of 19.1 percent during the same period last year.

Foreign Direct Investments and official inflows remained insufficient to finance the current account deficit, with the gap being bridged through the Country's own resources. This resulted in the SBP's net liquid foreign exchange reserves falling to USD 7.2 billion by end of December 2018. However, the same increased to USD 8.2 billion, and the Country's FX reserves increased to USD 14.8 billion by end of January 2019 due to realization of bilateral official flows (Inflows from UAE and Saudi Arabia amounted to USD 3 billion and USD 1 billion respectively).

The banking sector's deposit base witnessed a slow-down and with a marginal increase of 8 percent, ended at Rs. 13.35 trillion at the end of December 2018. Advances grew by 20 percent and stood at Rs. 7.89 trillion with investments reducing by over 11 percent and closing at Rs. 7.58 trillion. As of end of September 2018, the banking sector's NPLs touched Rs. 637 billion (Dec 2017: Rs. 522 billion), with infection ratio of 8.5 percent (Dec 2017: 9.2 percent).

The State Bank of Pakistan increased the Policy Rate from 5.75 percent to 10 percent during 2018, and in January 2019, it further raised the Policy Rate by 25 bps to 10.25 percent effective 1st February 2019.

BANK'S PERFORMANCE DURING THE YEAR

By Allah's grace, the Bank's profit-after-tax increased by 11.8 percent to Rs. 6.161 billion at the end of year 2018. EPS marked at Rs. 5.88 as against Rs. 5.26 of previous year and return on shareholder's equity stood at 15 percent.

During the year under review, the Bank's deposits and advances increased to Rs. 544 billion and Rs. 243 billion respectively whereas investments were recorded at Rs. 347 billion. Net Equity stood at Rs. 37 billion with Capital Adequacy at 13.12 percent.

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 this report.

CREDIT RATING

By the Grace of Allah, for the eighteenth 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 very high credit quality, a very low expectation of credit risk and a very strong capacity for timely payment of financial commitments.

ENHANCED REACH TO OUR CUSTOMERS

HabibMetro continues to strengthen its outreach by adding 32 new branches in 2018. 18 new cities were added as the Bank increased its footprint to 352 branches in 112 cities across Pakistan. The Bank's national footprint now comprises 192 branches in the North and 160 branches in the South.

Your Bank enjoys correspondent relationships with banks of repute in more than 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 through First Habib Modaraba and Habib Metro Modaraba provides robust Islamic financing solutions.

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 3 offsite ATMs, taking the total number of ATMs to 370 across the country. The Bank's Visa Debit Cards and SMS & Web Banking subscriptions also witnessed an increase during this period.

HUMAN RESOURCES

The total strength of the HabibMetro family has grown from 4,719 to 4,841 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 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 amount to Rs. 100.7 million.

The Citizens Foundation remains one of the larger recipients and through them the Bank is running six schools in under privileged rural areas where more than 1,000 children are enrolled. A detail 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 billion paid as direct taxes to the Government of Pakistan during the year 2018. Furthermore, an additional amount of about Rs. 9.8 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 aspect of the Bank's success. For fair and efficient resolution of customer grievances, the Bank continues to transform its complaint handling mechanism through automation of complaint handling, timely monitoring of complaints and corrective measures on repetitive complaints.

While handling customer complaints received from various channels, the Bank maintains a practical and rational approach to provide fair and amicable outcome to the customer grievances. During the year 2018, a total 18,697 complaints were received and with an effective complaint handling mechanism, the average resolution time was approximately 7 days.

Customer grievances handling is centralized for improved transparency and superior controlled environment. The Bank is committed to provide excellent services, versatile products and fair treatment to its customers, which will keep contributing towards its reputation, growth and prosperity.

CORPORATE GOVERNANCE

BOARD MEETINGS

Details of the meetings of the Board of Directors and its Sub-Committees held during the year 2018 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	Information Technology Committee
Mr. Mohamedali R. Habib	4/4	-	3/3	-	-	-
Mr. Ali S. Habib	3/4	3/4	-	-	-	-
Mr. Anjum Z Iqbal	4/4	4/4	3/3	-	3/3	2/2
Mr. Firasat Ali	4/4	-	-	4/4	3/3	2/2
Mr. Mohomed Bashir	4/4	-	-	-	-	-
Mr. Muhammad H. Habib	3/4	-	3/3	-	-	-
Mr. Sohail Hasan	4/4	4/4	-	-	-	-
Mr. Tariq Ikram	4/4	-	-	4/4	-	-
Mr. Sirajuddin Aziz*	2/2	-	1/1	3/3	1/1	-
Mr. Mohsin A. Nathani*	2/2	-	2/2	1/1	2/2	2/2
Meetings held	4	4	3	4	3	2

*Mr. Mohsin A. Nathani has assumed the charge as President / CEO w.e.f. April 23, 2018 in place of Mr. Sirajuddin Aziz.

NON-EXECUTIVE DIRECTORS' REMUNERATION

Non-executive directors, other than those under employment of the parent company are remunerated a fixed fee on a 'per meeting attended basis'. They are also entitled to be reimbursed for specific costs incurred in order to attend the meeting. The information is provided in Note 37 of the financial statements.

COMPOSITIONS OF THE BOARD AND BOARD COMMITTEES

Current compositions of the Board and Board Committees are provided in the Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2017.

BOARD'S PERFORMANCE EVALUATION

A formal board 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 for improvement.

PATTERN OF SHAREHOLDING

The pattern of shareholdings as on 31 December 2018 is annexed to the report.

AUDITORS

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

As required under the Code of Corporate Governance, upon the recommendation of the Audit Committee, the Board has recommended the appointment of KPMG Taseer Hadi and Co., Chartered Accountants as auditors of the Bank for the year ending 31 December 2019.

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 except changes as disclosed in note 4.1.1 to the 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 code of corporate governance.
8. The key operating and financial data of last six years of the Bank is placed below:

Rs. in millions

	2018	2017	2016	2015	2014	2013
Shareholders' Equity (Restated)	37,002	40,498	39,670	36,828	34,750	27,984
Paid-up capital	10,478	10,478	10,478	10,478	10,478	10,478
Total assets (Restated)	673,396	660,666	538,007	502,433	409,894	322,275
Deposits (Restated)	543,578	508,104	429,932	402,671	319,597	247,348
Advances	226,690	174,319	142,962	132,647	134,751	129,834
Investments	346,666	396,637	314,619	292,779	221,761	142,444
Profit pre-tax	10,074	9,129	10,334	12,539	7,312	5,112
Profit post-tax	6,161	5,509	6,119	7,656	4,927	3,526
Earnings per share (Rs)	5.88	5.26	5.84	7.31	4.7	3.37
Cash dividend (%) - final	20	30	30	20	25	20
- interim	—	—	—	20	—	—
No. of staff	4,841	4,719	4,597	4,277	3,914	3,559
No. of branches / sub branches	352	320	307	276	240	214

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

- Provident Fund Rs. 2,875.528 million as at 30 June 2018.
- Gratuity Fund Rs. 1,214.825 million as at 31 December 2018.

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 strong internal controls.

The Bank's entire branch network is on-line and its state-of-the-art processing system is secured with adequate processing capacity. Separation of duties is built into the Bank's system and organization. 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 strategy to control 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.

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 Operational Risk & Control Committee 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 increasing 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) facilitates in monitoring activities including those related to money laundering through the Bank's channels, products and services. The TMS monitors out-of-pattern transactions and reviews different transactional 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 aimed at preventing tax evasion by US Persons and Companies that came into effect on 1 July 2014. 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 Government of Pakistan through Income Tax Ordinance 2001 vide SRO 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).

In order to efficiently report Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs) to the Financial Monitoring Unit (FMU), the process of reporting was automated through goAML application by Compliance Division.

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 improving standards of adherence with regulations at branch level.

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 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 and 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 the 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

Real GDP growth for FY19 is expected to reduce to around 4 percent, well below both the annual target of 6.2 percent and the 5.8 percent growth realized in the previous year. Further, the external account deficit continues to be under pressure.

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, add new clients, 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 confidence. I thank the staff members for their devotion, diligence and commendable performance.

On behalf of the Board

MOHSIN A. NATHANI
President & Chief Executive Officer

MOHAMEDALI R. HABIB
Chairman

Karachi: 21 February 2019

STATEMENT OF COMPLIANCE WITH LISTED COMPANIES (CODE OF CORPORATE GOVERNANCE) REGULATIONS, 2017

FOR THE YEAR ENDED 31 DECEMBER 2018

The Bank has complied with the requirements of the Regulations in the following manner:

1. The total number of directors are 8 as per the following:

Gender	Number
Male	8
Female	Nil

2. The composition of Board is as follows:

Category	Names
Independent Director	Mr. Firasat Ali
	Mr. Sohail Hasan
	Mr. Tariq Ikram
Non-Executive Director	Mr. Ali S. Habib
	Mr. Anjum Z. Iqbal
	Mr. Mohamedali R. Habib
	Mr. Mohamed Bashir
	Mr. Muhammad H. Habib
President / CEO	Mr. Mohsin A. Nathani

3. The directors have confirmed that none of them is serving as a director on more than five listed companies, including the Bank.
4. The Bank has prepared 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 procedures.
5. 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.
6. All the powers of the Board have been duly exercised and decisions on relevant matters have been taken by the Board / shareholders as empowered by the relevant provisions of the Act and these Regulations.
7. The meetings of the Board were presided over by the Chairman. The Board has complied with the requirements of the Act and the Regulations with respect to frequency, recording and circulating minutes of meeting of the Board.
8. The Board of Directors have a transparent procedure for remuneration of directors in accordance with the Act and these Regulations.
9. The Bank is compliant with the requirement of directors training program provided in these Regulations.
10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment and complied with relevant requirements of the Regulations.
11. CFO and CEO duly endorsed the financial statements before approval of the Board.

12. The Board has formed committees comprising of members given below:

Committees	Names	Position
Audit Committee	Mr. Sohail Hasan	Chairman
	Mr. Ali S. Habib	Member
	Mr. Anjum Z. Iqbal	Member
Human Resources & Remuneration Committee	Mr. Tariq Ikram	Chairman
	Mr. Firasat Ali	Member
	Mr. Mohsin A. Nathani	Member
Risk & Compliance Committee	Mr. Anjum Z. Iqbal	Chairman
	Mr. Firasat Ali	Member
	Mr. Mohsin A. Nathani	Member
Credit Committee	Mr. Muhammad H. Habib	Chairman
	Mr. Mohamedali R. Habib	Member
	Mr. Anjum Z. Iqbal	Member
Information Technology Committee	Mr. Mohsin A. Nathani	Member
	Mr. Anjum Z. Iqbal	Chairman
	Mr. Firasat Ali	Member
	Mr. Mohsin A. Nathani	Member

13. The terms of reference of the aforesaid committees have been formed, documented and advised to the committees for compliance.
14. The frequency of meetings of the committees were as per following:

Committees	Frequency of Meetings
Audit Committee	Four meetings were held during the financial year ended 31 December 2018
Human Resources & Remuneration Committee	Four meetings were held during the financial year ended 31 December 2018
Risk & Compliance Committee	Three meetings were held during the financial year ended 31 December 2018
Credit Committee	Three meetings were held during the financial year ended 31 December 2018
Information Technology Committee	Two meetings were held during the financial year ended 31 December 2018

15. The Board has set up an effective internal audit function in the Bank.
16. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP and registered with Audit Oversight Board of Pakistan, 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.
17. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Act, these Regulations or any other regulatory requirement and the auditors have confirmed that they have observed IFAC guidelines in this regard.
18. The Bank continued to present the details of all related party transactions as disclosed in the financial statements before the Audit Committee and upon their recommendations to the Board for review and approval. The Bank has in place a process to identify the related parties and related transactions entered into with them. However, full compliance of the requirements as laid down in Section 208 of the Companies Act, 2017 is dependent on clarification from the SECP with respect to definitions of related parties.
19. We confirm that all other material requirements of the Regulations have been complied with.

On behalf of the Board

MOHSIN A. NATHANI
President & Chief Executive Officer

MOHAMEDALI R. HABIB
Chairman

Karachi: 21 February 2019

INDEPENDENT AUDITOR'S REVIEW REPORT

To the Members of Habib Metropolitan Bank Limited

Review Report on the Statement of Compliance Contained in Listed Companies (Code of Corporate Governance) Regulations, 2017

We have reviewed the enclosed Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2017 (the Regulations) prepared by the Board of Directors of Habib Metropolitan Bank Limited ("the Bank"), for the year ended 31 December 2018 in accordance with the requirements of regulation 40 of the Regulations.

The responsibility for compliance with the Regulations is that of the Board of Directors of the Bank. Our responsibility is to review whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Regulations and report if it does not and to highlight any non-compliance with the requirements of the Regulations. 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 Regulations.

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 Regulations require 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, its related party transactions and also ensure compliance with the requirements of section 208 of the Companies Act, 2017. 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 procedures to assess and determine the Bank's process for identification of related parties and that 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 requirements contained in the Regulations as applicable to the Bank for the year ended 31 December 2018.

Karachi: 21 February 2019

KPMG Taseer Hadi & Co.
Chartered Accountants

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 May 27, 2004.

MANAGEMENT EVALUATION OF INTERNAL CONTROL SYSTEM

An internal control system is a set of procedures and activities designed to identify, evaluate and mitigate the risk in processes and operations in order to support the overall business objectives of the Bank. It is the responsibility of the Bank's management to establish an internal control system to maintain an adequate and effective internal control environment on an ongoing basis.

The management of the Bank has formulated, implemented, and maintained a system of internal controls approved by the Board of Directors, the goal of which is to achieve effectiveness and efficiency of operations while adhering to laws and regulations, resulting in reliability of financial reporting. However, any system of internal controls can only be designed to manage, rather than eliminate the risk of failure to achieve objectives. It can therefore only provide reasonable assurance and not absolute assurance against material misstatement and loss. It also requires continuous improvement to align it with the changing environment and needs of the business.

The Bank's internal control structure comprises of different levels of monitoring activities.

Line Management's role is to monitor day-to-day operations and ensure that the business risks are properly mitigated, control breaches are identified on a timely basis and corrective actions are promptly implemented.

Internal Audit Division is an independent function which reviews and assesses the adequacy and effectiveness of the control activities across the Bank. All significant / material findings of internal audit activities are reported to Board Audit Committee on regular basis. The Audit Committee actively monitors implementation of internal controls and provide supervision and guidance in improving the overall control environment.

The Compliance Division of the Bank is entrusted with the responsibility to minimize compliance risk with reference to regulatory framework. Compliance status of irregularities identified are reported to the Bank's Management Compliance Committee, while other significant compliance matters are reported to Board Risk & Compliance Committee. The division also has an Anti-Money Laundering function to ensure compliance with the Bank's internal and external AML regulations.

The Bank follows the SBP's instructions on Internal Controls over Financial Reporting (ICFR) and has complied with the SBP's stage wise implementation roadmap. In this regard, the Bank has developed a management testing and reporting framework for monitoring ongoing operating effectiveness of key controls.

As required under the SBP's directives, the Bank's External Auditors are engaged annually to provide their Long Form Report on ICFR, which is submitted to the SBP within the required timelines. A quarterly progress report on ICFR, is also submitted to the SBP. During the year, the Bank conducted testing of financial reporting controls for ensuring the effectiveness of ICFR prevalent throughout the year. None of the deficiencies identified are expected to have a material impact on financial reporting.

The Bank monitors its processes and operations on an ongoing basis to ensure that an effective and efficient internal control system remains active and implemented and strive for continuous strengthening of its control environment.

Based upon the results achieved from reviews, ongoing testing of financial reporting controls and audits conducted during the year 2018, management considers that, the existing system of internal controls, including ICFR, is adequate and has been effectively implemented and monitored.

SHAHID SALIM

Head of Internal Audit

SYED HASNAIN HAIDER RIZVI

Head of Compliance

FUZAIL ABBAS

Chief Financial Officer

MOHSIN A. NATHANI

President and CEO

Karachi: 21 February 2019

Report of Shari'ah Board

FOR THE YEAR ENDED 31 DECEMBER 2018

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

While the Board of Directors and 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 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 Board 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 2018 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 upgraded last year implemented Automated Pool Management System with the help & 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 training 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.
- ix. As suggested last year, Management has implemented the following during the year:
 - i. Centralized CAD for Islamic Banking transactions.

-
- ii. Dedicated staff appointed in Risk Management Department.
 - iii. Facility of Health Insurance for the employees of Islamic Banking Division has also been arranged through Takaful arrangement.

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

- i. Trained staff should be appointed over the counters of Islamic Banking Windows (IBWs) to properly facilitate the Islamic banking customers in conventional branches.
- ii. Shari'ah Compliant Demand Finance facility be introduced for the Islamic Banking Staff.
- iii. With the increase in financing activities it is recommended to enhance and expand the role and resources at Islamic CAD for efficient working.

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 Habib Metro 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: 21 February 2019

INDEPENDENT AUDITOR'S REPORT

To the Members of Habib Metropolitan Bank Limited

Report on the Audit of the Unconsolidated Financial Statements

Opinion

We have audited the annexed unconsolidated financial statements of Habib Metropolitan Bank Limited ("the Bank"), which comprise the unconsolidated statement of financial position as at 31 December 2018 and the unconsolidated profit and loss account, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated cash flow statement for the year then ended, notes to the unconsolidated financial statements, including a summary of significant accounting policies and other explanatory information in which are incorporated the unaudited certified returns received 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 the audit.

