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ALBARAKA BANK (PAKISTAN) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

EY Ford Rhodes
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INDEPENDENT AUDITORS' REPORT

To the members of AIBaraka Bank (Pakistan) Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of AIBaraka Bank (Pakistan) Limited (the Bank), which comprise the statement of financial position as at 31 December 2018, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, along with unaudited certified returns received from the branches except for 19 branches which have been audited by us and notes to the financial statements, including a summary of significant accounting policies and other explanatory information and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

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

Basis for Opinion

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

Information Other than the Financial Statements and Auditors' Report Thereon

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is 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 financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on Other Legal and Regulatory Requirements

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

- a) proper books of account have been kept by the Bank as required by the Companies Act, 2017 (XIX of 2017) and the returns referred above from the branches have been found adequate for the purpose of our audit;
- b) the statement of financial position, the profit or loss account, the statement of comprehensive income, statement of changes in equity and cash flow statement (together with the notes thereon) have been drawn up in conformity with the Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were in accordance with the objects and powers of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank; and
- d) zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

2. We confirm that for the purpose of our audit we have covered more than sixty per cent of the total Islamic financing and related assets of the Bank.

The engagement partner on the audit resulting in this independent auditors' report is Shaikh Ahmed Salman.

Chartered Accountants

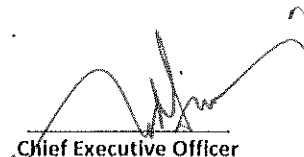
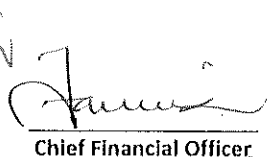
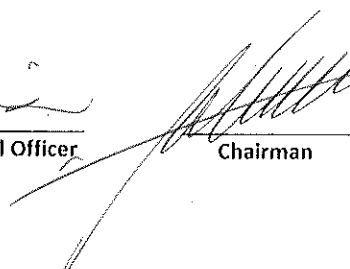
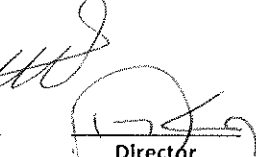
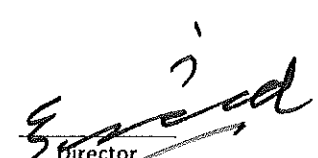
Place: Karachi

Date: 07 March 2019

ALBARAKA BANK (PAKISTAN) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 ----- (Rupees in '000)	2017 ----- Restated	2016 ----- Restated
ASSETS				
Cash and balances with treasury banks	5	14,934,799	8,915,585	18,725,350
Balances with other banks	6	854,171	2,932,165	984,125
Due from financial institutions	7	-	5,095,411	2,692,703
Investments	8	21,345,325	19,393,486	24,601,518
Islamic financing and related assets-net	9	75,011,976	71,203,056	66,785,266
Fixed assets	10	2,310,578	2,361,576	2,617,734
Intangible assets	11	1,572,861	1,720,577	1,884,535
Deferred tax assets	12	3,238,909	3,238,985	2,873,137
Other assets	13	9,544,420	7,791,552	7,547,688
		128,813,039	122,652,393	128,712,056
LIABILITIES				
Loans payable	14	3,697,477	3,658,120	3,909,415
Due to financial institutions	15	3,836,022	3,209,400	3,223,109
Deposits and other accounts	16	99,915,011	96,622,925	103,320,059
Subordinated debt	17	3,746,377	2,642,852	1,428,568
Deferred tax liabilities		-	-	-
Other liabilities	18	6,913,069	5,756,875	5,441,402
		118,107,956	111,890,172	117,322,553
NET ASSETS		10,705,083	10,762,221	11,389,503
REPRESENTED BY				
Share capital-net	19	13,106,862	13,106,862	13,106,862
Reserves		159,348	159,348	159,348
Surplus on revaluation of assets	20	353,212	171,734	404,662
Accumulated loss		(2,914,339)	(2,675,723)	(2,281,369)
		10,705,083	10,762,221	11,389,503
CONTINGENCIES AND COMMITMENTS	21			

