



Consolidated Financial Statements 2018

Directors' Report on Consolidated Financial Statements

The Board of Directors present the report on the consolidated financial statements of MCB Bank Limited and its subsidiaries namely MCB-Arif Habib Savings & Investments Limited, MCB Financial Services Limited, MNET Services (Private) Limited, MCB Islamic Bank Limited, Financial & Management Services (Private) Limited and MCB Leasing Closed Joint Stock Company for the year ended December 31, 2018.

Profit and Appropriations

The profit before and after taxation for the year ended December 31, 2018 together with appropriations is as under:

(Rs. in Million)

Profit before taxation	30,806
Taxation	(10,391)
Profit after taxation	20,415
Profit attributable to non-controlling interest	(62)
Profit attributable to ordinary shareholders	20,353
Un-appropriated profit brought forward	55,221
Other comprehensive income - net of tax	(659)
Surplus realized on disposal of revalued fixed assets – net of tax	99
Transfer in respect of incremental depreciation from surplus on revaluation of fixed assets to un-appropriated profit – net of tax	54
	54,715
Profit available for appropriation	75,068
Appropriations:	
Statutory Reserve	2,137
Final Cash Dividend at Rs. 4.0 per share - December 31, 2017	4,740
Interim Cash Dividend at Rs. 4.0 per share - March 31, 2018	4,740
Interim Cash Dividend at Rs. 4.0 per share - June 30, 2018	4,740
Interim Cash Dividend at Rs. 4.0 per share - September 30, 2018	4,740
Total appropriations	21,097
Un-appropriated Profit Carried Forward	53,971

Earnings per Share

The consolidated financial statements reflect Rs. 17.17 earnings per share for the year under review.

For and on behalf of the Board of Directors

Imran Maqbool

Imran Maqbool
President & CEO,
MCB Bank Limited

February 20, 2019

Iqraa Hassan Mansha

Iqraa Hassan Mansha
Director,
MCB Bank Limited

ڈائریکٹرز رپورٹ:

بورڈ آف ڈائریکٹرز ایم سی بی بینک لمیٹڈ اور اس کے ذیلی ادارے ایم سی بی عارف حبیب سیونگ اور انسویٹنس لمیٹڈ، ایم سی بی فنانشل سروسز لمیٹڈ، ایم نیٹ سروسز پرائیویٹ لمیٹڈ، ایم سی بی اسلامک بینک لمیٹڈ اور ایم سی بی لیزنگ کمپنی کی فنانشل اسٹیٹمنٹس پرائیویٹ رپورٹ پیش کرتے ہیں۔

منافع اور تخصیص:

31 دسمبر 2018 کو اختتام پذیر سال میں اور بعد از ٹیکس منافع اور اسکی تخصیص کچھ اس طرح سے ہے:

ملین روپے

30,806
(10,391)
20,415
(62)
20,353
55,221
(659)
99
54
54,715
75,068
2,137
4,740
4,740
4,740
4,740
21,097
53,971

منافع قبل از ٹیکس

ٹیکس

منافع بعد از ٹیکس

منافع برائے اقلیتی شیئر ہولڈرز

منافع برائے ایکوئیٹی شیئر ہولڈرز

افتتاحی غیر تخصیص شدہ منافع

دیگر جامع (کمپنہ بنو) آمدنی خالص بعد از ٹیکس

پائیدار اثاثوں کے سرپلس پر فروخت سے حاصل آمدن (خالص از ٹیکس)

پائیدار اثاثوں کی تجدید نو سے اضافی آمدنی کی غیر تخصیص شدہ منافع

انکریٹینٹل ڈیپریسی ایشن کی منتقلی

تخصیص کیلئے دستیاب منافع

تخصیص:

قانونی ریزرو

حتی کیش ڈیویڈنڈ @ 4.0 روپے فی حصص - دسمبر 2017

عبوری کیش ڈیویڈنڈ @ 4.0 روپے فی حصص - مارچ 2018

عبوری کیش ڈیویڈنڈ @ 4.0 روپے فی حصص - جون 2018

عبوری کیش ڈیویڈنڈ @ 4.0 روپے فی حصص - ستمبر 2018

کلی تخصیص

اختتامی غیر تخصیص شدہ منافع

فی حصص آمدنی:

سال کی فی حصص آمدنی (EPS) 17.17 روپے رہی۔

مناجیب و برائے بورڈ آف ڈائریکٹرز:

عمران مقبول

صدر - ایم سی بی بینک لمیٹڈ،

20 فروری 2019

اقراء حسن منشاء

ڈائریکٹر - ایم سی بی بینک لمیٹڈ

Auditor’s Report to the Members

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the annexed consolidated financial statements of MCB Bank Limited and its subsidiaries (“the Group”), which comprise the consolidated statement of financial position as at December 31, 2018 and the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the accounting and reporting standards as applicable in Pakistan.

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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants as adopted by the Institute of the 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 consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated 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 and the accounting policies in notes 4.2 (b) and 5.4 to the consolidated financial statements.</p> <p>The Group’s advances to the customers represent 35.76% of its total assets as at 31 December 2018 and are stated at Rs. 566.79 billion which is net of provision of Rs. 43.23 billion.</p> <p>The provision against 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 (PRs) issued by the State Bank of Pakistan.</p>	<p>Our audit procedures in respect of provision against loans and advances included the following:</p> <ul style="list-style-type: none"> Assessing the design and operating effectiveness of manual and automated controls over classification and provisioning of advances including: <ul style="list-style-type: none"> The accuracy of data input into the system used for disbursement and recovery of credit facilities; Controls over correct classification of non-performing advances on time based criteria; Controls over accurate computation and recording of provisions; and Controls over the governance and approval process related to provision. Testing, on a sample basis, credit exposures identified by the management as displaying indicators of impairment, assessed the number of days overdue and assessed appropriateness of amount reported for provision in accordance with the PRs; Testing, on a sample basis, credit exposure where the management has not identified as displaying indicators of impairment challenged the management’s assessment by reviewing the historical performances, account movement, financial ratios and reports on security maintained and formed our own view whether any impairment indicators are present; For consumer and SME advances, analyzed the days past due report for calculation of provision required in accordance with the PRs; and Checking, on a sample basis, accuracy of specific provision against non-performing advances and of general provision against consumer and SME advances by recomputing the provision made in accordance with the criteria prescribed under the PRs.

S. No.	Key Audit Matters	How the matter was addressed in our audit
2	Valuation of Investments	
	<p>Refer to note 9 and the accounting policies in notes 4.2 (c) and 5.2 to the consolidated financial statements.</p> <p>As at December 31, 2018, the Group has investments classified as "Available-for-sale", "Held for trading" and "Held to maturity", amounting to Rs. 750,36 billion in aggregate represent 47.34 % of the total assets of the Bank.</p> <p>Investments are carried at cost or fair value in the accordance with the Group's accounting policy relating to their recognition. Provision against investments is based on impairment policy of the Group which includes both objective and subjective factors.</p> <p>We identified the valuation of investments including determination of impairment allowance on investments classified as 'Available-for-sale' and "Held to maturity" as a key audit matter because of their significance in relation to the total assets of the Group and judgment involved in assessing impairment allowance.</p>	<p>Our procedures in respect of valuation of investments included the following:</p> <ul style="list-style-type: none"> Assessing the design and tested the operating effectiveness of the relevant controls in place relating to valuation of investments; Checking, on a sample basis, the valuation of investments to supporting documents, externally quoted market prices and break-up values; and Evaluating the management's assessment of available for sale and held to maturity investments for any additional impairment in accordance with the Group's accounting policies and performed an independent assessment of the assumptions.
3	Change in the format of the financial statements	
	<p>Refer note 3.2 to the consolidated financial statements.</p> <p>The State Bank of Pakistan (SBP) has amended the format of annual financial statements of banks. All banks are directed to prepare their annual financial statements on the revised format effective from the accounting year ending December 31, 2018. Accordingly, the Group has prepared these consolidated financial statements on the new format prescribed by the State Bank of Pakistan. As part of this transition to the new requirements, the management performed a gap analysis to identify differences between the previous and current format. The adoption of the new format required certain recognition requirements and reclassification of certain financial information. The amended format also introduced certain new disclosures in the consolidated financial statements.</p> <p>In view of the significant impact of the first time adoption of the revised format on these consolidated financial statements, we considered this a key audit matter.</p>	<p>Our audit procedures to assess compliance with the requirements of the SBP's amended format of annual financial statements for banks included the following:</p> <ul style="list-style-type: none"> considering the management's process to identify the changes required in the consolidated financial statements to comply with the new format; and obtaining relevant underlying supports relating to changes required in the consolidated financial statements consequent to the adoption of the new format to assess their appropriateness and verified them on test basis.

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

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

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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:

- a) Identify and assess the risks of material misstatement of the consolidated 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.
- b) 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 Group's internal control.
- c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- d) 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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- e) Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

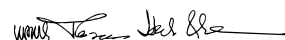
We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide 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 consolidated financial statements of the current period 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.

The engagement partner on the audit resulting in this independent auditor's report is M. Rehan Chughtai.

Lahore
Date: March 04, 2019



KPMG Taseer Hadi & Co.
Chartered Accountants
M.Rehan Chughtai

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2018

	Note	2018	2017 Restated	2016 Restated
(Rupees in '000)				
ASSETS				
Cash and balances with treasury banks	6	110,165,006	109,462,902	75,732,185
Balances with other banks	7	13,338,117	7,348,882	7,201,459
Lendings to financial institutions	8	39,149,890	5,273,524	2,809,752
Investments	9	754,385,775	660,070,246	556,770,384
Advances	10	566,792,265	500,965,801	364,470,288
Fixed assets	11	43,789,201	41,391,887	34,491,127
Intangible assets	12	1,194,657	1,173,561	734,738
Deferred tax assets		-	-	-
Other assets	13	56,395,096	63,805,253	55,071,317
		1,585,210,007	1,389,492,056	1,097,281,250
LIABILITIES				
Bills payable	15	17,003,272	22,994,877	13,291,328
Borrowings	16	223,216,115	140,462,138	77,438,993
Deposits and other accounts	17	1,122,306,535	1,001,146,162	795,689,546
Liabilities against assets subject to finance lease		-	-	-
Subordinated debt	18	3,891,019	3,892,578	-
Deferred tax liabilities	19	1,983,145	5,661,073	12,889,649
Other liabilities	20	65,487,042	58,792,147	52,011,664
		1,433,887,128	1,232,948,975	951,321,180
NET ASSETS		151,322,879	156,543,081	145,960,070
REPRESENTED BY				
Share capital	21	11,850,600	11,850,600	11,130,307
Reserves	22	74,374,573	71,027,912	53,512,633
Surplus on revaluation of assets	23	10,417,875	17,736,093	25,117,958
Unappropriated profit		53,971,079	55,221,069	55,509,013
		150,614,127	155,835,674	145,269,911
Non-controlling interest		708,752	707,407	690,159
		151,322,879	156,543,081	145,960,070

CONTINGENCIES AND COMMITMENTS

24

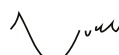
The annexed notes 1 to 48 and annexures I to II form an integral part of these consolidated financial statements.



Imran Maqbool
President/Chief Executive



Hammad Khalid
Chief Financial Officer



S. M. Muneer
Director



Muhammad Tariq Rafi
Director



Muhammad Ali Zeb
Director

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018	2017
		(Rupees in '000)	
Mark-up / return / interest earned	26	87,502,337	76,189,800
Mark-up / return / interest expensed	27	39,495,913	32,393,716
Net mark-up / interest income		48,006,424	43,796,084
NON MARK-UP / INTEREST INCOME			
Fee and commission income	28	11,636,751	10,454,980
Dividend income		1,156,944	1,632,466
Foreign exchange income		3,568,576	1,677,861
Income from derivatives		11,845	15,487
Gain on securities	29	1,257,148	4,666,214
Other income	30	434,351	51,203
Total non-markup / interest income		18,065,615	18,498,211
Total income		66,072,039	62,294,295
NON MARK-UP / INTEREST EXPENSES			
Operating expenses	31	35,715,447	30,297,380
Workers welfare fund		644,304	625,969
Other charges	32	174,431	142,953
Total non-markup / interest expenses		36,534,182	31,066,302
Share of profit of associates		446,257	433,119
Profit before provisions		29,984,114	31,661,112
(Reversals) / provisions and write offs - net	33	(821,807)	1,047,405
Extra ordinary / unusual items		-	-
PROFIT BEFORE TAXATION		30,805,921	30,613,707
Taxation	34	10,390,637	8,565,943
PROFIT AFTER TAXATION		20,415,284	22,047,764
Profit attributable to non-controlling interest		(62,528)	(84,618)
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE BANK		20,352,756	21,963,146
Basic and diluted earnings per share	Rupees 35	17.17	19.13

The annexed notes 1 to 48 and annexures I to II form an integral part of these consolidated financial statements.



Imran Maqbool
President/Chief Executive



Hammad Khalid
Chief Financial Officer



S. M. Muneer
Director



Muhammad Tariq Rafi
Director



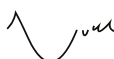




Muhammad Ali Zeb
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
	(Rupees in '000)	
Profit after taxation for the year	20,415,284	22,047,764
Other comprehensive income		
Items that may be reclassified to profit and loss account in subsequent periods:		
Effect of translation of net investment in foreign branches and subsidiaries		
- Equity shareholders of the bank	1,200,257	332,722
- Non-controlling interest	143	442
- Share of exchange translation reserve of associate	10,446	(20,236)
	1,210,846	312,928
Movement in surplus/ deficit on revaluation of investments - net of tax		
- Equity shareholders of the bank	(7,145,219)	(6,993,443)
- Non-controlling interest	-	(54,077)
Movement in surplus on associated undertaking - net of tax	(192,315)	(344,715)
	(7,337,534)	(7,392,235)
	(6,126,688)	(7,079,307)
Items that will not be reclassified to profit and loss account in subsequent periods:		
Remeasurement loss on defined benefit obligations - net of tax	(659,286)	(1,574,754)
Surplus on revaluation of operating fixed assets - net of tax	-	12,286
Surplus on revaluation of non-banking assets - net of tax	172,774	(1,557)
	(486,512)	(1,564,025)
Total comprehensive income	13,802,084	13,404,432
Attributable to:		
- Equity shareholders of the bank	13,739,413	13,373,449
- Non-controlling interest	62,671	30,983
	13,802,084	13,404,432

The annexed notes 1 to 48 and annexures I to II form an integral part of these consolidated financial statements.

				
Imran Maqbool President/Chief Executive	Hammad Khalid Chief Financial Officer	S. M. Muneer Director	Muhammad Tariq Rafi Director	Muhammad Ali Zeb Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

	Share capital			Capital reserve		Statutory reserve	Revenue reserve		Surplus/(deficit) on revaluation of			Unappropriated profit	Total	Non-controlling interest	Grand Total	
	Share premium	Non-distributable capital reserve	Exchange translation reserve	General reserve	Investments		Associate	Fixed / non-banking assets								
	11,130,307	-	-	84,593	24,903,602	18,600,000	-	-	11,326,047	788,276	13,003,635	-	55,509,013	120,151,953	509,331	120,661,284
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	11,130,307	-	-	84,593	24,903,602	18,600,000	-	-	11,326,047	788,276	13,003,635	-	55,509,013	145,268,911	680,159	145,960,070
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-									

For details of dividend declaration and appropriations, please refer note 46 to these consolidated financial statements.

For details of reserves, please refer note 22 to these consolidated financial statements.

The annexed notes 1 to 48 and annexures I to II form an integral part of these consolidated financial statements.

Imran Maqbool
President/Chief Executive

Hammad Khalid
Chief Financial Officer

S. M. Muneer
Director






Muhammad Tariq Rafi
Director

Muhammad Ali Zeb
Director

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018	2017
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		30,805,921	30,613,707
Less: Dividend income and share of profit of associates		(1,603,201)	(2,065,585)
		29,202,720	28,548,122
Adjustments:			
Depreciation on fixed assets	11.2	2,205,841	1,858,466
Depreciation on non-banking assets acquired in satisfaction of claims	31	49,155	29,947
Amortization	12	356,533	278,366
(Reversals) / provisions and write offs - net	33	(821,807)	1,047,405
Fixed assets written off	32	-	13
Workers welfare fund		644,304	625,969
Gain on sale of fixed assets	30	(245,866)	(19,954)
Gain on sale of non-banking assets acquired in satisfaction of claims	30	(82,410)	(515)
Charge / (reversal) for defined benefit plan	31.1	943,661	(144,497)
Unrealized loss on revaluation of investments classified as held for trading	29	47,766	272
Gain on sale of shares in associates		(51,360)	(286,706)
		3,045,817	3,388,766
		32,248,537	31,936,888
Increase in operating assets			
Lendings to financial institutions		(33,876,366)	(2,463,772)
Held-for-trading securities		(10,019,549)	83,239
Advances		(63,057,860)	(64,337,255)
Others assets (excluding advance taxation)		(1,188,977)	(2,769,268)
		(108,142,752)	(69,487,056)
Increase in operating liabilities			
Bills Payable		(5,991,605)	6,765,359
Borrowings from financial institutions		81,874,414	37,833,810
Deposits		121,160,373	123,715,772
Other liabilities (excluding current taxation)		7,955,642	4,820,500
		204,998,824	173,135,441
Defined benefits paid			
Income tax paid		(343,743)	(329,179)
		(3,421,728)	(7,805,618)
Net cash flow from operating activities		125,339,138	127,450,476
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(96,176,337)	(84,808,364)
Net investments in held-to-maturity securities		(2,380,874)	(4,102,188)
Net cash inflow on amalgamation		-	14,268,116
Proceeds from divestment in an associate		295,448	782,816
Dividends received		1,619,685	1,629,251
Investments in fixed assets		(4,812,362)	(4,698,825)
Investments in intangible assets		(376,872)	(717,113)
Proceeds from sale of fixed assets		574,720	38,395
Proceeds from sale of non-banking assets acquired in satisfaction of claims		682,410	108,070
Effect of translation of net investment in foreign branches & subsidiaries		1,200,400	333,164
Net cash flow used in investing activities		(99,373,782)	(77,166,678)
CASH FLOW FROM FINANCING ACTIVITIES			
Payments of subordinated debt		(1,559)	(779)
Dividend paid		(20,152,021)	(17,315,565)
Net cash flow used in financing activities		(20,153,580)	(17,316,344)
Effects of exchange rate changes on cash and cash equivalents		5,575,328	1,040,532
Increase in cash and cash equivalents		11,387,104	34,007,986
Cash and cash equivalents at beginning of the year	36	110,169,913	81,737,255
Cash and cash equivalents at end of the year	36	121,557,017	115,745,241

The annexed notes 1 to 48 and annexures I to II form an integral part of these consolidated financial statements.

				
Imran Maqbool President/Chief Executive	Hammad Khalid Chief Financial Officer	S. M. Muneer Director	Muhammad Tariq Rafi Director	Muhammad Ali Zeb Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

1. STATUS AND NATURE OF BUSINESS

The "Group" consists of

Holding company

MCB Bank Limited (the 'Bank') is a banking company incorporated in Pakistan and is engaged in commercial banking and related services. The Bank's ordinary shares are listed on the Pakistan Stock Exchange. The Bank's Registered Office and Principal Office are situated at MCB -15 Main Gulberg, Lahore. The Bank operates 1,376 branches (2017: 1,433 branches) within Pakistan and 11 branches (2017: 11 branches) outside Pakistan (including the Karachi Export Processing Zone branch).

1.1 Subsidiary companies

MCB Financial Services Limited

MCB Financial Services Limited (the Company) was incorporated on February 12, 1992 as a private limited company. The company converted its status from Private Limited Company to Unlisted Public Limited Company on June 19, 2009. The principal objects of the company are to act as Trustee of investment trust schemes, voluntary pension schemes, real estate investment trust schemes, to provide custodian services and to act as transfer agent/share registrar of securities of listed and non listed companies and mutual funds etc. The Company's main source of income is from trusteeship services provided to mutual funds. Its registered office is located at Karachi. The Bank owns 100% shares of the company while remaining shares are held by nominees of the Bank.

MNET Services (Private) Limited

MNET Services (Private) Limited (the Company) is a private limited company incorporated in Pakistan on September 7, 2001. The company's registered office and principal place of business are situated at MCB Building, F-6 / G-6, Jinnah Avenue, Islamabad and Sheikh Sultan Trust Building, Beaumont Road, Karachi respectively. The core objective of the company is to provide services in Information Technology and to develop computer software and other data processing equipment for planning, designing, management and execution of all types of financial, personal, organizational and institutional activities. The Bank owns 100% shares of the company while remaining shares are held by nominees of the Bank.

MCB - Arif Habib Savings and Investments Limited

MCB - Arif Habib Savings and Investments Limited (the Company) was incorporated on August 30, 2000, as an unquoted public limited company. During 2008, the Company was listed on the Pakistan Stock Exchange by way of offer for sale of shares by a few of the existing shareholders of the Company to the general public. The

registered office of the Company is situated at 24th Floor, Centre point, Off Shaheed-e-Millat Expressway, near K.P.T. Interchange, Karachi, Pakistan.

The Company is registered as an Asset Management Company and Investment Advisor under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Pension Fund Manager under Voluntary Pension System Rules 2005. The Company also manages discretionary portfolio accounts. The Bank owns 51.33% shares of the company.

"MCB Leasing" Closed Joint Stock Company

"MCB Leasing" CJSC (the "Company") was incorporated on 16 October 2009 and domiciled in the Republic of Azerbaijan. The Company is a closed joint stock company limited by shares and was set up in accordance with Azerbaijani regulations. The registered office of the company is located at 49B Tbilisi Ave. Baku AZ1065, Republic of Azerbaijan. The Bank owns 99.94% shares of the company.

The Company's principal business activity is provision of finance leases within the Republic of Azerbaijan. The Company leases out various types of industrial equipments, equipments used in medicine, health care, and for other business needs. In addition, the Company leases out cars and trucks. Further the Company is also involved in real estate finance leases.

MCB Islamic Bank Limited

MCB Islamic Bank Limited (MCBIBL) was incorporated in Pakistan as an unlisted public limited company on May 15, 2014 to carry out the business of an Islamic Commercial Bank in accordance and in conformity with the principles of Islamic Shari'ah and in accordance with regulations and guidelines of the State Bank of Pakistan. The Securities and Exchange Commission of Pakistan granted "Certificate of Commencement of Business" to MCBIBL on January 30, 2015. MCBIBL is a wholly owned subsidiary of MCB Bank Limited (MCB).

The State Bank of Pakistan (SBP) granted a "Certificate of Commencement of Banking Business" to MCBIBL on September 14, 2015 under Section 27 of the Banking Companies Ordinance, 1962. MCBIBL formally commenced operations as a Scheduled Islamic Commercial Bank with effect from October 15, 2015 upon receiving notification in this regard from SBP under section 37 of the State Bank of Pakistan Act, 1956. Currently, the Bank is engaged in corporate, commercial, consumer, micro finance, investment and retail banking activities.

MCBIBL is operating through 176 branches in Pakistan (December 31, 2017: 76 branches). The Registered Office of MCBIBL is situated at 59 Block T, Phase II, DHA, Lahore Cantt and Principal Office is situated at 339 Block Z, Phase III, DHA Lahore Cantt. The Bank owns 100% share of MCBIBL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Financial & Management Services (Private) Limited

Financial & Management Services (Private) Limited is fully provided subsidiary and the company is dormant and has no asset and liability. The Board of Directors of the Bank has approved winding up of the Company. The Bank holds 95.90% shareholding in this subsidiary.

2. BASIS OF PRESENTATION

- 2.1 These consolidated financial statements include the financial statements of MCB Bank Limited and its subsidiary companies and share of the profit / reserves of associates (the "Group").
- 2.2 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate profit in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these consolidated financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of profit thereon. The Islamic Banking operations of the Group have complied with the requirements set out under the Islamic Financial Accounting Standards issued by the Institute of Chartered Accountants of Pakistan and notified under the provisions of the Companies Act, 2017.
- 2.3 Key financial figures of the MCBIBL are disclosed in Annexure II to these consolidated financial statements.
- 2.4 These consolidated financial statements are presented in Pak Rupees, which is the Group's functional and presentation currency. The amounts are rounded off to the nearest thousand.

3. STATEMENT OF COMPLIANCE

- 3.1 These consolidated financial statements have been prepared in accordance with 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, the Companies Act, 2017; and

- Directives issued by the SBP and the Securities and Exchange Commission of Pakistan (SECP).

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

The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. The Securities and Exchange Commission of Pakistan (SECP) has deferred applicability of IFRS-7 "Financial Instruments: Disclosures" on banks through S.R.O 411(1) /2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these consolidated financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

IFRS10 Consolidated Financial Statements was made applicable from period beginning on or after January 01, 2015 vide S.R.O 633(I)/2014 dated July 10, 2014 by SECP. However, SECP has directed that the requirements of consolidation under section 237 of the repealed Companies Ordinance 1984 (Section 228 of Companies Act 2017) and IFRS-10 "Consolidated Financial Statements" is not applicable in case of investment by companies in mutual funds established under Trust structure, through S.R.O 56(I) /2016 dated January 28, 2016. Accordingly, the requirements of these standards have not been considered in the preparation of these consolidated financial statements.

3.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year

During the year, certain amendments to standards, interpretations and improvements to accounting standards became effective; however, the amendments, interpretations and improvements are considered not to be relevant or do not have any significant effect on the Group operations and therefore not detailed in these consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

- Acceptances amounting to Rs. 16,256.882 million (2017: Rs. 16,061.606 million, 2016: Rs. 20,591.014 million) which were previously shown as part of contingencies and commitments are now recognized on balance sheet both as assets and liabilities. They are included in Other Assets (note 13) and Other Liabilities (note 20).
- Surplus on revaluation of assets (note 23) amounting to Rs. 10,417.875 million (2017: Rs. 17,736.093 million, 2016: Rs. 25,117.958 million) which was previously shown below equity has now been included as part of equity.
- Intangibles (note 12) amounting to Rs. 1,194.657 million (2017: Rs. 1,173.561 million, 2016: Rs. 734.738 million) which were previously shown as part of fixed assets (note 11) are now shown separately on the consolidated statement of financial position.
- Cost of foreign currency swaps (note 27) amounting to Rs. 662.873 million (2017: Rs. 348.970 million) which was previously shown as part of foreign exchange income has now been shown as part of mark-up / return / interest expense in the consolidated statement of profit and loss account.

In addition, Companies Act 2017 also became effective for the financial statements for the year ended December 31, 2018. As the Group's financial statements are prepared in accordance with the format prescribed by SBP, it did not have a direct impact on these consolidated financial statements except for the change as mentioned in note 5.5 of these consolidated financial statements.

3.3 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following other standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 1, 2019:

	Effective date (annual periods beginning on or after)
- IFRS 16 Leases	January 1, 2019
- Amendments to IFRS 9 'Financial Instruments'	January 1, 2019
- Amendments to IAS 19 'Employee Benefits'	January 1, 2019
- IFRS 15 - Revenue from contracts with customers	January 1, 2019
- Amendments to IAS 28 'Investments in Associates and Joint Ventures'	January 1, 2019
- IFRIC 23 'Uncertainty over Income Tax Treatments'	January 1, 2019

*IFRS 9 - Financial Instruments - The Group is currently awaiting instructions from SBP as applicability of IAS 39 was deferred by SBP till further instructions.

There are other new and amended standards and interpretations that are mandatory for the Group's accounting periods beginning on or after January 1, 2019 but are considered not to be relevant or do not have any significant effect on the Group's operations and are therefore not detailed in these consolidated financial statements.

The management anticipates that the adoption of the above standards, amendments and interpretations in future periods, will have no material impact except IFRS-16 on these consolidated financial statements. The Group is currently in the process of assessing the impact of IFRS-16.

4. BASIS OF MEASUREMENT

- 4.1 These consolidated financial statements have been prepared under the historical cost convention except that certain classes of fixed assets and non-banking assets acquired in satisfaction of claims are stated at revalued amounts and certain investments and derivative financial instruments have been marked to market and are carried at fair value. In addition, obligations in respect of staff retirement benefits are carried at present value.

4.2 Critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Group's accounting policies. Estimates and judgments are continually evaluated and are based on historical experiences, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are 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. The areas where various assumptions and estimates are significant to the Group's financial statements or where judgment was exercised in the application of accounting policies are as follows:

a) Classification of investments

In classifying investments, the Group follows the guidance provided in SBP circulars:

- Investments classified as 'held for trading', are securities which are acquired with an intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days of acquisition.
- Investments classified as 'held to maturity' are non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Group evaluates its intention and ability to hold such investment to maturity.
- The investments other than those in associates which are not classified as 'held for trading' or 'held to maturity' are classified as 'available for sale'.

b) Provision against advances

The Group reviews its loan portfolio to assess the amount of non-performing advances and provision required there against on regular basis. While assessing this

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

requirement various factors including the delinquency in the account, financial position of the borrowers and the requirements of the Prudential Regulations are considered.

The amount of general provision is determined in accordance with the relevant regulations and management's judgment as explained in note 10.5.4.

c) Impairment of 'available for sale' equity investments

The Group 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. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, the impairment may be appropriate when there is an evidence of deterioration in the financial health of the investee and sector performance, changes in technology and operational/financial cash flows.

d) Taxation

In making the estimates for income taxes currently payable by the Group, the management considers the current income tax laws and the decisions of appellate authorities on certain issues in the past.

e) Fair value of derivatives

The fair values of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant underlying parameters including foreign currency involved, interest rates, yield curves, volatilities, contracts duration etc.

f) Depreciation, amortization and revaluation of operating fixed assets

In making estimates of the depreciation / amortization method, the management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Group. 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 is changed to reflect the changed pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Further, the Group estimates the revalued amount of land and buildings on a regular basis. The estimates are based on valuations carried out by independent professional valuers under the market conditions.

g) Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 38 of these consolidated financial statements for the actuarial valuation of staff retirement benefit plans. Actuarial assumptions are entity's best estimates of the variables that will determine the ultimate cost of providing post employment benefits. Changes in these assumptions in future years may affect the liability / asset under these plans in those years.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those of the previous financial year except for the changes explained in notes 5.2, 5.4, 5.5 and 5.11.

5.1 Basis of consolidation

- a) These consolidated financial statements include the financial statements of MCB Bank Limited and its subsidiary companies and share of the profit / reserves of associates are accounted for under the equity basis of accounting.
- b) Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date when control ceases / the subsidiaries are disposed off. The assets and liabilities of subsidiary companies have been consolidated on a line by line basis based on the financial statements as at December 31, 2018 and the carrying value of investments held by the Bank is eliminated against the subsidiaries' shareholders' equity in these consolidated financial statement. Material intra-group balances and transactions have been eliminated.
- c) Associates are all entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost, thereafter for the post-acquisition change in the Group's share of net assets of the associate, the cumulative post-acquisition movements are adjusted in the carrying amount of the investment. Accounting policies of the associates have been changed where necessary to ensure consistency with the policies adopted by the Group.
- d) Non-controlling interest is that part of the net results of operations and of net assets of subsidiary companies attributable to interests which are not owned by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

5.2 Investments

The Group classifies its investments as follows:

a) Held for trading

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

b) Held to maturity

These are securities with fixed or determinable payments and fixed maturity in respect of which the Group has the positive intent and ability to hold to maturity.

c) Available for sale

These are investments, other than those in subsidiaries and associates, that do not fall under the 'held for trading' or 'held to maturity' categories.

Investments are initially recognized at cost which in case of investments other than 'held for trading' include transaction costs associated with the investment. Transaction costs on investments held for trading are expensed in the profit and loss account.

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognized at the trade date. Trade date is the date on which the Group commits to purchase or sell the investment.

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than those classified as 'held to maturity', investments in associates are subsequently re-measured to market value. Surplus / deficit arising on revaluation of quoted securities which are classified as 'available for sale', is taken to surplus / deficit on revaluation of investments through statement of comprehensive income in equity which was previously shown below equity. Surplus / deficit arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account, currently.

Unquoted equity securities (excluding investments in associates) are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available financial statements. Investments classified as 'held to maturity' are carried at amortized cost less accumulated impairment losses, if any.

Provision for impairment in the values of securities (except debentures, participation term certificates and term finance certificates) is made currently. Impairment

of 'available for sale' equity investments is discussed in 4.2(c). Provisions for impairment in value of debentures, participation term certificates and term finance certificates are made as per the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired associate and subsidiary at the date of acquisition. Goodwill on acquisitions of associates is included in 'investments in associates'.

5.3 Sale and repurchase agreements

Securities sold subject to a repurchase agreement (repo) are retained in these consolidated financial statements as investments and the counter party liability is included in borrowings. Securities purchased under an agreement to resell (reverse repo) are not recognized in these consolidated financial statements as investments and the amount extended to the counter party is included in lendings to financial institutions. The difference between the purchase / sale and re-sale / re-purchase price is recognized as mark-up income / expense on a time proportion basis, as the case may be.

5.4 Advances

Advances are stated net of specific and general provisions. Specific provision is determined on the basis of the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses include general provision against Consumer and Small Enterprise (SEs) loans made in accordance with the requirements of the Prudential Regulations issued by SBP and provision based on historical loss experience on advances. General provisions pertaining to overseas advances are made in accordance with the requirements of the regulatory authorities of the respective countries. Advances are written off when there is no realistic prospect of recovery.

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

In Murabaha transactions, the Group purchases the goods through its agent or client and after taking the possession, sells them to the customer on cost plus profit basis either in a spot or credit transaction. Under Murabaha financing, funds disbursed for purchase of goods are recorded as 'Advance against Murabaha

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

finance'. On culmination of Murabaha i.e. sale of goods to customers, Murabaha financing are recorded at the deferred sale price. Goods purchased but remaining unsold at the statement of financial position date are recorded as inventories.

In Ijarah financing, the Group provides the asset on pre-agreed rentals for specific tenors to the customers. Ijarah assets are stated at cost less depreciation and are disclosed as part of 'Islamic financing and related assets'. The rental on Ijarah under Islamic Financial Accounting Standard - 2 Ijarah (IFAS 2) are recorded as income / revenue. The Group charges depreciation from the date of recognition of Ijarah of respective assets to Mustajir. Ijarah assets are depreciated over the period of Ijarah using the straight line method.

In Diminishing Musharaka based financing, the Group enters into Musharaka based on Shirkat-ul-Milk for financing and agreed share of fixed assets (example: house, land, plant, machinery or vehicle) with its customers and enters into period profit payment agreement for the utilization of the Group's Musharaka share by the customer.

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

In Salam financing, the Group pays full in advance to its customer for buying specified goods / commodities to be delivered to the Group within an agreed time. The goods are then sold the amount financed is received back by the Group alongwith profit.