In our opinion and to the best of our information and according to the explanations given to us, the unconsolidated statement of financial position, the unconsolidated profit and loss account, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated cash flow statement together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan, and, give the information required by the Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at 31 December 2018 and of the profit, other comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Unconsolidated Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the unconsolidated financial statements of the current year. These matters were addressed in the context of our audit of the unconsolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Following are the Key Audit Matters:

S. No.	Key Audit Matters	How the matter was addressed in our audit
1	PROVISION AGAINST LOANS AND ADVANCES	
	<p>Refer to note 10 to the unconsolidated financial statements and the accounting policies in note 4.5 to the unconsolidated financial statements.</p> <p>The Bank's advances to the customers represent 33.7% of its total assets as at 31 December 2018. Advances - net of provision amounts to Rs. 226.69 billion and provision against advances amounts to Rs. 16.56 billion.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> Assessed the design and operating effectiveness of manual and automated controls over individual impairment provision including: <ul style="list-style-type: none"> The accuracy of data input into the system used for the credit grading and the approval of credit facilities;

S. No.	Key Audit Matters	How the matter was addressed in our audit
	<p>The provision against loans and advances was identified as a key audit matter in our audit as it involves a considerable degree of management judgment and compliance with the Prudential Regulations issued by the State Bank of Pakistan.</p>	<ul style="list-style-type: none"> - The ongoing monitoring and identification of advances displaying indicators of impairment and whether they are migrating, on a timely basis, to watch list or to non-performing advances; and - Identification of past due exposures. • For a risk based sample of Corporate and Commercial exposures, challenged management assessment by comparing historical performance of the customers and formed our view whether any impairment indicators are present; • Where management has identified as displaying indicators of impairment, assessed the number of days overdue and assessed appropriateness of amount reported for provision in accordance with the Prudential Regulations; • Where management has not identified as displaying indicators of impairment, reviewed the credit history, account movement, financial ratios and reports on security maintained and challenged the management's assessment based on our view of the credit; • For consumer and SME advances, analyzed the days past due report and factors used for calculation of provision required in accordance with Prudential Regulations; and • For Forced Sales Value (FSV) benefit availed by the management while computing provision, compared values used with the external valuation reports and assessed valuers' credentials.
2	VALUATION OF INVESTMENTS	
	<p>Refer to note 9 to the unconsolidated financial statements and the accounting policies in note 4.4 to the unconsolidated financial statements.</p> <p>As at 31 December 2018, the Bank has investments classified as "Available-for-Sale", "Held to maturity" and "Subsidiary" amounting to Rs. 346.67 billion in aggregate representing 51.5 % of the total assets of the Bank.</p> <p>We identified the valuation of investments including determination of impairment allowance on investments classified as 'Available-for-sale' as a key audit matter because of its significance in relation to the total assets of the Bank and judgment involved in assessing impairment allowance.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> • Obtained an understanding of and testing the design and operation effectiveness of the controls for the valuation of investments including impairment allowance against investment classified as available for sale; • Assessed, on a sample basis, whether available-for-sale investments were valued at fair value based on the last quoted market price and rates quoted by PSX, PKRV, and Mutual Fund Association of Pakistan (MUFAP) etc.; and • Assessed whether impairment indicators exists against investments classified as available-for-sale and assessed whether impairment is recorded for impaired investments.

Information Other than the Unconsolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Bank's Annual Report but does not include the unconsolidated financial statements and our auditors' report thereon.

Our opinion on the unconsolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the unconsolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the unconsolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Board of Directors for the Unconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of the unconsolidated financial statements in accordance with accounting and reporting standards as applicable in Pakistan, the requirements of Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the unconsolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Unconsolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the unconsolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these unconsolidated financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

-
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the unconsolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the unconsolidated financial statements, including the disclosures, and whether the unconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide to the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the unconsolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements:

Based on our audit, we further report that in our opinion:

- a) proper books of account have been kept by the Bank as required by the Companies Act, 2017 (XIX of 2017) and the returns referred above from the branches have been found adequate for the purpose of our audit;
- b) the unconsolidated statement of financial position, the unconsolidated profit and loss account, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated cash flow statement together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 and the Companies Act, 2017(XIX of 2017) and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were in accordance with the objects and powers of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank; and

- d) zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

We confirm that for the purpose of our audit we have covered more than sixty per cent of the total loans and advances of the Bank.

Other Matter

The engagement partner on the audit resulting in this independent auditor's report is Mazhar Saleem.

Karachi: 21 February 2019

KPMG Taseer Hadi & Co.
Chartered Accountants

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	2018	2017 (Restated)
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks	6	48,177,009	42,281,977
Balances with other banks	7	1,115,557	1,100,929
Lendings to financial institutions	8	11,984,795	10,914,805
Investments	9	346,665,904	396,636,990
Advances	10	226,689,617	174,319,286
Fixed assets	11	3,899,579	3,131,575
Intangible assets	12	121,442	224,287
Deferred tax assets	13	5,821,182	2,835,318
Other assets	14	28,920,696	29,220,604
		<u>673,395,781</u>	<u>660,665,771</u>
LIABILITIES			
Bills payable	15	12,173,407	19,643,603
Borrowings	16	51,347,381	64,038,646
Deposits and other accounts	17	543,577,510	508,103,951
Liabilities against assets subject to finance lease		—	—
Sub-ordinated debts		—	—
Deferred tax liabilities		—	—
Other liabilities	18	29,295,527	28,381,316
		<u>636,393,825</u>	<u>620,167,516</u>
NET ASSETS		<u>37,001,956</u>	<u>40,498,255</u>
REPRESENTED BY			
Share capital	19	10,478,315	10,478,315
Reserves		16,267,793	15,035,676
(Deficit) / surplus on revaluation of assets - net of tax	20	(5,573,656)	941,698
Unappropriated profit		15,829,504	14,042,566
		<u>37,001,956</u>	<u>40,498,255</u>
CONTINGENCIES AND COMMITMENTS	21		

The annexed notes 1 to 44 and annexures I & II form an integral part of these unconsolidated financial statements.

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

TARIQ IKRAM
Director

SOHAIL HASSAN
Director

MOHAMEDALI R. HABIB
Chairman

UNCONSOLIDATED PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018	2017
		Rupees in '000	
Mark-up / return / interest earned	23	42,520,197	33,838,124
Mark-up / return / interest expensed	24	(26,297,463)	(19,867,170)
Net mark-up / interest income		16,222,734	13,970,954
Non mark-up / interest income			
Fee and commission income	25	3,810,400	3,390,034
Dividend income		92,587	480,251
Foreign exchange income		1,498,410	1,171,725
Income / (loss) from derivatives		—	—
Gain / (loss) on securities	26	102,229	380,381
Other income	27	570,389	221,367
Total non mark-up / interest income		6,074,015	5,643,758
Total income		22,296,749	19,614,712
Non mark-up / interest expenses			
Operating expenses	28	11,616,837	10,420,061
Workers' welfare fund		192,000	175,000
Other charges	29	31,105	3,229
Total non-mark-up / interest expenses		(11,839,942)	(10,598,290)
Profit before provisions		10,456,807	9,016,422
(Provisions) / reversal and write offs - net	30	(382,429)	112,662
Extra ordinary / unusual items		—	—
Profit before taxation		10,074,378	9,129,084
Taxation	31	(3,913,794)	(3,620,078)
Profit after taxation		6,160,584	5,509,006
		Rupees	
Basic and diluted earnings per share	32	5.88	5.26

The annexed notes 1 to 44 and annexures I & II form an integral part of these unconsolidated financial statements.

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

TARIQ IKRAM
Director

SOHAIL HASSAN
Director

MOHAMEDALI R. HABIB
Chairman

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017 (Restated)
	Rupees in '000	
Profit after taxation	6,160,584	5,509,006
Other comprehensive income		
Items that may be reclassified to profit and loss in subsequent periods:		
Movement in (deficit) / surplus on revaluation of investments - net of tax	(6,512,484)	(1,591,076)
Items that will not be reclassified to profit and loss in subsequent periods:		
Remeasurement (loss) / gain on defined benefit obligations - net of tax	(905)	54
Movement in surplus on revaluation of non-banking assets - net of tax	(2,870)	27,653
	(3,775)	27,707
Total comprehensive income	(355,675)	3,945,637

The annexed notes 1 to 44 and annexures I & II form an integral part of these unconsolidated financial statements.

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

TARIQ IKRAM
Director

SOHAIL HASSAN
Director

MOHAMEDALI R. HABIB
Chairman

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

		Reserves				Surplus / (deficit) on revaluation			
	Share capital	Share premium	Statutory reserve	Special reserve	Revenue reserve	Investments	Non-banking assets	Un-appropriated profit	Total
	Rupees in '000								
Opening balance as at 1 January 2017 - as previously reported	10,478,315	2,550,985	9,642,529	240,361	1,500,000	–	–	12,753,139	37,165,329
Effect of retrospective change in presentation - net of tax (note 2.3.1)	–	–	–	–	–	2,350,443	154,678	–	2,505,121
Opening balance as at 1 January 2017 (restated)	10,478,315	2,550,985	9,642,529	240,361	1,500,000	2,350,443	154,678	12,753,139	39,670,450
Profit after taxation	–	–	–	–	–	–	–	5,509,006	5,509,006
Other comprehensive income - net of tax	–	–	–	–	–	(1,591,076)	53,315	54	(1,537,707)
Transfer to statutory reserve	–	–	1,101,801	–	–	–	–	(1,101,801)	–
Transfer from surplus on revaluation of assets to unappropriated profit - 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)
Balance as at 31 December 2017 (restated)	10,478,315	2,550,985	10,744,330	240,361	1,500,000	759,367	182,331	14,042,566	40,498,255
Profit after taxation	–	–	–	–	–	–	–	6,160,584	6,160,584
Other comprehensive income - net of tax	–	–	–	–	–	(6,512,484)	–	(905)	(6,513,389)
Transfer to statutory reserve	–	–	1,232,117	–	–	–	–	(1,232,117)	–
Transfer from surplus on revaluation of assets to unappropriated profit - net of tax	–	–	–	–	–	–	(2,870)	2,870	–
Transactions with owners, recorded directly in equity									
Cash dividend (Rs. 3.00 per share) for the year ended 31 December 2017	–	–	–	–	–	–	–	(3,143,494)	(3,143,494)
Balance as at 31 December 2018	10,478,315	2,550,985	11,976,447	240,361	1,500,000	(5,753,117)	179,461	15,829,504	37,001,956

The annexed notes 1 to 44 and annexures I & II form an integral part of these unconsolidated financial statements.

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President &
Chief Executive Officer

TARIQ IKRAM
Director

SOHAIL HASSAN
Director

MOHAMEDALI R. HABIB
Chairman

UNCONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018	2017 (Restated)
Rupees in '000			
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		10,074,378	9,129,084
Less: Dividend income		(92,587)	(480,251)
		9,981,791	8,648,833
Adjustments			
Depreciation on fixed assets	11.2	814,045	752,927
Depreciation on non-banking assets	14.1.1	12,044	22,461
Amortization	12	128,406	103,099
Provisions and write offs (excluding recovery of written off bad debts)	30	476,140	(74,874)
Net (gain) on sale of fixed assets		(8,251)	(13,692)
Net (gain) / loss on sale of non-banking assets	27	(202,282)	51,073
(Gain) on sale of non-current assets held for sale	27	(35,042)	-
Provision against workers' welfare fund		192,000	175,000
Provision against compensated absences	28.1	76,325	60,505
Provision against defined benefit plan	35.8	146,968	136,520
		1,600,353	1,213,019
		11,582,144	9,861,852
(Increase) / decrease in operating assets			
Lendings to financial institutions		(1,069,990)	5,836,081
Advances		(52,802,142)	(31,088,213)
Other assets (excluding current taxation and dividend)		(2,374,861)	(4,024,569)
		(56,246,993)	(29,276,701)
Increase / (decrease) in operating liabilities			
Bills payable		(7,470,196)	11,534,970
Borrowings from financial institutions		(14,068,692)	25,912,342
Deposits and other accounts		35,473,559	77,215,915
Other liabilities (excluding dividend)		2,416,253	1,191,925
		16,350,924	115,855,152
		(28,313,925)	96,440,303
Payment against compensated absences		(71,032)	(44,461)
Contribution made to defined benefit plan		(146,968)	(136,574)
Income tax paid		(3,076,799)	(3,756,301)
		(31,608,724)	92,502,967
Net cash flow (used in) / generated from operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		41,314,859	(74,660,129)
Net investments in held-to-maturity securities		(1,448,559)	(9,968,754)
Net investments in subsidiary		-	(180,000)
Dividend received		153,063	421,112
Investments in fixed assets		(1,594,250)	(830,141)
Investments in intangibles assets		(25,561)	(136,876)
Proceeds from sale of fixed assets		20,452	15,197
Proceeds from sale of non-banking assets		600,000	500,000
Proceeds from sale of non-current assets held for sale		250,000	-
		39,270,004	(84,839,591)
Net cash flow generated from / (used in) investing activities			
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(3,129,047)	(3,112,424)
		(3,129,047)	(3,112,424)
Net cash used in financing activities			
Increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		41,571,637	37,020,685
Cash and cash equivalents at end of the year	33	46,103,870	41,571,637

The annexed notes 1 to 44 and annexures I & II form an integral part of these unconsolidated financial statements.

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Chairman

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 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 322 (2017: 286) branches, including 31 (2017: 29) Islamic banking branches and 30 (2017: 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 Statement of Compliance

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

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

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

The SBP vide BSD Circular No. 10, dated August 26, 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 April 28, 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 financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by the SBP.

The Securities and Exchange Commission of Pakistan (SECP) has notified Islamic Financial Accounting Standard (IFAS) 3, 'Profit and Loss Sharing on Deposits' issued by the Institute of Chartered Accountants of Pakistan. IFAS 3 shall be followed with effect from the financial periods beginning on or after January 1, 2014 in respect of accounting for transactions relating to 'Profit and Loss Sharing on Deposits' as defined by the said standard. The standard will result in certain new disclosures in the financial statements of the Bank. The SBP through BPRD Circular Letter No. 4 dated February 25, 2015, has deferred the applicability of IFAS 3 till further instructions and prescribed the Banks to prepare their annual and periodical financial statements as per existing prescribed formats issued vide BPRD Circular 02 of 2018, as amended from time to time.

2.3 Standards, Interpretations and Amendments to Published Approved Accounting Standards that are effective in current year

There are certain new and amended standards, interpretations and amendments that are mandatory for the Bank's accounting periods beginning on or after January 1, 2018 but are considered not to be relevant or do not have any significant effect on the Bank's operations and therefore not detailed in these financial statements.

2.3.1 The SBP has prescribed a new format for financial statements of banks effective from the year ended December 31, 2018. Accordingly, these financial statements are prepared in accordance with the new format. The changes impacting (other than certain presentation changes) these financial statements include:

- Recording of acceptances, refer note 4.20, as on-balance sheet item (previously disclosed as off-balance sheet item) (note 14 and 18).
- Inclusion of surplus / deficit on revaluation of assets as part of equity (previously shown below equity).
- Other reversal of provisions / write offs have now been combined under provisions & write off - net (note 30).

In addition, Companies Act 2017 also became effective for the financial statements for the year ended December 31, 2017. As the Bank's financial statements are prepared in accordance with the format prescribed by the SBP, it did not have a direct impact on the financial statements except that for disclosure of related parties transactions, as required by the fourth schedule of Companies Act 2017 the definition of related parties as given in IAS 24 - Related parties has been followed.

2.4 Standards, Interpretations and Amendments to Published Approved Accounting Standards that are not yet effective

The following IFRS as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 1 January 2019:

- 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 the 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 has carried out an impact assessment as at 31 December 2017 which has been submitted to the SBP. However, this assessment has not been updated to 31 December 2018 pending notification as to date the standard is applicable for banks.

- IFRS 16 'Leases' (effective for annual period beginning on or after 1 January 2019). IFRS 16 replaces existing leasing guidance, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases- Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The Bank is currently in the process of analyzing the potential impact of its lease arrangements that will result in recognition of right to use assets and liabilities on adoption of the standard.
- Amendment to IAS 28 'Investments in Associates and Joint Ventures' - Long Term Interests in Associates and Joint Ventures (effective for annual period beginning on or after 1 January 2019). The amendment will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. The amendments are not likely to have an impact on the Bank's financial statements.
- Amendments to IAS 19 'Employee Benefits'- Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income. The application of amendments is not likely to have an impact on the Bank's financial statements.
- Amendment to IFRS 3 'Business Combinations' – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of annual period beginning on or after 1 January 2020). The IASB has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The standard is effective for transactions in the future and therefore would not have an impact on past financial statements.
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB has also issued guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with IFRS Standards.
- 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. A company does not remeasure its previously held interest in a joint operation when it obtains joint 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.

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- 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 the Bank's financial statements.

2.5 Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of these unconsolidated financial statements in conformity with approved accounting standards 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 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 4.5.

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 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 International Accounting Standard - 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.

3. 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 4.4, 4.8 and 4.9 respectively.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 The principal accounting policies applied in the preparation of these unconsolidated financial statements are set out below. These have been consistently applied to all the years presented except for changes explained in note 4.1.1.

4.1.1 SBP revised the format for presentation of banks' financial statements for the year ended 31 December 2018. This requires a change in accounting policy for surplus / deficit on revaluation of investments which is now required to be shown as part of equity. Previously, it was shown below the equity. Furthermore, acceptances which were previously reported as off-balance sheet item are now being reported as on-balance sheet item (note 4.20, 14 and 18).

4.2 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.

4.3 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.

4.4 Investments

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

4.4.2 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, 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 from those made in subsidiaries and that do not fall under the held-for-trading or held-to-maturity categories.

- 4.4.3** 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 the 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 a 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 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 the 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.

4.5 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 10 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.

4.6 Fixed assets

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 11.2. 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 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.

Subsequent cost are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account.

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.

Capital work-in-progress

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

4.7 Intangible assets

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.

4.8 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.

4.9 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.

4.10 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.

4.11 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.

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 surplus / deficit on revaluation of assets and actuarial gain / losses recognised in other comprehensive income, which is adjusted against the related surplus / deficit.

4.12 Employees' benefits

4.12.1 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 the "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.

4.12.2 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.

4.13 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 4.5) 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.

4.14 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.

4.15 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.

4.16 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.

4.17 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 financial statements of the current year. These are recognised in the period in which these are declared / approved.

4.18 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.

4.19 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.

4.20 Acceptances

Acceptances comprises undertakings by the Bank to pay bill of exchange due on customers. These are recognised as financial liability and the contractual right of reimbursement from the customer is recorded as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities in these financial statement.

4.21 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.

5. 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.

	Note	2018	2017
		Rupees in '000	
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		7,657,613	6,248,544
Foreign currencies		2,013,643	1,802,683
		<u>9,671,256</u>	<u>8,051,227</u>
With State Bank of Pakistan in			
Local currency current accounts	6.1	20,272,252	17,985,998
Foreign currency current account	6.2	244,068	23,880
Foreign currency deposit accounts			
– cash reserve account	6.3	4,151,971	3,787,089
– special cash reserve account	6.4	12,370,079	11,196,194
		<u>37,038,370</u>	<u>32,993,161</u>
With National Bank of Pakistan in			
Local currency current accounts		1,443,318	1,220,000
National Prize Bonds			
		24,065	17,589
		<u>48,177,009</u>	<u>42,281,977</u>

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

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

6.3 This represents account maintained with the SBP to comply with the Cash Reserve requirement against foreign currency deposits.

6.4 This represents account maintained with the SBP to comply with the Special Cash Reserve requirement against foreign currency deposits. The return on this account is declared by the SBP on a monthly basis and, as at 31 December 2018, carries mark-up at the rate of 1.35% (2017: 0.37%) per annum.