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

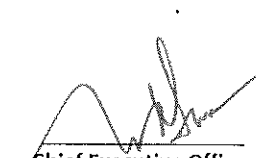
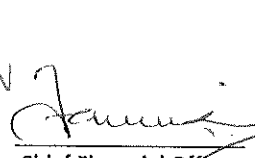
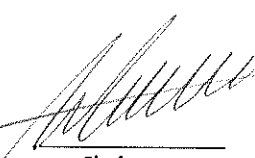
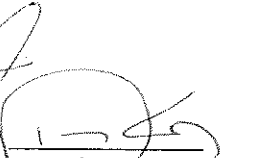

 Chief Executive Officer
  Chief Financial Officer
  Chairman
  Director
  Director

ALBARAKA BANK (PAKISTAN) LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
Note	----- (Rupees in '000) -----	-----
Profit / return earned on Islamic financing and related assets, investments and placements	22 8,031,610	6,717,570
Return on deposits and other dues expensed	23 (3,814,832)	(3,077,721)
Net spread earned	<u>4,216,778</u>	<u>3,639,849</u>
Other income		
Fee and commission income	24 682,801	668,143
Dividend income	36,269	44,469
Foreign exchange income	384,271	172,915
Loss on securities	25 (31,330)	(10,757)
Other income	26 24,757	93,026
Total other income	<u>1,096,768</u>	<u>967,796</u>
Total Income	<u>5,313,546</u>	<u>4,607,645</u>
Other expenses		
Operating expenses	27 (4,782,531)	(4,929,047)
Workers' Welfare Fund	-	-
Other charges	28 (5,998)	(24,317)
Total other expenses	<u>(4,788,529)</u>	<u>(4,953,364)</u>
Profit / (loss) before provisions	525,017	(345,719)
Provisions and write offs - net	29 (770,029)	(185,354)
Extra ordinary / unusual items	-	-
Loss before taxation	<u>(245,012)</u>	<u>(531,073)</u>
Taxation	30 (8,716)	141,635
Loss after taxation	<u>(253,728)</u>	<u>(389,438)</u>
		----- Rupee -----
Loss per share - basic / diluted	31 <u>(0.18)</u>	<u>(0.28)</u>

64

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

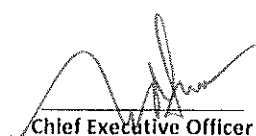
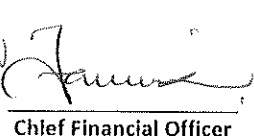
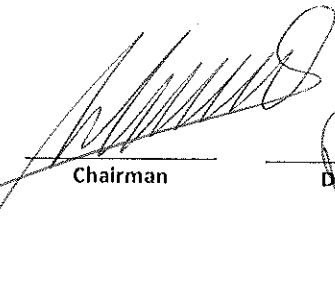
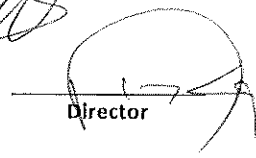

 Chief Executive Officer	 Chief Financial Officer	 Chairman	 Director	 Director
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ALBARAKA BANK (PAKISTAN) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 ---- (Rupees in '000) ----	2017
Loss after taxation for the year		(253,728)	(389,438)
Other comprehensive income			
Items that may be reclassified to profit and loss account in subsequent periods:			
Movement in surplus / (deficit) on revaluation of investments - net of tax		181,978	(220,578)
Items that will not be reclassified to profit and loss account in subsequent periods:			
Remeasurement gain / (loss) on defined benefit obligations - net of tax		14,817	(5,211)
Movement in surplus on revaluation of non-banking assets - net of tax		(205)	(12,055)
		14,612	(17,266)
Total comprehensive loss		(57,138)	(627,282)