In Running Musharaka based financing, the Group enters into financing with the customer based on Shirkat-ul-Aqd or Business Partnership in the customer's operating business where the funds can be withdrawn or refunded during the Musharakah period.

During the current year, IFRS 9, Financial Instruments: Classification and Measurement, became applicable for overseas branches and subsidiaries of the Group. Accordingly, in respect of overseas branches and subsidiaries, the Group has changed its accounting policy and has followed the requirements of IFRS 9. The impact has been accounted for in the profit or loss of the current period and opening balance of retained earnings has not been adjusted as the amount is not material.

5.5 Fixed assets, depreciation and intangibles

5.5.1 Fixed assets other than land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Buildings are carried at revalued amount less any accumulated depreciation and subsequent impairment losses, if any. Land is carried at revalued amount less any subsequent impairment

losses, if any. Cost of property and equipment of foreign operations includes exchange differences arising on currency translation at year-end rates.

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. These are transferred to specific assets as and when assets become available for use.

Land and buildings are revalued by professionally qualified valuers with sufficient regularity to ensure that their net carrying value does not differ materially from their fair value.

Depreciation on all fixed assets (excluding land) is charged using the straight line method in accordance with the rates specified in note 11.2 to these consolidated financial statements and after taking into account residual value, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off.

Gains / losses on sale of property and equipment are credited / charged to the profit and loss account currently, except that the related surplus on revaluation of land and buildings (net of deferred taxation) is transferred directly to unappropriated profit.

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

Upto December 31, 2017, surplus / (deficit) on revaluation of fixed assets was being measured under the repealed Companies Ordinance, 1984. The surplus arising on the revaluation is credited to the surplus on revaluation of fixed assets account. Any deficit arising on subsequent revaluation of fixed assets is adjusted against the balance in the surplus account. With effect from January 1, 2018, Companies Act, 2017 has become applicable and section 235 of the repealed Companies Ordinance, 1984 relating to treatment of surplus arising on revaluation of fixed assets has not been carried forward in the Companies Act, 2017. Accordingly the management has changed the accounting policy to bring accounting of revaluation surplus on fixed assets in accordance with IAS 16 "Property, plant and equipment". The revaluation is measured on individual assets where the surplus is taken to surplus on revaluation of fixed assets through statement of comprehensive income in equity. The deficit on revaluation of the asset is charged to profit and loss account after netting of any surplus

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

already recorded on that asset. The management of the Group believes that the impact of change in accounting policy is not material, therefore no adjustments are being made in these consolidated financial statements.

5.5.2 Intangible assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized from the month when these assets are available for use, using the straight line method, whereby the cost of the intangible assets are amortized over its estimated useful lives over which economic benefits are expected to flow to the Group. The useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

5.6 Impairment

The carrying amount of assets are reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amounts. The resulting impairment loss is taken to the profit and loss account except for impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

5.7 Staff retirement benefits

MCB Bank Limited

The Bank operates the following staff retirement benefits for its employees:

- a) For clerical / non-clerical staff who did not opt for the new scheme, the Bank operates the following:
 - an approved contributory provident fund;
 - an approved gratuity scheme; and
 - a contributory benevolent scheme
- b) For clerical / non-clerical staff who joined the Bank after the introduction of the new scheme and for others who opted for the new scheme introduced in 1975, the Bank operates the following:
 - an approved non-contributory provident fund introduced in lieu of the contributory provident fund;
 - an approved pension fund; and
 - contributory benevolent scheme
- c) For officers who joined the Bank after the introduction of the new scheme and for others who opted for the new scheme introduced in 1977, the Bank operates the following:

- an approved non-contributory provident fund introduced in lieu of the contributory provident fund;
- an approved pension fund, and
- contributory benevolent fund.

However, the management has replaced the pension benefits for employees in the officer category with a contributory provident fund for services rendered after December 31, 2003.

- d) For executives and officers who joined the Bank on or after January 01, 2000, the Bank operates an approved contributory provident fund.
- e) Post retirement medical benefits to entitled employees.

Annual contributions towards the defined benefit plans and schemes are made on the basis of actuarial advice using the Projected Unit Credit Method. The above benefits are payable to staff at the time of separation from the Bank's services subject to the completion of qualifying period of service. Actuarial gains / losses arising from experience adjustments and changes in actuarial assumptions are recognized in Other Comprehensive Income in the period of occurrence.

Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment. The Bank recognises past service cost as an expense at the earlier of the following dates:

- (i) when the plan amendment or curtailment occurs; and
- (ii) when the Bank recognises related restructuring costs or termination benefits.

Employees' compensated absences

Liability in respect of employees' compensated absences is accounted for in the year in which these are earned on the basis of actuarial valuation carried out using the Projected Unit Credit Method. Actuarial gains / losses arising from experience adjustments and changes in actuarial assumptions are recognized in Profit and Loss account in the period of occurrence.

MCB Islamic Bank Limited

MCBIBL operates a recognised contributory provident fund scheme for all its permanent employees. Equal monthly contributions are made both by the Bank and its permanent employees, to the Fund at the rate of 8.33% of the basic salaries of employees. However, an employee has an option to increase his/her contribution upto 15% but the Bank will still contribute 8.33% of the employee's basic salary. The Bank has no further payment obligation once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

MNET Services (Private) Limited

The company operates an unfunded gratuity scheme for its eligible employees. Minimum qualifying period for entitlement to gratuity is five years continuous service with the Company. Accrual of charge for the year is made on the basis of actuarial valuations carried out under the Projected Unit Credit Method.

MCB Financial Services

The Company operates a recognised contributory provident fund scheme for all its permanent employees. Equal monthly contributions are made both by the Bank and its permanent employees.

5.8 Taxation

Current

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

Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The Group records deferred tax assets / liabilities using the tax rates, enacted or substantively enacted by the balance sheet date expected to be applicable at the time of its reversal. Deferred tax asset is recognised only to the extent that it is probable that future taxable profits 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 Group also recognises deferred tax asset / liability on deficit / surplus on revaluation of securities and deferred tax liability on surplus on revaluation of fixed assets which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard (IAS) 12, 'Income Taxes'.

Deferred tax liability is not recognized in respect of taxable temporary differences associated with exchange translation reserves of foreign operations, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

5.9 Provisions

Provisions are recognized when the Group 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 balance sheet date and are adjusted to reflect the current best estimates.

5.10 Foreign currencies

5.10.1 Foreign currency transactions

Transactions in foreign currencies other than the results of foreign operations discussed in note 5.10.2 are translated to Rupees at the foreign exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in Rupee terms at the rates of exchange prevailing at the balance sheet date. Forward foreign exchange contracts other than those relating to foreign currency deposits are valued at the rates applicable to their respective maturities.

5.10.2 Foreign operations

The assets and liabilities of foreign branches and subsidiaries are translated to Rupees at exchange rates prevailing at the balance sheet date. The results of foreign operations are translated to Rupees at the average rate of exchange for the year.

5.10.3 Translation gains and losses

Translation gains and losses are included in the profit and loss account, except those arising on the translation of the Group's net investment in foreign branches and subsidiaries, which are taken to the capital reserve (exchange translation reserve) until the disposal of the net investment, at which time these are recognised in the profit and loss account.

5.10.4 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in these consolidated financial statements at committed amounts. 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 prevailing at the date of the consolidated statement of financial position.

5.11 Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be simultaneously settled with the reimbursement from the customers. During the year, SBP has changed its classification from off balance sheet item to other assets and other liabilities.

5.12 Revenue recognition

- Mark-up / interest on advances and returns on investments are recognized on a time proportion basis using the effective interest method except that

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

mark-up / interest on non-performing advances and investments is recognized on a receipt basis, in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan (SBP) or as permitted by the regulations of the overseas regulatory authorities of countries where the branches operate. Where debt securities are purchased at premium or discount, such premium / discount is amortized through the profit and loss account over the remaining period of maturity.

- 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. Gains / losses on termination of lease contracts are recognized as income when these are realized.
- Profit on investments in Sukuks is recognised on time proportion basis. Where Sukuks (excluding those classified as held for trading) are purchased at a premium or discount, such premiums / discounts are amortised through the profit or loss account using the effective yield method.
- Profit on Salam financing is recognised on time proportion basis.
- Profit on Running Musharaka financing is booked on an accrual basis and is subject to adjustment (if any) upon declaration of profit by Musharakah partners.
- Commission income is recognized on a time proportion basis.
- Dividend income is recognized when the Group's right to receive dividend is established.
- Gain / loss on sale of investments is credited / charged to profit and loss account currently.
- Ijarah income is recognized on an accrual basis as and when the rental becomes due.
- Profit from Bai-Mua'jjal is recognised on an accrual basis.
- Profit on Diminishing Musharaka is recognised on an accrual basis.
- Profit on Istisna financing is recognised on an accrual basis.
- Profit from Murabaha financing is accounted for on culmination of Murabaha transaction. Profit on Murabaha is recognised on an accrual basis. Profit on Murabaha transactions for the period from the date of disbursement to the date of culmination of Murabaha is recognised immediately on the later date.
- Outsourcing revenue, payment system managed service income, subscription fee in Switch product revenue and networking services revenue is

recognised on an accrual basis when the related services are rendered.

- Revenue for acting as trustee is recognized on Net Assets Value (NAV) of respective funds.
- Management / advisory fee is calculated on a daily / monthly basis by charging specified rates to the net assets value / income of the Collective Investment Schemes. Advisory fee from the discretionary portfolio is calculated in accordance with the respective agreements with the clients. Management fee from the pension funds is calculated by charging the specified rates to the average net assets value.
- Revenue from trusteeship and custodian is recognised when the group satisfies a performance obligation by rendering promised services as per respective agreements.

5.13 Operating leases

Operating lease rentals are recorded in profit and loss account on a time proportion basis over the term of the lease arrangements.

5.14 Assets acquired in satisfaction of claims

Non-banking assets (NBA) acquired in satisfaction of claims are carried at revalued amounts less accumulated depreciation and impairment loss. 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 through statement of comprehensive income in equity which was previously shown below equity 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 are charged to profit and loss account and not capitalised.

5.15 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury banks and balances with other banks (net of overdrawn Nostro balances) in current and deposit accounts.

5.16 Financial instruments

5.16.1 Financial assets and financial liabilities

Financial instruments carried on the statement of financial position include cash and balances with treasury banks, balances with other banks, lendings to financial institutions, investments, advances, other assets, bills payable, borrowings, deposits and other liabilities. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

5.16.2 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value using valuation techniques. All the derivative financial instruments are carried as an asset when the fair value is positive and as a liability when the fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account currently.

5.16.3 Off setting

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

5.17 Borrowings / deposits

Borrowings / deposits are recorded at the proceeds received. The cost of borrowings / deposits is recognized as an expense in the period in which this is incurred.

Deposits are generated on the basis of two modes i.e. Qard and Mudaraba.

Deposits taken on Qard basis are classified as 'Current accounts' and Deposits generated on Mudaraba basis are classified as 'Savings deposits' or 'Fixed deposits'. No profit or loss is passed to current account depositors.

Profits realized in investment pools are distributed in pre-agreed profit sharing ratio. Rab-ul-Maal share is distributed among depositors according to weightages assigned at the inception of profit calculation period.

Profits are distributed from the pool such that the depositors (remunerative) only bear the risk of assets in the pool during the profit calculation period. In case of loss in a pool during the profit calculation period, the loss is distributed among the depositors (remunerative) according to their ratio of investments.

Asset pools may be created at the Group's discretion and the Group may add, amend, and transfer an asset to any other pool in the interests of the deposit holders.

5.18 Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products 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 Group's primary format of reporting is based on business segments.

5.18.1 Business segments

Retail banking

This includes retail lending and deposits, banking services, cards and branchless banking.

Corporate banking

This comprises of loans, deposits, project financing, trade financing, investment banking and other banking activities / with Group's corporate and public sector customers including the Group's overseas operations.

Consumer Banking

This segment primarily constitutes consumer financing activities with individual customers of the Group. Product suite offered to these customers include credit cards, auto loans, housing finance and personal loans.

Islamic Banking

This segment primarily constitutes Islamic lending and deposits, banking services, cards and branchless banking.

Treasury

This includes fixed income, equity, foreign exchange, credit, funding, own position securities, lendings and borrowings and derivatives for hedging and market making.

Assets Management

It includes asset management, investment advisory, portfolio management, equity research and underwriting.

Others

This includes the head office related activities and other functions which cannot be classified in any of the above segments.

5.18.2 Geographical segments

The Group operates in three geographic regions being:

- Pakistan
- South Asia
- Middle East

5.19 Business combination

Business combinations other than under common control transaction are accounted for by applying the acquisition method. The cost of acquisition is measured as the fair value of assets given, equity instruments issued and the liabilities incurred or assumed at the date of acquisition. The consideration transferred includes the fair value of

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

any asset or liability resulting from a contingent consideration arrangement, if any. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets acquired in the case of a bargain purchase, the difference is recognized directly in the profit and loss account. The gain on bargain purchase arisen on acquisition had been recognised directly in equity as per the directive of the SBP.

5.20 Dividend distribution and appropriation

Dividends (including bonus dividend) and other appropriations (except appropriations which are required by law) are recognized in the period in which these are approved.

5.21 Earnings per share

The Group presents basic and diluted earnings per share (EPS). Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.

5.22 Subordinated debt

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018	2017
(Rupees in '000)			
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		18,425,271	19,051,929
Foreign currencies		3,091,560	3,508,250
		21,516,831	22,560,179
With State Bank of Pakistan in			
Local currency current account	6.1	43,735,552	48,926,928
Foreign currency current account	6.2	571,438	309,346
Foreign currency deposit account	6.3	12,841,393	9,285,512
		57,148,383	58,521,786
With other central banks in			
Foreign currency current account	6.4	5,197,681	6,809,706
With National Bank of Pakistan in			
Local currency current account		26,181,864	21,424,315
Prize bonds		120,247	146,916
		110,165,006	109,462,902

- 6.1

This represents current accounts maintained with the SBP under the Cash Reserve Requirement of section 22 of the Banking Companies Ordinance, 1962.
- 6.2

This represents US Dollar settlement account maintained with SBP.
- 6.3

This represents account maintained with the SBP to comply with the Special Cash Reserve requirement. This includes balance of Rs. 9,466.493 million (2017: Rs. 6,896.228 million) which carries interest rate of 1.35% (2017: 0.37%) per annum as declared by SBP.
- 6.4

Foreign currency current account with other central banks are maintained to meet their minimum cash reserves and capital requirements pertaining to the foreign branches of the Bank.

	Note	2018	2017
(Rupees in '000)			
7. BALANCES WITH OTHER BANKS			
In Pakistan			
In current account	7.1	3,812	3,593
In deposit account		1,011,404	2,199,274
		1,015,216	2,202,867
Outside Pakistan			
In current account	7.2	9,676,073	3,216,380
In deposit account		2,646,828	1,929,635
		12,322,901	5,146,015
		13,338,117	7,348,882

- 7.1

This represents savings accounts carrying profit at expected rates ranging from 0.03% to 9.95% per annum (2017: 0.05% to 5.75% per annum).
- 7.2

Balances with other banks outside Pakistan in deposit accounts carry interest rate ranging from 2.90% to 6% (2017: 1.85% to 11%) per annum.

	Note	2018	2017
(Rupees in '000)			
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Call / clean money lendings	8.1	1,437,978	3,254,496
Repurchase agreement lendings (Reverse Repo)	8.2	33,036,912	619,028
Musharaka arrangements	8.3	4,675,000	1,400,000
		39,149,890	5,273,524

- 8.1

Call money lendings carry mark-up rate ranging from 2.4% to 9.0% (2017: 1.25% to 8.15%) per annum and are due to mature latest by February 2019.
- 8.2

Repurchase agreement lendings carry mark-up rate ranging from 8.0% to 10.35% (2017: 7.25%) per annum and are due to mature latest by January 2019.
- 8.3

This represents Musharaka arrangements with banks carrying profit at expected rates ranging from 9.25% to 9.55% per annum (2017: 5.80% to 5.85% per annum) and are due to mature latest January, 2019.
- 8.4

Particulars of lending

	2018	2017
(Rupees in '000)		
In local currency	37,647,346	3,400,000
In foreign currencies	1,502,544	1,873,524
	39,149,890	5,273,524

	2018			2017		
	Held by Group	Further given as collateral	Total	Held by Group	Further given as collateral	Total
8.5						
Securities held as collateral against lending to financial institutions						
(Rupees in '000)						
Market Treasury Bills	32,972,346	-	32,972,346	619,028	-	619,028
Total	32,972,346	-	32,972,346	619,028	-	619,028

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

9. INVESTMENTS

9. INVESTMENTS		Note	2018				2017			
9.1	Investments by type:		Cost / Amortised cost	Provision for diminution	Surplus / (Deficit)	Carrying Value	Cost / Amortised cost	Provision for diminution	Surplus / (Deficit)	Carrying Value
			(Rupees in '000)							
	Held-for-trading securities									
	Federal Government Securities		9,348,153	-	(2,599)	9,345,554	4,975	-	(1)	4,974
	Shares and units		1,093,588	-	(45,167)	1,048,421	417,489	-	(271)	417,218
			10,441,741	-	(47,766)	10,393,975	422,464	-	(272)	422,192
	Available-for-sale securities									
	Federal Government Securities		683,373,062	-	(4,031,830)	679,341,232	587,558,784	-	5,890,410	593,449,194
	Shares and units		27,929,718	(8,253,849)	(279,499)	19,396,370	27,715,853	(5,419,932)	775,752	23,071,673
	Non Government Debt Securities		2,523,629	-	4,452	2,528,081	2,373,410	(122,865)	46,097	2,296,642
	Foreign Securities		2,545,151	-	(16,492)	2,528,659	2,447,967	-	7,813	2,455,780
			716,371,560	(8,253,849)	(4,323,369)	703,794,342	620,096,014	(5,542,797)	6,720,072	621,273,289
	Held-to-maturity securities									
	Federal Government Securities		21,859,645	(1,675)	-	21,857,970	23,486,700	-	-	23,486,700
	Provincial Government Securities		118	(118)	-	-	118	(118)	-	-
	Non Government Debt Securities		9,001,110	(490,924)	-	8,510,186	7,259,940	(442,068)	-	6,817,872
	Foreign Securities		5,809,776	-	-	5,809,776	3,613,954	-	-	3,613,954
			36,670,649	(492,717)	-	36,177,932	34,360,712	(442,186)	-	33,918,526
	Associates	9.8 & 9.9	4,019,526	-	-	4,019,526	4,456,239	-	-	4,456,239
	Total Investments		767,503,476	(8,746,566)	(4,371,135)	754,385,775	659,335,429	(5,984,983)	6,719,800	660,070,242

Note		2018				2017			
		Cost/ Amortised cost	Provision for diminution	Surplus / (Deficit)	Carrying Value	Cost/ Amortised cost	Provision for diminution	Surplus / (Deficit)	Carrying Value
9.2	Investments by segments:	(Rupees in '000)							
Federal Government Securities									
	Market Treasury Bills	575,683,207	-	(290,163)	575,393,044	382,036,988	-	(101,571)	381,935,417
	Pakistan Investment Bonds	127,913,919	-	(3,703,103)	124,210,816	222,838,154	-	5,990,602	228,828,756
	Ijarah Sukuks	8,592,680	-	(41,163)	8,551,517	5,858,821	-	1,378	5,860,199
	Euro Bonds	1,231,118	(1,675)	-	1,229,443	316,496	-	-	316,496
	Bai Mu'ajjal	1,159,936	-	-	1,159,936	-	-	-	-
		714,580,860	(1,675)	(4,034,429)	710,544,756	611,050,459	-	5,890,409	616,940,868
Provincial Government Securities		118	(118)	-	-	118	(118)	-	-
Shares:									
	Listed Companies	27,458,641	(8,092,709)	(324,666)	19,041,266	26,618,679	(5,258,792)	775,481	22,135,368
	Unlisted Companies	1,564,665	(161,140)	-	1,403,525	1,514,663	(161,140)	-	1,353,523
		29,023,306	(8,253,849)	(324,666)	20,444,791	28,133,342	(5,419,932)	775,481	23,488,891
Non Government Debt Securities									
	Listed	4,697,999	(16,269)	4,367	4,686,097	4,385,056	-	(2,862)	4,382,194
	Unlisted	6,826,740	(474,655)	85	6,352,170	5,248,294	(564,933)	48,959	4,732,320
		11,524,739	(490,924)	4,452	11,038,267	9,633,350	(564,933)	46,097	9,114,514
Foreign Securities									
	Government securities	7,870,174	-	(16,492)	7,853,682	5,510,642	-	7,813	5,518,455
	Non Government Debt securities	478,548	-	-	478,548	545,155	-	-	545,155
	Unlisted equity securities	6,205	-	-	6,205	6,124	-	-	6,124
		8,354,927	-	(16,492)	8,338,435	6,061,921	-	7,813	6,069,734
Associates									
	- Adamjee Insurance Company Limited	9.8	3,959,039	-	3,959,039	4,385,602	-	-	4,385,602
	- Euronet Pakistan (Private) Limited	9.9	60,487	-	60,487	70,637	-	-	70,637
			4,019,526	-	4,019,526	4,456,239	-	-	4,456,239
Total Investments		767,503,476	(8,746,566)	(4,371,135)	754,385,775	659,335,429	(5,984,983)	6,719,800	660,070,242

9.2.1 Investments given as collateral		2018	2017
		(Rupees in '000)	
- Market Treasury Bills		155,324,815	88,895,281
- Pakistan Investment Bonds		10,489,134	-
		165,813,949	88,895,281
9.3 Provision for diminution in value of investments			
9.3.1 Opening balance		5,984,983	1,886,821
Exchange adjustments		286	-
Charge / (reversals)			
Charge for the year		3,700,485	4,003,005
Reversals for the year		(4,620)	(236)
Reversal on disposals		(835,803)	(432,568)
		2,860,062	3,570,201
Transfer from NIB under merger		-	527,961
Amounts written off		(98,765)	-
Closing Balance		8,746,566	5,984,983
9.3.2 Particulars of provision against debt securities			
Category of classification		2018	2017
		NPI	Provision
		(Rupees in '000)	
Domestic			
Loss		492,717	565,051

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

		2018	2017
		Cost	
		(Rupees in '000)	
9.4	Quality of Available for Sale Securities		
	Details regarding quality of Available for Sale (AFS) securities are as follows;		
	Federal Government Securities - Government guaranteed		
	Market Treasury Bills	566,335,054	382,032,013
	Pakistan Investment Bonds	108,585,929	199,781,211
	GOP Ijarah Sukuks	8,452,079	5,745,560
		683,373,062	587,558,784
	Listed Companies and mutual funds		
	Automobile Assembler	1,316,749	822,923
	Automobile Part and Accessories	413,930	413,930
	Cable and Electrical Goods	671,668	490,014
	Cement	2,081,418	1,915,015
	Chemical	5,132	226,866
	Close End Mutual Fund	1,186,851	2,235,697
	Commercial Banks	2,058,099	2,343,137
	Engineering	2,132,161	1,695,870
	Fertilizer	3,287,154	3,571,526
	Food And Personal Care Products	1,230,825	1,115,588
	Insurance	587,629	706,842
	Investment Banks / Companies	41,784	41,784
	NIT Units	5,253	5,253
	Oil & Gas Exploration Companies	1,733,239	1,567,223
	Oil & Gas Marketing Companies	1,413,084	1,412,824
	Open End Mutual Fund	1,361,195	990,014
	Paper And Board	700,059	673,909
	Pharmaceutical	1,230,159	1,232,608
	Power Generation and Distribution	2,702,805	2,702,804
	Real Estate Investment Trust	-	174,678
	Refinery	981,399	981,399
	Technology And Communication	706,211	588,142
	Textile	518,249	293,071
	Transport	-	71
		26,365,053	26,201,188

	2018		2017	
	Cost	Breakup value	Cost	Breakup value
	(Rupees in '000)			
Unlisted Companies				
Central Depository Company Limited	184,426	619,651	184,426	584,268
First Capital Investment (Pvt) Limited	2,500	3,334	2,500	3,945
First Women Bank Limited	63,300	201,807	63,300	212,247
ISE Towers Reit Management Company Limited	30,346	86,235	30,346	71,358
National Investment Trust Limited	1,027,651	1,945,933	1,027,651	2,158,061
National Institutional Facilitation Technologies	1,527	59,076	1,527	55,793
Pak Agro Storage And Service Corporation	2,500	605,006	2,500	570,946
Pak Asian Fund Limited	11,500	18,323	11,500	19,530
Arabian Sea Country Club	5,000	-	5,000	-
SME Bank Limited	10,106	-	10,106	-
Al-Ameen Textile Mills Limited	197	-	197	-
Custodian Management Services	1,000	-	1,000	-
Galaxy Textile Mills Limited	30,178	-	30,178	-
Pakistan Textile City (Pvt) Limited	50,000	-	50,000	-
1 Link (Pvt) Limited	50,000	131,847	-	-
Ayaz Textile Mills Limited	2,253	-	2,253	-
Musarrat Textile Mills Limited	36,045	-	36,045	-
Sadiqabad Textile Mills Limited	26,361	-	26,361	-
Al-Arabia Sugar Mills Limited - Preference shares	4,775	-	4,775	-
Pak Elektron Limited - Preference shares	25,000	25,000	25,000	25,000
	1,564,665	3,696,212	1,514,665	3,701,148

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018		2017	
	Cost		Cost	
	(Rupees in '000)		(Rupees in '000)	
Non Government Debt Securities				
Listed				
- AA+, AA, AA-			882,840	654,553
- A+, A, A-			129,000	179,062
			1,011,840	833,615
Unlisted				
- AA+, AA, AA-			1,411,789	1,054,842
- A+, A, A-			100,000	362,088
- Unrated			-	122,865
			1,511,789	1,539,795
Foreign Securities				
	2018		2017	
Government Securities	Cost	Rating	Cost	Rating
	(Rupees in '000)		(Rupees in '000)	
- Bahrain	140,078	B2	111,515	B1
- Sri Lanka	2,398,868	B2	2,330,328	B1
	2,538,946		2,441,843	
	2018		2017	
	Cost		Cost	
	(Rupees in '000)		(Rupees in '000)	
Unlisted				
Lanka Clear (Private) Limited			760	720
Credit Information Bureau of Sri Lanka			22	21
Lanka Financial Services Bureau Limited			760	720
Society for Worldwide Inter Fund Transfer (SWIFT)			4,663	4,663
			6,205	6,124
9.5 Particulars relating to Held to Maturity securities are as follows:				
Federal Government Securities - Government guaranteed				
Pakistan Investment Bonds			19,327,990	23,056,943
Ijarah Sukuks			140,601	113,261
Euro Bonds			1,231,118	316,496
Bai Mu'ajjal			1,159,936	-
			21,859,645	23,486,700
Provincial Government Securities			118	118
Non Government Debt Securities				
Listed				
- AA+, AA, AA-			4,728,839	2,735,442
- BBB+, BBB, BBB-			50,051	-
- Unrated			16,269	8,135
			4,795,159	2,743,577
Unlisted				
- AA+, AA, AA-			3,099,684	3,420,878
- A+, A, A-			481,613	241,667
- BBB+, BBB, BBB-			-	90,000
- Unrated			624,654	763,818
			4,205,951	4,516,363
Foreign Securities				
Government Securities	2018		2017	
	Cost	Rating	Cost	Rating
	(Rupees in '000)		(Rupees in '000)	
- Sri Lanka	1,172,721	B2	664,015	B1
- United Arab Emirates	4,158,507	Aa2	2,404,784	Aa2
	5,331,228		3,068,799	
	2018		2017	
	Cost		Cost	
	(Rupees in '000)		(Rupees in '000)	
Non Government Debt Securities				
Listed				
- A+, A, A-			136,729	221,246
			136,729	221,246
Unlisted				
- AA+, AA, AA-			265,860	-
- A+, A, A-			75,959	323,909
			341,819	323,909

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

- 9.5.1

The market value of securities classified as held-to-maturity as at December 31, 2018 amounted to Rs. 34,895.775 million (December 31, 2017: Rs. 33,979.581 million).
- 9.6

"Available for sale" Market Treasury Bills and Pakistan Investment Bonds are eligible for rediscounting with the State Bank of Pakistan.
- 9.7

Investments include Pakistan Investment Bonds amounting to Rs. 67.9 million (2017: Rs. 67.9 million) earmarked by the SBP against TT discounting facilities sanctioned to the Bank. In addition, Pakistan Investment Bonds amounting to Rs. 5 million (2017: Rs. 5 million) have been pledged with the Controller of Military Accounts on account of Regimental Fund account and Pakistan Investment Bonds amounting to Rs. 50 million (2017: Rs. NIL) have been pledged with the National Clearing Company of Pakistan Limited (NCCPL) on account of removal of irrevocable undertaking as alternate option for collateral against participant's exposure in stock market.
- 9.8

Investment of the Group in Adamjee Insurance Company Limited has been accounted for under the equity method of accounting in accordance with the treatment specified in International Accounting Standard 28, (IAS 28) 'Accounting for Investments in Associates'. The market value of the investment in Adamjee Insurance Company Limited as at December 31, 2018 amounted to Rs. 2,941.400 million (2017: Rs. 3,906.139 million).

Investment in Adamjee Insurance Company Limited under equity method - holding 20.00% (2017: 21.47%)

	2018 (Rupees in '000)	2017
Opening balance	4,385,602	5,375,158
Share of profit for the year before tax	446,121	426,892
Dividend from associate	(140,000)	(302,497)
Share of tax	(208,759)	(119,142)
	97,362	5,253
Share of other comprehensive income	(222,761)	(335,698)
Disposal during the year	(301,164)	(659,111)
Closing balance	3,959,039	4,385,602
Share of other comprehensive income		
Share of unrealized surplus on assets -net of tax	(239,821)	51,160
Share of exchange translation reserve of associate	17,060	1,053
	(222,761)	52,213

- 9.9

Investment of the Group in Euronet Pakistan Private Limited has been accounted for under the equity method of accounting in accordance with the treatment specified in International Accounting Standard 28, (IAS 28) 'Accounting for Investments in Associates'.
- Investment in Euronet Pakistan Private Limited under equity method - holding 30% (2017: 30.00%)

	2018 (Rupees in '000)	2017
Opening balance	70,637	72,357
Share of profit for the year before tax	136	6,227
Share of tax	(10,286)	(7,947)
Closing balance	(10,150)	(1,720)
	60,487	70,637

- 9.10

Certain approved/ Government securities are kept with the SBP to meet statutory liquidity requirements calculated on the basis of domestic demand and time liabilities.

9.11

Summarized financial information of associates

	Country of incorporation	% of interest held	Revenue	Profit / (loss) after tax	Assets	Liabilities
(Rupees in '000)						
2018						
Associates						
- Euronet Pakistan (Private) Limited (unaudited based on December 31, 2018)	Pakistan	30%	368,852	(30,157)	411,190	209,566
- Adamjee Insurance Company Limited (unaudited based on September 30, 2018)	Pakistan	20%	18,872,622	1,505,199	79,330,901	28,609,789
2017						
Associates						
- Euronet Pakistan (Private) Limited (audited based on December 31, 2017)	Pakistan	30%	374,477	(11,415)	402,031	170,250
- Adamjee Insurance Company (audited based on December 31, 2017)	Pakistan	21.47%	22,844,109	1,199,841	71,050,513	26,600,515

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

10. ADVANCES

		Note	Performing		Non Performing		Total	
			2018	2017	2018	2017	2018	2017
(Rupees in '000)								
Loans, cash credits, running finances, etc.	10.1	480,263,372	445,424,427	47,976,277	47,665,373	528,239,649	493,089,800	
Islamic financing and related assets	10.2	62,911,298	31,312,675	10,766	729	62,922,064	31,313,404	
Bills discounted and purchased		17,887,661	21,181,250	979,271	1,087,247	18,866,932	22,268,497	
Advances - gross		561,062,331	497,918,352	48,966,314	48,753,349	610,028,645	546,671,701	
Provision against advances								
- Specific		-	-	(41,944,267)	(44,587,644)	(41,944,267)	(44,587,644)	
- General		(1,292,113)	(1,118,256)	-	-	(1,292,113)	(1,118,256)	
		(1,292,113)	(1,118,256)	(41,944,267)	(44,587,644)	(43,236,380)	(45,705,900)	
Advances - net of provision		559,770,218	496,800,096	7,022,047	4,165,705	566,792,265	500,965,801	

10.1 Includes Net Investment in Finance Lease as disclosed below:

	2018				2017			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
(Rupees in '000)								
Lease rentals receivable	555,270	2,445,911	2,721,816	5,722,997	386,574	2,142,165	2,789,791	5,318,530
Residual value	15,000	25,867	5,397	46,264	17,779	35,590	4,837	58,206
Minimum lease payments	570,270	2,471,778	2,727,213	5,769,261	404,353	2,177,755	2,794,628	5,376,736
Financial charges for future periods	(119,266)	(252,971)	(496,750)	(868,987)	(88,716)	(177,054)	(408,920)	(674,690)
Present value of minimum lease payments	451,004	2,218,807	2,230,463	4,900,274	315,637	2,000,701	2,385,708	4,702,046

10.2 Information relating to Islamic financing and related assets is given in Annexure II of these consolidated financial statements.