7. BALANCES WITH OTHER BANKS

In Pakistan

In current accounts		94,005	41,399
In deposit accounts	7.1	208,066	89,702
		<u>302,071</u>	<u>131,101</u>

Outside Pakistan

In current accounts	7.2	813,486	969,828
		<u>1,115,557</u>	<u>1,100,929</u>

7.1 These carry mark-up rates of 6.50% (2017: 3.75%) per annum.

7.2 These include balances in current accounts of Rs. 112,023 thousand (2017: Rs. 172,044 thousand) with branches of the holding company.

8. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2018	2017
		Rupees in'000	
Call money lendings	8.3	3,000,000	3,000,000
Repurchase agreement lendings (Reverse Repo)	8.2	4,184,795	346,890
Bai muajjal receivable with the State Bank of Pakistan		–	3,567,915
Letter of placement	8.4	3,800,000	–
Musharakah placement	8.5	1,000,000	4,000,000
		<u>11,984,795</u>	<u>10,914,805</u>

8.1 Particulars of lendings

In local currency	<u>11,984,795</u>	<u>10,914,805</u>
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8.2 Securities held as collateral against lending to financial institutions (Reverse repo)

	Note	2018			2017		
		Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
		Rupees in'000					
Market treasury bills	8.2.2	<u>4,185,904</u>	<u>–</u>	<u>4,185,904</u>	<u>347,663</u>	<u>–</u>	<u>347,663</u>

8.2.1 These carry mark-up rates ranging from 10.25% to 10.30% (2017: 5.95% to 6.20%) per annum, with maturity upto 2 January 2019 (2017: 18 March 2018).

8.2.2 Market value of securities held as collateral against lendings to financial institutions is Rs. 4,185,945 thousands (2017: Rs. 347,659).

8.3 These carry mark-up rate of 10.75% (2017: 6.45%) per annum, with maturity upto 1 February 2019 (2017: 5 January 2018).

8.4 These carry profit / return ranging from 10.60% to 10.75% (2017: Nil) per annum with maturity upto 1 February 2019 (2017: Nil).

8.5 These carry profit / return rate of 9.25% (2017: 5.70% to 5.85%) per annum with maturity upto 2 January 2019 (2017: 12 January 2018).

9. INVESTMENTS

9.1 Investments by types

	2018				2017			
	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
Rupees in '000								
Available-for-sale securities								
Federal government securities	307,815,954	–	(8,965,814)	298,850,140	349,333,878	–	1,114,443	350,448,321
Shares	655,236	(273,810)	59,396	440,822	608,301	(180,668)	37,252	464,885
Non-government debt securities	4,956,734	(138,428)	16,532	4,834,838	3,832,816	(159,198)	6,882	3,680,500
Mutual funds	417,571	(5,753)	38,937	450,755	1,590,319	(197,506)	9,681	1,402,494
	313,845,495	(417,991)	(8,850,949)	304,576,555	355,365,314	(537,372)	1,168,258	355,996,200
Held-to-maturity securities								
Federal government securities	36,259,349	–	–	36,259,349	36,360,790	–	–	36,360,790
Non-government debt securities	5,000,000	–	–	5,000,000	3,450,000	–	–	3,450,000
	41,259,349	–	–	41,259,349	39,810,790	–	–	39,810,790
Subsidiaries	830,000	–	–	830,000	830,000	–	–	830,000
Total Investments	355,934,844	(417,991)	(8,850,949)	346,665,904	396,006,104	(537,372)	1,168,258	396,636,990

9.2 Investment in subsidiaries - incorporated in Pakistan

	Holding	Assets	Liabilities	Revenue	Profit / (loss) after tax	Total com- prehensive income
Rupees in '000						
2018						
Habib Metropolitan Financial Services Limited	100%	506,386	184,545	44,254	(14,339)	(28,511)
Habib Metropolitan Modarba Management Company (Private) Limited	100%	429,408	3,637	63,992	30,791	37,547
Habib Metro Modarba	60%	307,903	5,365	17,274	5,447	5,272
2017						
Habib Metropolitan Financial Services Limited	100%	587,532	237,178	111,166	44,701	42,658
Habib Metropolitan Modarba Management Company (Private) Limited	100%	398,911	10,687	74,972	44,236	38,658
Habib Metro Modarba	60%	301,027	936	6,160	92	92

9.3 Investments by segments

	2018				2017			
	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
	Rupees in '000							
Federal government securities								
Market treasury bills	167,095,595	–	(17,562)	167,078,033	206,038,293	–	(5,215)	206,033,078
Pakistan investment bonds	151,704,966	–	(8,897,428)	142,807,538	154,210,996	–	967,602	155,178,598
Ijarah sukuk	21,666,054	–	(50,824)	21,615,230	25,445,379	–	152,056	25,597,435
Bai muajjal	3,608,688	–	–	3,608,688	–	–	–	–
	344,075,303	–	(8,965,814)	335,109,489	385,694,668	–	1,114,443	386,809,111
Shares								
Listed companies	548,245	(194,739)	59,396	412,902	501,310	(101,807)	37,252	436,755
Unlisted companies	106,991	(79,071)	–	27,920	106,991	(78,861)	–	28,130
	655,236	(273,810)	59,396	440,822	608,301	(180,668)	37,252	464,885
Non-government debt securities								
Listed term finance certificates	3,421,584	(72,045)	7,719	3,357,258	2,787,900	(82,558)	(3,949)	2,701,393
Unlisted term finance certificates	81,051	(21,138)	–	59,913	114,430	(28,840)	–	85,590
Sukuk certificates / bonds	1,454,099	(45,245)	8,813	1,417,667	930,486	(47,800)	10,831	893,517
Certificates of investment	5,000,000	–	–	5,000,000	3,450,000	–	–	3,450,000
	9,956,734	(138,428)	16,532	9,834,838	7,282,816	(159,198)	6,882	7,130,500
Mutual funds								
Open end	12,753	–	2,147	14,900	1,170,634	(187,497)	2,162	985,299
Close end	404,818	(5,753)	36,790	435,855	419,685	(10,009)	7,519	417,195
	417,571	(5,753)	38,937	450,755	1,590,319	(197,506)	9,681	1,402,494
Subsidiaries								
Habib Metropolitan Financial Services Limited	300,000	–	–	300,000	300,000	–	–	300,000
Habib Metropolitan Modaraba Management Company (Private) Limited	350,000	–	–	350,000	350,000	–	–	350,000
Habib Metropolitan Modaraba Limited	180,000	–	–	180,000	180,000	–	–	180,000
	830,000	–	–	830,000	830,000	–	–	830,000
Total investments	<u>355,934,844</u>	<u>(417,991)</u>	<u>(8,850,949)</u>	<u>346,665,904</u>	<u>396,006,104</u>	<u>(537,372)</u>	<u>1,168,258</u>	<u>396,636,990</u>

	2018	2017
	Rupees in '000	
9.3.1 Investments given as collateral		
Federal government securities		
Market treasury bills	3,443,636	5,710,314
Pakistan investment bonds	9,165,995	22,862,334
	<u>12,609,631</u>	<u>28,572,648</u>

9.4 Provision for diminution in value of investment

9.4.1	Opening balance	537,372	302,221
	Charge for the year	100,021	343,096
	Reversal for the year	(14,442)	—
	Net charge for the year	85,579	343,096
	Reversal on disposal	(198,028)	(107,945)
	Amount written off	(6,932)	—
	Closing balance	<u>417,991</u>	<u>537,372</u>

9.4.2 Particulars of provision against debt securities

Category of classification	2018		2017	
	Non-performing	Provision	Non-performing	Provision
	Rupees in '000			
Domestic				
Substandard	—	—	—	—
Doubtful	—	—	—	—
Loss	138,428	138,428	159,198	159,198
	<u>138,428</u>	<u>138,428</u>	<u>159,198</u>	<u>159,198</u>

9.4.2.1 Exposure amounting to Rs. 59,913 thousand (2017: Rs. 85,591 thousand) relating to term finance certificates of Pakistan International Airlines Corporation Limited, which is government guaranteed scrip, has not been classified as non-performing investment as per relaxation given by the SBP.

9.5 Quality of available for sale securities

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

	2018	2017
	Cost	
	Rupees in '000	
Federal government securities		
Market treasury bills	167,095,595	206,038,293
Pakistan investment bonds	119,054,305	117,850,206
Ijarah sukuk	21,666,054	25,445,379
	<u>307,815,954</u>	<u>349,333,878</u>
Shares		
Listed companies		
Automobile assembler	20,091	20,091
Automobile parts & accessories	58,026	58,026
Cement	81,811	81,811
Commercial banks	96,357	97,908
Engineering	10	10
Fertilizers	96,070	47,586
Food & personal care products	132	132
Investment banks / investment companies / securities companies	94,360	94,360

	2018	2017
	Cost	
	Rupees in '000	
Listed companies		
Oil & gas exploration companies	69,843	69,843
Oil & gas marketing companies	776	776
Power generation & distribution	515	515
Transport	30,254	30,254
	<u>548,245</u>	<u>501,310</u>

	2018		2017	
	Cost	Break value	Cost	Break value
	Rupees in '000			
Unlisted companies				
Pakistan Export Finance	—	—	—	—
Guarantee Limited	11,361	—	11,361	—
DHA Cogen Limited	50,000	—	50,000	—
Dawood Family Takaful Limited	35,000	17,290	35,000	17,500
Society for World Wide Inter				
Bank Fund Transfer (Swift)	10,630	12,906	10,630	12,906
	<u>106,991</u>	<u>30,196</u>	<u>106,991</u>	<u>30,406</u>

Non-government debt securities and mutual funds

	2018	2017
	Cost	
	Rupees in '000	
Listed		
AAA	381,783	442,577
AA+	1,149,200	999,600
AA	636,399	439,855
A+	939,270	263,639
AA-	944,600	949,700
A	200,000	349,800
A-	107,142	142,857
RR1	387,869	387,869
4 Star	—	291,330
BBB+(f)	—	27,952
3 Star	—	112,132
5 Star	—	54,477
Unrated	546,991	846,917
	<u>5,293,254</u>	<u>5,308,705</u>
Unlisted		
Unrated	81,051	114,430

9.6 Particulars relating to Held to Maturity securities are as follows:

Federal government securities

Pakistan investment bonds	32,650,661	36,360,790
Bai muajjal	3,608,688	—
	<u>36,259,349</u>	<u>36,360,790</u>

Non-government debt securities

Certificate of investments - unlisted

Unrated	5,000,000	3,450,000
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9.6.1 The market value of securities classified as held-to-maturity is Rs. 37,847,389 thousand (2017: 42,642,650 thousand).

10. ADVANCES

	Note	Performing		Non-Performing		Total	
		2018	2017	2018	2017	2018	2017
Rupees in '000							
Loans, cash credits, running finances, etc.							
In Pakistan	10.1	172,320,248	124,707,573	14,710,168	15,345,544	187,030,416	140,053,117
Islamic financing and related assets		17,629,691	13,818,849	503,972	440,152	18,133,663	14,259,001
Bills discounted and purchased		35,620,461	33,699,438	2,465,767	2,734,153	38,086,228	36,433,591
Advances - gross		225,570,400	172,225,860	17,679,907	18,519,849	243,250,307	190,745,709
Provision against non-performing advances							
-specific		-	-	(15,324,500)	(16,168,582)	(15,324,500)	(16,168,582)
-general		(1,236,190)	(257,841)	-	-	(1,236,190)	(257,841)
		(1,236,190)	(257,841)	(15,324,500)	(16,168,582)	(16,560,690)	(16,426,423)
Advances - net of provisions		224,334,210	171,968,019	2,355,407	2,351,267	226,689,617	174,319,286

10.1 Net investments in finance lease

	2018			2017		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
Rupees in '000						
Lease rentals receivable	160,706	74,785	235,491	70,325	258,834	329,159
Residual value	93,817	13,146	106,963	40,446	67,904	108,350
Minimum lease payments	254,523	87,931	342,454	110,771	326,738	437,509
Financial charges for future periods	(19,076)	(11,414)	(30,490)	(11,110)	(15,094)	(26,204)
Present value of minimum lease payments	235,447	76,517	311,964	99,661	311,644	411,305

10.2 Particulars of advances – gross

	2018	2017
Rupees in '000		
In local currency	213,632,404	160,598,582
In foreign currencies	29,617,903	30,147,127
	243,250,307	190,745,709

10.3 Advances include Rs. 17,679,907 thousand (2017 : Rs. 18,519,849 thousand) which have been placed under non-performing status as detailed below:

Category of classification
Domestic

	2018		2017	
	Non-performing loans	Provision	Non-performing loans	Provision
	Rupees in '000			
Substandard	259,378	17,562	118,214	15,870
Doubtful	127,952	2,136	4,996	–
Loss	17,292,577	15,304,802	18,396,639	16,152,712
	<u>17,679,907</u>	<u>15,324,500</u>	<u>18,519,849</u>	<u>16,168,582</u>

10.4 Particulars of provision against advances

	Note	2018			2017		
		Specific	General	Total	Specific	General	Total
		Rupees in '000					
Opening balance		16,168,582	257,841	16,426,423	16,796,939	134,110	16,931,049
Charge for the year		936,036	978,349	1,914,385	1,052,345	123,731	1,176,076
Reversals for the year		(1,482,574)	–	(1,482,574)	(1,445,046)	–	(1,445,046)
Net charge / (reversal) for the year		(546,538)	978,349	431,811	(392,701)	123,731	(268,970)
Amount written off	10.5	(297,544)	–	(297,544)	(235,656)	–	(235,656)
Closing balance		<u>15,324,500</u>	<u>1,236,190</u>	<u>16,560,690</u>	<u>16,168,582</u>	<u>257,841</u>	<u>16,426,423</u>

10.4.1 General provision includes provision of Rs. 5,134 thousand (2017: Rs. 5,203 thousand) made against consumer portfolio and Rs. 35 thousand (2017: Rs. 36 thousand) made against small enterprises (SEs) portfolio as required by the Prudential Regulation issued by the SBP.

10.4.2 Particulars of provision against advances

	2018			2017		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
In local currency	14,952,295	1,236,190	16,188,485	15,875,994	257,841	16,133,835
In foreign currencies	372,205	–	372,205	292,588	–	292,588
	<u>15,324,500</u>	<u>1,236,190</u>	<u>16,560,690</u>	<u>16,168,582</u>	<u>257,841</u>	<u>16,426,423</u>

10.4.3 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. 628,190 thousand (2017: 360,868 thousand). Further, as of 31 December 2018, had the benefit of FSVs (including those availed into previous year) not been taken by the Bank, the specific provision against non-performing advances would have been higher by Rs. 2,096,898 thousand (2017: Rs. 2,260,109 thousand) and accumulated profit would have been lower by Rs. 1,362,983 thousand (2017: Rs. 1,469,071 thousand). This amount of Rs. 1,362,983 thousand (2017: Rs. 1,469,071 thousand) is not available for distribution of cash and stock dividend to the shareholders and bonus to employees.

	Note	2018	2017
		Rupees in '000	
10.5 Particulars of write offs			
10.5.1 Against provisions	10.4	297,544	235,656
Directly charged to profit and loss account		—	—
		<u>297,544</u>	<u>235,656</u>
10.5.2 Write offs of Rs. 500,000/- and above		297,544	235,656
Write offs of below Rs. 500,000/-		—	—
		<u>297,544</u>	<u>235,656</u>

10.6 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 2018 is enclosed as Annexure I.

11. FIXED ASSETS

Capital work-in-progress	11.1	142,460	22,579
Property and equipment	11.2	3,757,119	3,108,996
		<u>3,899,579</u>	<u>3,131,575</u>
11.1 Capital work-in-progress			
Civil works	11.1.1	32,040	17,722
Equipments, etc.		110,420	4,857
		<u>142,460</u>	<u>22,579</u>

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

11.2 Property and equipment

	2018							
	Leasehold land	Building / office premises on freehold land	Building / office premises on freehold land	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Lease hold improvement	Total
	Rupees in '000							
At 1 January								
Cost	7,488	352,783	1,900,513	383,104	2,477,460	35,647	2,557,131	7,714,126
Accumulated depreciation	(1,677)	(168,039)	(806,352)	(202,512)	(1,611,498)	(11,604)	(1,803,448)	(4,605,130)
Net book value	5,811	184,744	1,094,161	180,592	865,962	24,043	753,683	3,108,996
Year ended December								
Opening net book value	5,811	184,744	1,094,161	180,592	865,962	24,043	753,683	3,108,996
Additions	–	–	632,108	75,903	382,906	63,591	319,861	1,474,369
Disposals	–	–	–	(322)	(1,411)	(8,180)	(2,288)	(12,201)
Depreciation charge	(112)	(12,161)	(68,114)	(48,554)	(401,665)	(13,216)	(270,223)	(814,045)
Closing net book value	5,699	172,583	1,658,155	207,619	845,792	66,238	801,033	3,757,119
At 31 December								
Cost	7,488	352,783	2,532,621	454,610	2,799,097	89,533	2,873,685	9,109,817
Accumulated depreciation	(1,789)	(180,200)	(874,466)	(246,991)	(1,953,305)	(23,295)	(2,072,652)	(5,352,698)
Net book value	5,699	172,583	1,658,155	207,619	845,792	66,238	801,033	3,757,119
Rate of depreciation (percentage)	1.49	4	4	15	25	20	20	

	2017							
	Leasehold land	Building / office premises on freehold land	Building / office premises on freehold land	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Lease hold improvement	Total
	Rupees in '000							
At 1 January								
Cost	7,488	352,783	1,866,913	327,432	2,024,561	13,403	2,280,292	6,872,872
Accumulated depreciation	(1,565)	(155,631)	(738,971)	(162,670)	(1,296,197)	(10,011)	(1,538,547)	(3,903,592)
Net book value	5,923	197,152	1,127,942	164,762	728,364	3,392	741,745	2,969,280
Year ended December								
Opening net book value	5,923	197,152	1,127,942	164,762	728,364	3,392	741,745	2,969,280
Additions	–	–	33,600	59,212	499,527	24,970	276,839	894,148
Disposals	–	–	–	(230)	(301)	(974)	–	(1,505)
Depreciation charge	(112)	(12,408)	(67,381)	(43,152)	(361,628)	(3,345)	(264,901)	(752,927)
Closing net book value	5,811	184,744	1,094,161	180,592	865,962	24,043	753,683	3,108,996
At 31 December								
Cost	7,488	352,783	1,900,513	383,104	2,477,460	35,647	2,557,131	7,714,126
Accumulated depreciation	(1,677)	(168,039)	(806,352)	(202,512)	(1,611,498)	(11,604)	(1,803,448)	(4,605,130)
Net book value	5,811	184,744	1,094,161	180,592	865,962	24,043	753,683	3,108,996
Rate of depreciation (percentage)	1.49	4	4	15	25	20	20	