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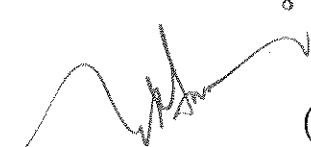
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 Chief Executive Officer	 Chief Financial Officer	 Chairman	 Director	 Director
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ALBARAKA BANK (PAKISTAN) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Discount on issue of shares	Statutory reserve	Surplus / (Deficit) on revaluation of		Accumulated loss	Total
				Investments	Non Banking Assets		
(Rupees in '000)							
Balance as at 31 December 2016 (as reported)	13,739,628	(632,766)	159,348	-	-	(2,281,369)	10,984,841
Effect of retrospective changes in accounting policies							
Reclassification of surplus on revaluation of assets to equity	-	-	-	58,985	345,677	-	404,662
Balance as at 31 December 2016 (restated)	13,739,628	(632,766)	159,348	58,985	345,677	(2,281,369)	11,389,503
Loss after taxation for the year	-	-	-	-	-	(389,438)	(389,438)
Other comprehensive loss - net of tax	-	-	-	(220,578)	(12,055)	(5,211)	(237,844)
Transfer from surplus on revaluation of assets to accumulated loss - net of tax	-	-	-	-	(295)	295	-
Balance as at 31 December 2017 (restated)	13,739,628	(632,766)	159,348	(161,593)	333,327	(2,675,723)	10,762,221
Loss after taxation for the current year	-	-	-	-	-	(253,728)	(253,728)
Other comprehensive income - net of tax	-	-	-	181,978	(205)	14,817	196,590
Transfer from surplus on revaluation of assets to accumulated loss - net of tax	-	-	-	-	(295)	295	-
Balance as at 31 December 2018	13,739,628	(632,766)	159,348	20,385	332,827	(2,914,339)	10,705,083

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


Chief Executive Officer


Chief Financial Officer


Chairman

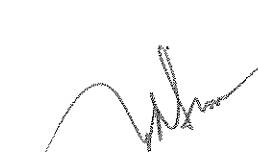

Director

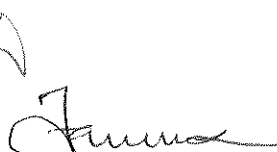

Director

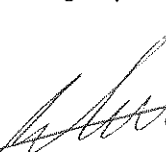
ALBARAKA BANK (PAKISTAN) LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018


	2018	2017
	---- (Rupees in '000) ----	
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(245,012)	(531,073)
Less: Dividend income	(36,269)	(44,469)
	<u>(281,281)</u>	<u>(575,542)</u>
Adjustments:		
Depreciation	192,471	227,591
Amortization	186,309	200,363
Depreciation - non banking assets	25,667	25,668
Provision and write-offs	770,029	185,354
Write off of financing provision	(28)	-
Gain on sale of operating fixed assets	(758)	(57,511)
Unrealized loss on revaluation of investments classified as held for trading	23,174	6,098
	<u>1,196,864</u>	<u>587,563</u>
	915,583	12,021
(Increase)/ Decrease in operating assets		
Due from financial institutions	5,095,411	(2,402,708)
Held-for-trading securities - net	(105,268)	(33,135)
Islamic financing and related assets - net	(4,279,729)	(4,402,081)
Others assets (excluding advance taxation)	(1,795,453)	(342,127)
	<u>(1,085,039)</u>	<u>(7,180,051)</u>
Increase/ (Decrease) in operating liabilities		
Bills payable	39,357	(251,295)
Due to financial institutions	626,622	(13,709)
Deposits	3,292,086	(6,697,134)
Other liabilities	1,156,194	315,473
	<u>5,114,259</u>	<u>(6,646,665)</u>
Income tax paid	(77,319)	(53,939)
Net cash flow from / (used in) operating activities	<u>4,867,484</u>	<u>(13,868,634)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Net (investments) / redemptions in available-for-sale securities	(1,884,860)	4,781,677
Dividends received	38,492	44,511
Investments in operating fixed assets	(196,831)	(108,287)
Proceeds from sale of fixed assets	13,410	74,724
Net cash (used in) / flow from investing activities	<u>(2,029,789)</u>	<u>4,792,625</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Receipt of Additional Tier I Capital	1,389,241	-
Repayment of Tier II mudaraba sukuk - first issue	(285,716)	(285,716)
Issuance of Tier II mudaraba sukuk - second issue	-	1,500,000
Net cash flow from financing activities	<u>1,103,525</u>	<u>1,214,284</u>
Increase / (decrease) in cash and cash equivalents	<u>3,941,220</u>	<u>(7,861,725)</u>
Cash and cash equivalents at beginning of the year	32 11,847,750	19,709,475
Cash and cash equivalents at end of the year	32 <u>15,788,970</u>	<u>11,847,750</u>