	2018	2017
	(Rupees in '000)	
10.3 Particulars of advances (Gross)		
In local currency	565,091,153	497,328,744
In foreign currencies	44,937,492	49,342,957
	610,028,645	546,671,701

10.4 Advances include Rs. 48,966,314 million (2017: Rs. 48,753,349 million) which have been placed under the non-performing status as detailed below:

Category of Classification	Note	2018		2017	
		Non Performing	Provision	Non Performing	Provision
		(Rupees in '000)			
Domestic					
Other Assets Especially Mentioned	10.4.1	59,044	2,591	171,209	9,934
Substandard		1,141,973	284,372	396,984	98,475
Doubtful		1,734,078	866,961	218,714	109,357
Loss		38,336,785	37,706,704	41,870,001	41,114,522
		41,271,880	38,860,628	42,656,908	41,332,288
Overseas					
Not past due but impaired		62,287	62,287	364	91
Overdue by:					
Upto 90 days		624,403	433,424	-	-
91 to 180 days		140,323	35,205	186,552	70,584
181 to 365 days		7,473	3,736	344,151	172,075
> 365 days		6,859,948	2,548,987	5,565,374	3,012,606
		7,694,434	3,083,639	6,096,441	3,255,356
Total		48,966,314	41,944,267	48,753,349	44,587,644

10.4.1 This represents non-performing portfolio of agricultural and small enterprise financing classified as OAE as per the requirements of the Prudential Regulation for Agricultural and Small Enterprise Financing issued by the State Bank of Pakistan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

10.5 Particulars of provision against advances

		Note	2018			2017		
			Specific	General	Total	Specific	General	Total
(Rupees in '000)								
	Opening balance		44,587,644	1,118,256	45,705,900	18,939,120	760,194	19,699,314
	Transfer from NIB under merger	10.5.3	-	-	-	28,769,002	178,878	28,947,880
	Exchange adjustments		513,168	19,014	532,182	101,986	1,753	103,739
	Charge for the year		1,613,591	158,663	1,772,254	3,162,762	177,431	3,340,193
	Reversals	10.5.4	(4,618,549)	(3,820)	(4,622,369)	(6,234,695)	-	(6,234,695)
			(3,004,958)	154,843	(2,850,115)	(3,071,933)	177,431	(2,894,502)
	Amounts written off	10.6	(151,587)	-	(151,587)	(150,531)	-	(150,531)
	Closing balance		41,944,267	1,292,113	43,236,380	44,587,644	1,118,256	45,705,900

10.5.1 Particulars of provision against advances

In local currency	38,860,628	1,100,149	39,960,777	41,331,559	1,037,477	42,369,036
In foreign currencies	3,083,639	191,964	3,275,603	3,255,356	77,614	3,332,970
	41,944,267	1,292,113	43,236,380	44,586,915	1,115,091	45,702,006

10.5.2 State Bank of Pakistan vide BSD Circular No. 2 dated January 27, 2009, BSD Circular No. 10 dated October 20, 2009, BSD Circular No. 02 of 2010 dated June 03, 2010 and BSD Circular No.1 of 2011 dated October 21, 2011 has allowed benefit of forced sale value (FSV) of Plant & Machinery under charge, pledged stock and mortgaged residential, commercial & industrial properties (land and building only) held as collateral against NPLs for five years from the date of classification. However, management has not taken the FSV benefit in calculation of specific provision.

10.5.3 In 2017, classified portfolio amounting to Rs. 29,649.756 million had been transferred from NIB Bank Limited under merger scheme.

10.5.4 This includes reversal of provisions and reduction of non-performing loans amounting to Rs. 307 million (2017: Rs. 164 million) as a result of settlement on debt asset swap arrangement with customers.

10.5.5 General provision against consumer loans represents provision maintained against fully secured performing portfolio and unsecured performing portfolio as required by the Prudential Regulations issued by the SBP. General provision against Small Enterprise Finance represents provision maintained at an amount equal to 1% of unsecured performing portfolio as required by the Prudential Regulations issued by the SBP. General provisions pertaining to overseas advances are made in accordance with the requirements of the regulatory authorities of the respective countries in which the overseas branches operate. General provision against all other advances represents provision maintained at around 0.1% of gross advances.

	Note	2018	2017
(Rupees in '000)			
10.6 Particulars of write offs:			
10.6.1 Against Provisions	10.5	151,587	150,531
Directly charged to Profit & Loss account	33	30	14
		151,617	150,545
10.6.2 Write Offs of Rs. 500,000 and above			
- Domestic	10.7	151,393	150,336
- Overseas		-	-
Write Offs of below Rs. 500,000		224	209
		151,617	150,545

10.7 Details of loan write off 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 Rupees five hundred thousand or above allowed to a person(s) during the year ended December 31, 2018 is given at Annexure- I of unconsolidated financial statements. However, this write off does not affect the Bank's right to recover the debts from these customers.

	Note	2018	2017
(Rupees in '000)			
11. FIXED ASSETS			
Capital work-in-progress	11.1	1,759,606	1,159,870
Property and equipment	11.2	42,029,595	40,232,017
		43,789,201	41,391,887
11.1 Capital work-in-progress			
Civil works		719,229	544,588
Advances to suppliers		1,005,655	576,832
Others		34,722	38,450
		1,759,606	1,159,870

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

11.2 Property and Equipment

	2018								
	Freehold land	Leasehold land	Building on Freehold land	Building on Leasehold land	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Leasehold Improvements	Total
	(Rupees '000)								
At January 1, 2018									
Cost / Revalued amount	19,651,902	2,392,866	11,598,762	460,136	1,734,672	14,673,873	1,160,908	702,531	52,375,650
Accumulated depreciation	-	-	(543,788)	(96,357)	(1,021,937)	(9,594,418)	(582,315)	(304,818)	(12,143,633)
Net book value	19,651,902	2,392,866	11,054,974	363,779	712,735	5,079,455	578,593	397,713	40,232,017
Year ended December 31, 2018									
Opening net book value	19,651,902	2,392,866	11,054,974	363,779	712,735	5,079,455	578,593	397,713	40,232,017
Additions	888,213	47,285	957,666	98,338	225,696	1,553,797	179,485	262,146	4,212,626
Transfer from Non-Banking assets	-	-	101,714	-	-	-	-	-	101,714
Disposals	(253,112)	-	(52,728)	-	(1,269)	(1,176)	(20,569)	-	(328,854)
Depreciation charge	-	-	(345,021)	(20,021)	(135,042)	(1,409,898)	(146,590)	(149,269)	(2,205,841)
Write off	-	-	-	-	(701)	-	-	(2,399)	(3,100)
Exchange rate adjustments	-	-	4,139	4,357	4,134	5,453	1,840	1,110	21,033
Closing net book value	20,287,003	2,440,151	11,720,744	446,453	805,553	5,227,631	592,759	509,301	42,029,595
At December 31, 2018									
Cost / Revalued amount	20,287,003	2,440,151	12,602,260	563,273	1,831,107	15,115,272	1,231,531	870,429	54,941,026
Accumulated depreciation	-	-	(881,516)	(116,820)	(1,025,554)	(9,887,641)	(638,772)	(361,128)	(12,911,431)
Net book value	20,287,003	2,440,151	11,720,744	446,453	805,553	5,227,631	592,759	509,301	42,029,595
	-	-	-	-	-	-	-	-	-
Rate of depreciation / estimated useful life	-	-	Upto 60 years	Upto 50 years	10%	10%-25%	20%	33.33%	-
	2017								
	Freehold land	Leasehold land	Building on Freehold land	Building on Leasehold land	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Leasehold Improvements	Total
	(Rupees '000)								
At January 1, 2017									
Cost / Revalued amount	17,412,390	309,941	10,104,984	140,221	1,285,143	11,431,857	969,580	973,508	42,627,624
Accumulated depreciation	-	-	(9,667)	-	(770,272)	(7,918,313)	(463,239)	(719,076)	(9,880,587)
Net book value	17,412,390	309,941	10,095,297	140,221	514,871	3,513,544	506,341	254,432	32,747,037
Year ended December 31, 2017									
Opening net book value	17,412,390	309,941	10,095,297	140,221	514,871	3,513,544	506,341	254,432	32,747,037
Additions	1,433,991	-	743,537	15,434	241,361	2,354,575	222,705	261,549	5,273,152
Revaluation surplus	11,072	-	1,868	-	-	-	-	-	12,940
Acquisitions through business combinations	794,449	2,082,925	508,299	218,734	72,306	388,041	1,236	-	4,065,990
Disposals	-	-	-	-	(470)	(4,421)	(13,549)	-	(18,440)
Depreciation charge	-	-	(296,083)	(11,575)	(117,838)	(1,171,472)	(138,760)	(122,738)	(1,858,466)
Write off	-	-	-	-	(5)	(8)	-	-	(13)
Exchange rate adjustments	-	-	2,056	965	2,510	(804)	620	4,470	9,817
Closing net book value	19,651,902	2,392,866	11,054,974	363,779	712,735	5,079,455	578,593	397,713	40,232,017
At December 31, 2017									
Cost / Revalued amount	19,651,902	2,392,866	11,598,762	460,136	1,734,672	14,673,873	1,160,908	702,531	52,375,650
Accumulated depreciation	-	-	(543,788)	(96,357)	(1,021,937)	(9,594,418)	(582,315)	(304,818)	(12,143,633)
Net book value	19,651,902	2,392,866	11,054,974	363,779	712,735	5,079,455	578,593	397,713	40,232,017
	-	-	-	-	-	-	-	-	-
Rate of depreciation / estimated useful life	-	-	Upto 60 years	Upto 50 years	10%	10%-25%	20%	33.33%	-
11.2.1	Leasehold land include a plot of land having book value of Rs. 1,092.161 million situated in Railway Quarters, I.I. Chundrigar Road, Karachi, (the "Plot"), where a tenant is claiming for the possession as tenant of an insignificant area of only 18 square feet of the plot measuring 3,120.46 square yards, however there is no issue over the title of the subject property. Both the Constitutional Petitions filed by the Group have been dismissed by the Sindh High Court on 28 January 2016 against the Group. The Group has filed an appeal before the Supreme Court of Pakistan.								
11.2.2	The land and buildings of the Group were revalued as at December 31, 2016 by independent valuers (Arch-e-Decon, Tristar International Consultant (Pvt) Limited & Sardar Enterprises), valuation and engineering consultants, on the basis of market value. The total surplus against revaluation of fixed assets as at December 31, 2018 amounts to Rs. 13,685,180 million.								
11.2.3	Had the land and buildings not been revalued, the total carrying amounts of revalued properties as at December 31, 2018 would have been as follows:								
	(Rupees in '000)								
Land	11,951,978								
Buildings	9,257,193								
11.2.4	The gross carrying amount (cost) of fully depreciated assets that are still in use are as follows:								
	(Rupees in '000)								
Furniture and fixture	452,614								
Electrical, computers and office equipment	6,470,998								
Vehicles	317,352								
Leasehold Improvements	31,541								
11.2.5	Carrying amount of temporarily idle property of the Group is Rs. 45,485 million (2017: Rs. 74,980 million)								
11.2.6	The information relating to disposal of operating fixed assets to related parties is given in Annexure I of these consolidated financial statements.								

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

12. INTANGIBLE ASSETS

	2018			
	Computer Software	Goodwill	Management rights	Total
	(Rupees in '000)			
At January 1				
Cost	3,791,731	82,127	192,000	4,065,858
Accumulated amortisation	(2,892,297)	-	-	(2,892,297)
Net book value	899,434	82,127	192,000	1,173,561
Year ended December 31				
Opening net book value	899,434	82,127	192,000	1,173,561
Additions - directly purchased	376,872	-	-	376,872
Amortisation charge	(356,533)	-	-	(356,533)
Exchange rate adjustments	757	-	-	757
Closing net book value	920,530	82,127	192,000	1,194,657
At December 31				
Cost	4,114,222	82,127	192,000	4,388,349
Accumulated amortisation and impairment	(3,193,692)	-	-	(3,193,692)
Net book value	920,530	82,127	192,000	1,194,657
Rate of amortisation (percentage)			14% to 33.33%	14% to 33.33%
Useful life			3 - 7 years	3 - 7 years

12.1 The gross carrying amount (cost) of fully depreciated intangible assets that are still in use is Rs. 2,527.489 million.

	2017			
	Computer Software	Goodwill	Management rights	Total
	(Rupees in '000)			
At January 1				
Cost	3,217,607	82,127	192,000	3,491,734
Accumulated amortisation	(2,756,996)	-	-	(2,756,996)
Net book value	460,611	82,127	192,000	734,738
Year ended December 31				
Opening net book value	460,611	82,127	192,000	734,738
Additions - directly purchased	717,113	-	-	717,113
Amortisation charge	(278,366)	-	-	(278,366)
Exchange rate adjustments	76	-	-	76
Closing net book value	899,434	82,127	192,000	1,173,561
At December 31				
Cost	3,791,731	82,127	192,000	4,065,858
Accumulated amortisation and impairment	(2,892,297)	-	-	(2,892,297)
Net book value	899,434	82,127	192,000	1,173,561
Rate of amortisation (percentage)			14% to 33.33%	14% to 33.33%
Useful life			3 - 7 years	3 - 7 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018 (Rupees in '000)	2017
13. OTHER ASSETS			
Income/ mark-up accrued in local currency		12,291,231	13,734,873
Income/ mark-up accrued in foreign currencies		134,709	319,995
Advances, deposits, advance rent and other prepayment		2,737,424	2,199,223
Advance taxation (payments less provisions)		7,464,966	13,758,353
Compensation for delayed income tax refunds		133,809	239,947
Non-banking assets acquired in satisfaction of claims	13.1	3,653,840	4,095,546
Branch adjustment account		-	210,802
Mark to market gain on forward foreign exchange contracts		3,690,505	2,866,382
Unrealized gain on derivative financial instruments		852,465	38,569
Acceptances	20	16,256,882	16,061,606
Receivable from the pension fund	38.4	3,815,170	5,990,536
Others		7,433,809	7,091,149
		58,464,810	66,606,981
Less: Provision held against other assets	13.2	2,550,585	3,016,793
Other Assets (net of provision)		55,914,225	63,590,188
Surplus on revaluation of non-banking assets acquired in satisfaction of claims		480,871	215,065
Other Assets - total		56,395,096	63,805,253
		4,035,114	4,288,001

13.1 Market value of Non-banking assets acquired in satisfaction of claims

Non-banking assets acquired in satisfaction of claims of the Group are revalued as at December 31, 2018 by independent valuers (Arch-e-Decon, Fks Building Services, T&M Associates, Orient Engineering Services & Sama Engineering), valuation and engineering consultants, on the basis of market value.

	Note	2018 (Rupees in '000)	2017
13.1.1 Non-banking assets acquired in satisfaction of claims			
Opening balance		4,288,001	1,180,750
Additions		309,163	199,167
Revaluation / (reversal on disposal)		265,806	(2,395)
Disposals		(600,000)	(107,555)
Depreciation		(49,155)	(29,947)
Acquisitions through business combinations		-	3,047,981
Impairment		(76,987)	-
Transfer to fixed assets		(101,714)	-
Closing balance		4,035,114	4,288,001

13.1.2 Gain / (loss) on disposal of non-banking assets acquired in satisfaction of claims

Disposal proceeds		682,410	108,070
less			
- Cost		600,500	107,555
- Depreciation		(500)	-
		600,000	107,555
Gain	13.1.2.1	82,410	515

13.1.2.1 This represents gain on sale of a plot in Clifton Karachi.

13.2 Provision held against other assets

Non banking assets acquired in satisfaction of claims		99,597	22,610
Others		2,450,988	2,994,183
	13.2.1	2,550,585	3,016,793

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

13.2.1 Movement in provision held against other assets

	Note	2018	2017
(Rupees in '000)			
Opening balance		3,016,793	1,564,036
Charge for the year		112,529	562,827
Reversals		(721,119)	-
	33	(608,590)	562,827
Transfer from NIB under merger		-	916,248
Amount written off		(7,180)	(9,448)
Exchange and other adjustments		149,562	(16,870)
Closing balance		2,550,585	3,016,793

14. CONTINGENT ASSETS

There were no contingent assets of the Group as at December 31, 2018 (2017: NIL).

15. BILLS PAYABLE

In Pakistan	16,948,744	22,952,467
Outside Pakistan	54,528	42,410
	17,003,272	22,994,877

16. BORROWINGS

Secured

Borrowings from State Bank of Pakistan			
Under export refinance scheme	16.1	29,430,925	25,784,165
Under long term financing facility	16.2	14,628,994	12,797,076
Under renewable energy performance platform	16.3	28,420	3,680
Under financing facility for storage of agricultural produce	16.4	165,267	254,045
		44,253,606	38,838,966
Repurchase agreement borrowings	16.5	165,703,249	88,849,251
Total secured		209,956,855	127,688,217

Unsecured

Borrowings from other financial institution	16.6	6,324,169	8,259,274
Call borrowings	16.7	4,826,699	3,285,818
Overdrawn nostro accounts		1,946,106	1,066,543
Others		162,286	162,286
		13,259,260	12,773,921
Total unsecured	16.8	223,216,115	140,462,138

- 16.1

The Group has entered into agreements for financing with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the agreements, the Group has granted SBP the right to recover the outstanding amount from the Group at the date of maturity of the finance by directly debiting the current account maintained by the Group with SBP. These borrowings are repayable within six months. These carry mark up rates ranging from 1.0% to 2.0% per annum.
- 16.2

These borrowings have been obtained from the SBP for providing financing facilities to exporters for adoption of new technologies and modernization of their plant and machinery. These borrowings are repayable within a period ranging from 3 years to 10 years. These carry mark up rates ranging from 3.0% to 4.50% per annum.
- 16.3

These borrowings have been obtained from the SBP for providing financing facilities to customers against renewable energy projects. These borrowings are repayable within a period of twelve years with two years grace period from date of disbursement. These carry mark up rate of 6% per annum.
- 16.4

These Borrowings have been obtained from SBP under "Financing Facility for Storage of Agricultural Produce (FFSAP)" to encourage Private Sector to establish Silos, Warehouses and Cold Storages. These borrowings are repayable within a period ranging from 3 years to 10 years. These carry mark up rates ranging from 2.50% to 3.50% per annum.
- 16.5

These carry mark-up rates ranging from 9.0% to 10.25% per annum (2017: 5.65% to 9.02% per annum) and are secured against government securities of carrying value of Rs. 165,813,949 million (2017: Rs. 88,895,281 million). These are repayable latest by March 2019.
- 16.6

These carry mark-up rate ranging from 2.30% to 13.0% per annum (2017: 1.60% to 11.15% per annum).
- 16.7

These carry mark-up ranging from 2.25% to 10.25% per annum (2017: 0.75% to 5.70% per annum). These are repayable by June 2019.

		2018	2017
(Rupees in '000)			
16.8	Particulars of borrowings with respect to currencies		
	In local currency	219,160,751	134,348,131
	In foreign currencies	4,055,364	6,114,007
		223,216,115	140,462,138

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

17. DEPOSITS AND OTHER ACCOUNTS

	2018			2017		
	In Local Currency	In Foreign Currencies	Total	In Local Currency	In Foreign Currencies	Total
(Rupees in '000)						
Customers						
Current deposits	346,298,054	36,242,971	382,541,025	313,237,032	27,631,923	340,868,955
Savings deposits	532,295,382	41,139,150	573,434,532	494,392,390	33,404,587	527,796,977
Term deposits	78,181,102	13,981,644	92,162,746	60,542,815	10,295,359	70,838,174
Others	30,699,847	4,340,402	35,040,249	31,901,875	2,609,953	34,511,828
	987,474,385	95,704,167	1,083,178,552	900,074,112	73,941,822	974,015,934
Financial Institutions						
Current deposits	7,633,474	2,268,698	9,902,172	8,794,327	1,574,288	10,368,615
Savings deposits	16,647,671	20,548	16,668,219	11,434,894	15,540	11,450,434
Term deposits	5,736,081	6,544,203	12,280,284	4,366,585	717,001	5,083,586
Others	-	277,308	277,308	-	227,593	227,593
	30,017,226	9,110,757	39,127,983	24,595,806	2,534,422	27,130,228
	1,017,491,611	104,814,924	1,122,306,535	924,669,918	76,476,244	1,001,146,162

		2018	2017
		(Rupees in '000)	
17.1 Composition of deposits			
- Individuals		700,871,292	614,325,491
- Government (Federal and Provincial)		56,639,743	45,076,254
- Public Sector Entities		54,340,556	41,577,188
- Banking Companies		7,653,537	4,491,299
- Non-Banking Financial Institutions		31,437,255	22,638,929
- Private Sector		271,364,152	273,037,001
		1,122,306,535	1,001,146,162

17.2 Deposits and other accounts include deposits eligible to be covered under the Deposits Protection insurance arrangements amounting to Rs 719,677.340 million (2017:Rs 699,130,510 million).

18. SUBORDINATED DEBT

		2018	2017
		(Rupees in '000)	
Term Finance Certificates - Listed, Unsecured		3,891,019	3,892,578
Issue amount	Rs. 4,198,035 million		
Issue date	June 19, 2014		
Maturity date	June 19, 2022		
Rating	AAA (triple A)		
Security	The TFCs are unsecured and subordinated to all other indebtedness of the Group including deposits		
Profit payment frequency	Semi-Annually		
Redemption	Fifteen equal semi-annual installments of 0.02% of the Issue Amount for the first ninety months followed by remaining 99.70% on maturity at the end of the ninety sixth month.		
Mark-up	Floating (no floor, no cap) rate of return at Base Rate + 1.15% (The Base Rate is defined as the average "Ask Side" rate of the six month Karachi Interbank Offered Rate ("KIBOR"))		
Call option	The Group may call the TFCs, in part or full, on any profit payment date from the 60th month from the last day of public subscription and on all subsequent profit payment dates, subject to the SBP approval and not less than forty five days prior notice being given to the Trustee and the Investors.		
Lock-in-clause	Neither profit nor principal can be paid (even at maturity) if such payments will result in a shortfall in the Group's Minimum Capital Requirements (MCR) or Capital Adequacy Ratio (CAR) or increase any existing shortfall in MCR and CAR. In case the lock-in clause goes into effect, the Group will be required to comply with the SBP instructions prevalent or issued at the time.		
Loss absorbency clause	The TFCs will be subject to loss absorbency clause as stipulated under the "Instructions for Basel III Implementation in Pakistan".		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

19. DEFERRED TAX LIABILITIES

		2018			
	Note	At January 01, 2018	Recognised in P&L/A/C	Recognised in OCI	At December 31, 2018
(Rupees in '000)					
Taxable Temporary Differences on					
- Surplus on revaluation of fixed assets	23.1	1,051,507	(33,005)	-	1,018,502
- Surplus on revaluation of Non-banking assets	23.2	75,273	-	93,032	168,305
- Accelerated tax depreciation		1,704,905	108,475	(2,546)	1,810,834
- Receivable from pension fund		2,096,688	(225,585)	(535,794)	1,335,309
- Business combination		705,218	-	-	705,218
- Investments in associated undertaking		1,291,483	(34,648)	(97,929)	1,158,906
- Surplus/deficit on revaluation of investments	23	2,260,717	-	(2,260,717)	-
		9,185,791	(184,763)	(2,803,954)	6,197,074
Deductible Temporary Differences on					
- Tax losses carried forward		(209,657)	(608,995)	-	(818,652)
- Post retirement employee benefits		(201)	201	-	-
- Provision against advances		(3,282,517)	1,490,749	-	(1,791,768)
- Others		(32,343)	(60,412)	-	(92,755)
- Surplus/deficit on revaluation of investments	23	-	4,989	(1,515,743)	(1,510,754)
		(3,524,718)	826,532	(1,515,743)	(4,213,929)
		5,661,073	641,769	(4,319,697)	1,983,145

		2017				
		At January 01, 2017	Recognised in P&L/A/C	Recognised in OCI	Adjustment due to merger	At December 31, 2017
(Rupees in '000)						
Taxable Temporary Differences on						
- Surplus on revaluation of fixed assets	23.1	1,080,165	(29,312)	654	-	1,051,507
- Surplus on revaluation of non-banking assets	23.2	76,111	-	(838)	-	75,273
- Accelerated tax depreciation		1,511,887	195,555	(2,537)	-	1,704,905
- Receivable from pension fund		2,720,719	200,056	(824,087)	-	2,096,688
- Business combination		-	-	-	705,218	705,218
- Investments in associated undertaking		1,563,003	(137,772)	(133,748)	-	1,291,483
- Surplus on revaluation of investments	23	6,005,556	-	(3,744,839)	-	2,260,717
		12,957,441	228,527	(4,705,395)	705,218	9,185,791
Deductible Temporary Differences on						
- Tax losses carried forward		(34,142)	2,605,785	-	(2,781,300)	(209,657)
- Post retirement employee benefits		(7,945)	7,744	-	-	(201)
- Provision against advances		(7,048)	3,135,408	-	(6,410,877)	(3,282,517)
- Others		(18,657)	902,829	-	(916,515)	(32,343)
		(67,792)	6,651,766	-	(10,108,692)	(3,524,718)
		12,889,649	6,880,293	(4,705,395)	(9,403,474)	5,661,073

20. OTHER LIABILITIES

	Note	2018	2017
(Rupees in '000)			
Mark-up/ return/ interest payable in local currency		13,166,020	7,810,866
Mark-up/ return/ interest payable in foreign currencies		478,001	302,603
Unearned commission and income on bills discounted		231,516	207,738
Accrued expenses		5,415,975	5,658,985
Workers' welfare fund	20.1	7,099,086	6,454,782
Acceptances	13	16,256,882	16,061,606
Unclaimed/dividends payable		1,474,816	2,604,551
Mark to market loss on forward foreign exchange contracts		3,495,971	2,338,530
Unrealized loss on derivative financial instruments		863,617	28,076
Staff welfare fund		5,490	5,661
Branch adjustment account		44,770	-
Provision for employees' compensated absences	38.4	1,028,129	1,145,135
Provision for post retirement medical benefits	38.4	1,730,409	2,140,300
Provision for employees' contributory benevolent scheme	38.4	214,252	248,518
Provision for gratuity		719	653
Retention money		38,437	33,649
Insurance payable against consumer assets		688,107	659,374
Unclaimed balances		1,133,843	1,361,906
Duties and taxes payable		1,007,800	1,030,010
Charity fund balance		25,402	5,513
Provision against off-balance sheet obligations		37,430	37,430
Security deposits against lease		1,291,857	822,781
Others		9,758,513	9,833,480
		65,487,042	58,792,147

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

21. SHARE CAPITAL

21.1 Authorized Capital

2018 (Number of shares)	2017 (Number of shares)		2018 (Rupees in '000)	2017 (Rupees in '000)
1,500,000,000	1,500,000,000	Ordinary shares of Rs. 10 each	15,000,000	15,000,000

21.2 Issued, subscribed and paid up

2018 (Number of shares)	2017 (Number of shares)		2018 (Rupees in '000)	2017 (Rupees in '000)
197,253,795	197,253,795	Ordinary shares	1,972,538	1,972,538
915,776,953	915,776,953	Fully paid in cash	9,157,769	9,157,769
72,029,258	72,029,258	Issued as bonus shares	720,293	720,293
1,185,060,006	1,185,060,006	Issued for consideration other than cash	11,850,600	11,850,600

21.3 The movement in the issued, subscribed and paid-up capital during the year is as follows:

2018 (Number of shares)	2017 (Number of shares)		2018 (Rupees in '000)	2017 (Rupees in '000)
1,185,060,006	1,113,030,748	Opening balance at January 1	11,850,600	11,130,307
-	72,029,258	Shares issued under merger scheme	-	720,293
1,185,060,006	1,185,060,006	Closing balance at December 31	11,850,600	11,850,600

21.4 Number of shares held by the associated undertakings as at December 31, are as follows:

	2018 (Number of shares)	2017 (Number of shares)
Adamjee Insurance Company Limited	47,827,287	47,159,787
Adamjee Life Assurance Company Limited	4,616,500	1,687,500
Nishat Mills Limited	88,015,291	88,015,291
Din Leather (Private) Limited	-	6,789,633
Siddiqsons Limited	14,276,462	14,276,462
Maybank International Trust (Labuan) Berhad	222,606,147	222,606,147
	377,341,687	380,534,820

22. RESERVES

	Note	2018 (Rupees in '000)	2017 (Rupees in '000)
Share premium		23,973,024	23,973,024
Non-distributable capital reserve - gain on bargain purchase option	22.1	908,317	908,317
Exchange translation reserve		1,607,782	397,079
Statutory reserve	22.2	29,285,450	27,149,492
General reserve		18,600,000	18,600,000
		74,374,573	71,027,912

22.1 Under IFRS-3 a bargain purchase represents an economic gain which should be immediately recognized by the acquirer as income. However, the amount of bargain purchase gain was not been taken to the profit and loss account as the SBP, through its letter BPRD(R&PD)/2017/14330 dated June 13, 2017 recommended that the amount of gain may be routed directly into equity as a Non-distributable Capital Reserve (NCR). The NCR may become available for distribution through a stock dividend only with prior approval of the SBP. The Group, before distribution of the gain as a stock dividend, may adjust any subsequent provisions/deficit, assessed by the Group or recommended by the Banking Inspection Department of SBP, in the acquired assets and liabilities of NIB Bank Limited against the NCR.

22.2 Statutory reserve represents amount set aside as per the requirements of section 21 of the Banking Companies Ordinance, 1962.

	Note	2018 (Rupees in '000)	2017 (Rupees in '000)
23. SURPLUS ON REVALUATION OF ASSETS			
Surplus / (deficit) on revaluation of			
- Available for sale securities	9.1	(4,323,369)	6,720,072
- Fixed Assets	23.1	13,685,180	13,871,643
- Non-banking assets acquired in satisfaction of claims	23.2	480,871	215,065
- Associated undertaking		444,027	734,272
		10,286,709	21,541,052
Deferred tax on surplus / (deficit) on revaluation of:			
- Available for sale securities	19	(1,510,754)	2,260,717
- Fixed Assets	23.1	1,018,502	1,051,507
- Non-banking assets acquired in satisfaction of claims	23.2	168,305	75,273
- Associated undertaking		192,781	290,711
		(131,166)	3,678,208
Less: surplus on revaluation of available for sale securities recognised in non-controlling interest		-	(126,751)
		10,417,875	17,736,093

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

		2018 (Rupees in '000)	2017
23.1 Surplus on revaluation of fixed assets			
Surplus on revaluation of fixed assets as at January 1		13,871,643	13,942,451
Surplus during the year		-	12,940
Realised on disposal during the year - net of deferred tax		(99,081)	-
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax		(54,377)	(54,436)
Related deferred tax liability on incremental depreciation charged during the year		(29,279)	(29,312)
Related deferred tax liability on surplus realised on disposal		(3,726)	-
Surplus on revaluation of fixed assets as at December 31		13,685,180	13,871,643
Less: related deferred tax liability on:			
- revaluation as at January 1		1,051,507	1,080,165
- surplus during the year		-	654
- surplus realised on disposal during the year		(3,726)	-
- incremental depreciation charged during the year		(29,279)	(29,312)
		1,018,502	1,051,507
		12,666,678	12,820,136
23.2 Surplus on revaluation of non-banking assets acquired in satisfaction of claims			
Surplus on revaluation as at January 1		215,065	217,460
Recognised during the year		265,806	-
Realised on disposal during the year - net of deferred tax		-	(2,395)
Surplus on revaluation as at December 31		480,871	215,065
Less: related deferred tax liability on:			
- revaluation as at January 1		75,273	76,111
- revaluation recognised during the year		93,032	-
- surplus realised on disposal during the year		-	(838)
		168,305	75,273
		312,566	139,792
	Note	2018	2017
		(Rupees in '000)	
24. CONTINGENCIES AND COMMITMENTS			
-Guarantees	24.1	173,231,396	135,910,746
-Commitments	24.2	409,846,618	315,082,792
-Other contingent liabilities	24.3	17,038,156	5,938,071
		600,116,170	456,931,609
24.1 Guarantees			
Financial guarantees		140,350,012	86,242,273
Performance guarantees		30,103,382	43,713,231
Other guarantees		2,778,002	5,955,242
		173,231,396	135,910,746

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018 (Rupees in '000)	2017 (Rupees in '000)
24.2 Commitments:			
Documentary credits and short-term trade-related transactions			
- letters of credit		144,579,352	132,511,662
Commitments in respect of:			
- forward foreign exchange contracts	24.2.1	217,219,090	161,197,387
- forward government securities transactions	24.2.2	27,935,661	7,000,000
- derivatives	24.2.3	11,285,103	5,280,080
- operating leases	24.2.4	7,256,479	8,942,795
Commitments for acquisition of:			
- operating fixed assets		1,430,980	139,265
- intangible assets		139,953	11,603
		409,846,618	315,082,792
24.2.1 Commitments in respect of forward foreign exchange contracts			
Purchase		126,872,293	85,637,860
Sale		90,346,797	75,559,527
		217,219,090	161,197,387
24.2.2 Commitments in respect of forward government securities transactions			
Purchase		13,660,947	7,000,000
Sale		14,274,714	-
		27,935,661	7,000,000
24.2.3 Commitments in respect of derivatives			
FX options (notional)			
Purchase		1,378,370	865,718
Sale		1,378,370	865,718
		2,756,740	1,731,436
Cross Currency Swaps (notional)			
Purchase		4,026,814	1,510,582
Sale		4,185,049	1,721,562
		8,211,863	3,232,144
Interest Rate Swaps (notional)			
Purchase		316,500	316,500
Sale		-	-
		316,500	316,500
		11,285,103	5,280,080
24.2.4 Commitments in respect of operating leases			
Not later than one year		1,219,754	1,471,987
Later than one year and not later than five years		3,779,911	4,646,916
Later than five years		2,256,814	2,823,892
		7,256,479	8,942,795
24.2.5 The Group makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.			
24.2.6 During the year, a subsidiary has obtained a credit line facility limited to AZN 500,000 from a local bank carrying interest rate of 13% per annum. However, the subsidiary has no outstanding amount against this facility as at December 31, 2018. The maturity date of the facility is July 19, 2020.			

	Note	2018 (Rupees in '000)	2017 (Rupees in '000)
24.3 Other contingent liabilities			
Claims against the Group not acknowledged as debts	24.3.1	17,038,156	5,938,071
24.3.1 These represent certain claims by third parties against the Group, which are being contested in the Courts of law. The management is of the view that these relate to the normal course of business and the possibility of an outflow of economic resources is remote.			
24.4 The Income Tax returns of the Bank have been filed up to the tax year 2018 (accounting year ended December 31, 2017) and were deemed to be assessed under section 120 of the Income Tax Ordinance, 2001 (Ordinance) unless amended by the Commissioner of Inland Revenue.			
The income tax authorities have issued amended assessment orders for various tax years. The Group has filed appeals which are pending at various appellate forums. In addition, certain decisions made in favour of the Bank are being contested by the department at higher forums. The management of the Group is confident that the appeals will be decided in favor of the Group.			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

25. DERIVATIVE INSTRUMENTS

2018						
25.1 Product Analysis						
Counterparties	Cross Currency Swaps		Interest Rate Swaps		FX Options	
	Notional Principal	Mark to market gain / loss	Notional Principal	Mark to market gain / loss	Notional Principal	Mark to market gain / loss
(Rupees in '000)						
With Banks for						
Hedging	4,026,814	725,117	316,500	14,771	1,378,370	48,090
Market Making	-	-	-	-	-	-
With other entities for						
Hedging	-	-	-	-	-	-
Market Making	4,185,049	(751,040)	-	-	1,378,370	(48,090)
Total						
Hedging	4,026,814	725,117	316,500	14,771	1,378,370	48,090
Market Making	4,185,049	(751,040)	-	-	1,378,370	(48,090)
2017						
Counterparties	Cross Currency Swaps		Interest Rate Swaps		FX Options	
	Notional Principal	Mark to market gain / loss	Notional Principal	Mark to market gain / loss	Notional Principal	Mark to market gain / loss
(Rupees in '000)						
With Banks for						
Hedging	1,510,582	25,609	316,500	(4,708)	865,718	12,960
Market Making	-	-	-	-	-	-
With other entities for						
Hedging	-	-	-	-	-	-
Market Making	1,721,562	(10,408)	-	-	865,718	(12,960)
Total						
Hedging	1,510,582	25,609	316,500	(4,708)	865,718	12,960
Market Making	1,721,562	(10,408)	-	-	865,718	(12,960)

25.2 Maturity Analysis		2018			
Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		Net
			Negative	Positive	
			(Rupees in '000)		
Upto 1 month	44	1,462,433	(85,020)	85,050	30
1 to 3 months	66	1,512,180	(26,820)	26,820	-
3 to 6 months	14	197,096	(4,241)	4,241	-
1 to 2 Year	10	3,526,504	(431,981)	384,758	(47,223)
2 to 3 Years	6	2,418,453	(171,636)	184,301	12,665
3 to 5 Years	4	2,168,437	(143,919)	167,295	23,376
Total			(863,617)	852,465	
		2017			
Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		Net
			Negative	Positive	
			(Rupees in '000)		
Upto 1 month	24	682,674	(3,363)	3,363	-
1 to 3 months	36	802,035	(6,538)	6,538	-
3 to 6 months	20	246,728	(3,058)	3,058	-
6 month to 1 Year	2	415,206	(5,646)	6,451	805
1 to 2 Year	2	414,968	(558)	1,656	1,098
2 to 3 Years	8	2,718,469	(8,913)	17,503	8,590
Total			(28,076)	38,569	

25.3 Disclosure relating to qualitative and quantitative information on exchange traded derivatives are disclosed in note 45.5.