11.2.1 The cost of fully depreciated assets still in use is Rs. 2,753,770 thousand (2017: Rs. 2,255,521 thousand).

11.2.2 Details of fixed assets disposed-off to related parties during the year ended 31 December 2018.

Particulars	Cost	Book value	Sale proceed	Mode of disposal	Particulars of purchaser
	Rupees in '000				
Vehicle	1,211	1,211	1,275	Negotiation	Mr. Raza Mohsin Qizilbash (Ex-employee)
Vehicle	16	6	788	Negotiation	Syed Intikhab Hussain Rizvi (Employee)
Vehicle	19	14	14	Negotiation	Mr. Mohammad Shams Izhar (Ex-employee)
Vehicle	6	–	249	Negotiation	Mr. Faisal Saleem Rathod (Employee)

12 Intangible assets - computer software

	2018	2017
	Rupees in '000	
At 1 January		
Cost	400,434	263,558
Accumulated amortisation and impairment	(176,147)	(73,048)
Net book value	224,287	190,510
Year ended 31 December		
Opening net book value	224,287	190,510
Additions - purchased	25,561	136,876
Amortisation charge	(128,406)	(103,099)
Closing net book value	121,442	224,287
At 31 December		
Cost	425,995	400,434
Accumulated amortisation and impairment	(304,553)	(176,147)
Net book value	121,442	224,287
Rate of amortisation (percentage)	33.3	33.3
Useful life in years	3	3

12.1 The cost of fully amortised intangible assets still in use is Rs. 27,875 thousand (2017: Rs. 27,875 thousand).

13. DEFERRED TAX ASSETS

	Balance as at 1 January 2017	Recognised in profit & loss account	Recognised in other comprehensive income	Balance as at 31 December 2017	Recognised in profit & loss account	Recognised in other comprehensive income	Balance as at 31 December 2018
	Rupees in '000						
Deductable temporary differences							
Provision for diminution in value of investments	105,777	82,303	–	188,080	(41,783)	–	146,297
Provision for non-performing and off-balance sheet	3,761,929	(513,536)	–	3,248,393	(501,898)	–	2,746,495
Provision against other assets	140,090	(104,650)	–	35,440	(35,440)	–	–
(Deficit) / surplus on revaluation of investments	(1,265,623)	–	856,732	(408,891)	–	3,506,723	3,097,832
Deferred liability on defined benefit plan	70,249	–	(29)	70,220	–	486	70,706
	2,812,422	(535,883)	856,703	3,133,242	(579,121)	3,507,209	6,061,330
Taxable temporary differences							
Surplus on revaluation of non-banking assets	(83,288)	13,818	(28,708)	(98,178)	1,546	–	(96,632)
Accelerated depreciation	(270,449)	70,703	–	(199,746)	56,230	–	(143,516)
	(353,737)	84,521	(28,708)	(297,924)	57,776	–	(240,148)
Net deferred tax asset	2,458,685	(451,362)	827,995	2,835,318	(521,345)	3,507,209	5,821,182

Note

2018

2017

Rupees in '000

14. OTHER ASSETS

Income / mark-up / profit accrued in local currency		8,308,015	7,222,763
Income / mark-up / profit accrued in foreign currencies		29,916	34,724
Advances, deposits, advance rent and other prepayments		554,859	493,106
Advance taxation (payments less provision)		376,391	692,041
Non-banking assets acquired in satisfaction of claims	14.1	487,505	892,851
Non-current assets held-for-sale		–	214,958
Branch adjustment account		63	72
Mark-to-market gain on forward foreign exchange contracts		4,206,429	2,858,857
Acceptances		14,429,148	16,144,323
Receivable from the SBP against encashment of government securities		114,055	232,568
Stationery and stamps on hand		62,236	35,981
Dividend receivable		769	61,245
Others		285,217	307,856
		28,854,603	29,191,345
Provision against other assets	14.2	(210,000)	(251,250)
Other assets (net of provision)		28,644,603	28,940,095
Surplus on revaluation of non-banking assets acquired in satisfaction of claims	20.1	276,093	280,509
		28,920,696	29,220,604
14.1 Market value of non-banking assets acquired in satisfaction of claims		774,844	1,173,360

	2018	2017
	Rupees in '000	
14.1.1 Non-banking assets acquired in satisfaction of claims		
Opening balance	1,173,360	1,664,871
Additions	–	–
Revaluation	–	82,023
Disposals	(397,718)	(551,073)
Depreciation	(12,044)	(22,461)
Closing balance	<u>763,598</u>	<u>1,173,360</u>
14.1.2 Gain / (loss) on disposal of non-banking assets acquired in satisfaction of claims		
Disposal proceeds	600,000	500,000
Less:		
- Cost	(405,000)	(566,263)
- Depreciation	7,282	15,190
Gain / (loss)	<u>202,282</u>	<u>(51,073)</u>
14.2 Provision held against other assets		
Operational loss	210,000	150,000
Non-banking assets acquired in satisfaction of claims	–	101,250
	<u>210,000</u>	<u>251,250</u>
14.2.1 Movement in provision held against other assets		
Opening balance	251,250	400,250
Charge for the year	60,000	150,000
Reversal for the year	(101,250)	(299,000)
	<u>(41,250)</u>	<u>(149,000)</u>
Closing balance	<u>210,000</u>	<u>251,250</u>
15. BILLS PAYABLE		
In Pakistan	<u>12,173,407</u>	<u>19,643,603</u>

	Note	2018	2017
Rupees in '000			
16. BORROWINGS			
Secured			
Borrowings from the State Bank of Pakistan			
Under Export Refinance Scheme		24,196,093	23,796,577
Under Long Term Financing Facility - Renewable Energy		962,784	971,213
Under Long Term Financing Facility - Locally			
Manufactured Plant and Machinery		6,730,915	4,361,589
	16.2	31,889,792	29,129,379
Repurchase agreement borrowings (Repo)	16.3	12,658,729	28,463,727
Due against bills rediscounting	16.4	3,310,164	3,634,271
		47,858,685	61,227,377
Unsecured			
Call borrowing	16.5	300,000	1,000,000
Overdrawn nostro accounts		3,183,003	1,788,779
Overdrawn local bank accounts		5,693	22,490
		3,488,696	2,811,269
		51,347,381	64,038,646
16.1 Particulars of borrowings in respect of currencies			
In local currency		44,854,214	58,615,596
In foreign currencies		6,493,167	5,423,050
		51,347,381	64,038,646

- 16.2** These carry mark-up rates ranging between 2.00% to 4.50% (2017: 2.00% to 4.50%) per annum which is payable quarterly or upon maturity of loans, whichever is earlier.
- 16.3** These carry mark-up rates ranging between 10.00% to 10.35% (2017: 5.76% to 5.90%) per annum having maturity upto 7 February 2019 (2017: 26 March 2018) and are secured against investments mentioned in note 9.3.1.
- 16.4** This represents the obligation to the corresponding Banks on the discounting of foreign documentary bills purchased by the Bank on discount. The balance carries discount rate at 4.00% (2017: 2.15% to 2.25%) per annum having maturity upto 25 June 2019 (2017: 20 April 2018).
- 16.5** This carries mark-up rate of 10.30% (2017: 5.90%) per annum, with maturity upto 2 January 2019 (2017: 2 January 2018).

17. DEPOSITS AND OTHER ACCOUNTS

	2018			2017		
	In local currency	In foreign currency	Total	In local currency	In foreign currency	Total
	Rupees in '000					
Customers						
Current accounts (non-remunerative)	120,665,276	23,351,234	144,016,510	118,127,710	14,856,564	132,984,274
Savings deposits	122,955,979	17,173,301	140,129,280	105,067,045	16,141,338	121,208,383
Term deposits	179,727,186	43,693,831	223,421,017	178,326,848	43,975,262	222,302,110
Others	7,984,099	906	7,985,005	7,185,914	941	7,186,855
	<u>431,332,540</u>	<u>84,219,272</u>	<u>515,551,812</u>	<u>408,707,517</u>	<u>74,974,105</u>	<u>483,681,622</u>

Financial institutions

Current deposits (non-remunerative)	1,492,887	942,405	2,435,292	1,718,743	848,711	2,567,454
Savings deposits	24,280,076	70	24,280,146	4,601,496	–	4,601,496
Term deposits	1,306,000	4,260	1,310,260	17,250,000	3,379	17,253,379
	<u>27,078,963</u>	<u>946,735</u>	<u>28,025,698</u>	<u>23,570,239</u>	<u>852,090</u>	<u>24,422,329</u>
	<u>458,411,503</u>	<u>85,166,007</u>	<u>543,577,510</u>	<u>432,277,756</u>	<u>75,826,195</u>	<u>508,103,951</u>

	2018	2017
	Rupees in '000	

17.1 Composition of deposits

Individuals	213,639,358	157,537,966
Government (Federal and Provincial)	33,859,180	27,603,304
Public Sector Entities	40,608,189	44,520,092
Banking Companies	1,224,502	7,204,815
Non-Banking Financial Institutions	26,801,196	17,217,514
Private Sector	<u>227,445,085</u>	<u>254,020,260</u>
	<u>543,577,510</u>	<u>508,103,951</u>

17.2 This includes eligible deposits of Rs. 217,695,076 thousand which are covered under deposit protection mechanism as required by the Deposit Protection Corporation circular no 4 of 2018.

	Note	2018	2017
		Rupees in '000	
18. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		6,492,116	6,022,542
Mark-up / return / interest payable in foreign currencies		362,013	297,138
Unearned commission and income on bills discounted		190,533	171,687
Accrued expenses		692,845	652,235
Acceptances		14,429,148	16,144,323
Unclaimed dividend		66,216	51,769
Mark to market loss on forward foreign exchange contracts		3,549,157	1,632,554
Provision for compensated absences		208,864	203,571
Deferred liability on defined benefit plan		199,072	197,679
Provision against off-balance sheet obligations	18.1	113,716	113,716
Workers' welfare fund		922,189	730,189
Charity fund payable		291	479
Excise duty payable		1,003	2,063
Locker deposits		764,223	713,227
Advance against diminishing musharakah		23,310	729
Advance rental for ijarah		2,259	2,681
Security deposits against leases / ijarah		212,178	197,578
Sundry creditors		392,267	570,190
Withholding tax / duties		289,241	201,811
Others		384,886	475,155
		<u>29,295,527</u>	<u>28,381,316</u>

18.1 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>

The above represents provision against certain letters of credit and guarantees.

18.2 Reconciliation of changes in other liabilities arising from financing activities

Balance as at 1 January	28,381,316	22,223,640
Changes from financing cash flows		
Dividend paid	(3,129,047)	(3,112,424)
Other changes - liability related		
Cash based	2,416,253	1,191,925
Non-cash based		
Defined benefit plan	1,393	(136)
Provision against workers' welfare fund	192,000	175,000
Provision against compensated absences	5,293	16,044
Acceptances	(1,715,175)	4,743,773
Dividend declared	3,143,494	3,143,494
	<u>4,043,258</u>	<u>9,270,100</u>
	<u>29,295,527</u>	<u>28,381,316</u>

19. SHARE CAPITAL

19.1 Authorised capital

2018 (Number of shares)	2017		2018 Rupees in '000	2017 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>

19.2 Issued, subscribed and paid-up capital

		Ordinary shares of Rs. 10/- each		
30,000,000	30,000,000	- fully paid in 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>

19.3 As of the date of statement of financial position, the holding company held 534,394 thousand (2017: 534,394 thousand) ordinary shares of Rs. 10/- each (51% holding).

	Note	2018 Rupees in '000	2017 Rupees in '000
20. (DEFICIT) / SURPLUS ON REVALUATION OF ASSETS			
(Deficit) / surplus on revaluation of			
- Non-banking assets	20.1	276,093	280,509
- Available for sale securities	9.3	(8,850,949)	1,168,258
		(8,574,856)	1,448,767
Less: Deferred tax on deficit / surplus on revaluation of			
- Non-banking assets	20.1	96,632	98,178
- Available for sale securities		(3,097,832)	408,891
		3,001,200	(507,069)
		<u>(5,573,656)</u>	<u>941,698</u>
20.1 Non-banking assets			
Surplus on revaluation of non-banking assets as at 1 January		280,509	237,966
Revaluation of non-banking assets during the year		-	82,023
Transferred to unappropriated profit in respect of disposal and incremental depreciation during the period - net of deferred tax		(2,870)	(25,662)
Related deferred tax liability on disposal and incremental depreciation during the period		(1,546)	(13,818)
		<u>(4,416)</u>	<u>42,543</u>
Surplus on revaluation of non banking assets		276,093	280,509
Less: Related deferred tax liability on:			
Revaluation as at 1 January		98,178	83,288
Revaluation of non-banking assets during the period		-	28,708
Disposal and incremental depreciation during the period		(1,546)	(13,818)
		<u>(1,546)</u>	<u>14,890</u>
Related deferred tax liability		96,632	98,178
		<u>179,461</u>	<u>182,331</u>

	Note	2018	2017
		Rupees in '000	
21. CONTINGENCIES AND COMMITMENTS			
Guarantees	21.1	53,215,390	42,819,961
Commitments	21.2	322,747,745	207,146,454
Other contingent liabilities	21.3	24,476,694	22,600,564
		<u>400,439,829</u>	<u>272,566,979</u>
21.1 Guarantees			
Financial Guarantees		3,931,150	2,103,383
Performance Guarantees		32,514,435	31,177,313
Other guarantees		16,769,805	9,539,265
		<u>53,215,390</u>	<u>42,819,961</u>
21.2 Commitments			
Documentary credits and short-term trade-related transactions:			
Letters of credit		89,700,969	79,477,866
Commitments in respect of:			
Forward exchange contracts	21.2.1	230,915,612	127,287,676
Operating leases	21.2.2	110,571	148,352
Forward lendings	21.2.3	1,887,433	207,279
Acquisition of fixed assets		133,160	25,281
		<u>322,747,745</u>	<u>207,146,454</u>
21.2.1 Commitments in respect of forward exchange contracts			
Purchase		136,568,523	78,728,094
Sale		94,347,089	48,559,582
		<u>230,915,612</u>	<u>127,287,676</u>
21.2.2 Commitments in respect of operating leases			
Not later than one year		110,571	133,222
Later than one year and not later than five years		—	15,130
		<u>110,571</u>	<u>148,352</u>

The above amount includes 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.

21.2.3 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, except for:

	Note	2018	2017
		Rupees in '000	
Commitments in respect of syndicate financing		<u>1,887,433</u>	<u>207,279</u>

21.3 Other contingent liabilities

Claims against bank not acknowledged as debt		<u>24,370,638</u>	22,494,508
Foreign Exchange repatriation case	21.3.1	<u>106,056</u>	<u>106,056</u>
		<u>24,476,694</u>	<u>22,600,564</u>

21.3.1 Foreign Exchange repatriation case

While adjudicating Foreign Exchange repatriation cases of exporters, the Foreign Exchange Adjudicating Court of the State Bank of Pakistan has 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 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.

22. 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". Mark to market 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).

	Note	2018	2017
		Rupees in '000	
23. MARK-UP / RETURN / INTEREST EARNED			
Loans and advances		13,134,613	9,753,938
Investments		27,394,711	23,161,257
Lendings to financial institutions		1,984,944	920,034
Balances with other banks		5,929	2,895
		<u>42,520,197</u>	<u>33,838,124</u>
24. MARK-UP / RETURN / INTEREST EXPENSED			
Deposits		20,700,199	16,159,200
Borrowings		4,311,967	2,582,293
Foreign currency swap cost		1,285,297	1,125,677
		<u>26,297,463</u>	<u>19,867,170</u>
25. FEE & COMMISSION INCOME			
Branch banking customer fees		1,204,276	1,070,619
Credit related fees		45,156	48,636
Card related fees		268,827	227,197
Commission on trade		1,514,987	1,318,681
Commission on guarantees		357,456	310,505
Commission on remittances including home remittances		189,179	194,175
Commission on bancassurance		85,424	92,336
Others		145,095	127,885
		<u>3,810,400</u>	<u>3,390,034</u>
26. GAIN ON SECURITIES			
Realised			
Federal government securities		17,664	140,160
Shares		4,222	151,546
Mutual funds		80,343	88,675
		<u>102,229</u>	<u>380,381</u>
27. OTHER INCOME			
Rent on properties		23,968	24,550
Gain on sale of fixed assets - net		8,251	13,692
Recovery of charges from customers	27.1	212,882	161,711
Incidental and service charges		83,616	70,063
Gain on sale of ijarah assets - net		526	56
Gain / (loss) on sale of non-banking assets - net		202,282	(51,073)
Gain on sale of non-current assets held-for-sale		35,042	-
Staff notice period and other recoveries		3,822	2,368
		<u>570,389</u>	<u>221,367</u>

27.1 Includes courier, telephone and swift charges etc. recovered from customers.

	Note	2018	2017
		Rupees in '000	
28. OPERATING EXPENSES			
Total compensation expense	28.1	5,409,384	5,031,165
Property expense			
Rent & taxes		1,144,296	1,046,174
Insurance		4,176	4,245
Utilities cost		339,999	317,839
Security		433,348	392,922
Repair & maintenance		387,629	311,196
Depreciation		350,610	344,802
		<u>2,660,058</u>	<u>2,417,178</u>
Information technology expenses			
Software maintenance		42,572	47,805
Hardware maintenance		158,809	109,189
Depreciation		107,688	86,422
Amortisation		128,406	103,099
Network charges		158,521	135,009
		<u>595,996</u>	<u>481,524</u>
Other operating expenses			
Directors' fees and allowances		14,700	10,327
Fees and allowances to Shariah Board		8,565	8,081
Legal & professional charges		147,719	144,364
Outsourced services costs	34.1	243,652	219,883
Travelling & conveyance		199,311	172,171
Operating lease rental		28,363	43,548
NIFT clearing charges		70,928	68,280
Depreciation		355,747	321,703
Depreciation - non-banking assets		12,044	22,461
Training & development		32,418	10,569
Postage & courier charges		80,065	67,925
Communication		90,912	79,878
Subscription		203,607	91,375
Brokerage & commission		106,580	119,221
Stationery & printing		188,319	165,320
Marketing, advertisement & publicity		158,777	184,777
Management fee		382,772	261,171
Insurance		306,000	171,582
Donations	28.2	100,704	81,630
Auditors remuneration	28.3	14,569	15,268
Others		205,647	230,660
		<u>2,951,399</u>	<u>2,490,194</u>
		<u>11,616,837</u>	<u>10,420,061</u>
28.1 Total compensation expense			
Managerial remuneration - fixed		4,164,435	3,890,300
Cash bonus / awards etc.		581,244	541,315
Charge for defined benefit plan		146,968	136,520
Contribution to defined contribution plan		178,825	167,390
Charge for compensated absences		76,325	60,505
Rent & house maintenance		22,188	19,259
Conveyance		220,374	199,273
EOBI		19,025	16,603
		<u>5,409,384</u>	<u>5,031,165</u>