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


Chief Executive Officer


Chief Financial Officer


Chairman


Director


Director

ALBARAKA BANK (PAKISTAN) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

1. STATUS AND NATURE OF BUSINESS

- 1.1 AlBaraka Bank (Pakistan) Limited (the Bank) was incorporated in Pakistan on 20 December 2004 as a public limited company. The Bank was granted an Islamic Banking License BL(I)-01(07), issued by the Banking Policy and Regulations Department of the State Bank of Pakistan (SBP) on 18 January 2007. Subsequently, the Bank was also granted approval for commencement of business as a scheduled bank with effect from 13 February 2007. Upon merger of the Pakistan branches of AlBaraka Islamic Bank B.S.C. (c) with and into the Bank, fresh license no. BL(i)-01(2011) was issued by SBP on 12 March 2011, effective from close of business on 29 October 2010. The main objective of the Bank is to carry on Islamic banking business in Pakistan in accordance and in conformity with Shariah.

The Bank is a subsidiary of AlBaraka Islamic Bank B.S.C. (c) (parent bank) incorporated and domiciled in Bahrain and a member of AlBaraka Banking Group.

- 1.2 During the year 2016, the shareholders of the Bank in their extra ordinary general meeting held on 22 August 2016 have approved the merger of the Bank with Burj Bank Limited under a "Scheme of Amalgamation" (the Scheme). Further, State Bank of Pakistan, through its letter no. BPRD (R&P-02)/2016/24373 dated 14 October 2016, has also approved the scheme of amalgamation and granted sanction order for the amalgamation of Ex Burj Bank Limited with and into the Bank. As of the effective date of amalgamation, the entire undertaking of Ex Burj Bank Limited including all the properties, assets and liabilities and all the rights and obligations shall, without any further act, action or deed and notwithstanding the terms of any contract or other document or any rule of law, stands amalgamated with and vest in the Bank and as a consequence, Ex Burj Bank Limited stands amalgamated with and into the Bank.

The Bank's registered office is located at 162, Bangalore Town, Main Sharah-e-Faisal, Karachi. The Bank has 191 branches including 11 sub-branches (31 December 2017: 188 branches including 13 sub-branches) in Pakistan.

- 1.3 Based on the financial statements of the Bank for the year ended 31 December 2017, JCR-VIS has maintained the long-term rating at 'A+' and short-term rating at 'A1'. Pakistan Credit Rating Agency Limited (PACRA) has maintained the Bank's long-term rating at 'A' and short term rating at 'A1'.
- 1.4 As at 31 December 2018, the Minimum Capital Requirement (MCR) and Capital Adequacy Ratio (CAR) stood at Rs.10.19 billion and 11.77 % respectively.

2. BASIS OF PRESENTATION

These financial statements have been prepared in conformity with the format of financial statements prescribed by the SBP vide BSD Circular No. 02 dated 25 January 2018.

The Bank provides Islamic financing mainly through shariah compliant financial products as explained in Note 4.5.1 except for Murabaha transactions (which are accounted for under the Islamic Financial Accounting Standard - 1), the purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of rental / profit thereon. Income, if any received, which does not comply with the principles of Shariah is recognised as charity payable.

2.1 STATEMENT OF COMPLIANCE

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

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

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

2.1.2 Adoption of new forms for the preparation of financial statements

During the year, the SBP, vide its BPRD Circular No. 02 dated 25 January 2018, issued the revised forms for the preparation of the annual financial statements of the banks which are applicable for annual periods beginning on or after 01 January 2018. The implementation of the revised forms has resulted in certain changes to the accounting policies of the Bank and the presentation and disclosures of various elements of the financial statements. These changes are summarized below:

2.1.2.1 Changes in the accounting policies

As per the revised forms, "Surplus / deficit on revaluation of assets" is now required to be presented as a component of the equity of the Bank. Previously, such surplus / deficit was required to be presented separately from the equity of the Bank and changes in such surplus / deficit were not recognised in the statement of comprehensive income. Consequent upon the change in the presentation requirements, the surplus / deficit on revaluation of Assets and changes in such surplus / deficit during the year are reflected in the relevant section of the statement of financial position, statement of comprehensive income and statement of changes in equity for the current and prior years presented in these financial statements.