25.4 Risk management related to derivatives is discussed in note 45.5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018 (Rupees in '000)	2017 (Rupees in '000)
26. MARK-UP/RETURN/INTEREST EARNED			
On:			
a) Loans and advances		40,472,966	28,585,588
b) Investments		45,364,359	47,238,279
c) Lendings to financial institutions		1,368,635	155,470
d) Balances with banks		296,377	210,463
		87,502,337	76,189,800
27. MARK-UP/RETURN/INTEREST EXPENSED			
Deposits		33,730,188	22,784,555
Borrowings		4,795,063	9,122,110
Subordinated debt		307,789	138,081
Cost of foreign currency swaps against foreign currency deposits / borrowings		662,873	348,970
		39,495,913	32,393,716
28. FEE & COMMISSION INCOME			
Branch banking customer fees		2,469,298	2,325,444
Consumer finance related fees		278,132	210,749
Card related fees (debit and credit cards)		2,634,203	2,210,135
Credit related fees		150,733	186,902
Investment banking fee		836,691	888,240
Commission on trade		1,460,206	1,170,611
Commission on guarantees		431,287	414,666
Commission on cash management		603,687	537,584
Commission on remittances including home remittances		981,721	716,862
Commission on utility bills		109,641	99,755
Commission income - Bancassurance		1,169,169	1,000,453
Rent on lockers		245,842	244,934
Commission on investments services		83,948	167,434
Other Commission		182,193	281,211
		11,636,751	10,454,980
29. GAIN ON SECURITIES, NET			
Realised	29.1	1,304,914	4,666,486
Unrealised - held for trading	9.1	(47,766)	(272)
		1,257,148	4,666,214
29.1 Realised gain on:			
Federal Government Securities		269,209	897,765
Shares & units		1,035,705	3,768,721
		1,304,914	4,666,486
30. OTHER INCOME			
Rent on property		19,213	30,734
Gain on sale of fixed assets-net		245,866	19,954
Gain on sale of non banking assets - net		82,410	515
Compensation on tax refunds		86,862	-
		434,351	51,203

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

31. OPERATING EXPENSES

	Note	2018 (Rupees in '000)	2017
Total compensation expense	31.1	15,759,480	13,609,027
Property expense			
Rent and taxes		2,469,920	1,773,829
Insurance		103,573	48,136
Utilities cost		1,184,003	957,615
Fuel expense generators		513,533	458,984
Security (including guards)		1,743,167	1,464,258
Repair and maintenance (including janitorial charges)		1,013,249	825,407
Depreciation	11.2	557,142	453,953
		7,584,587	5,982,182
Information technology expenses			
Software maintenance		843,053	626,773
Hardware maintenance		407,378	360,141
Depreciation	11.2	657,053	563,582
Amortisation		356,533	278,366
Network charges		706,488	698,280
Insurance		4,400	4,606
		2,974,905	2,531,748
Other operating expenses			
Directors' fees and allowances		40,741	38,692
Fees and allowances to Sharia Board members		14,479	6,548
Legal and professional charges		345,683	374,022
Outsourced services costs	37.1	1,271,889	1,242,348
Travelling and conveyance		418,253	335,636
NIFT clearing charges		157,898	141,070
Depreciation	11.2	991,646	840,928
Depreciation on non-banking assets acquired in satisfaction of claims	13.1.1	49,155	29,947
Training and development		61,849	67,567
Postage and courier charges		313,962	339,386
Communication		327,215	393,075
Stationery and printing		752,488	668,544
Marketing, advertisement & publicity		559,566	546,085
Donations	31.2	696	11,817
Auditors' remuneration	31.3	45,454	52,085
Cash transportation charges		743,593	631,131
Repair and maintenance		827,531	776,326
Subscription		39,437	32,483
Entertainment		268,356	256,536
Remittance charges		186,476	154,065
Brokerage expenses		44,319	32,047
Card related expenses		737,528	562,239
CNIC verification charges		138,237	107,363
Insurance		821,590	255,090
Others		238,434	279,393
		9,396,475	8,174,423
		35,715,447	30,297,380

Total cost for the year included in other operating expenses relating to outsourced activities is Rs 335.367 million (2017: Rs 329.591 million) pertains to the payment to companies incorporated in Pakistan. Total Cost of outsourced activities for the year given to related parties is Rs 263.283 million (2017: Rs 177.579 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018	2017
		(Rupees in '000)	
31.1 Total compensation expense			
Fees and allowances		495,049	495,896
Managerial remuneration			
i) Fixed		10,988,881	9,979,567
ii) Variable - cash bonus / awards		1,686,428	2,136,488
Charge / (reversal) for defined benefit plan		943,661	(144,497)
Contribution to defined contribution plan		387,735	326,616
Commission		235,391	138,658
Staff group insurance		370,363	277,786
Rent and house maintenance		310,364	188,780
Medical		54,867	42,714
Conveyance		272,825	161,253
Sub-total		15,745,564	13,603,261
Sign-on bonus	31.1.1	960	4,172
Severance allowance	31.1.2	12,956	1,594
Grand Total		15,759,480	13,609,027
31.1.1	During the year sign on bonus is paid to 1 employee (2017: 8).		
31.1.2	Severance allowance is paid to 4 employees (2017: 1).		
31.2	Detail of donations made during the year is as follows:		
		2018	2017
		(Rupees in '000)	
District Head Quarter Hospital, Gawadar		696	-
Saleem Memorial Trust Hospital		-	5,000
SKMC Hospital & Research Center		-	1,500
Diabetic Association of Pakistan		-	1,000
The Indus Hospital		-	1,000
FRESH Foundation		-	767
Murshid Hospital & Charity Hospital Care Center		-	500
Rising Sun Education & Welfare Society		-	500
The Citizens Foundation		-	500
Pink Ribbon Hospital		-	500
Pakistan Association of the Blind		-	500
Donations individually not exceeding Rs.0.5 million		-	50
		696	11,817
31.3 Auditors' remuneration			
Audit fee		14,606	14,450
Fee for audit of foreign branches		13,669	12,354
Fee for audit of subsidiaries		6,271	5,702
Special certifications and sundry advisory services		7,210	14,853
Sales tax		1,060	1,707
Out-of-pocket expenses		2,638	3,019
		45,454	52,085
32. OTHER CHARGES			
Write off of fixed assets		-	13
Penalties of State Bank of Pakistan		11,679	1,719
VAT & National Building Tax & Crop Insurance Levy		151,159	128,508
Education cess		11,593	12,713
		174,431	142,953

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

33. (REVERSALS) / PROVISIONS & WRITE OFFS - NET

	Note	2018 (Rupees in '000)	2017
Provision against balance with Banks		4,386	-
Provisions for diminution in value of investments	9.3.1	2,860,062	3,570,201
Provisions / (reversals) against loans & advances	10.5	(2,850,115)	(2,894,502)
Provisions / (reversals) against other assets	13.2.1	(608,590)	562,827
Bad debts written off directly	10.6.1	30	14
Recovery of written off / charged off bad debts		(227,682)	(191,136)
Other write offs		102	1
		(821,807)	1,047,405

34. TAXATION

Current		11,239,855	3,725,143
Prior years		(1,710,032)	(2,166,582)
Deferred	19	641,769	6,880,293
Share of tax of associates		219,045	127,089
		10,390,637	8,565,943

34.1 Relationship between tax expense and accounting profit

Accounting profit for the year		30,805,921	30,613,707
Tax rate		35%	35%
Tax on income		10,782,072	10,714,797
Tax effect of permanent differences		4,088	602
Tax effect of prior years reversals		(1,710,032)	(2,166,582)
Others		1,314,509	17,126
Tax charge for the year		10,390,637	8,565,943

35. BASIC AND DILUTED EARNINGS PER SHARE

	2018 (Rupees in '000)	2017
Profit for the year after tax attributable to equity shareholders	20,352,756	21,963,146
	(Number)	
Weighted average number of ordinary shares	1,185,060,006	1,147,960,005
	(Rupees in '000)	
Basic and diluted earnings per share	17.17	19.13

In 2017, the Group issued 72,029,258 shares in pursuant to NIB Bank Limited amalgamation with and into the Group as on July 07, 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

36. CASH AND CASH EQUIVALENTS

Cash and balances with treasury banks
Balances with other banks
Overdrawn nostro accounts

Note	2018 (Rupees in '000)	2017 (Rupees in '000)
6	110,165,006	109,462,902
7	13,338,117	7,348,882
16	(1,946,106)	(1,066,543)
	<u>121,557,017</u>	<u>115,745,241</u>

36.1 Reconciliation of movement of liabilities to cash flows arising from financing activities

	2018						2017						
	Liabilities		Equity			Total	Liabilities		Equity			Total	
	Sub-ordinated loan	Other liabilities	Share Capital	Reserves	Unappropriated profit	Non-controlling interest	Sub-ordinated loan	Other liabilities	Share Capital	Reserves	Unappropriated profit	Non-controlling interest	
	(Rupees in '000)												
Balance as at January 01,	3,892,578	58,792,147	11,850,600	71,027,912	55,221,069	707,407	-	52,011,664	11,130,307	53,512,633	55,509,013	690,159	172,853,776
Changes from Financing cash flows													
Redemption of Subordinated loan	(1,559)	-	-	-	-	-	(779)	-	-	-	-	-	(779)
Dividend paid					(20,090,695)	(61,326)					(17,201,674)	(113,891)	(17,315,565)
Total changes from financing cash flows	(1,559)	-	-	-	(20,090,695)	(61,326)	(779)	-	-	-	(17,201,674)	(113,891)	(17,315,565)
Changes arising from business combination	-	-	-	-	-	-	-	-	-	-	-	-	-
Cancellation of Sub-ordinated loan on merger	-	-	-	-	-	-	4,192,997	4,495,374	720,293	14,956,903	-	-	24,365,567
							(299,640)					-	(299,640)
Liability related													
Changes in Other liabilities													
- Cash based	-	7,955,642	-	-	-	-	-	4,820,500	-	-	-	-	4,820,500
- Dividend payable	-	(1,129,735)	-	-	1,129,735	-	-	1,183,052	-	-	(1,183,052)	-	-
- Non cash based	-	(131,012)	-	-	-	-	-	(3,718,443)	-	-	-	-	(3,718,443)
Total liability related other changes	-	6,694,895	-	-	1,129,735	-	-	2,285,109	-	-	(1,183,052)	-	1,102,057
Total equity related other changes	-	-	-	3,346,661	17,710,970	62,671	-	-	-	2,558,376	18,096,782	131,139	20,786,297
Balance as at December 31	3,891,019	65,487,042	11,850,600	74,374,573	53,971,079	708,752	3,892,578	58,792,147	11,850,600	71,027,912	55,221,069	707,407	201,491,713

37. STAFF STRENGTH

Permanent
On Bank contract
Bank's own staff strength at the end of the year

2018 (Number)	2017 (Number)
14,354	14,033
598	343
<u>14,952</u>	<u>14,376</u>

37.1 In addition to the above, 623 (2017: 1,925) employees of outsourcing services companies were assigned to the Group as at the end of the year to perform services other than guarding, tea and janitorial services. Outsourced staff includes 616 (2017: 1,916) working domestically and 7 (2017: 9) working abroad.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

38. DEFINED BENEFIT PLAN

38.1 General description

The Bank operates the following retirement benefits for its employees:

- Pension fund - funded
- Benevolent scheme - unfunded
- Post retirement medical benefits - unfunded
- Employees compensated absence - unfunded

The plan assets and defined benefit obligations are based in Pakistan.

38.2 Number of Employees under the scheme

The number of employees covered under the following defined benefit schemes are:

	2018 (Number)	2017
- Pension fund - funded	6,554	6,853
- Benevolent scheme - unfunded	1,730	1,654
- Post retirement medical benefits - unfunded	12,716	13,015
- Employees compensated absence - unfunded	12,716	13,015

38.3 Principal actuarial assumptions

The latest actuarial valuations of the pension fund, employees' contributory benevolent scheme, post retirement medical benefits and employee's compensated absences were carried out at December 31, 2018. The principal actuarial assumptions used are as follows:

	Approved Pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2018 %	2017 %	2018 %	2017 %	2018 %	2017 %	2018 %	2017 %
Discount rate	13.25	8	13.25	8	13.25	8	13.25	8
Expected rate of return on plan assets	13.25	8	-	-	-	-	-	-
Expected rate of salary increase	11.25	6.75	11.25	6.75	-	-	11.25	6.75
Expected rate of increase in pension	0-5	-	-	-	-	-	-	-
Expected rate of increase in medical benefit	-	-	-	-	11.25	6.5	-	-

38.4 Reconciliation of (receivable from) / payable to defined benefit plans

Note	Approved Pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2018	2017	2018	2017	2018	2017	2018	2017
	(Rupees in '000)							
Present value of obligations	4,690,587	3,757,366	214,252	248,518	1,730,409	2,140,300	1,028,129	1,145,135
Fair value of plan assets	(8,505,757)	(9,747,902)	-	-	-	-	-	-
(Receivable) / payable	(3,815,170)	(5,990,536)	214,252	248,518	1,730,409	2,140,300	1,028,129	1,145,135

38.5 Movement in defined benefit obligations

Obligations at the beginning of the year	3,757,366	3,519,114	248,518	209,352	2,140,300	2,104,444	1,145,135	1,053,870
Current service cost	79,236	50,292	30,660	5,168	50,364	11,162	32,366	32,366
Interest cost	282,259	265,940	18,096	15,221	162,569	162,391	85,302	78,477
Benefits paid	(458,268)	(389,734)	(44,628)	(38,189)	(144,664)	(149,108)	(157,708)	(145,807)
Past service cost	1,044,533	-	-	-	-	-	-	-
Re-measurement loss / (gain)	(14,539)	311,754	(38,394)	56,966	(478,160)	11,411	(76,966)	126,229
Obligations at the end of the year	4,690,587	3,757,366	214,252	248,518	1,730,409	2,140,300	1,028,129	1,145,135

38.6 Movement in fair value of plan assets

Fair value at the beginning of the year	9,747,902	11,292,596	-	-	-	-	-	-
Interest income on plan assets	761,501	887,818	-	-	-	-	-	-
Benefits paid	(458,268)	(389,734)	-	-	-	-	-	-
Re-measurement loss	(1,545,378)	(2,042,778)	-	-	-	-	-	-
Fair value at the end of the year	8,505,757	9,747,902	-	-	-	-	-	-

38.7 Movement in (receivable) / payable under defined benefit schemes

Opening balance	(5,990,536)	(7,773,482)	248,518	209,352	2,140,300	2,104,444	1,145,135	1,053,870
Charge / (reversal) for the year	644,527	(571,586)	45,499	16,464	212,933	173,553	40,702	237,072
Employees' contribution	-	-	3,257	3,925	-	-	-	-
Re-measurement loss / (gain) recognised in OCI during the year	1,530,839	2,354,532	(38,394)	56,966	(478,160)	11,411	-	-
Benefits paid by the Bank	-	-	(44,628)	(38,189)	(144,664)	(149,108)	(157,708)	(145,807)
Closing balance	(3,815,170)	(5,990,536)	214,252	248,518	1,730,409	2,140,300	1,028,129	1,145,135

38.8 Charge for defined benefit plans

38.8.1 Cost recognised in profit and loss

Current service cost	79,236	50,292	30,660	5,168	50,364	11,162	32,366	32,366
Net interest on defined benefit asset / liability	(479,242)	(621,878)	18,096	15,221	162,569	162,391	85,302	78,477
Employees' contribution	-	-	(3,257)	(3,925)	-	-	-	-
Actuarial loss / (gain)	-	-	-	-	-	-	(76,966)	126,229
Past service cost	1,044,533	-	-	-	-	-	-	-
	644,527	(571,586)	45,499	16,464	212,933	173,553	40,702	237,072

38.8.2 Pursuant to the order of the Honorable Supreme Court of Pakistan, the Bank has recorded past service cost of Rs. 1,044.533 million (one-off provision) on account of pension liability based on actuarial valuation.

38.8.3 Re-measurements recognised in OCI during the year

Loss / (gain) on obligation - financial assumptions	(14,539)	311,754	(38,394)	56,966	(478,160)	11,411	-	-
Actual return on plan assets over expected interest income	1,545,378	2,042,778	-	-	-	-	-	-
Re-measurement loss / (gain) recognised in OCI	1,530,839	2,354,532	(38,394)	56,966	(478,160)	11,411	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

	Approved Pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2018	2017	2018	2017	2018	2017	2018	2017
38.9 Components of plan assets	(Rupees in '000)							
Cash and cash equivalents - net	74,685	329,080	-	-	-	-	-	-
Shares	8,158,899	9,154,391	-	-	-	-	-	-
Open ended mutual funds units	272,173	264,431	-	-	-	-	-	-
	8,505,757	9,747,902	-	-	-	-	-	-

38.9.1 Significant risk associated with the plan assets

The Fund's investments in equity securities and units of mutual funds are subject to price risk. These risks are regularly monitored by Trustees of the employee funds.

38.10 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:

	Approved Pension fund	Employees' contributory benevolent scheme	Post retirement medical benefits	Employees' compensated absences
	(Rupees in '000)			
1% increase in discount rate	(347,234)	(15,436)	(176,626)	(61,363)
1% decrease in discount rate	404,423	17,626	216,361	68,308
1% increase in expected rate of salary increase	183,587	-	-	69,535
1% decrease in expected rate of salary increase	(136,275)	-	-	(63,458)
1% increase in expected rate of pension increase	243,456	-	-	-
1% decrease in expected rate of pension increase	(214,612)	-	-	-
1% increase in expected rate of medical benefit increase	-	-	128,811	-
1% decrease in expected rate of medical benefit increase	-	-	(110,074)	-

38.11 Expected contributions to be paid to the funds in the next financial year

No contributions are being made to pension fund due to surplus of fair value of plan's assets over present value of defined obligation. No contribution to the pension fund is expected in the next year.

38.12 Expected (reversal) / for the next financial year

Based on actuarial advice, management estimates that the charge / (reversal) in respect of defined benefit plans for the year ending December 31, 2019 would be as follows:

	Approved Pension fund	Employees' contributory benevolent scheme	Post retirement medical benefits	Employees' compensated absences
	(Rupees in '000)			
Expected (reversal) / charge for the next financial year	(455,231)	42,854	272,932	160,967
38.13 Maturity profile				
The weighted average duration of the obligation (in years)	8.01	7.72	11.36	6.31

38.14 Funding Policy

The Bank endeavors to ensure that liabilities under the various employee benefit schemes are covered by the Fund on any valuation date having regards to the various actuarial assumptions such as projected future salary increase, expected future contributions to the fund, projected increase in liability associated with future service and the projected investment income of the Fund.

38.15 The defined benefit plans may expose the bank to actuarial risks such as longevity risk, investment risk, salary increase risk and withdrawal rate risk as described below;

Investment risk	The risk arises when the actual performance of the investments is lower than expectation and thus creating a shortfall in the funding objectives.
Longevity risk	The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.
Salary increase risk	The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than expectation and impacts the liability accordingly.
Withdrawal rate	The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

39. DEFINED CONTRIBUTION PLAN

39.1 MCB Bank Limited (holding company)

The Bank operates an approved contributory provident fund for 10,357 (2017: 10,575) employees where contributions are made by the Bank at 8.33% (2017: 8.33%) and employees ranging from 8.33% -12.5% per annum (2017: 8.33% to 12.5% per annum) of the basic salary.

The Bank also operates an approved non-contributory provident fund for 815 (2017: 888) employees who have opted for the new scheme, where contributions are made by the employees ranging from 8.33% to 12.50% per annum (2017: 8.33% to 12.50% per annum) of the basic salary.

39.2 MCB Islamic Bank Limited

The Bank operates an approved contributory provident fund for 1,050 (2017: 596) employees. Equal monthly contributions are made both by the Bank and its permanent employees to the Fund at the rate of 8.33% of the basic salaries of employees. However, an employee has an option to increase his / her contribution upto 15% but the Bank will still contribute 8.33% of the employee's basic salary.

39.3 MCB Financial Services Limited

The company operates the provident fund scheme covering all permanent employees. Contribution at the rate of 8.33% per annum are made both by the Company and employees to the fund.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

40. COMPENSATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the consolidated financial statements for compensation, including all benefits, to the Chief Executive, Directors and Executives of the Group is as follows:

	Note	President / Chief Executive		Directors		Executives	
		2018	2017	2018	2017	2018	2017
(Rupees in 000)							
Fees		-	-	40,741	38,692	-	-
Managerial remuneration and bonus		79,377	73,667	-	-	4,420,432	3,411,092
Retirement benefits		3,095	2,866	-	-	192,397	149,933
Rent and house maintenance	40.1	16,714	15,476	-	-	1,054,133	817,609
Utilities	40.1	3,714	3,439	-	-	228,330	177,318
Medical	40.1	150	-	-	-	67,613	49,484
Conveyance	40.1	-	-	-	-	801,684	727,193
		103,050	95,448	40,741	38,692	6,764,589	5,332,629
Number of persons		1	1	14	13	2,311	1,599

- 40.1 These allowances have been classified under fixed salary in total compensation note 31.1.
- 40.2 The Chairman has been provided with free use of the Group maintained car. In addition to the above, the Chief Executive and certain executives are provided with free use of the Group's maintained cars and household equipment in accordance with the terms of their employment.

41. FAIR VALUE MEASUREMENTS

The fair value of traded investments is based on quoted market prices, except for tradable securities classified by the Group as 'held to maturity'. Quoted securities classified as held to maturity are carried at amortised cost. Fair value of unquoted equity investments other than investments in associates and subsidiaries is determined on the basis of break up value of these investments as per the latest available financial statements.

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

The maturity and repricing profile and effective rates are stated in note 45.

In the opinion of the management, the fair value of the financial assets and financial liabilities other than those carried at fair value and disclosed in note 41.1 are not significantly different from their carrying values since assets and liabilities are either short-term in nature or re-priced over short term.

41.1 Fair value of financial assets

The Group 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).

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

Item	Valuation approach and input used
Federal Government securities	The fair values of Federal Government securities are determined using the PKRV rates.
Term Finance and Bonds	Investments in debt securities (comprising term finance certificates, bonds and any other security issued by a company or a body corporate for the purpose of raising funds in the form of redeemable capital) are valued on the basis of the rates announced by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the methodology prescribed by the Securities and Exchange Commission of Pakistan.
Government of Pakistan (GoP) - Ijarah Sukuks	Fair values of GoP Ijarah Sukuks are derived using the PKISRV rates announced by the Financial Market Association (FMA) through Reuters. These rates denote an average of quotes received from eight different pre-defined / approved dealers / brokers.
Foreign exchange contracts	The valuation has been determined by interpolating the mid rates announced by the State Bank of Pakistan.
Derivatives	The fair values of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant underlying parameters including foreign currency involved, interest rates, yield curves, volatilities, contracts duration etc.
Operating fixed assets (land and building) & NBA	Land and buildings are revalued every three years using professional valuers on the panel of Pakistan Banker's Association. The valuation is based on their assessment of market value of the properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

The table below analyses the financial and non-financial assets carried at fair values, by valuation methods. For financial assets, the Group essentially carries its investments in debt and equity securities at fair values. Valuation of investments is carried out as per guidelines specified by the SBP. In case of non-financial assets, the Group has adopted revaluation model (as per IAS 16) in respect of land and building.

2018					
	Carrying value	Level 1	Level 2	Level 3	Total
	(Rupees in '000)				
On balance sheet financial instruments					
Financial assets - measured at fair value					
Investments					
Federal Government Securities	688,686,786	-	688,686,786	-	688,686,786
Shares	19,041,266	19,041,266	-	-	19,041,266
Non-Government Debt Securities	2,528,081	-	2,528,081	-	2,528,081
Foreign Securities	2,522,454	-	2,522,454	-	2,522,454
Financial assets - disclosed but not measured at fair value					
Investments (HTM, unlisted ordinary shares and associates)	41,607,188	-	-	-	-
Cash and balances with treasury banks	110,165,006	-	-	-	-
Balances with other banks	13,338,117	-	-	-	-
Lendings to financial institutions	39,149,890	-	-	-	-
Advances	566,792,265	-	-	-	-
Other assets	38,208,613	-	-	-	-
Non - Financial Assets measured at fair value					
Operating fixed assets (land and buildings)	34,894,351	-	34,894,351	-	34,894,351
Non-banking assets	4,035,114	-	4,035,114	-	4,035,114
Off-balance sheet financial instruments - measured at fair value					
Forward purchase of foreign exchange	126,872,293	-	3,477,211	-	3,477,211
Forward sale of foreign exchange	90,346,797	-	3,452,374	-	3,452,374
Derivatives purchase	5,721,684	-	787,978	-	787,978
Derivatives sale	5,563,419	-	799,130	-	799,130
	Carrying value	Level 1	Level 2	Level 3	Total
	(Rupees in '000)				
On balance sheet financial instruments					
Financial assets - measured at fair value					
Investments					
Federal Government Securities	593,454,168	-	593,454,168	-	593,454,168
Shares	22,135,368	22,135,368	-	-	22,135,368
Non-Government Debt Securities	2,296,642	-	2,296,642	-	2,296,642
Foreign Securities	2,449,656	-	2,449,656	-	2,449,656
Financial assets - disclosed but not measured at fair value					
Investments (HTM, unlisted ordinary shares and associates)	39,734,412	-	-	-	-
Cash and balances with treasury banks	109,462,902	-	-	-	-
Balances with other banks	7,348,882	-	-	-	-
Lendings to financial institutions	5,273,524	-	-	-	-
Advances	500,965,801	-	-	-	-
Other assets	34,148,396	-	-	-	-
Non - Financial Assets measured at fair value					
Operating fixed assets (land and buildings)	33,431,521	-	33,431,521	-	33,431,521
Non-banking assets	4,288,001	-	4,288,001	-	4,288,001
Off-balance sheet financial instruments - measured at fair value					
Forward purchase of foreign exchange	85,637,860	-	2,851,188	-	2,851,188
Forward sale of foreign exchange	75,559,527	-	2,325,532	-	2,325,532
Derivatives purchase	2,692,800	-	33,861	-	33,861
Derivatives sale	2,587,280	-	23,368	-	23,368

The Group's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred. There were no transfers between levels 1 and 2 during the year.

(a) Financial instruments in level 1

Financial instruments included in level 1 comprise of investments in listed ordinary shares and units of mutual funds.

(b) Financial instruments in level 2

Financial instruments included in level 2 comprise of Sukuk Bonds, Pakistan Investment Bonds, Market Treasury Bills, Term Finance certificates, FX options, Cross Currency Swaps, Interest Rate Swaps and Forward Exchange Contracts.

(c) Financial instruments in level 3

Currently, no financial instruments are classified in level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

42 SEGMENT INFORMATION

42.1 Segment details with respect to business activities

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

	2018									
	Retail Banking	Consumer banking	Corporate Banking	Treasury	Islamic Banking	Asset Management	Others	Sub-total	Eliminations	Total
	(Rupees in '000)									
Profit & Loss										
Net mark-up/return/profit	(19,999,097)	2,425,240	22,571,031	41,399,090	1,903,925	1,950	(295,715)	48,006,424	-	48,006,424
Inter segment revenue - net	50,778,451	(774,576)	(17,208,202)	(38,240,495)	-	-	5,444,822	-	-	-
Non mark-up / return / interest income	6,820,225	1,732,440	3,771,009	3,970,534	399,262	884,808	1,418,975	18,997,253	(485,381)	18,511,872
Total Income	37,599,579	3,383,104	9,133,838	7,129,129	2,303,187	886,758	6,568,082	67,003,677	(485,381)	66,518,296
Segment direct expenses	20,935,783	1,372,159	1,610,739	281,947	3,087,754	526,852	8,803,299	36,618,533	(84,351)	36,534,182
Inter segment expense allocation	-	-	-	-	-	-	-	-	-	-
Total expenses	20,935,783	1,372,159	1,610,739	281,947	3,087,754	526,852	8,803,299	36,618,533	(84,351)	36,534,182
Provisions	(186,311)	(66,393)	(733,366)	1,952,015	895,646	27,828	(2,711,226)	(821,807)	-	(821,807)
Profit before tax	16,850,107	2,077,338	8,256,465	4,895,167	(1,680,213)	332,078	476,009	31,206,951	(401,030)	30,805,921
Balance Sheet										
Cash and Bank balances	49,001,673	33,515	17,486,827	46,395,674	8,413,070	28,204	2,190,352	123,549,315	(46,192)	123,503,123
Investments	-	-	18,505,331	730,863,407	12,713,954	959,252	3,529,618	766,571,562	(12,185,787)	754,385,775
Net inter segment lending	838,264,563	-	-	-	-	-	134,139,482	972,404,045	(972,404,045)	-
Lendings to financial institutions	-	-	1,502,544	33,603,697	4,675,000	-	-	39,781,241	(631,351)	39,149,890
Advances - gross	129,656,470	24,268,379	365,400,739	-	62,921,024	-	28,153,868	610,400,480	(371,835)	610,028,645
- provision held	(6,627,798)	(1,702,655)	(7,413,812)	-	(13,820)	-	(27,478,295)	(43,236,380)	-	(43,236,380)
Others	31,327,270	1,887,934	8,326,592	8,127,064	5,434,142	1,114,256	45,384,334	101,601,592	(222,638)	101,378,954
Total Assets	1,041,622,178	24,487,173	403,808,221	818,989,842	94,143,370	2,101,712	185,919,359	2,571,071,855	(985,861,848)	1,585,210,007
Borrowings	35,293,396	-	9,172,202	171,553,288	7,800,628	-	407,714	224,227,228	(1,011,113)	223,216,115
Subordinated debt	-	-	-	-	-	-	3,891,019	3,891,019	-	3,891,019
Deposits & other accounts	969,799,371	16,556	79,196,248	-	73,307,185	-	25,440	1,122,344,800	(38,265)	1,122,306,535
Net inter segment borrowing	-	22,478,042	307,402,415	642,523,588	-	-	-	972,404,045	(972,404,045)	-
Others	36,529,411	1,992,575	8,037,356	4,912,966	2,966,043	645,896	29,611,850	84,696,097	(222,638)	84,473,459
Total liabilities	1,041,622,178	24,487,173	403,808,221	818,989,842	84,073,856	645,896	33,936,023	2,407,563,189	(973,676,061)	1,433,887,128
Equity	-	-	-	-	10,069,514	1,455,816	151,983,336	163,508,666	(12,185,787)	151,322,879
Total Equity & liabilities	1,041,622,178	24,487,173	403,808,221	818,989,842	94,143,370	2,101,712	185,919,359	2,571,071,855	(985,861,848)	1,585,210,007
Contingencies & Commitments	111,974,609	-	204,311,803	247,754,264	17,535,062	-	18,540,432	600,116,170	-	600,116,170
	2017									
	Retail Banking	Consumer banking	Corporate Banking	Treasury	Islamic Banking	Asset Management	Others	Sub-total	Eliminations	Total
	(Rupees in '000)									
Profit & Loss										
Net mark-up/return/profit	(11,968,986)	1,739,112	14,798,224	37,972,672	1,055,256	654	199,152	43,796,084	-	43,796,084
Inter segment revenue - net	36,786,402	(783,160)	(10,219,266)	(30,534,733)	-	-	4,750,757	-	-	-
Non mark-up / return / interest income	6,135,163	1,559,178	2,900,828	7,433,916	439,010	672,358	612,370	19,752,823	(821,493)	18,931,330
Total Income	30,952,579	2,515,130	7,479,786	14,871,855	1,494,266	673,012	5,562,279	63,548,907	(821,493)	62,727,414
Segment direct expenses	18,750,470	1,223,199	1,407,779	270,169	1,845,248	409,260	7,160,177	31,066,302	-	31,066,302
Inter segment expense allocation	-	-	-	-	-	-	-	-	-	-
Total expenses	18,750,470	1,223,199	1,407,779	270,169	1,845,248	409,260	7,160,177	31,066,302	-	31,066,302
Provisions	(262,806)	(177,069)	(526,403)	3,570,437	(55)	-	(1,556,699)	1,047,405	-	1,047,405
Profit before tax	12,464,915	1,469,000	6,598,410	11,031,249	(350,927)	263,752	(41,199)	31,435,200	(821,493)	30,613,707
Balance Sheet										
Cash and Bank balances	44,522,823	37,221	11,740,549	51,727,835	6,094,004	9,475	2,749,249	116,881,156	(69,372)	116,811,784
Investments	-	-	13,523,275	641,372,549	9,186,213	1,003,821	6,132,672	671,218,530	(11,148,284)	660,070,246
Net inter segment lending	708,281,466	-	-	-	-	-	144,592,086	852,873,552	(852,873,552)	-
Lendings to financial institutions	-	-	1,873,524	2,524,590	1,400,000	-	-	5,798,114	(524,590)	5,273,524
Advances - gross	199,566,137	19,906,369	287,067,771	-	31,474,154	-	8,948,992	546,963,423	(291,722)	546,671,701
- provision held	(31,201,950)	(1,764,808)	(4,217,670)	-	(1,219)	-	(8,520,253)	(45,705,900)	-	(45,705,900)
Others	25,334,193	1,898,262	21,283,688	11,049,283	3,432,835	1,099,608	42,345,382	106,443,251	(72,550)	106,370,701
Total Assets	946,502,669	20,077,044	331,271,137	706,674,257	51,585,987	2,112,904	196,248,128	2,254,472,126	(864,980,070)	1,389,492,056
Borrowings	33,698,763	-	9,049,493	90,091,987	7,926,790	-	553,508	141,320,541	(858,403)	140,462,138
Subordinated debt	-	-	-	-	-	-	3,892,578	3,892,578	-	3,892,578
Deposits & other accounts	894,416,068	1,236	74,042,363	-	32,690,808	-	22,968	1,001,173,443	(27,281)	1,001,146,162
Net inter segment borrowing	-	18,232,819	220,723,332	613,917,401	-	-	-	852,873,552	(852,873,552)	-
Others	18,387,838	1,842,989	27,455,949	2,664,869	1,337,610	660,653	35,170,739	87,520,647	(72,550)	87,448,097
Total liabilities	946,502,669	20,077,044	331,271,137	706,674,257	41,955,208	660,653	39,639,793	2,086,780,761	(853,831,786)	1,232,948,975
Equity	-	-	-	-	9,630,779	1,452,251	156,608,335	167,691,365	(11,148,284)	156,543,081
Total Equity & liabilities	946,502,669	20,077,044	331,271,137	706,674,257	51,585,987	2,112,904	196,248,128	2,254,472,126	(864,980,070)	1,389,492,056
Contingencies & Commitments	132,765,032	-	128,200,658	168,486,488	17,739,304	-	9,740,127	456,931,609	-	456,931,609