	2018	2017
	Rupees in '000	
28.2	Donations paid in excess of Rs. 500,000 to a single party during the year are as follows:	
DONEE		
Habib University Foundation	20,056	12,000
The Citizens Foundation	15,600	14,400
Patients' Aid Foundation	10,100	10,030
Supreme Court & Prime Minister of Pakistan Diamer Basha & Mohmand Dam Fund	10,000	—
The Indus Hospital	8,200	1,450
Sindh Institute of Urology and Transplantation	2,500	2,500
World Memon Organization	2,500	—
Mohamedali Habib Welfare Trust	2,000	2,000
Al-Sayyeda Benevolent Trust	1,960	1,960
Habib Medical Trust	1,960	960
Masoomen Hospital Trust	1,750	1,000
Institute of Business Administration	1,157	—
Fatimiyah Education Network	1,000	1,000
The Layton Rehmatulla Benevolent Trust	1,000	700
The Medical Aid Foundation	1,000	—
The Patients Behbud Society for AKUH	1,000	—
Habib Poor Fund	960	960
RahmatBai Habib Food & Clothing Trust	960	960
RahmatBai Habib Widows & Orphan Trust	960	960
Zehra Homes	840	640
Abbas-e-Alamdard Hostel	800	960
MBJ Health Association	750	—
Bantva Memon Khidmat Committee (Bantva Memon Hospital)	750	—
Kutiyana Memon Association (Kutiyana Memon Hospital)	750	—
Vocational Welfare Society for Mentally Retarded (Markaz-e-Umeed)	750	—
EduJee Dinshaw Road Project	700	—
Marie Adelaide Leprosy Centre	650	350
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
Panah Trust	500	500
Habib Public School	500	350
Habib Girls School	500	400
Network of Organizations Working with People with Disabilities, Pakistan	500	—
Rotary Club of Karachi Continental Trust	500	—
Women Empowerment Group (Pink Ribbon)	500	—
Habib Metropolitan Employees Endowment Fund	—	15,000
Alleviate Addiction Suffering Trust	—	1,000
Abdul Sattar Edhi Foundation	—	1,000
The Aga Khan Hospital and Medical College Foundation	—	1,000
The Society for the Rehabilitation of Special Children	—	800
Poor Patients Aid Society (Civil Hospital)	—	500
National Academy of Performing Arts	—	500
School of Leadership Foundation	—	500
Shaukat Khanum Memorial Trust	—	500

None of the directors, executives and their spouses had interest in the donations disbursed during the years 2018 and 2017, except for donations paid to :

Name of Donee	Directors	Interest in Donee as
Habib University Foundation	Mr. Ali S. Habib Mr. Mohomed 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
RehmatBai Habib Food & Clothing Trust	Mr. Mohamedali R. Habib Mr. Muhammad H. Habib	Member of the Board of Trustees Member of the Board of Trustees
RehmatBai Habib Widows & Orphan Trust	Mr. Muhammad H. Habib	Member of the Board of Trustees

28.3 Auditors' remuneration	Note	2018	2017
		Rupees in '000	
Audit fee		2,600	2,400
Review of half yearly financial statements		972	896
Certifications and agreed upon procedures engagements		8,928	10,694
Out-of-pocket expenses		2,069	1,278
		<u>14,569</u>	<u>15,268</u>

29. OTHER CHARGES

Penalties imposed by the SBP	<u>31,105</u>	<u>3,229</u>
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30. PROVISIONS & WRITE OFFS - NET

Provision for diminution in value of investments - net	9.4.1	85,579	343,096
Provision / (reversal) of provision against loan & advances - net	10.4	431,811	(268,970)
Reversal of provision against other assets - net	14.2.1	(41,250)	(149,000)
Recovery of written-off bad debts		(93,711)	(37,788)
		<u>382,429</u>	<u>(112,662)</u>

31. TAXATION

Current		3,392,449	2,755,716
Prior year		-	413,000
Deferred	13	521,345	451,362
		<u>3,913,794</u>	<u>3,620,078</u>

31.1 Income tax assessments of the Bank have been finalised up to the tax year 2018 (corresponding to the accounting year ended 31 December 2017). Certain appeals are pending with the Commissioner of Inland Revenue (Appeal) and Appellate Tribunal Inland Revenue (ATIR). However, adequate provisions are being held by the Bank.

31.2 Relationship between tax expense and accounting profit

	2018	2017
	Rupees in '000	
Profit before tax	<u>10,074,378</u>	<u>9,129,084</u>
Tax at the applicable tax rate of 35% (2017: 35%)	<u>3,526,032</u>	<u>3,195,179</u>
Super tax at applicable rate of 4%	<u>402,975</u>	<u>-</u>
Prior years taxation - super tax	<u>-</u>	<u>413,000</u>
Others	<u>(15,213)</u>	<u>11,899</u>
Tax charge for the year	<u>3,913,794</u>	<u>3,620,078</u>

The Finance Act 2018 has revised the applicability of super tax brought into effect through Finance Act 2015 for the rehabilitation of temporarily displaced persons on the taxable income of respective years. Accordingly, the Bank has recognised super tax at the applicable rate of 4% on taxable income for the year.

32. BASIC AND DILUTED EARNINGS PER SHARE

Note

	2018	2017
	Rupees in '000	
Profit after taxation	<u>6,160,584</u>	<u>5,509,006</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>5.88</u>	<u>5.26</u>

33. CASH AND CASH EQUIVALENTS

		2018	2017
		Rupees in '000	
Cash and balances with treasury banks	6	<u>48,177,009</u>	<u>42,281,977</u>
Balances with other banks	7	<u>1,115,557</u>	<u>1,100,929</u>
Overdrawn nostro accounts	16	<u>(3,183,003)</u>	<u>(1,788,779)</u>
Overdrawn local bank accounts	16	<u>(5,693)</u>	<u>(22,490)</u>
		<u>46,103,870</u>	<u>41,571,637</u>

34. STAFF STRENGTH

		2018	2017
		Number	
Permanent		<u>3,983</u>	<u>3,744</u>
Temporary / on contractual basis		<u>181</u>	<u>264</u>
Bank's own staff strength at end of the year		<u>4,164</u>	<u>4,008</u>

34.1 In addition to the above, 677 (2017: 711) employees of outsourcing services companies were assigned to the Bank.

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 last drawn basic salary. The minimum qualifying period for eligibility under the plan is five years of continuous service.

	2018	2017
	Number	
35.2 Number of employees under the scheme		
Gratuity fund	<u>3,969</u>	<u>3,786</u>

35.3 Principal actuarial assumptions

The latest actuarial valuation was carried out on 31 December 2018 using "projected unit credit actuarial cost method". The main assumptions used for the actuarial valuation were as follows:

	2018	2017
Discount rate - percent per annum	13.75	9.25
Expected rate of return on plan assets - percent per annum	13.75	9.25
Expected long term rate of salary increase - percent per annum	13.25	8.75
Mortality rates (for death in service)	Adjusted SLIC 2001- 2005	Adjusted SLIC 2001- 2005

	Note	2018	2017
Rupees in '000			
35.4 Reconciliation of payable to defined benefit plan			
Fair value of plan assets	35.5	1,214,825	1,102,616
Present value of defined benefit obligation	35.6	(1,413,897)	(1,300,295)
Payable		<u>(199,072)</u>	<u>(197,679)</u>

35.5 Movement in present value of defined benefit obligation

Obligations at the beginning of the year	1,300,295	1,196,096
Current service cost	128,695	118,654
Interest cost	115,531	106,928
Benefits due but not paid (payables)	(270)	(9,343)
Benefits paid by the Bank	(102,346)	(70,899)
Re-measurement gain	(28,008)	(41,141)
Obligations at the end of the year	<u>1,413,897</u>	<u>1,300,295</u>

35.6 Movement in fair value of plan assets

Fair value at the beginning of the year	1,102,616	998,280
Interest income on plan assets	97,258	89,062
Contribution by the Bank - net	146,968	136,574
Benefits paid	(102,346)	(70,899)
Benefits due but not paid	(270)	(9,343)
Re-measurements: Net return on plan assets over interest income loss	35.8.2 (29,401)	(41,058)
Fair value at the end of the year	<u>1,214,825</u>	<u>1,102,616</u>

35.7 Movement in payable to defined benefit plan

Opening balance	197,679	197,816
Charge / (reversal) for the year	146,968	136,520
Contribution by the Bank - net	(146,968)	(136,574)
Re-measurement loss / (gain) recognised in OCI during the year	35.8.2 1,393	(83)
Closing balance	<u>199,072</u>	<u>197,679</u>

	Note	2018	2017
		Rupees in '000	
35.8 Charge for defined benefit plan			
35.8.1 Cost recognised in profit and loss			
Current service cost		128,695	118,654
Net interest on defined benefit asset		18,273	17,866
		<u>146,968</u>	<u>136,520</u>
35.8.2 Re-measurements recognised in OCI during the year			
Gain on obligation			
– Financial assumptions		18,571	–
– Experience adjustment		(46,579)	(41,141)
		<u>(28,008)</u>	<u>(41,141)</u>
Return on plan assets over interest income		29,401	41,058
Total re-measurements recognised in OCI		<u>1,393</u>	<u>(83)</u>
35.9 Components of plan assets			
Cash and cash equivalents	35.9.1	974,048	225,265
Federal Government securities			
Special Saving Certificates		240,777	–
Pakistan Investment Bonds		–	877,353
		<u>1,214,825</u>	<u>1,102,618</u>

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

35.10 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:

	2018
	Rupees in '000
Increase in discount rate by 1 %	132,993
Decrease in discount rate by 1 %	155,345
Increase in expected future increment in salary by 1%	155,832
Decrease in expected future increment in salary by 1%	135,710
Increase in expected withdrawal rate by 10%	288
Decrease in expected withdrawal rate by 10%	302
Increase in expected mortality rate by 1%	258
Decrease in expected mortality rate by 1%	234

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.

35.11 Expected contributions to be paid to the fund in the next financial year

170,484

35.12 Expected charge for the next financial year

170,484

35.13 Maturity profile

The weighted average duration of the obligation is 10 years

35.14 Funding Policy

The Bank has the policy to make annual contributions to the fund based on actuarial report.

35.15 Significant risk associated with the staff retirement benefit schemes include:

Asset volatility	The risk of the investment underperforming and being not sufficient to meet the liabilities.
Changes in bond yields	The duration of the liabilities is 10 Years. Based on the weighted average duration of this plan and guidance from Pakistan Society of Actuaries ("PSOA"), the discount rate used for the calculations is 13.75% per annum.
Inflation risk	The risk that the final salary at the time of cessation of service is greater than assumed. Since the benefit is calculated on the final salary (which will closely reflect inflation and other macroeconomic factors), the benefit amount increases as salary increases.
Mortality rate	The risk that the actual mortality experience is different than the assumed mortality. This effect is more pronounced in schemes where the age and service distribution is on the higher side.
Withdrawal rate	The risk of actual withdrawals experience is different from assumed withdrawal probability. The significance of the withdrawal risk varies with the age, service and the entitled benefits of the beneficiary.

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 out of provident fund have been made in accordance with the provision of section 218 of the Companies Act 2017.

Number of the members participating in the fund at the end of the year 30 June 2018 as per un-audited accounts are 3,803 (2017: 3,291).

37. COMPENSATION OF DIRECTORS AND EXECUTIVES

37.1 Total Compensation Expense

	President & Chief Executive		Directors		Executives	
	2018	2017	2018	2017	2018	2017
	Rupees in '000					
Fees	–	–	4,750	3,400	–	–
Managerial remuneration	92,790	59,100	–	–	849,948	924,062
Charge for defined benefit plan	3,515	2,314	–	–	28,662	29,950
Contribution to defined contribution plan	4,126	3,300	–	–	34,166	35,910
Utilities	1,060	–	1,963	970	–	–
Others	–	–	7,987	5,957	–	–
	<u>101,491</u>	<u>64,714</u>	<u>14,700</u>	<u>10,327</u>	<u>912,776</u>	<u>989,922</u>
Number of persons	<u>2</u>	<u>1</u>	<u>6</u>	<u>6</u>	<u>175</u>	<u>201</u>

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

37.3 In addition to the above, all the Executives, including Chief Executive of the Bank are also eligible for bonus as per their terms of employment with the Bank. The amount paid to the Chief Executive and Executives in this respect amounted to Rs. 41,250 thousand (2017: Rs. 8,250 thousand) and Rs. 99,810 thousand (2017: Rs. 100,480 thousand) respectively.

38. FAIR VALUE MEASUREMENTS

The fair value of quoted securities other than investment in subsidiary companies and those classified as held to maturity, is based on quoted market price. Quoted securities classified as held to maturity are carried at cost.

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

38.1 Fair value of financial assets

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).

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:

		2018			
On balance sheet financial instruments	Carrying / Notional 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	298,850,140	-	298,850,140	-	298,850,140
Sukuk certificates and bonds	1,417,667	-	1,417,667	-	1,417,667
Ordinary shares of listed companies	412,902	412,902	-	-	412,902
Mutual funds - open end	14,900	-	14,900	-	14,900
- close end	435,855	435,855	-	-	435,855
Listed term finance certificates	3,357,258	-	3,357,258	-	3,357,258
Unlisted term finance certificates	59,913	-	59,913	-	59,913
Financial assets not measured at fair value - disclosed but not measured at fair value					
- Cash and balances with treasury banks	48,177,009	-	-	-	-
- Balances with other banks	1,115,557	-	-	-	-
- Lendings to financial institutions	11,984,795	-	-	-	-
- Investments					
- Held-to-maturity securities					
Federal government securities	36,259,349	-	-	-	-
Certificates of investments	5,000,000	-	-	-	-
- Subsidiaries	830,000	-	-	-	-
- Available-for-sale securities					
Ordinary shares of unlisted companies	27,920	-	-	-	-
- Advances	226,689,617	-	-	-	-
- Other assets	27,373,549	-	-	-	-
	662,006,431	848,757	303,699,878	-	304,548,635
Off-balance sheet financial instruments					
- measured at fair value					
- Forward purchase of foreign exchange contracts	140,141,186	-	140,141,186	-	140,141,186
- Forward sale of foreign exchange contracts	97,365,720	-	97,365,720	-	97,365,720

	2017				
On balance sheet financial instruments	Carrying / Notional value	Fair value			Total
		Level 1	Level 2	Level 3	
		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 - open end	985,299	–	985,299	–	985,299
– close end	417,195	417,195	–	–	417,195
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	1,100,929	–	–	–	–
- Lendings to financial institutions	10,914,805	–	–	–	–
- Investments					
- Held-to-maturity securities					
Federal government securities	36,360,790	–	–	–	–
Certificates of investments	3,450,000	–	–	–	–
- Subsidiaries	830,000	–	–	–	–
- Available-for-sale securities					
Ordinary shares of unlisted companies	28,130	–	–	–	–
- Advances	174,319,286	–	–	–	–
- Other assets	26,862,335	–	–	–	–
	652,116,322	3,555,343	352,412,727	–	355,968,070
Off-balance sheet financial instruments					
- measured at fair value					
- Forward purchase of foreign exchange contracts	81,575,492	–	81,575,492	–	81,575,492
- Forward sale of foreign exchange contracts	50,180,677	–	50,180,677	–	50,180,677

Valuation techniques used in determination of fair valuation of financial instruments within level 2.

Debt Securities	The fair value is determined using the prices / rates available on Mutual Funds Association of Pakistan (MUFAP) / Reuters.
Forward contracts	The fair values are derived using forward exchange rates applicable to their respective remaining maturities.
Mutual funds	The fair value is determined based on the net asset values published at the close of each business day.

39. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	2018			
	Trade & Sales	Retail banking	Commercial banking	Total
	Rupees in '000			
Profit & Loss				
Net mark-up / return / profit	24,485,081	(10,817,435)	2,555,088	16,222,734
Inter segment revenue - net	(16,335,425)	12,812,094	3,523,331	-
Non-mark-up / return / interest income	1,693,226	16	4,380,773	6,074,015
Total Income	9,842,882	1,994,675	10,459,192	22,296,749
Segment direct expenses	(197,456)	(239,148)	(3,279,382)	(3,715,986)
Inter segment expense allocation	(4,488,948)	(322,450)	(3,312,558)	(8,123,956)
Total expenses	(4,686,404)	(561,598)	(6,591,940)	(11,839,942)
Provisions	(85,579)	1,219	(298,069)	(382,429)
Profit before tax	5,070,899	1,434,296	3,569,183	10,074,378
Balance Sheet				
Cash and Bank balances	907,449	24,672,447	23,712,670	49,292,566
Investments	346,665,904	-	-	346,665,904
Lendings to financial institutions	11,984,795	-	-	11,984,795
Advances - performing	-	3,167,811	222,402,589	225,570,400
Advances - non-performing	-	3,432	17,676,475	17,679,907
Provision against advances	-	(8,538)	(16,552,152)	(16,560,690)
Net inter segment lending	-	254,934,343	57,085,986	312,020,329
Others	12,529,588	52,983	26,180,328	38,762,899
Total Assets	372,087,736	282,822,478	330,505,896	985,416,110
Borrowings	19,457,589	-	31,889,792	51,347,381
Subordinated debt	-	-	-	-
Deposits & other accounts	-	279,208,331	264,369,179	543,577,510
Net inter segment borrowing	312,020,329	-	-	312,020,329
Others	3,607,862	3,614,147	34,246,925	41,468,934
Total liabilities	335,085,780	282,822,478	330,505,896	948,414,154
Equity	37,001,956	-	-	37,001,956
Total Equity & liabilities	372,087,736	282,822,478	330,505,896	985,416,110
Contingencies & Commitments	230,915,612	99,427	169,424,790	400,439,829

	2017			
	Trade & Sales	Retail banking	Commercial banking	Total
	Rupees in '000			
Profit & Loss				
Net mark-up / return / profit	20,990,887	(6,498,113)	(521,820)	13,970,954
Inter segment revenue - net	(14,265,390)	7,469,072	6,796,318	–
Non-mark-up / return / interest income	2,032,357	16	3,611,385	5,643,758
Total Income	8,757,854	970,975	9,885,883	19,614,712
Segment direct expenses	(207,999)	(103,582)	(6,246,261)	(6,557,842)
Inter segment expense allocation	(2,655,416)	(124,010)	(1,261,022)	(4,040,448)
Total expenses	(2,863,415)	(227,592)	(7,507,283)	(10,598,290)
Provisions	(343,097)	(1,816)	457,575	112,662
Profit before tax	5,551,342	741,567	2,836,175	9,129,084
Balance Sheet				
Cash and Bank balances	999,142	16,684,796	25,698,968	43,382,906
Investments	396,636,990	–	–	396,636,990
Lendings to financial institutions	10,914,805	–	–	10,914,805
Advances - performing	–	3,106,958	169,118,902	172,225,860
Advances - non-performing	–	4,554	18,515,295	18,519,849
Provision against advances	–	(9,757)	(16,416,666)	(16,426,423)
Net inter segment lending	–	187,255,494	159,253,465	346,508,959
Others	15,183,275	2,136	20,226,373	35,411,784
Total Assets	423,734,212	207,044,181	376,396,337	1,007,174,730
Borrowings	34,909,267	–	29,129,379	64,038,646
Subordinated debt	–	–	–	–
Deposits & other accounts	–	204,167,943	303,936,008	508,103,951
Net inter segment borrowing	346,508,959	–	–	346,508,959
Others	1,817,731	2,876,238	43,330,950	48,024,919
Total liabilities	383,235,957	207,044,181	376,396,337	966,676,475
Equity	40,498,255	–	–	40,498,255
Total Equity & liabilities	423,734,212	207,044,181	376,396,337	1,007,174,730
Contingencies & Commitments	127,287,676	99,956	145,179,347	272,566,979

40. TRANSACTIONS WITH RELATED PARTIES

The Bank has related party relationships with its holding company, subsidiaries, associates, 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.