Acceptances representing undertakings by the Bank to pay bills of exchange drawn on customers are now required to be recognised as liabilities of the Bank at the date of acceptance. Previously, acceptances were only recognised as off-balance sheet obligations and disclosed under contingent liabilities. As a result of the above change, the other assets and other liabilities of the Bank increased by Rs.3,737 million, Rs.1,992 million and Rs.1,913 million as of 2018, 2017 and 2016 respectively.

2.1.2.2 Significant changes to the presentation and disclosures

In addition, to above changes in accounting policies, certain changes to the presentation of the financial statements have been made such as other reversal of provisions / write offs have now been combined under provisions and write off - net (Note 29) and Business segments have been identified and reported as per the requirements of IFRS 8 - "Operating Segments" (Note 38.1).

Further, certain, new disclosure have been introduced which include category of classification for non-performing "Investments" (Note 8.3.2); movement in "Non-Banking Assets acquired in satisfaction of Claims" (Note 13.1.2); for "Non-Banking Assets acquired in satisfaction of Claims" sold during the year, disposal proceeds, cost of such asset, impairment/depreciation and realized gains or losses (Note 13.1.3); composition of deposits (Note 16.1); breakdown of Fee and Commission (Note 24); presentation of operating expenses has been changed (Note 27); Concentration of Islamic financings and province wise disbursements and utilization of Islamic financings (Note 43.1.5 and note 43.1.6); and assets split between trading and banking books (Note 43.2.1).

The Bank has adopted the above changes in the presentation and made additional disclosure to the extent applicable to its operations and corresponding figures have been rearranged / reclassified to correspond to current year's presentation. Such reclassifications / re-arrangements are disclosed in notes no. 47 to the financial statements.

- 2.1.3 The SBP, vide its BPRD Circular No. 01 dated 25 January 2017 issued "Guidelines and Disclosures on Governance and Remuneration Practices". Certain disclosure related to remuneration of Directors and management of the Bank were required to be presented in the financial statements in terms of such guidelines. Accordingly, revised format of the financial statement issued by the SBP incorporates such disclosure requirements. However, SBP through its circular number BPRD/R&PD/2018/17232 dated 08 August 2018 deferred the reporting of such disclosures till 31 December 2019. Therefore, the management has reported the remuneration disclosures in these financial statement in accordance with previous disclosure requirements of the SBP (Note 36).
- 2.1.4 The SBP vide BSD Circular Letter No. 10 dated 26 August 2002 has deferred the applicability of International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" (IAS 39) and International Accounting Standard 40, "Investment Property" (IAS 40) for banking companies till further instructions. Further, according to the notification of SECP dated 28 April 2008, the IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by the SBP.
- 2.1.5 The SBP, through its BSD Circular No. 10 dated 26 August 2002, has deferred the implementation of International Accounting Standard (IAS) 39 - "Financial Instruments: Recognition and Measurement" and IAS 40 - "Investment Property" for Banking Companies in Pakistan, till further instructions. Accordingly, the requirements of these Standards have not been considered in the preparation of these financial statements. Further, the SECP has deferred the applicability of International Financial Reporting Standard (IFRS) 7 "Financial Instruments: Disclosures" through its S.R.O. 411(I)/2008 dated 28 April 2008. Accordingly, the requirements of this standard have also not been considered in the preparation of these financial statements. However, investments and non-banking assets have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.
- 2.1.6 The SBP vide its BPRD Circular No. 04 dated 25 February 2015 has clarified that the reporting requirements of IFAS-3 for Islamic Banking Institutions (IBIs) relating to annual, half yearly and quarterly financial statements would be notified by SBP through issuance of specific instructions and uniform disclosure formats in consultation with IBIs. These reporting requirements have not been ratified to date. Accordingly, the disclosures requirements under IFAS 3 have not been considered in these financial statements.