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

42.2 Segment details with respect to geographical locations

GEOGRAPHICAL SEGMENT ANALYSIS

	2018						
	Pakistan	South Asia	Middle East	Azerbaijan	Sub-total	Eliminations	Total
	(Rupees in '000)						
Profit & Loss							
Net mark-up/return/profit	46,521,993	909,102	491,127	84,202	48,006,424	-	48,006,424
Inter segment revenue - net	(5,588)	(12,926)	18,514	-	-	-	-
Non mark-up / return / interest income	18,273,662	233,086	483,230	7,275	18,997,253	(485,381)	18,511,872
Total Income	64,790,067	1,129,262	992,871	91,477	67,003,677	(485,381)	66,518,296
Segment direct expenses	35,549,030	641,781	377,570	50,152	36,618,533	(84,351)	36,534,182
Inter segment expense allocation	-	-	-	-	-	-	-
Total expenses	35,549,030	641,781	377,570	50,152	36,618,533	(84,351)	36,534,182
Provisions	(877,178)	10,624	36,772	7,975	(821,807)	-	(821,807)
Profit before tax	30,118,215	476,857	578,529	33,350	31,206,951	(401,030)	30,805,921
Balance Sheet							
Cash & Bank balances	107,123,649	1,906,785	14,516,518	2,363	123,549,315	(46,192)	123,503,123
Investments	756,867,748	4,040,982	5,662,832	-	766,571,562	(12,185,787)	754,385,775
Net inter segment lendings	9,753,427	-	-	-	9,753,427	(9,753,427)	-
Lendings to financial institutions	38,278,697	368,406	1,134,138	-	39,781,241	(631,351)	39,149,890
Advances - gross	587,538,573	16,346,935	5,827,065	687,907	610,400,480	(371,835)	610,028,645
- provision held	(42,618,053)	(132,295)	(473,698)	(12,334)	(43,236,380)	-	(43,236,380)
Others	101,149,210	315,568	125,964	10,850	101,601,592	(222,638)	101,378,954
Total Assets	1,558,093,251	22,846,381	26,792,819	688,786	1,608,421,237	(23,211,230)	1,585,210,007
Borrowings	221,020,937	616,822	2,181,755	407,714	224,227,228	(1,011,113)	223,216,115
Subordinated debt	3,891,019	-	-	-	3,891,019	-	3,891,019
Deposits & other accounts	1,086,223,436	16,266,330	19,855,034	-	1,122,344,800	(38,265)	1,122,306,535
Net inter segment borrowing	-	5,058,214	4,695,213	-	9,753,427	(9,753,427)	-
Others	83,727,503	905,015	60,817	2,762	84,696,097	(222,638)	84,473,459
Total liabilities	1,394,862,895	22,846,381	26,792,819	410,476	1,444,912,571	(11,025,443)	1,433,887,128
Equity	163,230,356	-	-	278,310	163,508,666	(12,185,787)	151,322,879
Total Equity & liabilities	1,558,093,251	22,846,381	26,792,819	688,786	1,608,421,237	(23,211,230)	1,585,210,007
Contingencies & Commitments	579,844,263	12,396,032	7,842,488	33,327	600,116,170	-	600,116,170
	2017						
	Pakistan	South Asia	Middle East	Azerbaijan	Sub-total	Eliminations	Total
	(Rupees in '000)						
Profit & Loss							
Net mark-up/return/profit	42,521,646	851,091	347,635	75,712	43,796,084	-	43,796,084
Inter segment revenue - net	18,039	(18,978)	939	-	-	-	-
Non mark-up / return / interest income	19,163,176	229,045	342,875	17,727	19,752,823	(821,493)	18,931,330
Total Income	61,702,861	1,061,158	691,449	93,439	63,548,907	(821,493)	62,727,414
Segment direct expenses	30,191,640	522,772	311,388	40,502	31,066,302	-	31,066,302
Inter segment expense allocation	-	-	-	-	-	-	-
Total expenses	30,191,640	522,772	311,388	40,502	31,066,302	-	31,066,302
Provisions	998,936	25,498	20,531	2,440	1,047,405	-	1,047,405
Profit before tax	30,512,285	512,888	359,530	50,497	31,435,200	(821,493)	30,613,707
Balance Sheet							
Cash & Bank balances	105,683,039	1,303,923	9,823,809	70,385	116,881,156	(69,372)	116,811,784
Investments	664,723,702	3,549,348	2,945,480	-	671,218,530	(11,148,284)	660,070,246
Net inter segment lendings	7,887,166	-	-	-	7,887,166	(7,887,166)	-
Lendings to financial institutions	3,924,590	971,730	901,794	-	5,798,114	(524,590)	5,273,524
Advances - gross	523,989,941	14,814,211	7,727,857	431,414	546,963,423	(291,722)	546,671,701
- provision held	(45,275,486)	(114,056)	(313,683)	(2,675)	(45,705,900)	-	(45,705,900)
Others	106,018,131	287,378	121,722	16,020	106,443,251	(72,550)	106,370,701
Total Assets	1,366,951,083	20,812,534	21,206,979	515,144	1,409,485,740	(19,993,684)	1,389,492,056
Borrowings	135,741,629	1,887,082	3,367,635	324,195	141,320,541	(858,403)	140,462,138
Subordinated debt	3,892,578	-	-	-	3,892,578	-	3,892,578
Deposits & other accounts	973,031,080	13,159,012	14,983,351	-	1,001,173,443	(27,281)	1,001,146,162
Net inter segment borrowing	-	5,092,390	2,794,776	-	7,887,166	(7,887,166)	-
Others	86,796,213	674,050	61,217	(10,833)	87,520,647	(72,550)	87,448,097
Total liabilities	1,199,461,500	20,812,534	21,206,979	313,362	1,241,794,375	(8,845,400)	1,232,948,975
Equity	167,489,583	-	-	201,782	167,691,365	(11,148,284)	156,543,081
Total Equity & liabilities	1,366,951,083	20,812,534	21,206,979	515,144	1,409,485,740	(19,993,684)	1,389,492,056
Contingencies & Commitments	442,337,812	9,543,753	5,050,044	-	456,931,609	-	456,931,609

42.3 Transactions between reportable segments are based on an appropriate transfer pricing mechanism using agreed rates. Furthermore, segment assets and liabilities include inter segment balances. Costs which are not allocated to segments are included in the Head office.

42.4 No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2018 or 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

43 RELATED PARTY TRANSACTIONS

The Group has related party relationship with associates, employee benefit plans, its directors and key management personnel and their close family members. The detail of associates are stated in note 9.11 to the consolidated financial statements.

The Group enters into transactions with related parties in the ordinary course of business and on substantially the same terms as for comparable transactions with person of similar standing. Contributions to and accruals in respect of staff retirement benefits and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan. Remuneration to the executives / officers is determined in accordance with the terms of their appointment. Remuneration to Chief Executive, Directors and Executives is disclosed in note 40 to the consolidated financial statements.

Details of transactions with related parties during the year, other than those which have been disclosed elsewhere in these financial statements are as follows:

	2018				2017			
	Directors	Key Management Personnel	Associates	Other Related Parties	Directors	Key Management Personnel	Associates	Other Related Parties
	(Rupees in '000)							
Investments								
Opening balance	-	-	748,172	1,312,374	-	-	845,396	895,864
Investment made during the year	-	-	-	2,996,011	-	-	-	2,555,939
Investment redeemed / disposed off during the year	-	-	(47,771)	(3,024,387)	-	-	(97,224)	(2,313,855)
Transfer under NIB merger	-	-	-	-	-	-	-	174,426
Closing balance	-	-	700,401	1,283,998	-	-	748,172	1,312,374
Provision for diminution in value of investments	-	-	-	5,000	-	-	-	5,000
Advances								
Opening balance	946	189,022	-	2,638,740	926	170,304	-	922,906
Addition / exchange adjustment	14,723	113,559	-	7,899,213	13,495	73,475	-	4,817,997
Repaid during the year	(15,011)	(55,351)	-	(8,440,083)	(13,475)	(49,421)	-	(5,391,663)
Transfer in / (out) including under NIB merger	-	6,715	-	(557,079)	-	(5,336)	-	2,289,500
Closing balance	658	253,945	-	1,540,791	946	189,022	-	2,638,740
Provision held against advances	-	-	-	-	-	-	-	-
Other Assets								
Markup receivable	-	4,731	-	29,913	-	1,432	-	19,400
Advances, deposits, advance rent and other prepayments	-	150	86,579	633,281	-	3,089	52,008	589,676
Acceptances	-	-	-	25,387	-	-	-	34,871
Receivable from Pension Fund	-	-	-	3,815,170	-	-	-	5,990,537
Provision held against other assets	-	-	-	-	-	-	-	-
Borrowings								
Opening balance	-	-	-	993,755	-	-	-	936,788
Borrowings / exchange adjustment during the year	-	-	-	-	-	-	-	1,356,967
Settled during the year	-	-	-	(993,755)	-	-	-	(1,300,000)
Transfer in / (out) - net	-	-	-	-	-	-	-	-
Closing balance	-	-	-	-	-	-	-	993,755
Deposits and other accounts								
Opening balance	3,953,730	208,466	3,100,739	3,824,540	2,542,067	132,196	2,691,699	5,880,676
Received during the year	4,259,454	1,092,745	17,580,902	64,459,081	3,686,510	1,009,554	48,200,885	60,895,417
Withdrawn during the year	(4,457,255)	(1,121,818)	(16,985,487)	(64,891,958)	(2,274,847)	(947,553)	(47,791,845)	(62,951,553)
Transfer in / (out) - net	(10,472)	22,621	-	(146,256)	-	14,269	-	-
Closing balance	3,745,457	202,014	3,696,154	3,245,407	3,953,730	208,466	3,100,739	3,824,540
Other Liabilities								
Markup payable	32,342	282	15,968	38,354	12,586	113	8,175	23,142
Accrued expenses and other payable	7,409	55	82,805	11,551	14,851	-	52,146	19,236
Unrealized loss on forward foreign exchange contracts - outstanding	-	-	-	-	-	-	-	68,442
Contingencies and Commitments								
Commitments and contingent liabilities - outstanding	-	-	10,227	5,063,359	-	-	9,840	1,501,361
Forward foreign exchange contracts (Notional) - outstanding	-	-	-	790,886	-	-	-	18,251,209
Forward purchase of government securities	-	-	-	8,739,500	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

RELATED PARTY TRANSACTIONS

	2018				2017			
	Directors	Key Management Personnel	Associates	Other Related Parties	Directors	Key Management Personnel	Associates	Other Related Parties
Income	(Rupees in '000)							
Markup / return / interest earned	38	15,458	-	142,545	540	9,318	-	84,814
Fee and commission income	-	21	1,109,700	136,272	-	-	929,674	83,736
Dividend income	-	-	-	43,701	-	-	-	73,876
Foreign exchange income	-	-	-	206,723	-	-	-	213,322
Net gain on sale of securities	-	0	53	46,195	-	-	48	5,127
Gain on sale of fixed assets	-	85	-	156,400	-	36	-	-
Rent income and reimbursement of other expenses	-	-	3,679	49,719	-	-	3,341	49,691
Management fee and Advisory income	-	-	-	653,353	-	-	-	712,147
Expense								
Markup / return / interest expensed	213,722	30,629	98,218	252,549	105,126	2,571	69,138	164,595
Other Operating expenses								
Clearing expenses paid to NIFT	-	-	-	145,508	-	-	-	136,080
Contribution to provident fund	-	-	-	469,967	-	-	-	355,375
Rent expenses	-	-	-	53,739	-	-	4,656	52,640
Cash sorting expenses	-	-	-	157,249	-	-	-	96,648
Stationery expenses	-	-	-	234,318	-	-	-	185,132
Security guards expenses	-	-	-	446,267	-	-	-	429,425
Remuneration to key executives and non-executive directors fee	143,791	687,539	-	-	179,676	558,255	-	-
Outsourcing service expenses	-	-	264,691	-	-	-	178,818	-
Donation during the year	-	-	-	-	-	-	-	5,000
E-dividend processing fee and CDC charges	-	-	-	5,816	-	-	-	35,491
Travelling and hotel stay Expenses	-	-	-	49,247	-	-	-	24,949
Repair & Maintenance Charges	-	-	-	1,726	-	-	-	4,012
Miscellaneous expenses and payments	-	900	-	4,817	740	-	-	3,263
Sharia Fee Paid	-	-	-	3,595	-	-	-	4,050
Insurance premium-net of refund	-	-	554,703	95,995	-	-	563,067	36,139
Insurance claim settled	-	-	280,532	-	-	-	13,110	-
Other Transactions								
Proceeds from sale of fixed assets	2,503	3,216	-	425,000	-	68	-	-
Sale of government securities	-	36,452	4,611,381	296,705,958	-	-	6,568,012	54,507,456
Purchase of government securities	-	27,486	6,699,290	297,767,019	-	-	5,535,578	41,411,268
Forward exchange contracts matured during the year	-	-	-	104,091,795	-	-	-	70,895,322
Insurance premium paid on behalf of related party	-	-	12,912	-	-	-	-	-
Reimbursement of Insurance premium paid on behalf of a related party	-	-	-	12,912	-	-	-	-
Insurance claim received on behalf of related party	-	-	333	-	-	-	-	-
Insurance claim paid to related party	-	-	-	333	-	-	-	-
Dividend received	-	-	140,000	-	-	-	302,497	-

The chairman has been provided with free use of the Bank maintained car. The Chief Executive and certain executives are provided with free use of the Bank's maintained cars and household equipment in accordance with the terms of their employment.

44 CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

	2018	2017
	(Rupees in '000)	
44.1 Capital Adequacy		
Minimum Capital Requirement (MCR):		
Paid-up capital (net of losses)	11,850,600	11,850,600
Capital Adequacy Ratio (CAR):		
Eligible Common Equity Tier 1 (CET 1) Capital	125,999,355	130,830,150
Eligible Additional Tier 1 (ADT 1) Capital	-	-
Total Eligible Tier 1 Capital	125,999,355	130,830,150
Eligible Tier 2 Capital	17,503,483	19,426,904
Total Eligible Capital (Tier 1 + Tier 2)	143,502,838	150,257,054
Risk Weighted Assets (RWAs):		
Credit Risk	666,892,937	650,341,111
Market Risk	59,642,582	150,163,491
Operational Risk	116,673,450	118,811,771
Total	843,208,969	919,316,374
Common Equity Tier 1 Capital Adequacy ratio	14.94%	14.23%
Tier 1 Capital Adequacy Ratio	14.94%	14.23%
Total Capital Adequacy Ratio	17.02%	16.34%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

The SBP through its BSD Circular No. 07 dated April 15, 2009 has prescribed the minimum paid up capital (net of losses) for all locally incorporated banks of Rs. 10 billion. The paid up capital of the Bank for the year ended December 31, 2018 stood at Rs. 11.851 billion and is in compliance with the SBP requirements. Further, under Basel III instructions, banks are required to maintain minimum Capital Adequacy Ratio (CAR) of 11.90% (including 1.90% capital conservation buffer), Common Equity Tier 1 (CET 1) ratio of 6.0% and Tier 1 ratio of 7.50% as at December 31, 2018. The Bank is fully compliant with prescribed ratios.

Under the current capital adequacy regulations, credit risk and market risk exposures are measured using the Standardized Approach and operational risk is measured using the Basic Indicator Approach. Credit risk mitigants are also applied against the Bank's exposures based on eligible collateral under comprehensive approach.

	2018 (Rupees in '000)	2017
44.2 Leverage Ratio (LR):		
Eligible Tier-1 Capital	125,999,355	130,830,150
Total Exposures	1,927,024,025	1,739,400,339
	6.54%	7.52%
44.3 Liquidity Requirements		
Liquidity Coverage Ratio (LCR):		
Total High Quality Liquid Assets	625,831,686	618,215,949
Total Net Cash Outflow	355,738,136	321,109,281
Liquidity Coverage Ratio	175.92%	192.53%
Net Stable Funding Ratio (NSFR):		
Total Available Stable Funding	952,851,382	839,957,166
Total Required Stable Funding	730,504,652	654,386,866
Net Stable Funding Ratio	130.44%	128.36%

The full disclosures on the Capital Adequacy, Leverage Ratio & Liquidity Requirements as per SBP instructions issued from time to time is available at:
<https://www.mcb.com.pk/investor-relations/capital-adequacy-statements>

45 RISK MANAGEMENT

Risk is an inherent part of banking business activities. The risk management framework and governance structure at Group helps to mitigate and counter any foreseeable risk in its various lines of business. Risk awareness forms an integral part of strategic and operational activities of risk management. Through its risk management policy the Group sets the best course of action under uncertainty by identifying, prioritizing, mitigating and monitoring risk issues, with the goal of enhancing shareholders' value. Group's risk management structure is based on the following five guiding principles:

- Optimizing risk/return in a controlled manner
- Establishing clear responsibility and accountability
- Establishing independent and properly resourced risk management function.
- Promoting open risk culture
- Adopting international best practices in risk management

Keeping in view dynamics of internal and external environment, the Group regularly reviews and updates policy manuals / frameworks and procedures in accordance with domestic regulatory environment and international standards.

The Group executes its risk strategy and undertakes controlled risk-taking activities within its risk management framework. The Board of Directors and its relevant committee, i.e. the Risk Management & Portfolio Review Committee (RM&PRC), the senior management and its relevant committees, i.e. the Management Credit and Risk Committee (MC&RC), Asset Liability Committee (ALCO), etc., are responsible to ensure formulation and implementation of comprehensive Risk Management Framework. This framework is based on prudent risk identification, measurement, management and monitoring processes which are closely aligned with the activities of the Group. The framework combines core policies, procedures and process designs with broad oversight and is supported by an efficient monitoring mechanism across the Group to ensure that risks are kept within an acceptable level.

The Group ensures that not only the relevant risks are identified but their implications are also considered and basis provided for managing and measuring the risks. Through Internal Control units, the Group ensures that effective controls are in place to mitigate each of the identified risk.

Independent from business groups, Head of Risk Management reports functionally to the Risk Management & Portfolio Review Committee (RM&PRC) and administratively to the President; the RM&PRC convenes regular meetings to evaluate bank's risk and portfolio concentrations. The Risk Management Group performs the following critical functions:

- Risk Management Policy Formulation
- Credit Risk Management
- Credit Review
- Credit Risk Control
- Market Risk Management
- Liquidity Risk Management
- Operational Risk Management
- IT Risk Management

Keeping in view the international best practices and SBP requirements, Board of Directors of the Group has approved a Risk Appetite Statement, which takes into account quantitative and qualitative risk indicators, covering target ratios, credit, market, operational, liquidity and business risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

45.1 Credit Risk

Credit risk arises from Group's dealings with individuals, corporate borrowers, financial institutions, sovereigns etc. The Group is exposed to credit risk through its lending and investment activities. Credit risk makes up the largest part of the Group's exposure and it stems from Group's both on and off-balance sheet activities. Purpose of Credit Risk Management function is to identify, measure, manage, monitor and mitigate credit risk. To manage adverse outcomes in terms of unfavorable scenarios, multiple control factors in the lending structure of the Group provide additional comfort and support. Such controls range from quality of eligible collateral, pre-disbursement safety measures to post disbursement monitoring.

The Group has adopted Standardized Approach to measure Credit risk regulatory capital charge in compliance with Basel requirements. The approach mainly takes into account the assessment of external credit rating agencies. In line with SBP guidelines on Internal Credit Risk Rating Systems, the Group has developed rating systems and all its borrowers are internally rated. In order to further enhance the credit risk analysis and the processes, Probability Default based internal credit risk rating (ICRR) system based on the statistical modeling and validation in line with Basel principles. The revamped ICRR is currently focused on Corporate Commercial and Corporate Large customer categories. The Internal Credit Risk Rating Model for rating of SME Customers has also been revamped to achieve more accurate results and to improve the quality of credit decisions.

In order to manage Group's credit risk, following policies and procedures are in place:

- Individuals who take or manage risks clearly understand them in order to protect the Group from avoidable risks;
- The approval of credit limits to counter parties are subject to pre-fact review;
- Extension in credit facility or material change to the credit facility is subject to credit review;
- Approval and review process is reviewed by RM&PRC and internal audit;
- Management periodically reviews the powers of credit approving and credit reviewing authorities.

Ongoing administration of the credit portfolio is an essential part of the credit process that supports and controls extension and maintenance of credit. The Group's Credit Risk Control is responsible for performing following activities:

- Credit disbursement authorization
- Collateral coverage and monitoring
- Compliance of loan covenants/ terms of approval
- Maintenance/ custody of collateral and security documentation
- Credit Risk Limit Controls

Credit Risk Monitoring is based on a comprehensive reporting framework. Continuous monitoring of the credit portfolio and the risks attached thereto are carried out at different levels including businesses, Audit & Risk Assets Review, Credit Risk Control, Credit Risk Management Division, etc.

To ensure a prudent distribution of asset portfolio, the Group manages its lending and investment activities within an appropriate limits framework. Per party exposure limit is maintained in accordance with SBP Prudential Regulations.

The Group creates specific provision against Non-Performing Loans (NPLs) in accordance with the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses include general provision against consumer loans and Small enterprise (SEs) made in accordance with the requirements of the Prudential Regulations issued by SBP and provision based on historical loss experience on advances. General provisions pertaining to overseas advances are made in accordance with the requirements of the regulatory authorities of the respective countries. Please refer note No. 10.4 for reconciliation of changes in specific and general provisions.

Management of Non Performing Loans

The Group has a Assets Rehabilitation Group (ARG), which is responsible for management of non performing loans. ARG undertakes restructuring / rescheduling of problem loans, as well as litigation of both civil and criminal cases for collection of debt.

Stress Testing

Credit Risk stress testing is a regular exercise. Group's credit exposures including funded and non-funded facilities are subjected to stress tests. This exercise is conducted on a quarterly basis through assigning shocks to all assets of the Group and assessing its resulting affect on capital adequacy inline with SBP requirements.

45.1.1 Lendings to financial institutions

Credit risk by public / private sector

	Gross lendings		Non-performing lendings		Provision held	
	2018	2017	2018	2017	2018	2017
	(Rupees in '000)					
Public/ Government	1,198,704	619,028	-	-	-	-
Private	37,951,186	4,654,496	-	-	-	-
	39,149,890	5,273,524	-	-	-	-

45.1.2 Investment in debt securities

Credit risk by industry sector

	Gross investments		Non-performing investments		Provision held	
	2018	2017	2018	2017	2018	2017
	(Rupees in '000)					
Construction	29,964	29,964	29,964	29,964	29,964	29,964
Electricity, gas, steam and air conditioning supply	498,643	262,089	-	-	-	-
Financials including government securities	731,116,604	624,427,702	118	118	118	118
Manufacture of cement	285,000	285,000	285,000	285,000	285,000	285,000
Manufacture of sugar	150,000	150,000	-	-	-	-
Manufacture of textiles	53,531	125,737	53,531	125,737	53,531	125,737
Power (electricity), Gas, Water, Sanitary	805,000	1,035,000	-	-	-	-
Telecommunications	1,508,015	116,550	114,747	116,550	114,747	116,550
Others	7,682	307,682	7,682	7,682	7,682	7,682
	734,454,439	626,739,724	491,042	565,051	491,042	565,051

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

Credit risk by public / private sector	Gross investments		Non-performing investments		Provision held	
	2018	2017	2018	2017	2018	2017
	(Rupees in '000)					
Public/ Government	721,291,216	616,561,218	-	-	-	-
Private	13,163,223	10,178,506	491,042	565,051	491,042	565,051
	734,454,439	626,739,724	491,042	565,051	491,042	565,051

45.1.3 Advances

Credit risk by industry sector	Gross advances		Non-performing advances		Provision held	
	2018	2017	2018	2017	2018	2017
	(Rupees in '000)					
Agriculture, forestry and fishing	9,386,665	12,922,135	798,008	657,181	763,426	522,573
Construction	22,685,213	18,175,825	343,453	373,510	339,991	349,240
Electricity, gas, steam and air conditioning supply	45,349,612	37,827,906	381,282	384,221	379,485	382,424
Electronics and electrical appliances	6,058,899	6,359,320	119,040	107,559	113,320	101,839
Financials	15,525,588	14,296,871	741,551	777,469	739,169	777,469
Footwear and Leather garments	3,604,384	3,575,940	179,687	200,531	179,292	200,113
Human health and social work activities	4,258,217	5,599,076	52,395	76,874	37,025	48,314
Individuals	41,591,645	34,111,686	4,320,944	4,116,200	4,002,049	3,935,588
Manufacture of basic metals and metal products	14,349,676	12,421,426	2,193,872	2,318,177	2,190,086	2,314,017
Manufacture of cement	15,290,708	7,015,203	392,862	392,862	392,862	392,862
Manufacture of chemicals and chemical and pharmaceutical products	41,436,107	42,567,285	376,631	335,998	366,010	316,468
Manufacture of coke and refined petroleum products	22,581,791	19,697,260	361,167	288,215	360,551	287,599
Manufacture of food & beverages products	53,415,267	50,163,111	3,233,140	3,498,986	3,169,855	3,467,137
Manufacture of machinery, equipment and transport Equipment	2,245,534	915,854	474,815	527,872	456,142	463,445
Manufacture of rubber and plastics product:	4,793,034	2,434,304	711,653	49,119	428,762	46,298
Manufacture of sugar	38,979,252	34,711,031	2,483,424	2,527,266	1,843,056	2,446,248
Manufacture of textiles	82,724,853	78,174,115	13,854,193	13,845,711	13,210,706	13,612,889
Mining and quarrying	2,510,868	280,377	10,078	2,920	10,013	2,349
Manufacturing of Pulp, Paper, Paperboard	4,170,766	4,356,005	261,677	273,789	232,751	244,413
Ship Breaking	9,207,374	7,025,143	3,040,220	2,968,619	3,040,220	2,968,619
Services	10,835,172	13,287,979	1,135,283	1,588,028	1,030,585	1,508,513
Telecommunications	17,945,996	21,269,227	57,304	77,215	52,791	72,703
Transportation and storage	67,628,034	61,732,003	507,773	593,241	402,386	486,007
Wholesale and retail traders	45,923,376	42,959,954	12,117,336	11,732,252	7,448,877	8,691,481
Others	27,530,614	14,792,665	818,526	1,039,534	754,857	949,036
	610,028,645	546,671,701	48,966,314	48,753,349	41,944,267	44,587,644

Credit risk by public / private sector	Gross advances		Non-performing advances		Provision held	
	2018	2017	2018	2017	2018	2017
	(Rupees in '000)					
Public/ Government	101,279,217	95,250,585	639,826	639,824	639,825	639,825
Private	508,749,428	451,421,116	48,326,488	48,113,525	41,304,442	43,947,819
	610,028,645	546,671,701	48,966,314	48,753,349	41,944,267	44,587,644

45.1.4 Contingencies and Commitments

Credit risk by industry sector	2018	2017
	(Rupees in '000)	
	2018	2017
Agriculture, forestry and fishing	929,975	1,335,665
Construction	34,658,187	19,214,476
Electricity, gas, steam and air conditioning supply	5,513,067	14,088,662
Electronics and electrical appliances	2,263,031	2,442,979
Financials	345,910,620	233,265,696
Footwear and Leather garments	316,345	666,488
Human health and social work activities	804,687	251,751
Individuals	8,758,774	11,913,597
Manufacture of basic metals and metal products	6,846,779	7,726,774
Manufacture of cement	2,367,858	6,990,372
Manufacture of chemicals and chemical and pharmaceutical products	20,291,122	13,208,443
Manufacture of coke and refined petroleum products	3,951,612	5,726,433
Manufacture of food & beverages products	13,378,114	15,172,508
Manufacture of machinery, equipment and transport Equipment	8,228,640	3,100,068
Manufacture of rubber and plastics product:	1,391,038	1,574,827
Manufacture of sugar	4,202,367	3,298,893
Manufacture of textiles	18,738,315	17,012,186
Mining and quarrying	96,453	47,025
Manufacturing of Pulp, Paper, Paperboard	1,099,265	365,070
Ship Breaking	2,269,451	90,964
Services	61,467,471	53,387,208
Telecommunications	16,839,614	16,424,642
Transportation and storage	5,881,808	3,351,533
Wholesale and retail traders	15,194,470	17,919,890
Others	18,717,107	8,355,459
	600,116,170	456,931,609

Credit risk by public / private sector	2018	2017
	(Rupees in '000)	
	2018	2017
Public/ Government	146,299,566	82,756,282
Private	453,816,604	374,175,327
	600,116,170	456,931,609

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

45.1.5 Concentration of Advances

The Group top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs 233,522.506 million (2017: Rs. 205,291.895 million) are as following:

	2018 (Rupees in '000)	2017
Funded	91,638,103	109,885,020
Non Funded	141,884,403	95,406,875
Total Exposure	233,522,506	205,291,895

The sanctioned limits against these top 10 exposures aggregated to Rs 281,681.726 million (2017: 267,059.555 million)

There is no provision against these top 10 exposures.

45.1.6 Advances - Province/Region-wise Disbursement & Utilization

Province/Region	2018						
	Disbursements	Utilization					
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan
		(Rupees in '000)					
Punjab	372,960,844	345,921,241	22,641,215	4,093,581	4,078	280,581	20,149
Sindh	211,768,605	10,961,509	182,220,207	3,187,372	12,250,912	3,148,604	-
KPK including FATA	4,323,059	-	-	4,292,846	-	30,214	-
Balochistan	4,136,754	-	-	-	4,136,754	-	-
Islamabad	47,244,116	1,881,845	-	2,363,815	-	42,880,915	117,542
AJK including Gilgit-Baltistan	460,785	-	-	-	-	-	460,783
Total	640,894,163	358,764,595	204,861,422	13,937,614	16,391,744	46,340,314	598,474

Province/Region	2017						
	Disbursements	Utilization					
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan
		(Rupees in '000)					
Punjab	330,336,997	302,635,883	21,614,202	553,867	-	5,533,045	-
Sindh	181,670,550	11,760,862	161,405,117	1,521,422	6,757,105	221,390	4,654
KPK including FATA	4,857,245	83	1,842	4,855,320	-	-	-
Balochistan	2,583,904	-	-	-	2,583,904	-	-
Islamabad	50,292,027	5,737,068	-	1,314,562	-	43,240,397	-
AJK including Gilgit-Baltistan	464,339	-	-	-	-	-	464,339
Total	570,205,062	320,133,896	183,021,161	8,245,171	9,341,009	48,994,832	468,993

45.2 Market Risk

Market Risk arises from changes in market rates such as Interest Rates, Foreign Exchange Rates, Equity Prices, credit spreads and/or commodity prices as well as their correlations and volatilities resulting in a loss to earnings and capital. MCB is exposed to market risk primarily through its trading activities, which are centered in the Treasury and Foreign Exchange Group and the Capital Market Division. Market risk also arises from market-making, facilitation of client business and proprietary positions in equities, fixed income and interest rate products and foreign exchange, which exposes Group to interest rate risk, foreign exchange risk and equity price risk.

The Group's Market Risk Management structure consists of Risk Management & Portfolio Review Committee (RM&PRC) of the Board, Management Credit and Risk Committee, ALCO and independent Market Risk Management Division reporting directly to Group Head Risk Management. Market Risk function works in close partnership with the business segments to identify and monitor market risks throughout the Group and to define market risk policies and procedures. Market Risk seeks to facilitate efficient risk/return management decisions, reduce volatility in operating performance and provide transparency into the Group's market risk profile for senior management, the Board of Directors and regulators. Market risk authority, including both approval of market risk limits and approval of market risks is vested in the ALCO.

In line with regulatory requirements, MCB has clearly defined, in its Risk Management policy, the positions which shall be subject to market risk. The definition covers the accounting classifications as well as positions booked by different business groups under "Available for Sale" category. The assets subject to trading book treatment are frequently, mostly on daily basis, valued and actively managed. The positions which does not fulfill the criteria of Trading book falls under the Grouping Book and are treated as per SBP requirements.

The Group measures and manages Market Risk by using different risk parameters with combinations of various limits. A specific Board approved Market Risk Limit Policy provides guidelines for assuming controlled market risk, its monitoring and management. The approved Limits are compared with the numbers generated by the market risk management system based on the trading activity and the outstanding positions.

Besides conventional methods, the Group also uses VaR (Value at Risk) technique for market risk assessment of positions assumed by its treasury and capital market groups. In-house based solutions are used for calculating mark to market value of positions and generating VaR (value at risk) and sensitivity numbers. Thresholds for different positions are established to compare the expected losses at a given confidence level and over a specified time horizon.

A framework of stress testing, scenario analysis and reverse stress tests covering both Grouping and trading books as per SBP guidelines is also in place. The results of the stress tests are reviewed by senior management and also reported to the SBP.