	2018						
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	Rupees in '000						
Balances with other banks							
In current accounts	112,023	-	44,688	-	-	-	156,711
Investments							
Opening balance	-	1,950,000	-	-	-	-	1,950,000
Investment made during the year	-	13,900,000	-	-	-	-	13,900,000
Investment redeemed / disposed off during the year	-	(10,850,000)	-	-	-	-	(10,850,000)
Closing balance	-	5,000,000	-	-	-	-	5,000,000
Advances							
Opening balance	-	-	1,702,532	172,585	-	-	1,875,117
Addition during the year	-	3,095,593	74,680,329	47,080	-	-	77,823,002
Repaid during the year	-	(3,063,987)	(73,595,850)	(104,158)	-	-	(76,763,995)
Closing balance	-	31,606	2,787,011	115,507	-	-	2,934,124
Other Assets							
Mark-up / return / interest accrued	-	67,610	17,113	-	-	-	84,723
Dividend receivable	-	-	-	-	-	-	-
Prepayments / advance deposits / other receivable	-	-	6,293	-	-	-	6,293
	-	67,610	23,406	-	-	-	91,016
Borrowings							
Opening balance	-	-	-	-	-	-	-
Borrowings during the year	8,823	-	-	-	-	-	8,823
Settled during the year	-	-	-	-	-	-	-
Closing balance	8,823	-	-	-	-	-	8,823
Deposits							
Opening balance	731,705	1,081,972	21,085,764	168,539	675,958	2,379,959	26,123,897
Received during the year	8,548,305	116,852,558	1,648,137,753	600,685	2,393,366	6,066,469	1,782,599,136
Withdrawn during the year	(8,883,954)	(116,961,890)	(1,652,996,495)	(605,350)	(2,338,149)	(4,784,822)	(1,786,570,660)
Closing balance	396,056	972,640	16,227,022	163,874	731,175	3,661,606	22,152,373
Other Liabilities							
Mark-up / return / interest payable	-	3,109	352,252	1,295	3,205	632,664	992,525
Management fee payable for technical and consultancy services *	115,344	-	-	-	-	-	115,344
Insurance & other payables	-	-	6,391	-	-	199,072	205,463
	115,344	3,109	358,643	1,295	3,205	831,736	1,313,332
Contingencies & commitments							
Transaction-related contingent liabilities	-	-	7,531,999	-	-	-	7,531,999
Trade-related contingent liabilities	-	-	1,999,428	-	-	-	1,999,428
Commitment against operating leases	-	11,144	-	-	-	-	11,144
	-	11,144	9,531,427	-	-	-	9,542,571

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

	2017						
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	Rupees in '000						
Balances with other banks							
In current accounts	172,044	–	53,133	–	–	–	225,177
Investments							
Opening balance	–	–	–	–	–	–	–
Investment made during the year	–	6,950,000	–	–	–	–	6,950,000
Investment redeemed / disposed off during the year	–	(5,000,000)	–	–	–	–	(5,000,000)
Closing balance	–	1,950,000	–	–	–	–	1,950,000
Advances							
Opening balance	–	10,937	3,184,499	144,644	–	–	3,340,080
Addition during the year	–	–	52,776,711	81,721	–	–	52,858,432
Repaid during the year	–	(10,937)	(54,258,678)	(53,780)	–	–	(54,323,395)
Closing balance	–	–	1,702,532	172,585	–	–	1,875,117
Other Assets							
Mark-up / return / interest accrued	–	15,415	5,960	–	–	–	21,375
Dividend receivable	–	60,000	–	–	–	–	60,000
Prepayments / advance deposits / other receivable	–	–	8,388	–	–	–	8,388
	–	75,415	14,348	–	–	–	89,763
Deposits							
Opening balance	503,799	444,329	19,998,916	129,686	538,535	1,666,278	23,281,543
Received during the year	15,941,979	90,144,382	1,579,009,758	689,483	3,844,414	2,089,157	1,691,719,173
Withdrawn during the year	(15,714,073)	(89,506,739)	(1,577,922,910)	(650,630)	(3,706,991)	(1,375,476)	(1,688,876,819)
Closing balance	731,705	1,081,972	21,085,764	168,539	675,958	2,379,959	26,123,897
Other Liabilities							
Markup / return / interest payable	–	3,879	282,402	3,808	2,162	542,823	835,074
Management fee payable for technical and consultancy services *	225,673	–	–	–	–	–	225,673
Insurance & other payables	–	–	2,929	–	–	197,679	200,608
	225,673	3,879	285,331	3,808	2,162	740,502	1,261,355
Contingencies & commitments							
Transaction-related contingent liabilities	–	–	6,604,326	–	–	–	6,604,326
Trade-related contingent liabilities	–	–	2,444,319	–	–	–	2,444,319
Commitment against operating leases	–	48,396	–	–	–	–	48,396
	–	48,396	9,048,645	–	–	–	9,097,041

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

Transactions during the year

	2018					
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans
	Rupees in '000					
Income						
Mark-up / return / interest earned	–	221,920	70,887	7,339	–	–
Fee and commission income	3,794	345	153,775	–	27	–
Dividend income	–	1,800	–	–	–	–
Rent income	5,616	5,075	–	–	–	–
Expense						
Mark-up / return / interest expensed	–	25,483	1,071,988	5,987	37,252	344,562
Commission / brokerage / bank charges paid	1,256	295	1,406	–	–	–
Salaries and allowances	–	–	–	392,946	–	–
Directors' fees	–	–	–	–	14,700	–
Charge to defined benefit plan	–	–	–	–	–	146,968
Contribution to defined contribution plan	–	–	–	–	–	178,825
Operating lease rentals / rent expenses	–	28,362	13,067	–	–	–
Insurance premium expense	–	–	17,077	–	–	–
Maintenance, electricity, stationery & entertainment expenses	–	–	69,489	–	–	–
Management fee expense for technical and consultancy services*	382,772	–	–	–	–	–
Donation	–	–	23,976	–	–	–
Professional / other charges	–	–	9,457	–	–	–

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

Transactions during the year

	2017					
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans
	Rupees in '000					
Income						
Mark-up / return / interest earned	–	78,846	70,622	7,415	–	–
Fee and commission income	5,343	210	190,721	–	231	–
Dividend income	–	60,000	–	–	–	–
Rent income	5,616	1,200	–	–	–	–
Expense						
Mark-up / return / interest expensed	–	16,581	1,152,278	9,624	21,002	203,851
Commission / brokerage / bank charges paid	1,303	248	1,049	–	–	–
Salaries and allowances	–	–	–	377,261	–	–
Directors' fees	–	–	–	–	10,327	–
Charge to defined benefit plan	–	–	–	–	–	136,520
Contribution to defined contribution plan	–	–	–	–	–	167,390
Operating lease rentals / rent expenses	–	32,299	12,072	–	–	–
Insurance premium expense	–	–	77,441	–	–	–
Maintenance, electricity, stationery & entertainment expenses	–	–	57,940	–	–	–
Management fee expense for technical and consultancy services*	261,171	–	–	–	–	–
Donation	–	–	30,920	–	–	–
Professional / other charges	–	–	257	–	–	–

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

41. CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

	2018	2017
	Rupees in '000	
Minimum Capital Requirement (MCR):		
Paid-up capital	10,478,315	10,478,315
Capital Adequacy Ratio (CAR):		
Eligible Common Equity Tier 1 (CET 1) Capital	34,037,880	39,030,070
Eligible Additional Tier 1 (ADT 1) Capital	-	-
Total Eligible Tier 1 Capital	34,037,880	39,030,070
Eligible Tier 2 Capital	976,755	850,678
Total Eligible Capital (Tier 1 + Tier 2)	35,014,635	39,880,748
Risk Weighted Assets (RWAs):		
Credit Risk	229,288,756	194,801,579
Market Risk	1,571,342	3,219,107
Operational Risk	36,087,611	33,958,026
Total	266,947,709	231,978,712
Common Equity Tier 1 capital adequacy ratio	12.75%	16.82%
Tier 1 capital adequacy ratio	12.75%	16.82%
Total capital adequacy ratio	13.12%	17.19%
Minimum capital requirements prescribed by SBP		
Common Equity Tier 1 Capital Adequacy ratio	6.00%	6.00%
Tier 1 Capital Adequacy Ratio	7.50%	7.50%
Total Capital Adequacy Ratio	11.90%	11.275%
Banks uses simple, maturity method and basic indicator approach for credit risk, market risk and operational risk exposures respectively in the capital adequacy calculation.		
Leverage Ratio (LR):		
Eligible Tier 1 Capital	34,037,880	39,030,070
Total Exposures	825,463,970	793,510,597
Leverage Ratio	4.12%	4.92%
Liquidity Coverage Ratio (LCR):		
Total High Quality Liquid Assets	317,763,854	301,679,059
Total Net Cash Outflow	125,849,179	96,644,645
Liquidity Coverage Ratio	252%	312%
Net Stable Funding Ratio (NSFR):		
Total Available Stable Funding	440,145,855	426,856,419
Total Required Stable Funding	216,434,904	167,236,892
Net Stable Funding Ratio	203%	255%

41.1 The full disclosure on the capital adequacy, leverage ratio & liquidity requirements as per SBP instructions issued from time to time are placed on the Bank's website. The link to the full disclosure is available at <http://www.habibmetro.com/financials/#basel-statements>

42. 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 systems and organization.

42.1 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. 229,288,756 thousand (2017: Rs. 194,801,579 thousand) as depicted in note 41.

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 resources 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 the management's judgement with respect to the borrower's character, activity, cash flow, capital structure, security, quality of management and delinquency. 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

	2018				
Exposures	JCR-VIS	PACRA	S & P	Fitch	Moody's
Corporate	✓	✓	–	–	–
Banks	✓	✓	✓	✓	✓
Sovereigns	–	–	–	–	–
SME's	✓	✓	–	–	–
Securitisation	–	–	–	–	–
Others	–	–	–	–	–

Credit Exposures subject to Standardised Approach

Exposures	Rating category	2018			2017		
		Amount outstanding	Deduction CRM	Net amount	Amount outstanding	Deduction CRM	Net amount
		Rupees in '000					
Corporate	1	28,561,091	455,860	28,105,231	15,658,351	1,054,176	14,604,175
	2	43,670,690	1,781,841	41,888,849	10,896,405	135,481	10,760,924
	3,4	7,009,370	–	7,009,370	1,481,014	–	1,481,014
Claims on banks with original maturity of 3 months or less		16,600,943	3,138,596	13,462,347	9,882,982	260,168	9,622,814
Retail		18,392,113	4,732,720	13,659,393	15,204,886	3,951,956	11,252,930
Public sector entities	1	4,892,198	261,074	4,631,124	9,598,961	59,425	9,539,536
	2,3	3,535,030	–	3,535,030	3,357,187	–	3,357,187
Others		429,927,319	13,273,000	416,654,319	481,925,960	11,468,000	470,457,960
Unrated		172,690,464	30,633,581	142,056,883	154,703,349	23,326,692	131,376,657

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, rated debt and equity 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.

Particulars of the Bank's significant on-balance sheet and off-balance sheet credit risk in various sectors are analysed as follows:

42.1.1 Lendings to financial institutions

Credit risk by public / private sector	Gross lendings		Non-performing		Provision held	
	2018	2017	2018	2017	2018	2017
	Rupees in '000					
Public / Government	–	3,567,915	–	–	–	–
Private	11,984,795	7,346,890	–	–	–	–
	<u>11,984,795</u>	<u>10,914,805</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

42.1.2 Investment in debt securities

Credit risk by industry sector	Gross investments		Non-performing		Provision held	
	2018	2017	2018	2017	2018	2017
	Rupees in '000					
Chemical and pharmaceuticals	9,500	38,300	9,500	38,300	9,500	38,300
Electronics and electrical appliances	21,138	21,138	21,138	21,138	21,138	21,138
Financial	8,898,206	6,401,892	–	7,702	–	7,702
Power (electricity), gas, water, sanitary	376,721	517,386	–	–	–	–
Textile	35,745	9,500	35,745	9,500	35,745	9,500
Transport, storage and communication	131,958	301,482	72,045	82,558	72,045	82,558
Others	335,609,487	386,809,111	–	–	–	–
	<u>345,082,755</u>	<u>394,098,809</u>	<u>138,428</u>	<u>159,198</u>	<u>138,428</u>	<u>159,198</u>

Credit risk by public / private sector	Gross investments		Non-performing		Provision held	
	2018	2017	2018	2017	2018	2017
	Rupees in '000					
Public / Government	335,109,489	386,809,111	–	–	–	–
Private	9,973,266	7,289,698	138,428	159,198	138,428	159,198
	<u>345,082,755</u>	<u>394,098,809</u>	<u>138,428</u>	<u>159,198</u>	<u>138,428</u>	<u>159,198</u>

42.1.3 Advances

Credit risk by industry sector	Gross Advances		Non-performing		Provision held	
	2018	2017	2018	2017	2018	2017
	Rupees in '000					
Agriculture, forestry, hunting and fishing	826,781	921,481	-	10,681	-	1,756
Automobile and transportation equipment	2,787,792	1,988,904	1,465,452	1,507,153	1,465,453	1,506,436
Cement	3,742,097	2,185,148	-	-	-	-
Chemicals and pharmaceuticals	15,965,385	7,746,238	377,061	332,746	353,910	306,773
Construction	1,897,330	2,353,647	68,424	124,088	37,126	64,412
Commodity finance	13,273,000	11,468,000	-	-	-	-
Electronics and electrical appliances	4,868,976	4,033,242	382,704	284,000	283,732	284,000
Exports / imports	5,224,836	3,943,570	287,550	139,497	245,451	19,918
Financial	2,552,337	3,401,067	-	-	-	-
Footwear and leather garments	1,038,309	794,423	26,250	29,077	12,130	13,930
Individuals	3,469,022	3,282,612	3,431	6,211	3,431	5,446
Mining and quarrying	367,826	150,835	-	-	-	-
Power (electricity), gas, water, sanitary	29,407,360	28,405,545	75,210	23,229	75,210	23,229
Services	3,899,296	7,424,429	98,947	90,033	69,662	56,766
Sugar	3,845,089	468,568	154,080	158,286	125,337	115,660
Textile	95,742,302	77,823,572	12,756,984	13,609,823	11,149,219	11,838,455
Transport, storage and communication	1,107,509	2,028,672	7,046	8,403	1,650	3,007
Wholesale and retail trade	10,549,552	7,199,496	107,721	363,015	41,214	289,984
Others	42,685,508	25,126,260	1,869,047	1,833,607	1,460,975	1,638,810
	<u>243,250,307</u>	<u>190,745,709</u>	<u>17,679,907</u>	<u>18,519,849</u>	<u>15,324,500</u>	<u>16,168,582</u>

Credit risk by public / private sector	Gross advances		Non-performing		Provision held	
	2018	2017	2018	2017	2018	2017
	Rupees in '000					
Public / Government	28,395,765	26,223,053	-	-	-	-
Private	<u>214,854,542</u>	<u>164,522,656</u>	<u>17,679,907</u>	<u>18,519,849</u>	<u>15,324,500</u>	<u>16,168,582</u>
	<u>243,250,307</u>	<u>190,745,709</u>	<u>17,679,907</u>	<u>18,519,849</u>	<u>15,324,500</u>	<u>16,168,582</u>

	2018	2017
	Rupees in '000	
42.1.4 Contingencies and Commitments		
Credit risk by industry sector		
Agriculture, forestry, hunting and fishing	152,415	78,051
Automobile and transportation equipment	11,789,800	9,992,416
Cement	5,131,148	3,609,032
Chemicals and pharmaceuticals	11,722,057	10,218,154
Construction	1,660,021	875,421
Electronics and electrical appliances	7,501,362	4,223,587
Exports / imports	5,651,416	3,977,390
Financial	213,052,776	113,118,944
Footwear and leather garments	314,864	693,455
Individuals	684,746	244,296
Insurance	790	—
Mining and quarrying	6,501	9,160,570
Power (electricity), gas, water, sanitary	16,031,212	9,726,042
Services	2,651,142	9,264,606
Sugar	2,993,560	908,579
Textile	65,037,753	54,211,304
Transport, storage and communication	2,560,943	2,826,192
Wholesale and retail trade	14,619,974	14,267,474
Others	38,877,349	25,171,466
	<u>400,439,829</u>	<u>272,566,979</u>
Credit risk by public / private sector		
Public / Government	68,986,829	36,305,861
Private	331,453,000	236,261,118
	<u>400,439,829</u>	<u>272,566,979</u>

42.1.5 Concentration of Advances

The bank top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs. 97,831,714 thousand (2017: 86,249,260 thousand) are as following:

Funded	58,714,302	49,446,828
Non funded	39,116,872	36,802,432
Total exposure	<u>97,831,174</u>	<u>86,249,260</u>

The sanctioned limits against these top 10 exposures aggregated to Rs 120,069,000 thousand (2017: 108,893,483 thousand).