The Group is also exposed to interest rate risk both in trading and Grouping books. Risk parameters along with the marked to market values of government securities held by the Group's treasury are generated on daily basis. The risk parameters include duration, PVBP, and VaR on individual security basis as well as on portfolio basis. These reports are presented to the senior management for review on a daily basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

45.2.1 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	110,165,006	-	110,165,006	109,462,902	-	109,462,902
Balances with other banks	13,338,117	-	13,338,117	7,348,882	-	7,348,882
Lendings to financial institutions	39,149,890	-	39,149,890	5,273,524	-	5,273,524
Investments	40,197,458	714,188,317	754,385,775	38,374,765	621,695,481	660,070,246
Advances	566,792,265	-	566,792,265	500,965,801	-	500,965,801
Fixed assets	43,789,201	-	43,789,201	41,391,887	-	41,391,887
Intangible assets	1,194,657	-	1,194,657	1,173,561	-	1,173,561
Other assets	56,395,096	-	56,395,096	63,805,253	-	63,805,253
	871,021,690	714,188,317	1,585,210,007	767,796,575	621,695,481	1,389,492,056

45.2.2 Foreign Exchange Risk

Foreign exchange risk exposes the Group to changes in the values of current holdings and future cash flows denominated in currencies other than home currency due to the exchange rate fluctuation and volatility. The types of instruments exposed to this risk include investments in foreign branches, foreign currency-denominated loans, foreign currency-denominated deposits, future cash flows in foreign currencies arising from foreign exchange transactions, etc.

The core objective of foreign exchange risk management is to ensure the foreign exchange exposure of the Group remain within defined risk appetite and insulate Group against undue losses that may arise due to volatile movements in foreign exchange rates or interest rates.

Limit structure to manage Foreign exchange risk including Gap limits on different tenors in major currencies are in place to control risk. Group's net open position and Foreign exchange exposure limit (FEEL) is monitored and reported on intra-day and day end basis. Foreign exchange risk parameters including VaR is generated and monitored on daily basis. Stress testing of foreign exchange portfolio and its reporting to senior management and RM&PRC of the Board is a regular feature.

	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	29,147,140	54,998,521	26,118,156	266,775	37,157,343	42,132,440	2,867,376	(2,107,721)
Sri Lankan Rupees	(364,982)	-	171,106	(193,876)	20,799,971	20,812,534	4,081,628	4,069,065
Arad Emirates Dirham	(116,907)	-	-	(116,907)	16,096,532	15,944,630	(6,012)	145,890
Euro	709,714	5,412,390	4,639,790	(62,885)	986,754	5,680,061	4,594,953	(98,354)
Great Britain Pound Sterling	785,034	6,431,110	5,667,817	21,741	30,357	95	(1,785)	28,477
Japanese Yen	(90,824)	136	103,369	12,410	1,422,161	5,850,621	4,397,825	(30,635)
Other currencies	76,593	-	25,692	102,285	633,556	313,362	(131)	320,063
	30,145,769	66,842,157	36,725,930	29,542	77,126,674	90,733,743	15,933,854	2,326,785

	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	4,275	4,199	4,005	4,005

45.2.3 Equity position Risk

Group's proprietary positions in the equity instruments exposes it to the equity price risk in its trading and Grouping books. Equity price risk is managed by applying trading limit, scrip-wise and portfolio wise nominal limits. VaR analysis and stress testing of the equity portfolio are also performed and reported to senior management on daily basis. The stress test for equity price risk assesses the impact of the fall in the stock market index using certain assumptions. In addition to this Stress Testing, historical scenario analysis on Equities is also performed periodically as advised by the State Bank of Pakistan through Guideline on Stress Testing.

	2018		2017	
	AFS	HFT	AFS	HFT
	(Rupees in '000)			
Impact of 5% change in equity prices on - Profit and loss account - Other comprehensive income	- 899,642	52,421 -	- 1,085,907	20,861 -

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

45.2.4 Yield / Interest Rate Risk-Base II Specific

Yield/interest rate sensitivity position for on-balance sheet instruments is based on the earlier of contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date.

The increase / (decrease) in earnings due to change in the interest rate is as follows:

	2018		2017	
	Banking book	Trading book	Banking book	Trading book
	(Rupees in '000)			
Impact of 1% change in interest rates on				
- Profit and loss account			2,231,582	-
- Other comprehensive income	2,726,872	1,514,828	-	3,302,371

The Group has classified Available for Sale investments as Trading in Basel-II.

45.2.5 Mismatch of Interest Rate Sensitive Assets and Liabilities

2018		Exposed to Yield/ interest risk					Non-interest bearing financial instruments
Effective Yield/ Interest rate	Total	Over 1 to 3	Over 3 to 6	Over 6 Months to 1 Year	Over 1 to 3	Over 3 to 5	Above 10 Years
		Upto 1 Month	Months	Year	Years	Years	Years

(Rupees in '000)

[illegible]

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

2017											
Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk							Above 10 Years	Non-interest bearing financial instruments	
		Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years			
On-balance sheet financial instruments											
Assets											
Cash and balances with treasury banks	109,462,902	6,964,134	-	-	-	-	-	-	-	-	102,498,768
Balances with other banks	7,348,882	1,914,382	-	-	-	-	-	-	-	-	5,434,500
Lending to financial institutions	5,273,524	5,273,524	-	-	-	-	-	-	-	-	-
Investments	660,070,246	233,936,534	30,241,527	70,402,828	59,425,727	26,031,477	41,194,066	3,715,859	4,990,927	32,197,191	
Advances	496,452,711	401,765,231	40,989,946	11,123,754	5,922,207	2,963,391	4,441,575	11,613,376	10,715,502	1,926,802	
Other assets	34,148,396	-	-	-	-	-	-	-	-	34,148,396	
	1,312,756,661	578,842,308	274,926,480	41,365,281	76,325,035	62,389,118	30,473,052	52,807,442	14,431,361	4,990,927	
Liabilities											
Bills payable	22,994,877	-	-	-	-	-	-	-	-	-	22,994,877
Borrowings	140,462,138	95,985,369	16,703,929	12,824,046	6,937,734	6,740,120	-	-	-	-	1,270,920
Deposits and other accounts	1,001,146,162	554,544,080	17,334,174	13,758,172	24,724,251	2,242,536	1,179,924	1,358,753	-	-	386,004,272
Subordinated debt	3,892,578	-	-	3,892,578	-	-	-	-	-	-	-
Other liabilities	45,613,372	-	-	-	-	-	-	-	-	-	45,613,372
	1,214,109,127	650,529,469	34,038,103	30,474,796	31,661,965	8,982,656	1,179,924	1,358,753	-	-	455,883,441
	98,647,534	(71,687,161)	240,888,377	10,890,485	44,663,050	53,406,462	29,283,128	51,448,689	14,431,361	4,990,927	(279,677,784)
On-balance sheet gap											
Off-balance sheet financial instruments											
FX options purchase	865,718	341,337	401,018	123,363	-	-	-	-	-	-	-
Outright purchase of Government Securities	7,000,000	7,000,000	-	-	-	-	-	-	-	-	-
Cross currency swaps - purchase	1,510,582	-	-	-	207,603	207,484	1,095,495	-	-	-	-
Interest Rate Swaps - purchase	316,500	-	-	-	-	-	316,500	-	-	-	-
Foreign exchange contracts purchase	85,637,860	40,744,722	25,713,571	18,880,209	289,358	-	-	-	-	-	-
	95,330,660	48,086,059	26,114,589	19,013,572	496,961	207,484	1,411,995	-	-	-	-
FX options sale	865,718	341,337	401,018	123,363	-	-	-	-	-	-	-
Cross Currency Swaps - sale	1,721,562	-	-	-	-	-	-	-	-	-	-
Foreign exchange contracts sale	75,559,527	30,698,264	25,847,367	17,147,579	1,681,766	123,611	1,306,475	-	-	-	-
	78,146,807	31,033,601	26,248,385	17,270,942	1,880,369	331,095	1,367,415	-	-	-	-
	17,183,853	17,046,458	(133,796)	1,742,630	(1,392,408)	(123,611)	44,580	-	-	-	-
Off-balance sheet gap											
	(54,640,703)	240,754,591	12,633,115	43,270,642	53,282,851	29,337,708	51,448,689	14,431,361	4,990,927	-	-
Total Yield/Interest Risk Sensitivity Gap		(54,640,703)	186,113,878	198,746,993	242,017,635	295,300,486	324,638,194	376,066,883	380,518,244	395,509,171	-
Cumulative Yield/Interest Risk Sensitivity Gap											
Also disclose reconciliation of financial assets with total assets and liabilities.											
Reconciliation to total assets											
	2018	2017	2017								
	(Rupees in '000)	(Rupees in '000)	(Rupees in '000)								
Reconciliation to total liabilities											
	2018	2017	2017								
	(Rupees in '000)	(Rupees in '000)	(Rupees in '000)								
Balance as per balance sheet	1,595,210,007	1,389,492,056	Balance as per balance sheet								
Less: Non financial assets			Less: Non financial liabilities								
Islamic financing and related assets	6,625,790	4,513,090	Other liabilities								
Fixed assets	43,789,201	41,391,897	Deferred tax liability								
Intangible assets	1,194,657	1,173,561	Total financial liabilities								
Other assets	18,186,483	29,656,857									
	69,796,131	76,735,395									
	1,515,413,876	1,312,756,661									
Total financial assets											
Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.											
Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.											

45.3

Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risks but excludes strategic and reputational risks. The Group's operational risk management framework, as laid down in the operational risk policy, duly approved by BOD, is flexible enough to implement in stages and permits the overall risk management approach to evolve in the light of organizational learning and the future needs of the Group. Operational loss events are reviewed and appropriate corrective actions taken on an ongoing basis, including measures to improve control procedures with respect to design and operative effectiveness. Operational Risk Management helps the Group understand risks and improve mitigating controls so as to minimize operational risks that are inherent in almost all areas of the Group. Going forward, the Group will further strengthen its risk function, policies and procedures to facilitate operations and improve quality of assets to safeguard interest of depositors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

45.3.1 Operational Risk- Disclosures Basel II Specific

Currently, the Group is reporting operational risk capital charge under Basic Indicator Approach (BIA). However, the Group took a number of initiative with respect to operational risk management. The parallel run approval for Alternative Standardized Approach (ASA) was accorded by SBP. The Group will initiate further steps for improvement Operational Risk management in the Group.

Operational loss data pertaining to key risk events is also collected on Group-wide basis. Operational Risk Management Software (ORMS) has been developed in house in line with the regulatory requirements, which has enhanced Group's capability to capture and report operational risk events in a more systematic way. The software is also capable for periodical regulatory and management reporting. Periodic review and analysis is prepared for senior management and Risk Management and Portfolio Review Committee (RM&PRC) of the Board. The report covers the significant risk events with root cause analysis and recommendations for further improvements.

45.4 Liquidity Risk

Liquidity represents the ability to fund assets and meet obligations as they become due. The Group understands that liquidity does not, *compt for*, free, and surplus liquidity has an opportunity cost which needs to be recognized. Liquidity risk is a risk of not being able to obtain funds at a reasonable price within a reasonable time period to meet obligations as they become due. Liquidity is essential to the ability to operate financial services businesses and, therefore, the ability to maintain surplus levels of liquidity through economic cycles is crucial, particularly during periods of adverse conditions, liquidity management is among the most important activities that the MCB conducts during both normal and stress periods. MCB recognizes that liquidity risk can arise from the Group's activities and can be grouped into three categories:

- Inflows/Outflows from on-balance sheet items (other than marketable securities and wholesale borrowings) and off-balance sheet items;
- Marketability of trading securities; and
- Capacity to borrow from the wholesale markets for funding as well as trading activities.

Liquidity Management

The Asset Liability Management Committee of the Group has the responsibility for the formulation of overall strategy and oversight of the Asset Liability Management function. Board has approved a comprehensive Liquidity Risk Policy (part of Risk Management Policy), which stipulates policies regarding maintenance of various ratios, funding preferences, and evaluation of Groups' liquidity under normal and stress scenarios. A framework to assess the maturity profile of non-contractual assets and liabilities is in place to supplement the liquidity management. Group's comprehensive liquidity management framework assists it to closely watch the liquidity position through monitoring of early warning indicators and stress testing, to ensure effective and timely decision making.

Group's liquidity risk management framework is designed to identify measure and manage in a timely manner the liquidity risk position of the Group. The underlying policies and procedures include: Risk Management policy, Treasury Policy, Investment policy, Contingency Funding Plan, Liquidity Strategy and Limit Structure which are reviewed and approved regularly by the senior management /Board members. Moreover, the Group also prepares a 'Contingency Funding Plan' (CFP) to address liquidity issues in time of stress/crisis situation containing early warning indicators to pre-empt unforeseen liquidity crises. Group conducts Liquidity Risk Analysis on regular basis as well as Maturity of gaps are also reviewed in order to ensure diversification in terms of tenors. Group's liquidity Risk Policy envisages to project the Group's funding position during temporary and long-term liquidity changes, including those caused by liability erosion and explicitly identifying quantifying and ranking all sources of funding preferences, such as reducing assets, modifying or increasing liability structure; and using other alternatives for controlling statement of financial position changes. MCB performs regular liquidity stress tests as part of its liquidity monitoring activities. The purpose of the liquidity stress tests is intended to ensure sufficient liquidity for the Group under both idiosyncratic and systemic market stress conditions. Group's liquidity risk management approach involves intraday liquidity management, managing funding sourced evaluation of structural imbalances in balance sheet structure.

Intraday Liquidity Management

Intraday liquidity management is about managing the daily payments and cash flows. Group has policies to ensure that sufficient cash is maintained during the day to make payments through local payment system. The policy of the Group is to maintain adequate liquidity at all times, in all geographical locations and for all currencies and hence to be in a position, in the normal course of business, to meet obligations, repay depositors and fulfil commitments.

Managing Funding Sources

Managing funding sources, as per policy/Group maintain a portfolio of marketable securities that can either be sold outright or sold through a repurchase agreement to generate cash flows for meeting unexpected liquidity requirement. As a part of liquidity management Group maintains borrowing relationships to ensure the continued access to diverse market of funding sources. Group's sound credit rating together with excellent market reputation has enabled Group to secure ample call lines with local and foreign Groups. The level of liquidity reserves as per regulatory requirements also mitigates risks. Group's investment in marketable securities is much higher than the Statutory Liquidity requirements.

45.4.1 Maturities of Assets and Liabilities - based on contractual maturity of the assets and liabilities of the Group

		Total	2018												
			Up to 1 Day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 Month	Over 1 to 2 Months	Over 2 to 3 Months	Over 3 to 6 Months	Over 6 to 9 Months	Over 9 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 years
Assets			(Rupees in '000)												
Cash and balances with treasury banks		110,165,006	110,165,006	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks		13,338,117	13,338,117	-	-	-	-	-	-	-	-	-	-	-	-
Lending to financial institutions		39,149,890	5,043,006	32,972,346	1,134,138	-	-	-	-	-	-	-	-	-	-
Investments		754,385,775	1,415,440	337,281,298	127,822,467	8,790,673	11,753,449	38,624,520	41,306,667	24,113,553	43,184,365	20,120,086	19,808,124	26,071,114	
Advances		566,792,265	117,978,945	11,937,006	4,518,142	41,017,024	19,420,424	68,933,747	935,113	937,639	50,099,142	47,653,125	44,826,582	45,602,321	
Fixed assets		43,789,201	109,122	57,964	67,625	176,024	310,527	311,417	937,639	938,658	2,203,979	2,202,397	2,109,194	33,379,542	
Intangible assets		1,194,657	27,785	4,260	4,971	15,692	29,313	29,357	88,072	88,072	213,867	96,532	443,639	65,515	
Deferred tax assets		4,213,929	6,796	103,740	39,761	135,032	159,321	152,178	605,797	576,506	912,872	712,463	96,893	265,555	
Other assets		56,356,036	1,749,407	2,875,490	2,570,321	6,910,723	9,212,575	10,192,103	4,537,554	3,828,545	3,423,685	925,700	8,017,579	8,017,579	
		1,589,423,936	249,933,934	385,212,104	177,211,102	140,885,869	69,389,417	111,338,489	59,134,233	34,928,736	100,087,510	71,710,303	75,932,011	105,384,047	
Liabilities															
Bills payable		17,003,272	566,776	3,400,654	3,967,430	9,068,412	5,042,541	8,447,017	9,903,267	442,272	1,483,842	1,825,505	3,260,776	6,722,977	
Borrowings		223,216,115	6,878,461	171,466,060	3,480,142	1,965,027	15,130,985	13,509,166	17,359,983	12,232,954	2,454,401	2,284,737	1,002,918	-	
Deposits and other accounts		1,122,306,535	1,016,523,012	7,920,483	4,372,404	15,084,901	-	-	779	-	-	-	3,886,345	-	
Subordinated debt		3,891,019	-	-	-	-	-	-	-	-	-	-	-	-	
Deferred tax liabilities		6,197,074	388	2,326	2,713	6,589	11,241	12,016	35,273	35,661	141,480	141,480	1,786,574	3,886,060	
Other liabilities		65,487,042	10,292,237	4,923,115	5,298,569	11,609,653	5,058,633	5,936,445	3,456,002	2,691,331	3,817,009	1,260,035	7,928,223	1,246,678	
		1,438,101,057	1,038,260,674	187,712,638	17,121,258	37,734,657	25,243,420	27,904,644	30,754,304	15,402,238	7,899,190	5,513,315	17,864,836	11,955,715	
Net assets															
		151,322,879	(789,426,940)	197,499,466	(7,580,071)	138,476,445	115,642,389	40,954,773	80,884,185	43,731,995	92,188,320	66,186,988	57,437,175	83,428,332	
Share capital		11,850,600													
Reserves		74,374,573													
Surplus on revaluation of assets		10,417,875													
Non-controlling interest		708,752													
Unappropriated profit		53,971,079													

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

Total		2017												
		(Rupees in '000)												
		Upto 1 Day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 Month	Over 1 to 2 Months	Over 2 to 3 Months	Over 3 to 6 Months	Over 6 to 9 Months	Over 9 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 Years	Over 5 Years
Assets														
Cash and balances with treasury banks	109,462,902	109,462,902	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	7,348,882	7,348,882	-	-	-	-	-	-	-	-	-	-	-	-
Lending to financial institutions	5,273,524	3,400,000	971,730	901,794	-	-	-	-	-	-	-	-	-	-
Investments	660,070,246	243,507	86,269,500	515,706	77,870,434	203,887,771	30,089,960	23,107,109	66,907,593	2,229,285	61,589,297	44,299,850	42,654,164	20,406,070
Advances	500,965,801	120,511,343	23,355,022	5,909,358	37,144,173	30,151,595	50,148,971	41,486,057	14,202,882	13,880,056	37,370,978	38,437,931	51,126,156	37,231,279
Fixed assets	41,391,887	8,101	48,596	56,685	143,734	257,118	257,113	775,953	775,571	774,887	2,246,941	2,023,936	2,046,576	31,976,666
Intangible assets	1,173,581	712	4,260	4,971	17,729	27,670	27,670	83,121	83,121	83,121	225,553	76,856	430,349	108,428
Deferred tax assets	3,524,718	-	-	-	-	-	-	-	3,524,718	-	-	-	-	-
Other assets	63,805,253	644,642	2,910,441	1,875,633	4,708,334	8,401,486	11,597,625	1,950,713	7,591,425	7,559,588	3,387,952	2,888,877	10,278,537	-
	1,393,016,774	241,620,089	113,559,549	9,264,157	119,884,404	242,725,640	92,121,339	67,412,953	93,085,310	24,526,937	104,830,721	87,727,450	106,535,782	89,722,443
Liabilities														
Bills payable	22,994,877	834,576	4,614,685	5,370,708	12,174,908	-	-	-	-	-	-	-	-	-
Borrowings	140,462,138	139,329	90,410,461	1,696,823	5,009,696	6,961,635	9,732,994	12,833,346	6,329,992	607,742	6,740,120	-	-	-
Deposits and other accounts	1,001,146,162	925,612,064	5,695,956	343,665	6,031,368	2,019,710	16,217,005	15,176,911	911,343	24,305,135	2,277,014	1,195,424	1,360,567	-
Subordinated debt	3,892,578	-	-	-	-	-	-	779	-	779	1,558	1,558	3,887,904	-
Deferred tax liabilities	9,185,791	8,102	7,890	9,056	1,713	4,529	25,295	44,060	743,969	50,840	397,789	278,688	1,500,471	6,113,389
Other liabilities	56,792,147	6,265,604	3,996,870	3,171,526	7,403,669	3,915,404	7,479,460	4,525,993	3,374,102	3,386,720	3,127,966	3,221,472	8,923,341	-
	1,236,473,693	932,859,675	104,725,862	10,591,778	30,621,354	12,901,278	33,454,754	32,581,089	11,359,406	28,351,216	12,544,467	4,697,142	15,672,283	6,113,389
Net assets	156,543,081	(691,239,586)	8,833,687	(1,327,621)	89,263,050	229,824,362	58,666,585	34,831,864	81,725,904	(3,824,279)	92,286,254	83,030,308	90,863,499	83,609,054
Share capital	11,850,600													
Reserves	71,027,912													
Surplus on revaluation of assets	17,736,093													
Non-controlling interest	707,407													
Unappropriated profit	55,221,069													
	156,543,081													

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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

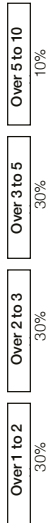
2018										
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
(Rupees in '000)										
Assets										
Cash and balances with treasury banks	110,165,006	110,165,006	-	-	-	-	-	-	-	-
Balances with other banks	13,338,117	13,338,117	-	-	-	-	-	-	-	-
Lending to financial institutions	39,149,890	39,149,890	-	-	-	-	-	-	-	-
Investments	754,385,775	467,987,454	120,652,884	38,678,902	17,329,972	43,322,583	20,258,305	19,946,343	20,460,967	5,748,365
Advances	566,792,265	96,527,149	57,212,873	52,149,075	52,341,015	84,863,663	83,534,348	82,208,915	48,465,501	9,489,726
Fixed assets	43,789,201	410,733	621,945	935,113	1,876,298	2,253,979	817,187	3,494,404	3,918,495	29,461,047
Intangible assets	1,194,657	52,716	58,671	88,072	176,145	213,367	96,532	443,639	65,515	-
Deferred tax assets	4,213,929	259,728	337,300	605,797	1,023,221	912,972	712,463	96,893	265,555	-
Other assets	56,395,096	14,106,144	19,404,679	2,151,240	8,366,069	3,423,685	925,700	8,017,579	-	-
	1,589,423,936	741,996,937	198,288,352	94,608,199	81,112,720	134,990,249	106,344,535	114,207,773	73,176,033	44,699,138
Liabilities										
Bills payable	17,003,272	17,003,272	-	-	-	-	-	-	-	-
Borrowings	223,216,115	185,789,690	13,489,558	9,903,267	740,500	1,483,842	1,825,505	3,260,776	6,722,977	-
Deposits and other accounts	1,122,306,535	85,853,399	70,963,497	80,450,988	81,525,858	241,785,623	241,615,957	236,485,752	79,777,074	3,848,387
Subordinated debt	3,891,019	-	-	779	779	1,557	1,557	3,886,348	-	-
Deferred tax liabilities	6,197,074	12,016	22,869	34,976	70,159	141,480	141,480	1,786,574	2,408,681	1,578,839
Other liabilities	65,487,042	32,123,649	10,995,098	3,456,002	4,659,448	3,817,909	1,260,035	7,928,223	1,246,678	-
	1,438,101,057	320,782,026	95,471,022	93,846,011	86,996,743	247,230,411	244,844,534	253,347,673	90,155,410	5,427,226
Net assets	151,322,879	421,214,911	102,817,330	762,188	(5,884,023)	(112,240,162)	(138,499,999)	(139,139,900)	(16,979,377)	39,271,912
Share capital	11,850,600									
Reserves	74,374,573									
Surplus on revaluation of assets	10,417,875									
Non-controlling interest	708,752									
Unappropriated profit	53,971,079									
	151,322,879									

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

2017									
Total		Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
		(Rupees in '000)							
Assets									
Cash and balances with treasury banks	109,462,902	109,462,902	-	-	-	-	-	-	-
Balances with other banks	7,348,882	7,348,882	-	-	-	-	-	-	-
Lending to financial institutions	5,273,524	5,273,524	-	-	-	-	-	-	-
Investments	660,070,246	232,922,302	23,107,109	70,189,616	61,589,298	44,299,850	42,654,163	15,949,831	4,456,239
Advances	500,965,801	95,593,636	68,929,356	33,000,648	73,413,946	75,034,430	87,015,708	41,651,107	7,835,354
Fixed assets	41,391,887	150,398	300,799	451,087	1,911,279	2,059,976	3,843,315	10,575,732	21,197,127
Intangible assets	1,173,561	27,672	55,340	83,121	225,553	76,856	430,349	108,428	-
Deferred tax assets	3,524,718	-	-	3,524,718	-	-	-	-	-
Other assets	63,805,253	19,999,111	1,950,713	15,151,013	3,397,952	2,888,877	10,278,537	-	-
Liabilities	1,393,016,774	392,897,902	58,592,678	108,425,379	140,538,028	124,359,989	144,222,072	68,285,098	33,488,720
Bills payable	22,994,877	22,994,877	-	-	-	-	-	-	-
Borrowings	140,462,138	16,703,929	12,824,046	6,937,734	6,740,120	-	-	-	-
Deposits and other accounts	1,001,146,162	64,309,976	71,859,289	46,014,975	224,835,302	223,753,713	226,818,274	74,669,333	1,449,709
Subordinated debt	3,892,578	-	779	779	1,557	1,557	3,887,906	-	-
Deferred tax liabilities	9,185,791	26,761	44,060	583,398	397,769	278,688	1,500,471	4,272,785	2,052,015
Other liabilities	58,792,147	20,837,669	4,525,983	6,760,822	3,127,966	3,221,472	8,923,341	-	-
	1,236,473,693	208,551,207	89,254,167	60,297,708	235,102,754	227,255,430	241,129,992	78,942,118	3,501,724
Net assets	156,543,081	184,346,695	(30,661,489)	48,127,671	(94,564,726)	(102,895,441)	(96,907,920)	(10,657,020)	29,986,996
Share capital	11,850,600								
Reserves	71,027,912								
Surplus on revaluation of assets	17,736,093								
Non-controlling interest	707,407								
Unappropriated profit	55,221,069								
	156,543,081								

Liquidity Gap Reporting

When an asset or liability does not have any contractual maturity date, the period in which these are assumed to mature has been taken as the expected date of maturity. Group regularly conducts an objective and systematic behavioral study using regression analysis technique to ascertain the maturity of its non-contractual assets and liabilities. Core and non-core parts of the non-contractual assets and liabilities are segregated through the behavioral study. Non Core part is placed among the short term maturity buckets i.e. up to 1 year based on the model results, whereas core part is distributed among the longer terms buckets based on the discussion and decision by the ALCO. Following percentages are used to distribute the core assets and liabilities among longer term buckets:



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

45.5 Derivative Risk

Most business clients have either interest rate exposures arising from debt financing or currency exposures arising out of commercial transactions from import and export of goods. Businesses face the risk of sudden movements in interest rates or foreign exchange rates that may adversely affect their profitability. Group provides solutions to this problem through its derivatives desk in major types of derivative instruments i.e., forwards, futures, swaps and options. As an Authorized Derivative Dealer (ADD), Group is an active participant in Derivative market and has flexibility in providing a broad range of derivatives products covering both hedging and market making to satisfy customers' needs. As an ADD, the Group offers derivative products which are permitted under the Financial Derivative Business Regulations (FDBR) or as permitted by the State Bank of Pakistan. Before executing Derivative transactions, the Group ensures that the clients understand the risk and reward associated with the derivative being offered. Derivative transactions are executed with appropriate clients only.

Risk management activities take place at the following different levels.

Strategic Level:

By senior management Assets and Liabilities Management Committee (ALCO), Management Credit and Risk Committee (MC&RC) and the Board of Directors to institute a risk management framework and to ensure provision of all resources and support required for effective risk management on Group-wide basis. The Board provides the overall limits/thresholds for derivatives business.

Macro Level

By Treasury and FX Group and Risk Management Group, responsible for policy formulation, procedure development and implementation, monitoring and reporting.

Micro Level:

Treasury Derivatives and Structured Product Desk where risks are actually created and Treasury Operations for settlements of the transactions.

Derivative Risk Management caters the following risks:-

Market Risk arises from changes in market rates such as Interest Rates, Foreign Exchange Rates, Equity Prices, credit spreads and/or commodity prices as well as their correlations and volatilities resulting in a loss to earnings and capital. In line with SBP's regulatory guidelines, Group hedges back-to-back all option transactions with other financial institutions. Group minimizes the exchange rate risk on its Cross Currency Swap Portfolio by hedging the exposure in intergroup market. Group also manages interest rate risk on its Interest Rate Derivatives and Cross Currency Swaps through various sensitivity limits approved by ALCO. Marked to market positions and sensitivity of the derivatives transactions are monitored on regular basis. All individual deals are approved at the appropriate level of authority after analyzing the risk and benefits associated with the deals.

Credit risk is a probable risk of loss resulting from customer's inability to meet contractual obligation that may have adverse impact on Group's profitability. Group manages the risk by setting policies and limits for counterparty based on a pre-defined criteria linked with financial health of the customer. The exposure of each counterparty is monitored by Risk Management Function of the Group on daily basis.

Considering small Derivative portfolio, Group is not exposed to any liquidity risk. However, Group manages its liquidity risk through Group's Liquidity Risk Policy which is defined in relevant Liquidity Risk Section.

Group has adequate system and controls for smooth execution of derivative transactions. Transactions are executed in line with well defined accounting and operational aspects to mitigate the operational risk. Policies and control functions are regularly reviewed on periodic basis. The Group uses a third party's Super Derivative System which provides front end sales and structuring capabilities, end to end valuation solutions, risk management systems, back end processing and provides analytical tools to measure various risk exposures and carry out sensitivity analysis.

The Group uses a third party's Super Derivative System which provides front end sales and structuring capabilities, end to end valuation solutions, risk management systems, back end processing and provides analytical tools to measure various risk exposures and carry out sensitivity analysis.

The goal of asset/liability management (ALM) is to properly manage the risk related to changes in interest rates, the mix of balance sheet assets and liabilities, the holding of foreign currencies, and the use of derivatives. Due to thin liquidity in the derivative market, interest rate derivatives are not actively used to manage/alter the interest rate risk profile of the Group.

Accounting policy has been disclosed in the note 5.

46 EVENTS AFTER THE REPORTING DATE

46.1 The Board of Directors in its meeting held on February 20, 2019 has announced a final cash dividend in respect of the year ended December 31, 2018 of Rs.4.00 per share (2017: Rs. 4.00 per share). These consolidated financial statements for the year ended December 31, 2018 do not include the effect of these appropriations which will be accounted for subsequent to the year end.

46.2 The Government has announced 4% Super tax for the Tax year 2018 (accounting year ended December 31, 2017) after year end though not yet approved. These consolidated financial statements for the year ended December 31, 2018 do not include the impact of Super tax announced for tax year 2018.

47 GENERAL

Figures have been rounded off to the nearest thousand of rupees unless otherwise stated.

Under BPRD circular No.2 dated January 25, 2018 'Revised Forms of Annual Financial Statements' comparative information has been reclassified, rearranged in these consolidated financial statements for the purposes of better presentation. However, no significant reclassifications have been made in these consolidated financial statements.

48 DATE OF AUTHORIZATION FOR ISSUE

These consolidated financial statements were authorized for issue by the Board of Directors of the Group in their meeting held on February 20, 2019.



Imran Maqbool
President/Chief Executive



Hammad Khalid
Chief Financial Officer



S. M. Muneer
Director



Muhammad Tariq Rafi
Director



Muhammad Ali Zeb
Director

Disposal of fixed assets (refer note 11.2.6)

Annexure - I

Description	Cost/ revalued amount	Accumulated depreciation	Book value	Sales proceeds/ insurance claim	Mode of disposal	Particulars of buyers	Location
Computers							
Laptop	87	87	-	9	As per Bank's policy	Zargham Khan Durani	Lahore
Laptop	117	112	5	17	As per Bank's policy	Salman Zafar Siddiqi	Lahore
Laptop	116	116	-	12	As per Bank's policy	Fida Ali Mirza	Lahore
Laptop	116	116	-	12	As per Bank's policy	Kamran Zaffar Muggo	Lahore
	435	430	5	49			
Vehicles							
Honda Civic	2,522	2,018	504	504	As per Bank's policy	Imran Maqbool	Lahore
Honda CRV	7,816	6,253	1,563	1,563	As per Bank's policy	Salman Zafar Siddiqi	Lahore
Honda CRV	7,816	6,253	1,563	1,563	As per Bank's policy	Muhtashim Ashai	Lahore
BMW 520	9,995	7,996	1,999	1,999	As per Bank's policy	Imran Maqbool	Lahore
	28,149	22,519	5,630	5,630			
Land and Building							
Bank House	270,892	2,292	268,600	425,000	Negotiation	Security General Insurance Company Limited	Karachi
	299,476	25,241	274,235	430,679			

MCB ISLAMIC BANK LIMITED (a subsidiary of MCB Bank Limited)

Annexure - II

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

MCB Islamic bank (the 'Bank') is operating 176 Islamic banking branches in Pakistan (December 31, 2017: 76 branches).

	Note	2018	2017 Restated (Rupees in '000)	2016 Restated
ASSETS				
Cash and balances with treasury banks		6,990,369	3,390,753	1,509,804
Balances with other banks		1,422,701	2,703,251	2,750,998
Due from financial institutions	1	4,675,000	1,400,000	-
Investments	2	12,713,954	9,186,213	5,769,675
Islamic financing and related assets	3	62,907,204	31,313,404	16,128,913
Fixed assets		2,619,980	2,136,975	1,728,933
Intangible assets		524,791	486,018	375,317
Deferred tax assets		751,065	289,465	-
Other assets		2,289,371	839,918	300,553
		94,894,435	51,745,997	28,564,193
LIABILITIES				
Bills payable		1,303,992	314,210	447,776
Due to financial institutions		7,800,628	7,926,790	2,785,650
Deposits and other accounts	4	73,307,185	32,690,808	14,279,436
Liabilities against assets subject to finance lease		-	-	-
Sub-ordinated debts		-	-	-
Deferred tax liabilities		-	-	40,524
Other liabilities		2,413,116	1,183,410	744,934
		84,824,921	42,115,218	18,298,320
NET ASSETS				
		10,069,514	9,630,779	10,265,873
REPRESENTED BY				
Share capital		11,200,000	10,000,000	10,000,000
Reserves		26,444	26,444	26,444
Surplus / (deficit) on revaluation of assets - net of tax		132,272	(201,600)	171,342
Accumulated loss	6	(1,289,202)	(194,065)	68,087
		10,069,514	9,630,779	10,265,873
CONTINGENCIES AND COMMITMENTS				
	7			

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2018**

The profit and loss account of the bank's branches for the year ended 176 (December 31, 2017: 76 branches).

	Note	2018 (Rupees in '000)	2017
Profit / return earned	8	4,208,875	2,060,927
Profit / return expensed	9	2,304,950	1,005,671
Net spread earned		1,903,925	1,055,256
OTHER INCOME			
Fee and commission income		162,245	46,325
Dividend income		58,031	84,593
Foreign exchange income		148,228	29,846
Gain / (loss) on securities		17,738	267,763
Other income		13,020	10,483
Total other income		399,262	439,010
Total income		2,303,187	1,494,266
OTHER EXPENSES			
Operating expenses		3,083,172	1,845,119
Workers welfare fund		-	-
Other charges		4,582	128
Total other expenses		3,087,754	1,845,247
Loss before provisions		(784,567)	(350,981)
Provisions / (reversal of provision) and write offs - net		895,646	(54)
Extra ordinary / unusual items		-	-
LOSS BEFORE TAXATION		(1,680,213)	(350,927)
Taxation		(584,231)	(87,930)
LOSS AFTER TAXATION		(1,095,982)	(262,997)

MCB ISLAMIC BANK LIMITED (a subsidiary of MCB Bank Limited)

NOTES TO THE FINANCIAL STATEMENTS

Annexure - II

	Note	2018			2017		
		local currency	foreign currencies	Total	local currency	foreign currencies	Total
1 DUE FROM FINANCIAL INSTITUTIONS							
(Rupees in '000)							
Unsecured Musharaka arrangements	1.1	4,675,000	-	4,675,000	1,400,000	-	1,400,000

1.1 This represents Musharaka arrangements with banks carrying profit at expected rates ranging from 9.25% to 9.55% per annum (2017: 5.80% to 5.85% per annum) and are due to mature latest by January 2019.

2 INVESTMENTS

2.1 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								
GOP Ijarah Sukuks	8,366,893	-	(41,185)	8,325,708	5,630,497	-	911	5,631,408
WAPDA Sukuks	85,187	-	22	85,209	115,063	-	467	115,530
Bai Mu'ajjal	1,159,936	-	-	1,159,936	-	-	-	-
Shares								
Listed companies	1,831,580	881,903	(43,325)	906,352	1,981,675	-	(629,083)	1,352,592
Non Government securities								
Listed	1,159,000	-	4,367	1,163,367	1,164,000	-	2,267	1,166,267
Un listed	1,073,333	-	49	1,073,382	890,000	-	30,416	920,416
Total Investments	13,675,929	881,903	(80,072)	12,713,954	9,781,235	-	(595,022)	9,186,213

2.2 There were no investment given as collateral as at December 31, 2018 (2017: Nil).

2.3 Provision for diminution in value of investments

	2018	2017
(Rupees in '000)		
Opening balance	-	-
Charge for the year	881,903	-
Closing balance	881,903	-

3 ISLAMIC FINANCING AND RELATED ASSETS - NET	Note	2018 (Rupees in '000)	2017 (Rupees in '000)
Murabaha	3.1	17,097,127	9,954,763
Ijarah		4,269,903	1,623,509
Istisna		1,793,878	100,000
Salam		4,118	-
Running Musharaka		19,441,575	8,815,983
Diminishing Musharaka		19,057,417	10,151,508
Staff finance		1,258,046	668,860
Islamic financing and related assets - gross		62,922,064	31,314,623
Less: Provision against non-performing Islamic financing and related assets			
- Specific		(758)	(729)
- General		(14,102)	(490)
		(14,860)	(1,219)
Islamic financing and related assets - net of provisions		62,907,204	31,313,404
3.1 Murabaha			
- Murabaha financing	3.1.1	7,334,021	4,701,604
- Murabaha inventory		6,625,790	4,513,090
- Advances against Murabaha financing		3,056,316	639,569
- Murabaha financing under Islamic export refinance scheme		-	100,500
- Advances against Murabaha financing under Islamic export refinance scheme		81,000	-
		17,097,127	9,954,763
3.1.1 Murabaha receivable - gross	3.1.1.2	7,674,572	4,860,060
Less: Deferred Murabaha income	3.1.1.3	340,551	158,456
Murabaha financing		7,334,021	4,701,604
3.1.1.1 Murabaha sale price during the year		23,655,655	15,369,303
Murabaha purchase price during the year		(22,644,766)	(14,930,577)
		1,010,889	438,726
3.1.1.2 Movement in Murabaha receivable during the year:			
Opening balance		4,860,060	2,719,939
Sales during the year		23,655,655	15,369,303
Adjusted during the year		(20,841,143)	(13,229,182)
		7,674,572	4,860,060
3.1.1.3 Deferred Murabaha income			
Opening balance		158,456	43,815
Arising during the year		1,010,889	438,726
Recognised during the year		(828,794)	(324,085)
		340,551	158,456

MCB ISLAMIC BANK LIMITED (a subsidiary of MCB Bank Limited)
NOTES TO THE FINANCIAL STATEMENTS

Annexure - II

3.2 Ijarah financing and related assets	Note	2018 (Rupees in '000)	2017
- Net book value of assets in Ijarah under IFAS 2	3.2.1	2,948,075	1,484,260
- Advances against Ijarah		1,321,828	139,249
		<u>4,269,903</u>	<u>1,623,509</u>

3.2.1 Net book value of assets in Ijarah under IFAS 2

	2018						
	Cost			Depreciation			Book Value as at December 31, 2018
	As at January 1, 2018	Additions / (Disposal)	As at December 31, 2018	As at January 1, 2018	Charge / (Disposal)	As at December 31, 2018	
	(Rupees in '000)						
Vehicles	1,662,346	1,588,759 (368,748)	2,882,357	603,033	321,939 (270,691)	654,281	2,228,076
Equipment	788,327	543,461 (128,132)	1,203,656	363,380	226,778 (106,501)	483,657	719,999
Total	2,450,673	2,132,220 (496,880)	4,086,013	966,413	548,717 (377,192)	1,137,938	2,948,075
	2017						
	Cost			Depreciation			Book Value as at December 31, 2017
	As at January 1, 2017	Additions / (Disposal)	As at December 31, 2017	As at January 1, 2017	Charge / (Disposal)	As at December 31, 2017	
	(Rupees in '000)						
Vehicles	1,331,916	689,680 (359,250)	1,662,346	580,692	292,804 (270,463)	603,033	1,059,313
Equipment	879,505	160,118 (251,296)	788,327	386,832	165,321 (188,773)	363,380	424,947
Total	2,211,421	849,798 (610,546)	2,450,673	967,524	458,125 (459,236)	966,413	1,484,260

3.2.2 Future Ijarah payments receivable

2018				
Not later than 1 year	Later than 1 year and not later than 5 years	Over Five years	Total	
(Rupees in '000)				
Ijarah rental receivables	904,424	2,174,932	80,941	3,160,297

2017				
Not later than 1 year	Later than 1 year and not later than 5 years	Over Five years	Total	
(Rupees in '000)				
Ijarah rental receivables	228,860	1,111,113	-	1,339,973

3.3 Particulars of Islamic financing and related assets - gross	2018 (Rupees in '000)	2017
In local currency	<u>62,922,064</u>	<u>31,314,623</u>

MCB ISLAMIC BANK LIMITED (a subsidiary of MCB Bank Limited)
NOTES TO THE FINANCIAL STATEMENTS

Annexure - II

4 DEPOSITS AND OTHER ACCOUNTS

	2018			2017		
	In Local currency	In Foreign currencies	Total	In Local currency	In Foreign currencies	Total
(Rupees in '000)						
Customers						
Current deposits	20,498,978	1,599,388	22,098,366	6,942,243	130,675	7,072,918
Savings deposits	29,634,547	1,705,967	31,340,514	13,235,545	535,103	13,770,648
Term deposits	5,040,187	104,191	5,144,378	4,641,153	-	4,641,153
Others	3,690,026	-	3,690,026	1,786,990	-	1,786,990
	58,863,738	3,409,546	62,273,284	26,605,931	665,778	27,271,709
Financial Institutions						
Current deposits	73,166	1,206	74,372	60,865	-	60,865
Savings deposits	5,885,028	-	5,885,028	3,196,234	-	3,196,234
Term deposits	5,074,501	-	5,074,501	2,162,000	-	2,162,000
	11,032,695	1,206	11,033,901	5,419,099	-	5,419,099
	69,896,433	3,410,752	73,307,185	32,025,030	665,778	32,690,808

4.1 Composition of deposits

	2018	2017
	(Rupees in '000)	
Individuals	30,685,632	13,580,642
Government (Federal and Provincial)	5,087,472	1,109,789
Public Sector Entities	281,355	172,056
Banking Companies	1,343,993	58,657
Non-Banking Financial Institutions	9,689,908	5,360,442
Private Sector	26,218,825	12,409,222
	73,307,185	32,690,808

4.2 This includes deposits eligible to be covered under takaful arrangements amounting to Rs.40.534 million (2017: Rs.22.221 million).

5 Charity balance

	2018	2017
	(Rupees in '000)	
Opening balance	5,513	10,580
Additions during the year		
- Received from customers against late payment	25,548	7,406
- Dividend purification amount	2,133	592
- Profit on charity saving account	308	135
	27,989	8,133
Charity paid during the year	(8,100)	(13,200)
Closing balance	25,402	5,513
5.1 Charity was paid to the following institutions:		
Aziz Jehan Begum Trust for the Blind	700	1,000
Care Foundation Pakistan	700	1,000
Chiniot Anjuman Islamia	600	1,000
Family Welfare Society	600	1,000
Fast – NU Chiniot – Faisalabad Campus	600	1,000
Fatmid Foundation	700	1,000
Infraq Memorial Trust	700	1,000
M/s Qureshi Nazir Education Trust	-	1,000
Mind Organization	-	1,000
Rising Sun Education & Welfare Society	700	1,000
SADA Welfare Foundation	-	1,000
Sindh Institute of Urology & Transplantation (SIUT)	700	1,000
Shaukat Khanam Memorial Cancer Hospital	1,000	-
The Citizens Foundation	600	700
The Lahore Hospital Welfare Society	500	-
Pakistan Student Loan Scheme (Endowment fund)	-	500
	8,100	13,200

5.2 Charity was not paid to any staff of the Bank or to any individual / organisation in which a director or his spouse had any interest at any time during the year.

MCB ISLAMIC BANK LIMITED (a subsidiary of MCB Bank Limited) NOTES TO THE FINANCIAL STATEMENTS

Annexure - II

6 ISLAMIC BANKING BUSINESS ACCUMULATED LOSS		Note	2018 (Rupees in '000)	2017 (Rupees in '000)
Opening balance			(194,065)	68,087
Islamic banking loss for the year			(1,680,213)	(350,927)
Taxation			584,231	87,930
Other adjustments			845	845
Closing balance			(1,289,202)	(194,065)
7 CONTINGENCIES AND COMMITMENTS				
Guarantees	7.1		3,092,537	2,269,529
Commitments	7.2		16,137,900	5,828,836
Other contingent liabilities			425,820	-
			19,656,257	8,098,365
7.1 Guarantees:				
Performance guarantees			1,099,947	600,405
Other guarantees			1,992,590	1,669,124
			3,092,537	2,269,529
7.2 Commitments:				
Documentary credits and short-term trade-related transactions				
Letters of credit			11,639,176	5,587,572
Commitments in respect of:				
Forward foreign exchange contracts	7.2.1		2,237,365	186,795
Commitments for acquisition of:				
Fixed assets			10,395	49,089
Intangible assets			29,647	5,380
Other commitments	7.2.2		2,221,317	-
			16,137,900	5,828,836
7.2.1 Commitments in respect of forward foreign exchange contracts				
Purchase			3,465,359	535,867
Sale			1,227,994	349,072
			2,237,365	186,795
7.2.2 Other Commitments				
Commitments to extend credit	7.2.2.1		2,221,317	-
7.2.2.1 Other than those stated above, the Bank makes commitment(s) to extend credit in the normal course of business including related parties but these being revocable commitments do not attract any penalty or expense if the facility is unilaterally withdrawn.				
			2018 (Rupees in '000)	2017 (Rupees in '000)
7.3 Other contingent liabilities				
Claim against the Bank not acknowledged as debt			425,820	-
This represents claim by a third party against the Bank, which is being contested in the Court of law. The management is of the view that this relate to the normal course of business and the possibility of an outflow of economic resources is remote.				
			2018 (Rupees in '000)	2017 (Rupees in '000)
8 PROFIT / RETURN EARNED				
Financings			3,419,424	1,567,354
Investments in				
- available for sale securities			562,606	282,008
- held to maturity securities			82,370	80,517
			644,976	362,525
Musharaka arrangements with financial institutions			97,176	33,400
Deposits with financial institutions			47,299	97,648
			4,208,875	2,060,927
9 PROFIT / RETURN EXPENSED				
Deposits and other accounts			1,648,860	680,385
Musharaka arrangements with the State Bank of Pakistan under IERS			24,067	14,022
Musharaka arrangements with other financial institutions			632,023	311,264
			2,304,950	1,005,671

10 PROFIT / (LOSS) DISTRIBUTION TO DEPOSITORS' AND SPECIFIC POOLS

10.1 The Bank is maintaining the following types of pools for profit declaration and distribution:

- 1) General Pool
- 2) IERS Musharaka Pool
- 3) Treasury Musharaka / Mudaraba Pools
- 4) Equity Pool

Features, risks and rewards of each pool are given below:

1) General Pool

The Bank manages one general pool for its depositors' (Rabbul Mal) maintaining deposits in both local and foreign currencies and also commingled its equity in this pool. The income (gross income less direct expenses) generated from the pool is distributed between Bank's equity and depositors' fund in proportion to their respective share in the pool. Under the Mudaraba mechanism, the income so distributed to depositors' fund is shared between the Bank (Mudarib) and depositors' (Rabbul Mal) according to the pre-agreed profit sharing ratios and assigned weightages.

The deposits and funds accepted under the General Pool are deployed to diversified sectors and avenues of the economy / business mainly to 'Agriculture, Forestry & Fishing', 'Textile & Allied', 'Food & Allied', 'Distribution & Trade', 'Investment in Government of Pakistan Ijarah Sukuk', etc.

Parameters associated with risk and rewards

Following are the consideration attached with risk and reward of general pool:

- Period, return, safety, security and liquidity of investment.
- Financing proposals under process at various stages and likely to be extended in the near future.
- Expected amount of procurement of deposit during coming days as a result of concerted marketing efforts of the Bank.
- Element of risk attached to various types of investments.
- SBP rules and Shari'ah clearance.

2) Islamic Export Refinance Scheme (IERS) Musharaka Pool

The Bank manages IERS Musharaka Pool for funds accepted from SBP under IERS. Under the PLS mechanism, the Bank generates revenues from the pool funds which are shared with the SBP according to the pre-agreed profit sharing ratios. Musharaka investments from the SBP under IERS are channeled towards the export sector of the economy and other financings as per SBP guidelines.

3) Treasury Musharaka / Mudaraba Pools

The Bank accepts funds from other banks to manage its liquidity under Musharaka / Mudaraba mode. The funds accepted are tagged to remunerative assets having maturity on or after the period for which funds are accepted. The revenue generated from the pool asset is shared between the bank and other member of the pool according to pre-agreed profit sharing ratios or assigned weightages accordingly.

4) Equity Pool

The Equity Pool consists of Bank's equity and funds accepted on Qard (non-remunerative current deposit account) basis. The funds of this pool are invested in various assets or ventures which are higher in risk or having longer funding period. In addition to that all staff financings are financed by this pool. The risk of assets in the pool is borne by the Bank.

Charging of expenses

Direct expenses are being charged to respective pools, while indirect expenses such as general and administrative expenses are being borne by the Bank as Mudarib. No provision expense is charged to the pool unless it is written off. The direct expenses charged to the pool may include depreciation of Ijarah assets, premium amortization on Sukuk, impairment losses due to physical damages to specific assets in pools etc. However, this is not an exhaustive list; the Bank's pool management framework and the respective pool creation memo may identify and specify these and any other similar expenses to be charged to the pool.

10.2 Following are the detail of profit distribution among different pool maintained by the Bank:

2018							
Pool Description	Profit Rate & weightage announcement period	Profit Rate Earned	Profit Sharing Ratio of Mudarib	Mudarib Fee	Profit Rate return distributed	General Hiba	Amount of General Hiba
		%	%	(Rupees in '000)	%	%	(Rupees in '000)

General Pool	Monthly	8.18	50.00	1,350,604	5.00	22.00	298,447
--------------	---------	------	-------	-----------	------	-------	---------

Pool Description	Profit Rate & weightage announcement period	Profit Rate Earned	Profit Sharing Ratio of Mudarib	Mudarib Fee	Profit Rate return distributed	General Hiba	Amount of General Hiba
		%	%	(Rupees in '000)	%		(Rupees in '000)

Islamic Export Refinance (IERS)	Monthly	4.63	-	-	2.00	-	-
---------------------------------	---------	------	---	---	------	---	---

Treasury Musharaka/ Mudaraba Pool	As required	7.00	-	-	6.64	-	-
-----------------------------------	-------------	------	---	---	------	---	---

Equity Pool	Monthly	2.10	-	-	-	-	-
-------------	---------	------	---	---	---	---	---

2017							
Pool Description	Profit Rate & weightage announcement period	Profit Rate Earned	Profit Sharing Ratio of Mudarib	Mudarib Fee	Profit Rate return distributed	General Hiba	Amount of General Hiba
		%	%	(Rupees in '000)	%		(Rupees in '000)

General Pool	Monthly	6.97	50.00	567,234	4.18	19.92	113,019
--------------	---------	------	-------	---------	------	-------	---------

Pool Description	Profit Rate & weightage announcement period	Profit Rate Earned	Profit Sharing Ratio of Mudarib	Mudarib Fee	Profit Rate return distributed	General Hiba	Amount of General Hiba
		%	%	(Rupees in '000)	%		(Rupees in '000)

Islamic Export Refinance (IERS)	Monthly	4.88	-	-	2.06	-	-
---------------------------------	---------	------	---	---	------	---	---

Treasury Musharaka/ Mudaraba Pool	As required	6.24	-	-	5.50	-	-
-----------------------------------	-------------	------	---	---	------	---	---

Equity Pool	Monthly	8.28	-	-	-	-	-
-------------	---------	------	---	---	---	---	---

Branch Network
As of December 31, 2018

Retail Banking Group - Karachi			
Circle/ No. of Branches	Region	No. of Branches	No. of Sub-Branches
KARACHI CITY 48	Karachi City	25	-
	Karachi North	23	-
KARACHI EAST 44	Karachi East	23	-
	Karachi South	21	-
KARACHI WEST 44	Karachi Central	21	1
	Karachi West	23	-
Total RBG - Karachi		136	01

Retail Banking Group - South			
Circle/ No. of Branches	Region	No. of Branches	No. of Sub-Branches
HYDERABAD 72	Hyderabad	27	-
	Mirpurkhas	23	1
	Nawabshah	22	-
QUETTA 45	Khuzdar	11	1
	Makran	09	-
	Quetta	25	2
Total RBG - South		117	04

Retail Banking Group - East			
Circle/ No. of Branches	Region	No. of Branches	No. of Sub-Branches
BAHAWALPUR 98	Bahawalpur	26	-
	Bahawalnagar	17	-
	Rahim Yar Khan	30	-
	Vehari	25	-
MULTAN 107	Dera Ghazi Khan	20	-
	Multan	27	1
	Muzaffargarh	18	-
	Okara	20	-
	Sahiwal	22	-
SUKKUR 73	Larkana	23	-
	Naushero Feroze	23	-
	Sukkur	27	-
Total RBG - East		278	01

Retail Banking Group - Central			
Circle/ No. of Branches	Region	No. of Branches	No. of Sub-Branches
LAHORE WEST 55	Lahore Central	26	-
	Lahore City	29	-
LAHORE EAST 62	Lahore East	33	-
	Lahore West	29	1
FAISALABAD 109	Faisalabad	25	-
	Faisalabad City	28	1
	Sheikhupura	30	-
	Toba Tek Singh	26	-
GUJRANWALA 110	Gujranwala	29	-
	Gujrat	22	-
	Mandi Bahauddin	22	-
	Sialkot	37	-
SARGODHA 94	Jhang	28	2
	Mianwali	31	-
	Sargodha	35	-
Total RBG - Central		430	04

Retail Banking Group - North			
Circle/ No. of Branches	Region	No. of Branches	No. of Sub-Branches
ISLAMABAD 68	Islamabad	34	-
	Rawalpindi	34	2
JHELUM 90	Chakwal	26	-
	Jhelum	25	-
	Mirpur A.K.	19	-
	Muzaffarabad A.K.	20	-
PESHAWAR 89	Kohat	24	-
	Mardan	23	-
	Peshawar East	21	1
	Peshawar West	21	-
ABBOTTABAD 81	Abbottabad	26	-
	Attock	20	-
	Fateh Jang	15	-
	Swat	20	-
Total RBG - North		328	03

	No. of Branches
Ex-NIB Branches	68
Privilege Banking	09
Corporate Finance International Banking Branches	10

Overseas Operation	No. of Branches
Colombo	1
EPZ	1
Galle	1
Kandy	1
Kattankudy	1
Kollupitiya	1
Maradana	1
Offshore Banking Unit (OBU) - Bahrain	1
Pettah	1
Wellawatte	1
Wholesale Banking Branch Dubai	1
Total	11
Dubai (Rep. Office)	1

Groupwise				
Group	Circles	Regions	No. of Branches	No. of Sub-Branches.
RBG-Karachi	3	6	136	1
RBG-South	2	6	117	4
RBG-East	3	12	278	1
RBG-Central	5	15	430	4
RBG-North	4	14	328	3
Ex-NIB Branches	-	-	68	-
Privilege Banking	-	-	9	-
CFIBG	4	6	10	-
Total	21	59	1,376	13
Overseas	-	-	10	-
EPZ	-	-	1	-
Grand Total	21	59	1,387	13

Province-Wise			
Provinces/Territories/AJK	Branches	Sub-Branches	Total
Azad Jammu & Kashmir	31	-	31
Balochistan	48	3	51
Federal Capital Territory	32	1	33
Gilgit-Baltistan	5	-	5
Khyber Pakhtunkhwa	145	1	146
Punjab	804	6	810
Sindh	311	2	313
Domestic Total	1,376	13	1,389
Overseas	10	-	10
EPZ	1	-	1
Grand Total	1,387	13	1,400

Pattern of Shareholding

As of December 31, 2018

No. of Shareholders	Shareholdings		Total Shares Held
	From	To	
28,795	1	100	915,100
13,974	101	500	3,403,655
5,840	501	1,000	4,332,706
7,813	1,001	5,000	13,511,827
413	5,001	10,000	2,937,883
437	10,001	50,000	9,975,931
115	50,001	100,000	8,167,469
142	100,001	500,000	35,066,888
46	500,001	1,000,000	34,005,590
58	1,000,001	5,000,000	138,637,212
6	5,000,001	10,000,000	42,830,516
4	10,000,001	15,000,000	53,775,108
3	15,000,001	25,000,000	52,518,531
12	25,000,001	Above	784,981,590
57,658			1,185,060,006

Categories of Shareholders

As of December 31, 2018

Categories of Shareholders	Shares Held	Percentage
Directors, Chief Executive Officer and their Spouse and Minor Children	119,604,830	10.0927%
Associated Companies, Undertakings and Related Parties	218,170,146	18.4101%
NIT and ICP	912	0.0001%
Banks, Development Financial Institutions, Non Banking Financial Institutions	16,689,227	1.4083%
Insurance Companies	97,560,323	8.2325%
Modarabas and Mutual Funds	13,295,678	1.1219%
Shareholders Holding 10%	222,606,147	18.7844%
General Public Local	137,119,274	11.5707%
General Public Foreign	3,415,323	0.2882%
Others	356,598,146	30.0911%
Grand Total	1,185,060,006	100.0000%

Categories Of Shareholders

As of December 31, 2018

Directors, Chief Executive Officer and their Spouse and Minor Children

Mian Mohammad Mansha	7,834	0.0007%
Naz Mansha	6,424,057	0.5421%
S. M. Muneer	2,059	0.0002%
Muhammd Tariq Rafi	32,094,304	2.7082%
Mrs. Nighat Tariq	5,715,093	0.4823%
Mian Umer Mansha	31,986,378	2.6991%
Iqraa Hassan Mansha	8,000	0.0007%
Mian Hassan Mansha	43,363,671	3.6592%
Muhammad Ali Zeb	550	0.0000%
Mohd Suhail Amar Suresh Bin Abdullah	884	0.0001%
Nor Hizam Bin Hashim	500	0.0000%
Yahya Saleem	500	0.0000%
Salman Khalid Butt	1,000	0.0001%
	119,604,830	10.0927%

Associated Companies, Undertakings and Related Parties

Nishat Mills Limited	88,015,291	7.4271%
Adamjee Insurance Company Limited	47,827,287	4.0359%
Siddiqsons Limited	14,276,462	1.2047%
Adamjee Life Assurance Company Ltd-IMF	3,479,000	0.2936%
Adamjee Life Assurance Co. Ltd - DGF	25,000	0.0021%
Adamjee Life Assurance Company Limited-NUIL Fund	415,000	0.0350%
Adamjee Life Assurance Company Limited-ISF	697,500	0.0589%
Nishat Mills Limited Employees Provident Fund Trust	8,284,390	0.6991%
Trustee - MCB Provident Fund Pak Staff	34,166,060	2.8831%
Trustee - MCB Employees Pension Fund	17,578,222	1.4833%
Trustees of Adamjee Insurance Company Ltd. Employees Provident Fund	73,577	0.0062%
Trustee Nishat (Chunian) Limited Employees Provident Fund	8,857	0.0007%
MCB Pakistan Asset Allocation Fund	162,100	0.0137%
Pakistan Capital Market Fund	142,600	0.0120%
MCB Pakistan Stock Market Fund	2,507,300	0.2116%
Trustee Pakistan Tobacco Co. Ltd. - Employees Provident Fund	35,500	0.0030%
Pakistan Tobacco Co. Ltd. Employees Gratuity Fund	74,500	0.0063%
Trustee Pakistan Tobacco Co. Ltd. Management Provident Fund	48,500	0.0041%
Trustee Pakistan Tobacco Co. Ltd. Staff Pension Fund	333,000	0.0281%
Trustee Pakistan Tobacco Co Ltd Staff Defined Contribution Pension Fund	20,000	0.0017%
	218,170,146	18.4101%

NIT and ICP

Investment Corporation of Pakistan	912	0.0001%
	912	0.0001%

Banks, Development Financial Institutions, Non Banking Financial Institutions

The Bank of Punjab	741	0.0001%
Prudential Investment Bank Ltd.	1,386	0.0001%
Crescent Investment Bank Ltd.	590	0.0000%
Saudi Pak Industrial & Agricultural Investment Co. (Pvt) Ltd.	7,992	0.0007%
Trust Leasing Corporation Ltd.	101	0.0000%
Universal Leasing Corporation Ltd.	1	0.0000%
Islamic Investment Bank Ltd.	4	0.0000%
M/s. Prudential Investment Bank Ltd.	7	0.0000%
National Development Finance Corporation	433	0.0000%

M/s. Al Faysal Investment Bank Ltd.	49	0.0000%
IDBL (ICP Unit)	432	0.0000%
Interasia Leasing Company Limited	950	0.0001%
Pakistan Kuwait Investment Co. (Pvt) Ltd.	1,200,000	0.1013%
Allied Bank Limited	2,821,600	0.2381%
Habib Bank Limited	1,306	0.0001%
Faysal Bank Limited	2,555,670	0.2157%
Habib Metropolitan Bank Limited	3,000	0.0003%
Bank Al Habib Limited	700,000	0.0591%
Soneri Bank Limited - Ordinary Shares	1,600,000	0.1350%
Saudi Pak Leasing Company Limited	495	0.0000%
Invest Capital Investment Bank Limited	9,000	0.0008%
Bank Alfalah Limited	2,860,600	0.2414%
The Punjab Provincial Cooperative Bank	1,558	0.0001%
Escorts Investment Bank Limited	225	0.0000%
National Bank of Pakistan	3,043,336	0.2568%
Askari Bank Limited	780,700	0.0659%
Saudi Pak Industrial & Agricultural Investment Co. Ltd.- PMD	450,000	0.0380%
House Building Finance Company Limited	41,951	0.0035%
Pair Investment Company Limited	63,770	0.0054%
Sindh Bank Limited	470,530	0.0397%
Samba Bank Limited - MT	72,800	0.0061%
	16,689,227	1.4083%
Insurance Companies		
Business & Industrial Insurance Co. Ltd.	9	0.0000%
M/s. New Jubilee Insurance Co. Ltd.	2	0.0000%
The South British Insurance Company Ltd.	1,864	0.0002%
M/s. Beema Pakistan Company Ltd.	69	0.0000%
E.F.U. General Insurance Ltd.	713	0.0001%
Orient Insurance Co. Ltd.	3	0.0000%
National General Insurance Co. Ltd	1,359	0.0001%
Premier Insurance Limited	140,204	0.0118%
Jubilee General Insurance Company Limited	821,500	0.0693%
State Life Insurance Corp. of Pakistan	16,727,114	1.4115%
EFU Life Assurance Ltd.	8,430,792	0.7114%
Pakistan Reinsurance Company Limited	573,370	0.0484%
Excel Insurance Co. Ltd.	20,000	0.0017%
The Crescent Star Insurance Co. Ltd.	3	0.0000%
Jubilee Life Insurance Company Limited	12,952,300	1.0930%
Allianz EFU Health Insurance Limited	59,600	0.0050%
Habib Insurance Co. Limited	20,000	0.0017%
Century Insurance Company Ltd.	43,539	0.0037%
Atlas Insurance Limited	60,000	0.0051%
Security General Insurance Co. Ltd.	57,571,876	4.8581%
The Pakistan General Ins. Co. Ltd.	106	0.0000%
IGI Life Insurance Limited.	22,300	0.0019%
Alfalah Insurance Company Limited	88,600	0.0075%
Askari General Insurance Company Limited	25,000	0.0021%
	97,560,323	8.2325%
Modarabas and Mutual Funds		
First Hajveri Modaraba	60	0.0000%
Crescent Modaraba Managment Co. Ltd.	17	0.0000%
First Elite Capital Modaraba	39	0.0000%
First Crescent Modaraba	4,030	0.0003%
Trust Modaraba	313	0.0000%
UNICAP Modaraba	15	0.0000%

First Interfund Modaraba	2	0.0000%
Industrial Capital Modaraba	4	0.0000%
Pak Asian Fund Limited	162	0.0000%
Safeway Mutual Fund Ltd.	4	0.0000%
Golden Arrow Selected Stocks Fund Ltd.	15	0.0000%
Safeway Fund (Pvt) Ltd.	1,665	0.0001%
M/s. Safeway Mutual Fund Limited	12	0.0000%
M/s. Asian Stock Fund Ltd.	4	0.0000%
PICIC Benovelent Fund-2	29	0.0000%
UNICOL Limited Employees Provident Fund	5,000	0.0004%
Nationwide (Pvt) Ltd.	357	0.0000%
MCBFSL - Trustee JS Value Fund	1,400	0.0001%
CDC - Trustee PICIC Investment Fund	566,000	0.0478%
CDC - Trustee PICIC Growth Fund	1,071,400	0.0904%
CDC - Trustee Atlas Stock Market Fund	292,000	0.0246%
CDC - Trustee First Dawood Mutual Fund	16,200	0.0014%
CDC - Trustee Faysal Stock Fund	11,000	0.0009%
CDC - Trustee Alfalah GHP Value Fund	244,100	0.0206%
CDC - Trustee Unit Trust of Pakistan	2,000	0.0002%
CDC - Trustee AKD Index Tracker Fund	96,228	0.0081%
Tri-Star Mutual Fund Limited	754	0.0001%
CDC - Trustee Faysal Asset Allocation Fund	1,000	0.0001%
CDC - Trustee UBL Stock Advantage Fund	481,686	0.0406%
Crescent Standard Business Management (Pvt) Limited	1	0.0000%
CDC - Trustee NAFA Stock Fund	2,172,200	0.1833%
CDC - Trustee NAFA Multi Asset Fund	91,600	0.0077%
CDC - Trustee APF - Equity Sub Fund	10,000	0.0008%
CDC - Trustee HBL - Stock Fund	822,100	0.0694%
MC FSL - Trustee JS Growth Fund	105,000	0.0089%
CDC - Trustee HBL Multi - Asset Fund	42,300	0.0036%
CDC - Trustee Alfalah GHP Stock Fund	580,800	0.0490%
CDC - Trustee Alfalah GHP Alpha Fund	373,800	0.0315%
CDC - Trustee NIT - Equity Market Opportunity Fund	1,067,676	0.0901%
CDC - Trustee ABL Stock Fund	1,133,200	0.0956%
CDC - Trustee First Habib Stock Fund	39,470	0.0033%
CDC - Trustee Lakson Equity Fund	1,241,652	0.1048%
CDC - Trustee NAFA Asset Allocation Fund	176,000	0.0149%
CDC - Trustee NAFA Savings Plus Fund - MT	25,100	0.0021%
CDC - Trustee PICIC Income Fund - MT	2,700	0.0002%
CDC - Trustee HBL Equity Fund	59,300	0.0050%
CDC - Trustee HBL PF Equity Sub Fund	58,500	0.0049%
CDC - Trustee First Capital Mutual Fund	35,900	0.0030%
CDC - Trustee UBL Retirement Savings Fund - Equity Sub Fund	90,800	0.0077%
CDC - Trustee National Investment (Unit) Trust	1,289,535	0.1088%
CDC - Trustee ABL Pension Fund - Equity Sub Fund	19,800	0.0017%
CDC - Trustee NITPF Equity Sub - Fund	25,000	0.0021%
CDC - Trustee NAFA Income Fund - MT	7,500	0.0006%
CDC - Trustee Alfalah GHP Income Multiplier Fund - MT	100	0.0000%
MC FSL Trustee JS - Income Fund - MT	17,900	0.0015%
CDC - Trustee Faysal MTS Fund - MT	4,600	0.0004%
CDC - Trustee Lakson Tactical Fund	244,876	0.0207%
CDC - Trustee Alfalah GHP Sovereign Fund - MT	200	0.0000%
CDC - Trustee UBL Income Opportunity Fund - MT	8,700	0.0007%
CDC - Trustee First Habib Asset Allocation Fund	4,500	0.0004%
MCBFSL - Trustee Allied Capital Protected Fund	12,200	0.0010%
CDC - Trustee NAFA Financial Sector Fund	465,100	0.0392%
CDC - Trustee Alfalah Capital Preservation Fund II	27,000	0.0023%
CDC - Trustee UBL Financial Sector Fund	217,300	0.0183%

CDC - Trustee UBL Dedicated Equity Fund	15,714	0.0013%
CDC - Trustee AGPF Equity Sub-Fund	11,825	0.0010%
Prudential Stock Funds Limited	233	0.0000%
	13,295,678	1.1219%

Shareholders Holding 10%

Maybank International Trust (Labuan) Berhad	222,606,147	18.7844%
	222,606,147	18.7844%

General Public

A. Local	137,119,274	11.5707%
B. Foreign	3,415,323	0.2882%
	140,534,597	11.8589%

Others

A. Foreign Companies	149,626,437	12.6261%
B. Local Companies	39,652,519	3.3460%
C. Shareholders Holding 5%		
- D.G. Khan Cement Company Limited	102,277,232	8.6306%
- Nishat Mills Limited <i>(As disclosed in Associated Companies, Undertakings and Related Parties)</i>	—	—
- Bugis Investments (Mauritius) PTE Ltd.	65,020,947	5.4867%
D. Executives <i>(As per the threshold determined by Board of Directors)</i>	21,011	0.0018%
	356,598,146	30.0911%

Grand Total	1,185,060,006	100.0000%
--------------------	----------------------	------------------

All trades in shares carried out by Directors, CEO, CFO, Company Secretary, Executives, their spouse(s) and Minor Children during the year 2018 are given as under:

Name	Status	No. of shares	Purchase/ Sale/ Transfer
Nor Hizam Bin Hashim	Director	500	Purchased
Muhammad Tariq Rafi	Director	96,700	Sold
Saeeda Perveen	Spouse of Director	2,147,186	Gifted
Yahya Saleem	Director	500	Purchased
Saira Shafi	Spouse of Executive	3,000	Purchased
Saira Shafi	Spouse of Executive	3,000	Sold
Salman Khalid Butt	Director	1,000	Purchased

NOTICE OF 71ST ANNUAL GENERAL MEETING

Notice is hereby given that 71st Annual General Meeting of **MCB Bank Limited** (the “Bank” or “MCB”) will be held on **Friday, March 29, 2019 at 11:00 AM (PST)** at Grand Ball Room-A, The Nishat Hotel, Emporium Mall, Near Expo Center, Abdul Haq Road, Johar Town, Lahore to transact the following business:

Ordinary Business:

1. To receive, consider and adopt the Annual Audited Separate and Consolidated Financial Statements of the Bank together with the Directors’ and Auditors’ reports thereon and Chairman’s Review for the year ended December 31, 2018.
2. To appoint Statutory Auditors of the Bank and fix their remuneration for the year ending December 31, 2019. The Members are hereby notified that the Audit Committee and the Board of Directors have recommended the name of retiring auditors M/s KPMG Taseer Hadi & Company, Chartered Accountants, for appointment as Statutory Auditors of the Bank.
3. To approve, as recommended by the Board of Directors, payment of Final Cash Dividend @ 40% i.e., PKR 4.00 per share for the fourth quarter in addition to 120% (40% each for 1st, 2nd and 3rd quarter) Interim Cash Dividends already declared and paid, total PKR 16.00 per share (i.e., 160%) for the year ended December 31, 2018.