For the purpose of this note, exposure means outstanding funded facilities and utilised non-funded facilities as at the reporting date. The above exposure does not have any non performing portfolio.

42.1.6 Advances - Province / Region-wise Disbursement & Utilization

Province / Region	2018						
	Disburse-ments	Utilization					
		Punjab	Sindh	KPK including FATA	Baluchistan	Islamabad	AJK including Gilgit-Baltistan
	Rupees in '000						
Punjab	93,309,265	88,226,908	4,678,501	–	–	403,856	–
Sindh	147,212,088	5,050,381	134,964,608	383,205	6,813,894	–	–
KPK including FATA	489,290	–	–	489,290	–	–	–
Balochistan	14,097	–	–	–	14,097	–	–
Islamabad	1,900,557	15,473	–	–	–	1,885,084	–
AJK including Gilgit-Baltistan	325,010	–	–	–	–	–	325,010
Total	243,250,307	93,292,762	139,643,109	872,495	6,827,991	2,288,940	325,010

Province / Region	2017						
	Disburse-ments	Utilization					
		Punjab	Sindh	KPK including FATA	Baluchistan	Islamabad	AJK including Gilgit-Baltistan
	Rupees in '000						
Punjab	64,729,465	62,148,719	2,265,688	–	–	315,058	–
Sindh	123,983,476	4,520,318	113,472,021	386,834	5,604,303	–	–
KPK including FATA	452,797	–	–	452,797	–	–	–
Balochistan	13,375	–	–	–	13,375	–	–
Islamabad	1,384,114	14,773	–	–	–	1,369,341	–
AJK including Gilgit-Baltistan	182,482	–	–	–	–	–	182,482
Total	190,745,709	66,683,810	115,737,709	839,631	5,617,678	1,684,399	182,482

42.2 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 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.

42.2.1 Balance sheet split by trading and banking books

	2018			2017		
	Banking book	Trading book	Total	Banking book	Trading book	Total
	Rupees in '000					
Cash and balances with treasury banks	48,177,009	–	48,177,009	42,281,977	–	42,281,977
Balances with other banks	1,115,557	–	1,115,557	1,100,929	–	1,100,929
Lendings to financial institutions	11,984,795	–	11,984,795	10,914,805	–	10,914,805
Investments	346,665,904	–	346,665,904	396,636,990	–	396,636,990
Advances	226,689,617	–	226,689,617	174,319,286	–	174,319,286
Fixed assets	3,899,579	–	3,899,579	3,131,575	–	3,131,575
Intangible assets	121,442	–	121,442	224,287	–	224,287
Deferred tax assets	5,821,182	–	5,821,182	2,835,318	–	2,835,318
Other assets	28,920,696	–	28,920,696	29,220,604	–	29,220,604
	<u>673,395,781</u>	<u>–</u>	<u>673,395,781</u>	<u>660,665,771</u>	<u>–</u>	<u>660,665,771</u>

42.2.2 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 customers' trade transactions. 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.

	2018				2017			
	Foreign Currency Assets	Foreign Currency Liabilities	Off-balance Sheet Items	Net Foreign Currency Exposure	Foreign Currency Assets	Foreign Currency Liabilities	Off-balance Sheet Items	Net Foreign Currency Exposure
	Rupees in '000							
United States Dollar	45,177,404	(83,580,308)	39,013,190	610,286	44,463,953	(74,102,310)	30,028,086	389,729
Euro	2,932,784	(2,176,460)	(771,956)	(15,632)	2,392,602	(2,180,402)	(221,678)	(9,478)
Great Britain Pound	596,369	(5,436,274)	4,844,252	4,347	535,394	(4,267,095)	3,725,676	(6,025)
Asian Currency Unit	1,352,010	(1,632,650)	–	(280,640)	447,339	(743,499)	–	(296,160)
Japanese Yen	32,035	(575)	(20,170)	11,290	14,885	(48,123)	39,722	6,484
Arab Emirates Dirham	23,481	(8,869)	(7,561)	7,051	62,042	(18)	(51,102)	10,922
Canadian Dollar	10,848	–	–	10,848	–	(4,299)	8,410	4,111
Australian Dollar	4,062	–	–	4,062	4,675	–	–	4,675
Saudi Riyal	1,337	–	–	1,337	3,344	–	–	3,344
Other Currencies	34,978	(25,504)	11,135	20,609	34,869	(12,517)	–	22,352
	<u>50,165,308</u>	<u>(92,860,640)</u>	<u>43,068,890</u>	<u>373,558</u>	<u>47,959,103</u>	<u>(81,358,263)</u>	<u>33,529,114</u>	<u>129,954</u>

	2018		2017	
	Banking Book	Trading Book	Banking Book	Trading Book
	Rupees in '000			
Impact of 1% change in foreign exchange rates on				
- Profit and loss account	3,736	-	1,300	-
- Other comprehensive income	-	-	-	-

42.2.3 Equity Position Risk

Equity position risk arises due to adverse movements in equity prices. The Bank's policy is to take equity position in high dividend yield scrips. The bank as a policy does not enter into any kind of proprietary equity trades. Equity position risk of the Bank is mitigated through portfolio and scrip limits advised by the BoD and are reviewed by the ALCO. The investment in equities and mutual funds is also managed within the statutory limits as prescribed by the SBP.

	2018		2017	
	Banking Book	Trading Book	Banking Book	Trading Book
	Rupees in '000			
Impact of 5% change in equity prices on				
- Profit and loss account	(8,729)	-	(8,822)	-
- Other comprehensive income	(18,855)	-	(18,931)	-

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	Non-interest bearing financial instruments
Rupees in '000										
On-balance sheet financial instruments										
Assets										
Cash and balances with treasury banks	42,281,977	11,196,194	-	-	-	-	-	-	-	31,085,783
Balances with other banks	1,100,929	89,702	-	-	-	-	-	-	-	1,011,227
Lendings to financial institutions	10,914,805	7,346,890	-	3,567,915	-	-	-	-	-	-
Investments	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
Advances	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	-
Other assets	26,862,335	-	-	-	-	-	-	-	-	26,862,335
	652,116,322	65,433,814	304,962,447	28,799,657	14,361,322	39,052,945	23,382,299	92,299,575	19,689,602	62,034,902
Liabilities										
Bills payable	19,643,603	-	-	-	-	-	-	-	-	19,643,603
Borrowings	64,038,646	31,200,060	18,055,771	7,600,346	313,350	749,429	757,956	1,005,225	971,213	2,166,714
Deposits and other accounts	508,103,951	117,644,695	89,900,481	120,292,184	29,536,880	1,659,105	3,366,492	2,965,533	-	142,738,581
Other liabilities	26,250,865	-	-	-	-	-	-	-	-	26,250,865
	618,037,065	148,844,755	107,956,252	127,892,530	29,850,230	2,408,534	4,124,448	3,970,758	971,213	190,799,763
On-balance sheet gap	34,079,257	(83,410,941)	197,006,195	(99,092,873)	(15,488,908)	36,644,411	19,257,851	88,328,817	1,128,546	(128,764,861)
Off-balance sheet financial instruments										
Forward foreign exchange contracts	127,287,676	-	-	-	-	-	-	-	-	127,287,676
Commitments against syndicate financing	207,279	-	-	-	-	-	-	-	-	207,279
Commitments in respect of letters of credit	79,477,866	-	-	-	-	-	-	-	-	79,477,866
Commitments in respect of operating leases	148,352	-	-	-	-	-	-	-	-	148,352
Commitments against acquisition of fixed assets	25,281	-	-	-	-	-	-	-	-	25,281
Off-balance sheet gap	207,146,454	-	-	-	-	-	-	-	-	207,146,454
Total yield / interest risk sensitivity gap	241,225,711	(83,410,941)	197,006,195	(99,092,873)	(15,488,908)	36,644,411	19,257,851	88,328,817	18,471,020	78,381,593
Cumulative yield / interest risk sensitivity gap	241,225,711	(83,410,941)	113,595,254	14,502,381	(986,527)	35,657,884	54,915,735	143,244,552	161,715,572	241,225,711

Reconciliation of assets and liabilities exposed to yield / interest rate risk with total assets and liabilities

	2018	2017	2018	2017
	Rupees in '000		Rupees in '000	
Reconciliation to total assets			Reconciliation to total liabilities	
Total financial assets	662,006,431	652,116,322	Total financial liabilities	633,883,649
Add: Non financial assets			Add: Non financial liabilities	
Fixed assets	3,899,579	3,131,575	Other liabilities	2,130,451
Intangible assets	121,442	224,287		
Deferred tax asset	5,821,182	2,835,318		
Other assets	1,547,147	2,358,269		
	11,389,350	8,549,449		
Balance as per statement of financial position	673,395,781	660,665,771	Balance as per statement of financial position	636,393,825
				620,167,516

42.3 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 – II, 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. 2,887,009 thousand (2017: Rs. 2,716,642 thousand).

42.4 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 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. Board and senior management are apprised of 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 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 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 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 conditions. 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.

42.4.1 Maturities of assets and liabilities - based on contractual maturity of assets and liabilities of the Bank

2018

Rupees in '000														
		Over 1 day to 7 days	Over 7 days to 14 days	Over 14 days to 1 month	Over 1 month to 2 months	Over 2 months to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 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	
Total	Upto 1 day													
Assets														
Cash and balances with treasury banks	48,177,009	48,177,009	-	-	-	-	-	-	-	-	-	-	-	
Balances with other banks	1,115,557	1,115,557	-	-	-	-	-	-	-	-	-	-	-	
Lendings to financial institutions	11,984,795	-	6,684,795	-	5,300,000	-	-	-	-	-	-	-	-	
Investments	346,665,904	753,146	46,468,926	864,998	134,017,278	12,257,967	15,784,744	6,377,758	1,442,477	21,463,610	49,538,134	37,608,493	19,988,373	
Advances	226,689,617	48,066,966	2,556,078	15,000,359	31,723,947	44,942,665	38,760,699	1,281,001	18,238,635	4,617,391	4,985,495	6,860,120	6,897,571	
Fixed assets	3,899,579	7,099	42,592	120,676	77,599	77,599	232,797	232,797	232,797	1,071,078	177,720	318,316	1,258,818	
Intangible assets	121,442	357	2,140	6,064	11,058	11,058	33,174	27,547	27,547	-	-	-	-	
Deferred tax assets	5,821,182	44,762	268,571	760,951	1,113,387	1,113,387	602,891	95,750	95,751	210,912	502,968	412,317	286,202	
Other assets	28,920,696	553,918	3,323,512	9,416,620	3,841,762	3,841,762	1,476,088	879,569	879,570	636,289	12,714	13,134	168,327	
	673,395,781	98,718,814	59,346,614	26,169,668	176,085,031	62,244,438	56,890,393	8,894,422	20,916,777	27,999,280	55,217,031	45,212,380	28,599,291	
Liabilities														
Bills payable	12,173,407	12,173,407	-	-	-	-	-	-	-	-	-	-	-	
Borrowings	51,347,381	3,251,645	3,906,449	173,411	23,523,728	3,182,895	6,166,610	200,314	282,003	1,018,273	813,925	1,545,692	3,352,858	
Deposits and other accounts	543,577,510	320,114,058	19,350,473	61,432,474	16,962,924	34,119,064	42,180,717	6,930,212	15,246,180	3,343,132	2,369,124	3,070,197	-	
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-	-	
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other liabilities	29,295,527	557,007	3,342,040	9,469,112	3,695,749	3,695,749	1,484,145	742,329	742,329	490,496	5,143	764,445	407,936	
	636,393,825	336,096,117	26,598,962	74,831,164	44,182,401	40,997,708	49,831,472	7,872,855	16,270,512	4,851,901	3,188,192	5,380,334	3,760,794	
Net assets														
	37,001,956	(237,377,303)	32,747,652	(48,661,496)	131,902,630	21,246,730	7,058,921	1,021,567	4,646,265	23,147,379	52,028,839	39,832,046	24,838,497	
Share capital	10,478,315													
Reserves	16,267,793													
Deficit on revaluation of assets	(5,573,656)													
Unappropriated profit	15,829,504													
	37,001,956													

42.4.2 Maturities of assets and liabilities - based on expected maturities of the assets and liabilities of the Bank

2018

		Rupees in '000								
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	
Assets										
Cash and balances with treasury banks	48,177,009	-	-	-	-	-	-	-	-	
Balances with other banks	1,115,557	-	-	-	-	-	-	-	-	
Lendings to financial institutions	11,984,795	5,300,000	-	-	-	-	-	-	-	
Investments	346,665,904	48,187,070	15,784,744	7,820,235	21,463,610	49,538,134	37,608,493	19,158,373	830,000	
Advances	226,689,617	68,382,093	38,760,699	19,519,636	4,617,391	4,985,495	6,860,120	5,062,531	1,835,040	
Fixed assets	3,899,579	220,058	232,797	465,594	1,071,078	177,720	318,316	577,620	681,198	
Intangible assets	121,442	11,058	33,174	55,094	-	-	-	-	-	
Deferred tax assets	5,821,182	1,387,617	602,891	191,501	210,912	502,968	412,317	284,370	1,832	
Other assets	28,920,696	17,171,481	1,476,088	1,759,139	636,289	12,714	13,134	13,457	154,870	
	673,395,781	191,336,738	56,890,393	29,811,199	27,999,280	55,217,031	45,212,380	25,096,351	3,502,940	
Liabilities										
Bills payable	12,173,407	-	-	-	-	-	-	-	-	
Borrowings	51,347,381	26,706,623	6,166,610	482,317	1,018,273	813,925	1,545,692	3,119,858	233,000	
Deposits and other accounts	543,577,510	83,155,052	202,546,059	70,285,997	51,452,737	2,369,174	3,070,148	-	-	
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	
Other liabilities	29,295,527	7,391,498	1,484,145	1,484,658	490,496	5,143	764,445	407,936	-	
	636,393,825	117,253,173	210,196,814	72,252,972	52,961,506	3,188,242	5,380,285	3,527,794	233,000	
Net assets	37,001,956	121,076,296	(153,306,421)	(42,441,773)	(24,962,226)	52,028,789	39,832,095	21,568,557	3,269,940	
Share capital	10,478,315									
Reserves	16,267,793									
Deficit on revaluation of assets	(5,573,656)									
Unappropriated profit	15,829,504									
	37,001,956									

Assets

43. GENERAL

43.1 Captions, as prescribed by BPRD Circular No.2 of 2018 issued by the SBP, in respect of which there are no amounts, have not been reproduced in these financial statements, except for captions of the statement of financial position and profit and loss account.

43.2 Non adjusting event after statement of financial position date

The Board of Directors in its meeting held on 21 February 2019 has proposed a final cash dividend of Rs. 2.00 per share amounting to Rs. 2,095,663 thousand (2017: 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.

43.3 Corresponding figures

Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements wherever necessary to facilitate comparison and better presentation in accordance with the new format prescribed by State Bank of Pakistan vide BPRD circular no. 2 of 2018.

44. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 21 February 2019 by the Board of Directors of the Bank.

FUZAIL ABBAS
Chief Financial Officer

MOHSIN A. NATHANI
President &
Chief Executive Officer

TARIQ IKRAM
Director

SOHAIL HASSAN
Director

MOHAMEDALI R. HABIB
Chairman

ANNEXURE "I" AS REFERRED TO IN NOTE 10.6 OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF RS. 500,000/- OR ABOVE
PROVIDED DURING THE YEAR ENDED 31 DECEMBER 2018

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 waived	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											
1	A.T. Fabrics P-127-B, Digranwan Road, Sammundri Road, Faisalabad.	Muhammad Arif Suria 33100-2727239-1 Muhammad Aslam Perdesi 42101-6511114-9 Muhammad Tariq Perdesi 42201-7143335-5 Anis Perdesi 42201-9855361-1	Abdullah Suria Haji Ismail Perdesi Haji Ismail Perdesi Haji Ismail Perdesi	135,929	127,548	-	263,477	108,457	126,630	-	235,087
2	Ventex Industries No. 6, Block 7/8, Lal Muhammad Chaudhry Road, K.M.C.H.S, Karachi.	Muhammad Irfan Suria 42201-0646865-9 Usman Arif Suria 33100-1842079-7	Abdullah Suria Muhammad Arif Suria	316	58,326	-	58,642	-	58,326	-	58,326
3	Aman Trading Links (Pvt) Ltd SA-22, 1st Floor, Shahnaz Arcade, Shaheed-e-Millat Road, Karachi.	Muhammad Noman Sagal 42201-0487763-5 Aamir Sagal 42201-0608958-9	Muhammad Mushtaq Sagal Muhammad Mushtaq Sagal	9,529	1,051	3,049	13,629	-	-	2,629	2,629
4	Shabbir & Master Sanitary Ware Room No. 709, 7th Floor, Trade Tower, Abdullah Haroon Road, Karachi.	Hina Qureshi 42301-8266671-4	Salman Qureshi	309	1,321	-	1,630	-	978	-	978
5	AFN Enterprises 63/II, Lane-15, Khayaban-e-Badban, Phase-VII, DHA, Karachi.	Athar Farooq Nizami 42301-7098186-7	Muzafar Farooq Nizami	308,917	12,805	-	321,722	-	10,173	-	10,173

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 waived	Other financial relief provided	Total
				Principal	Interest / mark-up	Others	Total				
1	2	3	4	Rupees in '000				9	10	11	12
6	Datari International Mezzanine Floor, Suleman Arcade, 11 B.M.C.H.S., Jamal Uddin Afghani Road, Karachi.	Muhammad Amin 42101-4806991-3	Abdul Ghaffar	69,827	12,178	-	82,005	-	10,630	-	10,630
7	Magna Steel 19, Banglore Town, Block 7/8, KCHS, Karachi	Muhammad Tariq Iqbal Mughal 35201-9057040-1 Abdul Ghani Dada 42401-0336246-7	Bahir Ahmed Mughal Haji Abdul Ghaffar Dada	34,500	4,834	-	39,334	-	4,360	20,288	24,648
8	Shahi Textiles L-25C/22, Federal F. Area, Karachi.	Muhammad Muzzamil Hussain 42201-0254722-1 Syed Ali Ahmed 42101-1493421-7 Naseem Ahmed 42000-0409535-9	Abdul Majeed Syed Aziz Ahmed Syed Aziz Ahmed	331,200	91,824	-	423,024	181,200	91,824	-	273,024
9	Asher Emmanuel House No.143/5, Mouza Humak, Tehsil & District Islamabad.	Asher Emmanuel 37405-0599878-1	Emmanuel N. Din	1,704	175	-	1,879	-	147	-	147
10	Be Be Jan Pakistan Ltd Chak 204/RB, Faisalabad.	Ayesha Saqib 33100-5236356-6 Mariam Saqib 33100-7133377-2 Usman Ehsan Elahi 33100-8910218-1	Saqib Elahi Saqib Elahi Saqib Elahi	59,449	28,174	-	87,623	-	27,815	-	27,815

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 waived	Other financial relief provided	Total
				Principal	Interest / mark-up	Others	Total				
				5	6	7	8	9	10	11	12
1	2	3	4	Rupees in '000							
11	Dar Expo House No.14/485, Haji Pura, Daska Road, Sialkot.	Ejaz Ahmed Dar 34603-2109715-5 Basharat Ejaz Dar 34603-2053790-0 Zuman Ejaz Dar 34603-2110358-7 Fahad Dar 34603-2109714-7 Aswad Dar 34603-2109705-3	Inayat Ullah Ejaz Ahmed Dar Ejaz Ahmed Dar Ejaz Ahmed Dar Ejaz Ahmed Dar	5,994	1,942	-	7,936	-	1,575	-	1,575
12	Modern Auto Paint House No.21/16, Ahatta Sohna Mahal, Abid Majeed Road, Lahore.	Tariq Javed 35201-7312346-3	Muhammad Ameen	3,007	67	586	3,660	-	67	586	653
13	Ruby Textile Mills Ltd 35-Industrial Area, Gulberg-III, Lahore.	Noor Elahi 35202-2751024-3 Parveen Elahi 35202-2601430-6 Naheed Javed 35202-2462576-0	Haji Muhammad Hussain Noor Elahi Javed Usman	157,884	10,450	63,386	231,720	7,887	10,450	63,386	81,723
14	Subhan Knitwear House No.26-B, Nishat Colony, Lahore.	Syed Hassan Masood Zaidi 35201-4229618-9	Syed Hassan Zaidi	121,698	24,742	-	146,440	-	21,822	-	21,822
				1,240,263	375,437	67,021	1,682,721	297,544	364,797	86,889	749,230

Annexure - II

ISLAMIC BANKING BUSINESS

The bank is operating 31 (2017: 29) Islamic banking branches and 216 (2017: 212) Islamic banking windows at the end of the year.