Special Business:

4. To consider and if thought fit, approve enhancement in the scale of remuneration to be paid to the Non-Executive including Independent Directors for attending the Board and its Committee(s) meetings by passing the following resolutions as Ordinary Resolutions:

“RESOLVED THAT the scale of the remuneration to be paid to the Non-Executive including Independent Directors (excluding Chairman, Board of Directors) for attending the Board and its Committee(s) meetings be enhanced from PKR 30,000/- (Rupees Thirty Thousand only) to PKR 100,000/- (Rupees One Hundred Thousand only) (inclusive of applicable taxes) per meeting in addition to boarding, lodging and travelling expenses, on actual basis.”

“FURTHER RESOLVED THAT the fee for attending each Board Committee(s) Meetings will be paid maximum of four (4) meetings attended by the Non-Executive including Independent Directors (excluding Chairman, Board of Directors) during a calendar year irrespective of the number of Committee(s) meetings held during the year, on post facto basis, be and is hereby approved.”

5. To consider and if thought fit, the following resolutions as Special Resolutions, with or without modifications, to approve alterations in the Articles of Association of the Bank in accordance with the provisions of Section 38 of the Companies Act, 2017:

“RESOLVED THAT the approval be and is hereby accorded in terms of the provisions of Section 38 of the Companies Act, 2017 to substitute the first Paragraph of existing Article 94 of the Articles of Association of MCB Bank Limited with the following new Paragraph:

“The scale of the remuneration to be paid, from time to time, to the Non-Executive including Independent Directors and the Chairman for attending the Board and its Committee(s) meetings shall be determined by the Board and approved by the shareholders on a pre or post facto basis in the Annual General Meeting.”

“FURTHER RESOLVED THAT the Company Secretary and/or Chief Financial Officer be and are hereby jointly/severally authorized to do all acts, deeds and things, take all steps and actions necessary, ancillary and incidental for altering the Articles of Association of the Bank, including filing of all requisite documents/statutory forms, as may be required to be filed with the Registrar of Companies and complying with all other regulatory requirements, so as to effectuate the alterations in the Articles of Association and implementing the aforesaid resolution.”

6. To transact any other business with the permission of the Chairman.

By Order of the Board,

-Sd-

March 07, 2019
Lahore.

FIDA ALI MIRZA
Company Secretary

Statement of Material Facts under Section 134(3) of the Companies Act, 2017 (“Act”) pertaining to the above mentioned Special Business is annexed to this Notice of Annual General Meeting.

Notes:

1. Copies of the Minutes of the 70th Annual General Meeting held on March 27, 2018 are available for inspection by Members as required under Section 152 of the Companies Act, 2017.
2. The Shares Transfer Books of the Bank will remain closed from **March 22, 2019 to March 29, 2019** (both days inclusive). Transfers received at the Bank's Share Registrar and Transfer Agent's Office at the below mentioned address, at the close of business hours on **March 21, 2019** will be treated as being in time for the purpose of entitlement of Final Cash Dividend and also to attend, speak and vote at the 71st Annual General Meeting (the "Meeting" or "AGM") of the Bank.
3. All Members are entitled to attend, speak and vote at the Meeting. A member entitled to attend, speak and vote at AGM is entitled to appoint another member as a proxy to attend, speak and vote on his/her behalf. A corporate entity, being a member, may authorize an individual to act as its representative and the individual so authorized shall be entitled to exercise the same powers on behalf of the corporate entity which he represents.
4. The proxies and in case of corporate entity, the power of attorney or resolution of the board of directors or other governing body (if any) under which it is signed, a notarized/certified copy of the same in order to be effective must be deposited at the Share Registrar and Transfer Agent Office of the Bank not less than 48 hours (no account shall be taken of any part of the day that is not a working day) before the time for holding the Meeting, and must be duly stamped, signed and witnessed.
5. Members having physical scrip of shares are requested to immediately notify the change, if any, in their registered and/or e-mail addresses, in writing, to the Share Registrar and Transfer Agent of the Bank, whereas, CDC Account holders are requested to contact their CDC Participant/CDC Account Services.
6. Central Depository Company of Pakistan ("CDC") Accountholders will further have to follow the under mentioned guidelines as laid down by Circular No. 01, dated January 26, 2000, issued by the Securities and Exchange Commission of Pakistan:

For Attending the Meeting:

- i. In case of individuals, the accountholder or sub-acountholder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his identity by showing his original Computerized National Identity Card ("CNIC") or original passport at the time of attending the Meeting.
- ii. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting.

For Appointing of Proxies:

- i. In case of individuals, the accountholder or sub-acountholder and/or the person whose securities are in group account and their registration details are uploaded as per the CDC Regulations, shall submit the proxy form as per the above requirement.
- ii. The proxy form shall be witnessed by the two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
- iii. Attested copy of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- iv. The proxy shall produce his/her original CNIC or passport at the time of the meeting.
- v. In case of corporate entity, the Board of Directors resolution/power of attorney with specimen signature shall be submitted along with proxy form of the Bank.
7. A Proxy Form, both in English and Urdu language, is being separately sent to the Members, along with Notice of AGM.
8. Copies of the Notice of AGM, the latest annual audited/quarterly financial statements and the existing and proposed amended Memorandum and Articles of Association of the Bank have been kept at the Registered Office of the Bank which can be obtained and/or inspected during the business hours on any working day from the date of publication of this Notice till the conclusion of the AGM by the members and other persons entitled to attend the Meeting. Notice of 71st AGM and the latest annual audited/quarterly financial statements have also been placed on website of the Bank: www.mcb.com.pk

STATEMENT UNDER SECTION 134(3) OF THE COMPANIES ACT, 2017
IN RESPECT OF SPECIAL BUSINESS

Agenda Item No. 5
Increase in Remuneration for attending Board and its Committee Meetings:

In view of the prevailing regulatory environment, the overall role and responsibilities of the Board have been enhanced significantly. The Non-Executive Directors, particularly, Independent Directors have to play an important role and to provide considerable time to demonstrate an effective role in the overall stewardship of the Bank. Therefore, the Bank ensures that the Board Members are fairly rewarded with regard to the responsibilities undertaken, and to consider comparable pay levels in the banking industry, and also to attract and retain high-caliber, experienced Directors by offering appropriate fee levels.

The Prudential Regulations issued by the State Bank of Pakistan ("SBP"), requires that the scale of remuneration to be paid to the non-executive directors for attending the Board and its Committee meetings shall be approved by the shareholders. The Board of Directors of the Bank has recommended the enhancement in the remuneration to be paid to the Non-Executive including Independent Directors (excluding Chairman, Board of Directors) for attending the Board and its Committee(s) meetings from PKR 30,000/- (Rupees Thirty Thousand only) to PKR 100,000/- (Rupees One Hundred Thousand only) (inclusive of applicable taxes) per meeting in addition to boarding, lodging and travelling expenses, on actual basis. However, fee for attending each Committee Meetings is for maximum of four (4) meetings attended by the Non-Executive including Independent Directors (excluding Chairman, Board of Directors) during a calendar year irrespective of the number of Committee(s) meetings held during the year.

The Directors of the Bank have no interest in above business except to the payment of remuneration on attending the Board and its Committee(s) Meetings of the Bank.

Agenda Item No. 6
Alteration in the Articles of Association of the Bank:

The first Paragraph of Article 94 of the Articles of Association of the Bank describes the payment of remuneration payable to directors for attending the Board and its Committee meeting and the same has to be amended whenever the amount of remuneration is changed. The Board of Directors of the Bank has amended the scale of remuneration to be paid to the Non-Executive including Independent Directors for attending the Board and its Committee(s) meetings. In view of the foregoing amendment, the Board has recommended the proposed alteration in the first Paragraph of Article 94 of the Articles of Association of the Bank in accordance with the requirements of the Prudential Regulations issued by SBP and the Companies Act, 2017 ("Act"). Further, Section 38 of the Act requires that the alteration in the articles of association shall be approved by the Shareholders through Special Resolution. Therefore, the Board of Directors has recommended the amendment in Article 94 of the Articles of Association of the Bank to the Shareholders for their approval through Special Resolution. A comparison of existing and proposed Articles is given below:

Title	Existing Article	Proposed Article	Reason for Change
First Paragraph of Article 94: Remuneration.	Every director shall receive out of the funds of the Company as remuneration for his services a sum not exceeding Rs. 30,000 for every meeting attended by him. However, a non - resident director shall be paid US\$ 7,500 for attending Board meeting.	The scale of the remuneration to be paid, from time to time, to the Non - Executive including Independent Directors and the Chairman for attending the Board and its Committee(s) meetings shall be determined by the Board and approved by the shareholders on a pre or post facto basis in the Annual General Meeting.	<ul style="list-style-type: none">• Avoid amending Articles whenever there is any change in Directors' Remuneration• Approving mechanism for the determination of the scale of remuneration for Directors.• In line with the Prudential Regulations of SBP.

The Directors of the Bank have no personal interest in above business, save to the extent of their respective shareholding in the Bank and payment of remuneration.

The Board of Directors of the Bank has confirmed that the proposed alteration in the first Paragraph of Article 94 of the Articles of Association of the Bank is in line with the applicable provisions of the law and regulatory framework.

Attention of Shareholders is drawn towards Circulars/Notifications:

The following Circulars/Notifications require special attention of shareholders of MCB Bank Limited ("MCB" or the "Bank"):

1. Consent for Video Link Facility:

Members can attend and participate in the 71st Annual General Meeting (the "Meeting" or "AGM") through Video-Link. Pursuant to the provisions of the Companies Act, 2017 ("Act"), the shareholders residing in a city and holding at least 10% of the total paid up share capital may demand the Bank to provide the facility of video-link for participating in AGM. The demand for video-link facility shall be received by the Company Secretary at the Registered Office of the Bank located at MCB Building, 15-Main Gulberg, Jail Road, Lahore, at least seven (7) days prior to the date of AGM. In this regard, a Standard Request Form is available on the Bank's website.

2. Withholding of Payment of Dividend – CNIC Requirement:

The Securities and Exchange Commission of Pakistan ("SECP") has made it mandatory for listed companies to mention, in the case of Individuals, Computerized National Identity Card ("CNIC"), National Identity Card for Overseas Pakistanis ("NICOP") or Passport number and in the case of Corporate Entity, National Tax Number ("NTN") of the shareholders or their authorized persons, on dividend warrants. Section 243 of the Act states that a company may withhold the payment of dividend of a member where the member has not provided the complete information or documents as specified by SECP. Therefore, shareholders who have not yet provided such information are once again requested to provide the valid copies of their CNIC/NICOP/NTN/Passport to the Share Registrar and Transfer Agent of the Bank.

3. Payment of Cash Dividend Electronically (e-Dividend Mechanism):

Section 242 of the Act requires that the listed companies shall pay cash dividend only through electronic mode directly into the bank account designated by the shareholders. SECP has also issued the Companies (Distribution of Dividends) Regulations, 2017 whereby every shareholder shall be responsible to provide valid information pertaining to its designated bank account to disburse any dividend payable in cash only through electronic mode directly into the bank account designated by the entitled shareholders and the payment of dividend shall be withheld, if the shareholder has not provided the company with complete and valid details of designated bank account for direct credit of cash dividend.

In this regard, the Bank has already communicated through its various letters addressed to the shareholders individually along with newspapers publications requesting to provide the International Bank Accounts Number ("IBAN") designated by the shareholders to receive the cash dividends electronically. Hence, shareholders who have not yet provided such information are once again requested to fill the required fields of MCB's letter enclosed with the Notice of AGM and also available on website of the Bank: www.mcb.com.pk and send the same to the Share Registrar and Transfer Agent of the Bank. In case of shares held as book-entry securities, the said information would be required to be provided to Central Depository System ("CDS"), through CDS Participants.

4. Circulation of Annual Audited Financial Statements and Notice of AGM to Members through E-mail:

SECP through its Notification No. SRO 787 (I)/2014, dated September 08, 2014, has allowed companies to circulate Annual Audited Financial Statements along with Notice of AGM to its members through email. The shareholders who desire to receive Annual Audited Financial Statements and Notice of AGM through email are requested to fill the requisite form titled 'Standard Request Form' placed on the website and send it to the Company Secretary at the Registered Office of the Bank located at MCB Building, 15-Main Gulberg, Jail Road, Lahore. In case any member, subsequently, requests for hard copy of Annual Financial Statements, the same shall be provided free of cost within seven days of receipt of such request.

5. Deduction of Withholding Tax on the Amount of Dividend:

The Government of Pakistan through Finance Act, 2018, has made amendment in Section 150 of the Income Tax Ordinance, 2001, whereby, withholding tax on dividends has been enhanced as follows:

- For Filers of Income Tax Returns: 15%
- For Non-Filers of Income Tax Returns: 20%

In case of joint-shareholders, tax is to be deducted as per ratio of their respective share in the ownership.

Federal Board of Revenue ("FBR") has provided the Active Tax-Payer List ("ATL"), for identification on the basis of NTN/CNIC number; hence, in case of non-availability of valid NTN/CNIC number with MCB's Share Registrar and Transfer Agent, it would not be possible to identify the same in ATL and the shareholder will constraint to be treated as 'Non-Filer' to qualify for tax at higher rate of 20%. Therefore, shareholders who have not yet provided such information are requested to ensure that their valid NTN/CNIC number is available with the Share Registrar and Transfer Agent of MCB. In case of shares held as book-entry securities, the said information would be required to be provided to CDS, through CDS Participants.

6. Deduction of Withholding Tax on Joint Account Holder(s):

The Joint Account Holders whose shareholding details as to Principal Shareholder have not yet been determined for deduction of withholding tax on the upcoming dividend of the Bank, are requested to please furnish to the Share Registrar and Transfer

Agent of the Bank; the shareholding details of yourself as Principal Shareholder and your Joint Holder(s) in the following manner, enabling MCB to compute withholding tax of each shareholder accordingly:

CDC Account No./ Folio No.	Name of Principal Shareholder/Joint Holders	Shareholding Proportion	CNIC No. (copy attached)	Signature

Kindly note that in case of non-receipt of the information each Account Holder will be assumed to hold equal proportion of shares and the deduction will be made accordingly.

7. **Requirement of FBR’s Approval or Valid Tax Exemption Certificate for Claim of Exemption U/S 150 of the Income Tax Ordinance, 2001:**
Please be advised that honorable Lahore High Court in its recent decision has announced that the funds are not required to provide specific exemption certificate u/s 159 of the Income Tax Ordinance 2001 (“Ordinance”), to claim tax immunity as per under clause (47B) of Part-IV of the Second Schedule of the Ordinance, provided they are approved by Federal Board of Revenue (“FBR”). It is, therefore, requested to provide MCB’s Share Registrar and Transfer Agent with copy of above said approval, from FBR, for record and necessary action.

In case of non-availability of such approval, please provide a valid exemption certificate under Section 159(1) of the Ordinance issued by the concerned Commissioner of Income Tax, Inland Revenue, FBR.

In another option, where the entity has filed a petition against the FBR for want of exemption certificate, in any relevant court, a certified true copy of the Stay Order of honorable court along with all latest court proceedings (if any) would be required in lieu of valid tax exemption certificate, for non-deduction of withholding tax.

In case of non-availability of approval, valid tax exemption or relevant court order the deduction of tax under relevant sections shall be made accordingly.

8. **Transmission of Annual Audited Accounts through DVD:**
The Bank as allowed by SECP Notification No. SRO 470 (I)/2016, dated May 31, 2016, has circulated the Annual Audited Financial Statements for the year ended December 31, 2017 to shareholders through electronic medium, i.e., DVD at their registered addresses instead of transmitting the said annual accounts in hard copies. However, a shareholder may request to the Company Secretary at the Registered Office of the Bank located at MCB Building, 15-Main Gulberg, Jail Road, Lahore to provide hard copy of Annual Audited Accounts instead of DVD and the same will be provided at his/her registered address, free of cost, within one week of the demand. In this regard, a ‘Standard Request Form’ has been placed on website of the Bank for shareholders to communicate the need of hard copies of the Annual Audited Accounts instead of sending the same through DVD. A shareholder may also prefer to receive hard copies for all future Annual Audited Accounts.

9. **Deposit of Physical Shares into CDC Account:**
The Shareholders having physical shareholding may open CDC sub-account with any of the brokers or Investor Account directly with CDC to place their physical shares into script-less form, this will facilitate them in many ways including safe custody and sale of shares, any time they want, as the trading of physical shares is not permitted as per existing regulations of the Stock Exchange. Further, Section 72 of the Act states that after the commencement of the Act from a date notified by SECP, a company having share capital, shall have shares in book-entry form only. 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 SECP, within a period not exceeding four years from the commencement of the Act.

10. **Merger of Different Folios into One Folio:**
As per record, some of the shareholders are maintaining more than one folio under the same particulars. Carrying two different folios may be a hassle for the shareholders to reconcile and receive different benefits in the shape of dividends/ bonus. In order to provide better services and convenience, such shareholders are requested to send requests to the MCB’s Share Registrar and Transfer Agent to merge their folios into one folio.

While sending the copy of NTN/CNIC/NICOP number, shareholders are requested to quote their respective Folio/CDC Account Numbers for identification purpose.

M/s THK Associates (Pvt) Ltd.,
Share Registrar and Transfer Agent-MCB Bank Limited
First Floor, 40-C, Block-6, P.E.C.H.S., Karachi-75400.
P.O. Box No. 8533, UAN: +92 (21) 111-000-322,
Fax: +92 (21) 3 4168271.
Email: sfc@thk.com.pk

Glossary of Terms

Important terms and formulae used for calculation in Financial Statements are briefly described here;

Accrual Basis

Recognizing the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Basis point

One hundredth of a per cent i.e. 0.01 per cent. 100 basis points is 1 per cent. Used when quoting movements in interest rates or yields on securities.

Breakup Value per share

Represents the total worth (equity) of the business per share, calculated as shareholders' equity or Net Assets divided by the total number of share outstanding at year end.

BSD

Banking Surveillance Department of State Bank of Pakistan

BPRD

Banking Policy and Regulation Department of State Bank of Pakistan

CAGR

An abbreviation for Compound Annual Growth Rate.

Capital Adequacy Ratio (CAR)

The relationship between capital and risk weighted assets as defined in the framework developed by the State Bank of Pakistan.

Cash Reserve Ratio (CRR)

Cash Reserve Ratio is the amount of funds that the banks have to keep with SBP.

Cash Equivalents

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Commitment to Extend Credit

Credit facilities approved but not yet utilized by the client as at the Balance Sheet date.

Cost to Income Ratio

The proportion of admin expenses to total income, represented as combination of net interest income and non interest income.

Credit Risk Spread

The credit spread is the yield spread between securities with the same coupon rate and maturity structure but with different associated credit risks, with the yield spread rising as the credit rating worsens. It is the premium over the benchmark or risk-free rate required by the market to take on a lower credit quality.

Discount rate

Discount is the rate at which SBP provides three-day Repo facility to banks, acting as the lender of last resort.

Dividend Payout Ratio

Dividends (cash dividend plus bonus shares) paid per share as a fraction of earnings per share (EPS).

Dividend Yield Ratio

Dividend per share divided by the market value of share.

Earnings Per Share

Profit after taxation divided by the weighted average number of ordinary shares in issue

Fixed Deposits

Deposits having fixed maturity dates and a rate of return.

Forced Sale Value (FSV)

Forced Sale Value means the value which fully reflects the possibility of price fluctuations and can currently be obtained by selling the mortgaged / pledged assets in a forced / distressed sale conditions.

Government Securities

Government Securities shall include such types of Pak. Rupee obligations of the Federal Government or a Provincial Government or of a Corporation wholly owned or controlled, directly or indirectly, by the Federal Government or a Provincial Government and guaranteed by the Federal Government as the Federal Government may, by notification in the Official Gazette, declare, to the extent determined from time to time, to be Government Securities.

Impairment allowances

A provision held on the balance sheet as a result of the raising of a charge against profit for the incurred loss inherent in the lending book. An impairment allowance may either be identified or unidentified and individual or collective.

Foreign Exchange Options(FX Options)

Contracts that give the buyer the right, but not the obligation, to buy or sell one currency against the other, at a predetermined price and on or before a predetermined date. The buyer of a call/ put FX option has the right to buy/sell a currency against another at a specified rate.

Forward Purchase Contract

Forward purchase contract is one in which the exporter enters into the forward booking contract to protect himself from the exchange rate fluctuation at the time of receiving payment.

Forward Sale Contract

In a forward sale contract the importer enters into a transaction to buy foreign currency from the Bank at the predetermined rate to protect himself from the exchange fluctuation at the date the payment.

Historical Cost Convention

Recording transactions at the actual value received or paid.

IAS

International Accounting Standards

IFRS

International Financial Reporting Standards

IFRIC

International Financial Reporting Interpretation Committee

Interest Spread

Represents the difference between the average interest rate earned and the average interest rate paid on funds.

Loan losses and provisions

Amount set aside against identified and possible losses on loans, advances and other credit facilities as a result of their becoming party or wholly uncollectible.

Liquid Assets

The assets which are readily convertible into cash without recourse to a court of law and mean encashment / realizable value of government securities, bank deposits, certificates of deposit, shares of listed companies which are actively traded on the stock exchange, NIT Units, certificates of mutual funds, Certificates of Investment (COIs) issued by DFIs / NBFCs rated at least 'A' by a credit rating agency on the approved panel of State Bank of Pakistan, listed TFCs rated at least 'A' by a credit rating agency on the approved panel of State Bank of Pakistan and certificates of asset management companies for which there is a book maker quoting daily offer and bid rates and there is active secondary market trading. These assets with appropriate margins should be in possession of the banks / DFIs with perfected lien.

Market Capitalization

Number of ordinary shares in issue multiplied by the market value of share as at any cut-off date.

Materiality

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of financial statements.

Net Interest Income (NII)

Net interest income is the difference between the interest earned on assets and interest expensed on liabilities.

Non-Performing Loan

A non-performing loan is a loan that is in default or close to being in default. Loans become non-performing in accordance with provision of prudential regulations issued by SBP.

NPLs to Gross Advances/Loans

Represents the infected portfolio of the bank and is calculated by dividing the total non-performing loans by gross

advances.

Non Performing Loan-Substandard Category

Where markup/interest or principal is overdue by 90 days or more from the due date.

Non Performing Loan-Doubtful Category

Where markup/interest or principal is overdue by 180 days or more from the due date.

Non Performing Loan-Loss Category

Where mark-up/interest or principal is overdue by one year or more from the due date and Trade Bill (Import/ Export or Inland Bills) are not paid/adjusted within 180 days of the due date.

Off Balance Sheet Transactions

Transactions that are not recognized as assets or liabilities in the statement of financial position but which give rise to contingencies and commitments.

Price Earnings Ratio (P/E Ratio)

Market price of a share divided by earnings per share.

Repo / Reverse Repo

A repurchase agreement, or repo, is a short term funding agreements which allow a borrower to sell a financial asset, such as ABS or government bonds as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.

Return on Equity (ROE)

Represents the ratio of the current year's profit available for distribution to the weighted average shareholders equity over the period under review, calculated by dividing the net profit (profit after tax) to the average equity (before surplus) for the period.

Return on Assets (ROA)

Indicator of profitability of the business relative to the value of its assets, calculated by dividing the net profit (profit after tax) to the average total assets for the period.

Statutory Reserve Funds

A capital reserve created as per the provisions of the section 21 of Banking Companies Ordinance, 1962.

Small Enterprise

A Small Enterprise (SE) is a business entity which meets both the following parameters:

Number of Employees	Annual Sales Turnover
*Up to 50	Up to Rs. 150 million

*including contract employees.

Basel III

Basel III (or the Third Basel Accord) is a global, voluntary regulatory standard on bank capital adequacy, stress testing and market liquidity risk.

Strategic Investment

Strategic Investment is an investment which a bank / DFI makes with the intention to hold it for a period of minimum 5 years.

The following must be noted further in respect of strategic investment:

- The bank should mark strategic investment as such at the time of investment
- If there are a series of purchases of stocks of a company, the minimum retention period of 5 years shall be counted from the date of the last purchase.

SRO

Statutory Regulatory Order

KIBOR – (Karachi Interbank Offered Rate)

KIBOR is the interbank lending rate between banks in Pakistan and is used as a benchmark for lending.

LIBOR (London Interbank Offered Rate)

An interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market. The LIBOR is fixed on a daily basis by the British Bankers' Association.

VaR

Value at Risk is an estimate of the potential loss which might arise from market movements under normal market conditions, if the current positions were to be held unchanged for one business day, measured to a confidence level of 97.5 per cent.

Weighted Average Cost of Deposits

Percentage of the total interest expense on average deposit of the bank for the period.

INVESTOR'S AWARENESS

For the year ended December 31, 2018

With reference to SRO 924(1) / 2015 dated September 9th, 2015 issued by the Securities and Exchange Commission of Pakista (SECP), the following informational message has been added for investor's awareness.

www.jamapunji.pk





**Be aware, Be alert,
Be safe**

Learn about investing at
www.jamapunji.pk

Key features:

- Licensed Entities Verification
- Scam meter*
- Jamapunji games*
- Tax credit calculator*
- Company Verification
- Insurance & Investment Checklist
- FAQs Answered

- Stock trading simulator (based on live feed from KSE)
- Knowledge center
- Risk profiler*
- Financial calculator
- Subscription to Alerts (event notifications, corporate and regulatory actions)
- Jamapunji application for mobile device
- Online Quizzes



Jama Punji is an Investor Education Initiative of Securities and Exchange Commission of Pakistan

jamapunji.pk [@jamapunji_pk](https://twitter.com/jamapunji_pk)

*Mobile apps are also available for download for android and ios devices



Notes

[illegible]

Form of Proxy
71st Annual General Meeting

I/We _____
of _____ being a member (s) of **MCB Bank Limited**, and holder of _____ Ordinary Shares, do hereby appoint _____
of _____ vide Folio/CDC Account No. _____ or failing him/her _____ of _____ who is also a member of the Bank, vide Folio/CDC Account No. _____ as my/our proxy in my/our absence to attend, speak and vote for me/us and on my/our behalf at the **71st Annual General Meeting** of the Bank to be held on **Friday, March 29, 2019 at 11:00 AM (PST)** at Grand Ball Room-A, The Nishat Hotel, Emporium Mall, Near Expo Center, Abdul Haq Road, Johar Town, Lahore, and at any adjournment thereof.

As witness my / our hand / Seal this _____ day of _____, 2019.
Signed by _____

Folio No.	CDC Account No.	
	Participant I.D.	Account No.

Signature on Five-Rupees
Revenue Stamp

The signature should agree with the
specimen registered with the Bank

Witnesses:

1.

Name

:
- Address

:
- CNIC No.

:
- Signature

:
2.

Name

:
- Address

:
- CNIC No.

:
- Signature

:

Note:

1.

A member eligible to attend and vote at the meeting may appoint another member as his/her proxy who shall have such rights as respects attending, speaking and voting at the meeting.
2.

This Proxy Form, duly completed and signed, must be deposited in the office of M/s THK Associates (Pvt) Limited, the Share Registrar and Transfer Agent of the Bank, situated at First Floor, 40-C, Block 6, P.E.C.H.S., Karachi-75400, not less than 48 hours before the time of holding the meeting.
3.

If a member appoints more than one proxy and more than one instrument of proxies are deposited by a member with the Share Registrar and Transfer Agent of the Bank, all such instruments of proxy shall be rendered invalid.
4.

For CDC Account Holders / Corporate Entities
 - Attested copies of Computerized National Identity Card ("CNIC") or the passport of the beneficial owners and the proxy shall be provided with the Proxy Form.
 - The proxy shall produce his/her original CNIC or passport at the time of the meeting.
 - In case of a corporate entity, the Board of Directors' resolution / power of attorney with specimen signature shall be submitted along with Proxy Form to the Share Registrar and Transfer Agent of the Bank.

پراسی فارم

71واں سالانہ عام اجلاس

میں/ہم _____

ساکن _____ بحیثیت ممبر ایم سی بی بینک لمیٹڈ اور _____ عام حصص کا مالک / مسماۃ _____

ساکن _____ کو جس کا فوئیو/سی ڈی سی اکاؤنٹ نمبر _____ یا اس کی عدم دستیابی کی صورت میں _____

مسماۃ _____ ساکن _____ کو جس کا بینک کا ممبر بھی ہے، جس کا فوئیو/سی ڈی سی اکاؤنٹ نمبر _____ ہے، بطور پراسی مقرر کرتا ہوں/کرتی ہوں/کرتے ہیں تاکہ وہ میری/ہماری غیر موجودگی میں میری/ہماری طرف سے بینک کے 71ویں سالانہ عام اجلاس جو بروز جمعہ مورخہ 29 مارچ، 2019ء بوقت 11:00 بجے صبح بمقام گرینڈ بال روم۔ اے، دی نشاط ہوٹل، ایمپوریم مال، نزد ایکسپو سینٹر، عبدالحق روڈ، جوہر ٹاؤن، لاہور، منعقد ہو رہا ہے اس میں اور اس کے کسی ملتوی شدہ اجلاس میں شرکت کرے، بات کرے اور ووٹ ڈالے۔

میرے/ہمارے دستخط بتاریخ _____ 2019ء

دستخطی

پانچ روپیہ کے رپونیوٹا مپ پر
دستخط

دستخط بینک میں رجسٹرڈ نمونے
سے مطابقت رکھتے ہوئے چاہیے

فولیو نمبر	سی ڈی سی اکاؤنٹ نمبر	
	پارٹیشنڈ I.D.	اکاؤنٹ نمبر

گواہان:

(1) نام: _____

پتہ: _____

شناختی کارڈ نمبر: _____

دستخط: _____

(2) نام: _____

پتہ: _____

شناختی کارڈ نمبر: _____

دستخط: _____

نوٹ:

- 1۔ اجلاس میں شرکت کرنے، ووٹ دینے کے اہل رکن کسی دوسرے رکن کو اپنا اپنی پراسی مقرر کر سکتا ہے جس کو شرکت کرنے، بولنے اور ووٹ دینے کا حق حاصل ہوگا۔
 - 2۔ یکممل کردہ اور دستخط شدہ پراسی فارم بینک کے شیئرز رجسٹرار اور ٹرانسفر ایجنٹ، میسرز ڈی ایچ کے ایسوی ایس (پرائیویٹ) لمیٹڈ، بمقام پہلی منزل، 40۔ سی، بلاک 6، پی۔ ای۔ سی۔ ایچ۔ ایس، کراچی، کے دفتر میں اجلاس کے انعقاد سے 48 گھنٹے پہلے جمع کروانا چاہیے۔
 - 3۔ اگر ایک رکن ایک سے زیادہ پراسی مقرر کرتا ہے اور بینک کے شیئرز رجسٹرار اور ٹرانسفر ایجنٹ کے پاس رکن کی طرف سے پراسی فارم کی ایک سے زائد دستاویزات جمع کروائی جاتی ہیں تو پراسی کی ایسی تمام دستاویزات کا عدم تصور ہوں گی۔
 - 4۔ سی ڈی سی اکاؤنٹ رکھنے والوں/کارپوریٹ اداروں کے لیے:
- * مستفید مالکان اور پراسی کے کمپیوٹرائزڈ قومی شناختی کارڈ (سی این آئی سی) کیلپا سپورٹ کی تصدیق شدہ کاپیاں پراسی فارم کے ساتھ مہیا کی جائیں گی۔
 - * اجلاس کے موقع پر پراسی اپنا اصل شناختی کارڈ یا سپورٹ مہیا کرے گا۔
 - * کارپوریٹ ادارہ ہونے کی صورت میں، بورڈ آف ڈائریکٹرز کی قرارداد/مختار نامہ نمونے کے مطابق دستخط کے ساتھ بینک کے شیئرز رجسٹرار اور ٹرانسفر ایجنٹ کے پاس پراسی فارم کے ہمراہ جمع کروانا ہوگا۔



Registered Office:

U :

T :

E :

www.mcb.com.pk