	Note	2018 Rupees in '000	2017
ASSETS			
Cash and balances with treasury banks		3,340,608	2,540,250
Balances with other banks		—	—
Due from financial institutions	1	1,000,000	7,567,915
Investments	2	21,312,705	28,340,952
Islamic financing and related assets - net	3	17,715,168	13,872,126
Fixed assets		82,121	107,070
Intangible assets		—	—
Due from Head Office	4	1,056,134	594,016
Other assets		1,605,849	1,319,599
		<u>46,112,585</u>	<u>54,341,928</u>
LIABILITIES			
Bills payable		657,934	658,486
Due to financial institutions		1,864,574	1,850,668
Deposits and other accounts	5	38,684,214	48,306,291
Due to Head Office		—	—
Subordinated debt		—	—
Other liabilities	6	1,473,908	1,077,778
		<u>42,680,630</u>	<u>51,893,223</u>
NET ASSETS		<u>3,431,955</u>	<u>2,448,705</u>
REPRESENTED BY			
Islamic Banking Fund		3,003,472	2,002,760
Reserves		—	—
(Deficit) / surplus on revaluation of assets		(17,981)	162,887
Unappropriated profit	7	446,464	283,058
		<u>3,431,955</u>	<u>2,448,705</u>
CONTINGENCIES AND COMMITMENTS	8		

The profit and loss account of the Bank's Islamic banking branches for the year ended 31 December 2018 is as follows:

	Note	2018 Rupees in '000	2017 (Restated) Rupees in '000
Profit / return earned	9	2,690,429	2,543,055
Profit / return expensed	10	(1,777,470)	(1,865,993)
Net Profit / return		912,959	677,062
Other income			
Fee and commission income		131,603	90,112
Dividend income		—	—
Foreign exchange income		33,780	20,830
Income / (loss) from derivatives		—	—
Gain / (loss) on securities		(156)	17,594
Other income		17,513	12,573
Total other income		182,740	141,109
Total Income		1,095,699	818,171
Other expenses			
Operating expenses		615,528	518,109
Workers' welfare fund		—	—
Other charges		2,087	2,803
Total other expenses		617,615	520,912
Profit before provisions		478,084	297,259
Provisions and write offs - net		(31,620)	(14,201)
Profit before taxation		446,464	283,058

1. Due from Financial institutions

	2018			2017		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
	Rupees in '000					
Unsecured						
Musharikah	1,000,000	—	1,000,000	4,000,000	—	4,000,000
Bai muajjal receivable from State Bank of Pakistan	—	—	—	3,567,915	—	3,567,915
	1,000,000	—	1,000,000	7,567,915	—	7,567,915

2. Investments by segments:

	2018				2017			
	Cost / Amortised cost	Provision for diminution	Surplus / (Deficit)	Carrying Value	Cost / Amortised cost	Provision for diminution	Surplus / (Deficit)	Carrying Value
	Rupees in '000							
Federal government securities								
– Ijarah sukuk	11,313,145	–	(26,794)	11,286,351	25,445,379	–	152,056	25,597,435
– Bai mujjal	3,608,688	–	–	3,608,688	–	–	–	–
	<u>14,921,833</u>	<u>–</u>	<u>(26,794)</u>	<u>14,895,039</u>	<u>25,445,379</u>	<u>–</u>	<u>152,056</u>	<u>25,597,435</u>
Non-government debt securities								
– Listed	5,537,142	–	3,805	5,540,947	2,226,190	–	(60)	2,226,130
– Unlisted	871,711	–	5,008	876,719	506,496	–	10,891	517,387
	<u>6,408,853</u>	<u>–</u>	<u>8,813</u>	<u>6,417,666</u>	<u>2,732,686</u>	<u>–</u>	<u>10,831</u>	<u>2,743,517</u>
Total investments	<u>21,330,686</u>	<u>–</u>	<u>(17,981)</u>	<u>21,312,705</u>	<u>28,178,065</u>	<u>–</u>	<u>162,887</u>	<u>28,340,952</u>

	Note	2018	2017
		Rupees in '000	

3. Islamic financing and related assets - net

Ijarah	3.1	398,097	411,111
Murabaha	3.2	5,906,879	4,222,517
Working capital musharaka		2,533,380	1,401,000
Diminishing musharaka		3,532,275	4,640,036
Istisna		1,029,204	408,907
Export refinance murabaha		497,902	628,017
Export refinance istisna		923,713	650,000
Al-Bai financing		316,194	13,104
Advances against:			
Ijarah		123,988	114,290
Murabaha	3.2	349,302	300,727
Diminishing musharaka		596,470	324,624
Istisna		1,064,759	364,896
Export refinance murabaha		127,507	6,880
Export refinance istisna		326,288	600,000
Inventory related to			
Al-Bai goods		240,116	172,892
Istisna goods		167,589	–
Gross islamic financing and related assets		<u>18,133,663</u>	<u>14,259,001</u>
Provision against non-performing islamic financings		<u>(418,495)</u>	<u>(386,875)</u>
Islamic financing and related assets - net of provision		<u>17,715,168</u>	<u>13,872,126</u>

3.1 Ijarah

	2018						
	Cost			Accumulated Depreciation			Book value
	As at Jan 01, 2018	Additions / (deletions)	As at Dec 31, 2018	As at Jan 01, 2018	Charge for the year/ (deletions)	As at Dec 31, 2018	as at 31 Dec 2018
	Rupees in '000						
Plant & machinery	366,538	29,297 (11,800)	384,035	97,574	78,140 (11,369)	164,345	219,690
Vehicles	183,274	121,565 (37,933)	266,906	41,127	73,395 (26,023)	88,499	178,407
Total	549,812	101,129	650,941	138,701	114,143	252,844	398,097

	2017						
	Cost			Accumulated Depreciation			Book value
	As at Jan 01, 2017	Additions / (deletions)	As at Dec 31, 2017	As at Jan 01, 2017	Charge for the year/ (deletions)	As at Dec 31, 2017	as at 31 Dec 2017
	Rupees in '000						
Plant & machinery	272,590	132,383 (38,435)	366,538	68,545	63,325 (34,296)	97,574	268,964
Vehicles	94,702	125,459 (36,887)	183,274	47,242	26,201 (32,316)	41,127	142,147
Total	367,292	182,520	549,812	115,787	22,914	138,701	411,111

3.1.1 Future Ijarah payments receivable

	2018				2017			
	Not later than 1 year	Later than 1 year & less than 5 years	Over Five years	Total	Not later than 1 year	Later than 1 year & less than 5 years	Over Five years	Total
	Rupees in '000							
Ijarah rental receivables	<u>208,308</u>	<u>290,883</u>	<u>698</u>	<u>499,889</u>	23,101	497,270	2,620	522,990

Note **2018** **2017**
 ————— Rupees in '000 —————

3.2 Murabaha

Murabaha financing	3.2.1	<u>5,906,879</u>	4,222,517
Advances against murabaha		<u>349,302</u>	300,727
		<u>6,256,181</u>	<u>4,523,244</u>
3.2.1 Murabaha receivable - gross	3.2.2	<u>6,104,861</u>	4,348,615
Less: Deferred murabaha income	3.2.4	<u>(111,346)</u>	(72,516)
Profit receivable shown in other assets		<u>(86,636)</u>	(53,582)
Murabaha financings		<u>5,906,879</u>	<u>4,222,517</u>

	Note	2018	2017
		Rupees in '000	
3.2.2 The movement in murabaha financing during the year is as follows:			
Opening balance		4,348,615	4,257,444
Sales during the year		13,402,157	11,386,507
Adjusted during the year		(11,645,911)	(11,295,336)
Closing balance		6,104,861	4,348,615
3.2.3 Murabaha sale price		13,402,157	11,386,507
Murabaha purchase price		(13,020,273)	(11,141,504)
		381,884	245,003
3.2.4 Deferred murabaha income			
Opening balance		72,516	125,682
Arising during the year		381,884	245,003
Less: Recognised during the year		(343,054)	(298,169)
Closing balance		111,346	72,516

4. Due from Head Office

Inter-branch transactions are made on qard basis.

5. Deposits

	2018			2017		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
	Rupees in '000					
Customers						
Current deposits	7,495,475	868,171	8,363,646	7,815,816	512,198	8,328,014
Saving deposits	17,668,850	618,605	18,287,455	13,103,187	494,755	13,597,942
Term deposits	10,608,516	226,122	10,834,638	16,917,715	205,846	17,123,561
	35,772,841	1,712,898	37,485,739	37,836,719	1,212,798	39,049,517
Financial institutions						
Current deposits	2,054	—	2,054	152,223	—	152,223
Saving deposits	756,421	—	756,421	1,349,551	—	1,349,551
Term deposits	440,000	—	440,000	7,755,000	—	7,755,000
	1,198,475	—	1,198,475	9,256,774	—	9,256,774
	36,971,316	1,712,898	38,684,214	47,093,493	1,212,798	48,306,291

	2018	2017
	Rupees in '000	
5.1 Composition of deposits		
– Individuals	20,518,813	15,355,777
– Government / Public Sector Entities	354,537	660,074
– Banking Companies	1,510	5,701,765
– Non-Banking Financial Institutions	1,263,776	3,555,009
– Private Sector	16,545,578	23,033,666
	<u>38,684,214</u>	<u>48,306,291</u>

5.2 Particulars of deposits and other accounts

– In local currency	36,971,316	47,093,493
– In foreign currencies	1,712,898	1,212,798
	<u>38,684,214</u>	<u>48,306,291</u>

5.3 This includes eligible deposits of Rs. 23,571,221 thousand which are covered under deposit protection mechanism as required by the Deposit Protection Corporation circular no. 4 of 2018.

6. It includes charity fund, details of which are given below:

Charity fund

Opening balance	479	327
Additions during the period		
Received from customers on account of delayed payment	241	152
Other non-shariah compliant income	50	–
	<u>291</u>	<u>152</u>
Payments / utilization during the period		
Education	(120)	–
Health	(359)	–
	<u>(479)</u>	<u>–</u>
Closing balance	<u>291</u>	<u>479</u>

Details of charity where amounts exceeds Rs 100,000 is as follows:

The Citizen Foundation	120	–
Afzaal Memorial Thalassemia Foundation	120	–
Anjuman Behbood-e-Samat-e-Atfal	120	–
Shaukat Khanum Memorial Trust	119	–
	<u>479</u>	<u>–</u>

	2018	2017
	Rupees in '000	
7. Unappropriated profit		
Opening balance	283,058	191,936
Add: Islamic banking profit for the period	446,464	283,058
Less: Transferred to head office	(283,058)	(191,936)
Closing balance	<u>446,464</u>	<u>283,058</u>
8. Contingencies and commitments		
Guarantees	1,893,613	721,369
Commitments	<u>3,362,786</u>	<u>3,787,388</u>
	<u>5,256,399</u>	<u>4,508,757</u>
9. Profit / return earned of financing, investments and placement		
Profit earned on:		
Financing	1,132,798	790,769
Investments	1,377,339	1,482,777
Due from financial institutions	<u>180,292</u>	<u>269,509</u>
	<u>2,690,429</u>	<u>2,543,055</u>
10. Profit on deposits and other dues expensed		
Deposits and other accounts	1,742,222	1,839,296
Due to financial institutions	<u>35,248</u>	<u>26,697</u>
	<u>1,777,470</u>	<u>1,865,993</u>
11. Pool management		
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 distributed to depositors as per pre agreed weightages.		
– Special pool		
Deposit accepted in special pools are based on modaraba. Profit 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.		

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

- Depositor 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.

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.

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

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

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

a) Profit allocation

	From 1 January 2018 to 31 December 2018	
	Local Currency	Foreign Currency
- Rabbul maal	77.61%	10%
- Mudarib	22.39%	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

Specific provision amounting to Rs. 31,620 thousand (2017: Rs. 14,201 thousand) has been made during the year 2018.

Mudarib share

	2018		2017	
	Rupees in '000	%	Rupees in '000	%
Rabbul maal	1,776,235	69.15	996,613	41.74
Mudarib	792,338	30.85	1,390,950	58.26
Distributable income	2,568,573	100.00	2,387,562	100.00

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

	2018	2017
	Rupees in '000	
Mudarib share	792,338	1,390,950
Hiba	49,235	382,825
	%	
Hiba percentage of mudarib share	6.21%	27.52%

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

	2018	2017
	%	
Profit rate earned	6.78	5.74
Profit rate distributed to depositors	4.23	4.26

PATTERN OF SHAREHOLDINGS

AS ON 31 DECEMBER 2018

Number of shareholders	Size of shareholding Rs. 10 each			Total shares held
330	1	to	100	8,368
332	101	to	500	111,601
241	501	to	1000	206,854
697	1001	to	5000	1,850,089
243	5001	to	10000	1,844,013
333	10001	to	15000	4,029,138
62	15001	to	20000	1,116,202
70	20001	to	25000	1,640,947
31	25001	to	30000	879,415
24	30001	to	35000	795,186
27	35001	to	40000	1,017,810
48	40001	to	50000	2,260,625
36	50001	to	60000	1,988,658
38	60001	to	80000	2,631,048
32	80001	to	100000	2,962,237
54	100001	to	150000	6,865,457
27	150001	to	200000	4,653,950
23	200001	to	250000	5,173,276
56	250001	to	500000	20,558,264
52	500001	to	1000000	36,331,308
12	1000001	to	1500000	13,626,584
10	1500001	to	2000000	16,231,092
17	2000001	to	3000000	39,393,669
6	3000001	to	4000000	21,106,596
13	4000001	to	10000000	76,791,816
9	10000001	to	52050000	249,363,223
1	534390001	to	534395000	534,394,054
2,824				1,047,831,480

COMBINED PATTERN OF SHAREHOLDINGS

AS ON 31 DECEMBER 2018

Categories of Shareholders	Number of Shareholders	Number of Shares held	(%)
Directors and their spouse(s) and minor children			
Mohamed Ali R. Habib	1	1,612,524	0.15
Ali S. Habib	1	1,510,994	0.14
Mohomed Bashir	1	16,340,985	1.56
Mohammad Hyder	1	2,069,454	0.20
Sohail Hasan	1	500	0.00
Tariq Ikram	1	600	0.00
Farah Fatimah	1	1,037,157	0.10
Syeda Mohamedali R. Habib	1	805,065	0.08
Munizeh Ali Habib	1	604,374	0.06
Mohsin Ali Nathani	1	667,000	0.06
Firasat Ali	1	500	0.00
Anjum Zahoor Iqbal	1	500	0.00
Associated Companies, undertakings and related parties			
Habib Bank AG. Zurich	1	534,394,054	51.00
Habib Insurance Company Limited	2	2,767,424	0.26
Executives	4	669,567	0.06
Public Sector Companies and Corporations	4	11,103,386	1.06
Banks, development finance institutions, non-banking finance companies, insurance companies, takaful, modarabas and pension funds	24	66,909,293	6.39
Mutual Funds			
CDC - Trustee AKD Index Tracker Fund	1	109,568	0.01
CDC - Trustee NIT - Equity Market Opportunity Fund	1	406,000	0.04
CDC - Trustee National Investment (Unit) Trust	1	41,605,107	3.97
CDC - Trustee ABL Stock Fund	1	644,000	0.06
CDC - Trustee NAFA Financial Sector Fund	1	650,500	0.06
CDC - Trustee NAFA Stock Fund	1	79,000	0.01
CDC - Trustee Faysal Stock Fund	1	12,000	0.00
CDC - Trustee Faysal Asset Allocation Fund	1	5,000	0.00
CDC - Trustee NAFA Savings Plus Fund - MT	1	18,000	0.00
CDC - Trustee First Habib Asset Allocation Fund	1	43,500	0.00

Categories of Shareholders	Number of Shareholders	Number of Shares held	(%)
General Public			
a. Local	2353	167,712,887	16.01
b. Foreign	253	3,053,133	0.29
Foreign Companies	31	107,871,426	10.29
Others	130	85,127,982	8.12
Total	2824	1,047,831,480	100.00

Shareholders holding 5% or more			
Habib Bank AG Zurich		534,394,054	51.00

TRADE IN THE SHARES BY EXECUTIVES *

NAME OF EXECUTIVE	Purchase	Sale
Mr. Fuzail Abbas	42,000	–
Mr. Asad Ali Aziz Dharamsey	–	3,000

* The expression “executives” means as key management which includes all executives of grade Executive Vice President and above including any other executive in direct reporting to CEO.