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

The Bank has adopted the following amendments to accounting standards and improvements to IFRSs which became effective for the current year:

Standard or Interpretation

- IFRS 2 - Share-based Payments – Classification and Measurement of Share-based Payments Transactions (Amendments)
- IFRS 4 - Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – (Amendments)
- IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration

Improvements to Accounting Standards Issued by the IASB in December 2016

- IAS 28 - Investments in Associates and Joint Ventures: Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The adoption of the above amendments, improvements to accounting standards and interpretations did not have any effect on the financial statements.

2.3 Standards, interpretations of and amendments to published approved accounting standards that are not yet effective.

The following standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standard, interpretation or amendment	Effective date (annual periods beginning on or after)
- IFRS 3 - Definition of a Business (Amendments)	January 01, 2020
- IFRS 9 - Financial Instruments: Classification and Measurement	July 01, 2018
- IFRS 9 - Prepayment Features with Negative Compensation – (Amendments)	January 01, 2019
- IFRS 10 - Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
- IFRS 15 - Revenue from Contracts with Customers	July 01, 2018
- IFRS 16 - Leases	January 01, 2019
- IFRIC 23 - Uncertainty over Income Tax Treatments	January 01, 2019
- IAS 1/ IAS 8 - Definition of Material (Amendments)	January 01, 2020
- IAS 19 - Plan Amendment, Curtailment or Settlement (Amendments)	January 01, 2019
- IAS 28 - Long-term Interests in Associates and Joint Ventures (Amendments)	January 01, 2019

The above standards, amendments and interpretations are not expected to have any material impact on the Bank's financial statements in the period of initial application, other than IFRS 9 and IFRS 16. With regard to IFRS 9, the Bank considers that as the Prudential Regulations and other SBP directives currently provide the accounting framework for the measurement and valuation of investments and provision against non performing financing, the implementation of IFRS 9 may require changes in the regulatory regime. Therefore, the Bank expects that the SBP would issue suitable guidance and instruction on the application of IFRS 9 for the banking sector of Pakistan. With regard to IFRS 16, the Bank is currently evaluating the impact of application of IFRS 16 on its financial statements.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB in December 2017. Such improvements are generally effective for accounting periods beginning on or after 01 January 2019. The Bank expects that such improvements to the standards will not have any impact on the Bank's financial statements in the period of initial application.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standards

- IFRS 14 – Regulatory Deferral Accounts
- IFRS 17 – Insurance Contracts

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. The estimates / judgments and associated assumptions used in the preparation of the financial statements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates / judgments and associated assumptions are reviewed on an ongoing basis. Revision to the accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The key areas of estimates and judgements in relation to these financial statements are as follows:

a) Provision against non-performing Islamic financing

The Bank reviews its financing portfolio to assess amount of non-performing Islamic financing and determine provision required there against on a quarterly basis. While assessing this requirement various factors including the past dues, delinquency in the account, financial position of the borrower, value of collateral held and requirements of Prudential Regulations are considered except where relaxation has been allowed by SBP.

The amount of general provision against consumer, small and medium enterprises and Islamic financing is determined in accordance with the relevant Prudential Regulations and SBP directives.

b) Impairment of available for sale investments

The Bank considers that available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost except for investments where relaxation has been allowed by SBP. This determination of what is significant or prolonged requires judgement, in addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance.

c) Income taxes

In making the estimates for current and deferred taxes, the management looks at the income tax law and the decisions of appellate authorities on certain issues in the past. There are certain matters where the Bank's view differs with the view taken by the income tax department and such amounts have been disclosed as contingent liability.

d) Operating fixed assets, depreciation and amortization

In making estimates of the depreciation / amortization method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method would be changed to reflect the change in pattern.

e) Employees' benefit plans

The liabilities for employees' benefits are determined using actuarial valuations. The actuarial valuations involve assumptions about discount rates, expected rates of return on assets and future salary increases as disclosed in note 35.3. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

3 BASIS OF MEASUREMENT

3.1 These financial statements have been prepared under the historical cost convention except for available for sale investments, non-banking assets and commitments in respect of foreign exchange forward contracts which have been measured at fair value in accordance with requirements of SBP. In addition, obligation in respect of staff retirement benefits and employees compensated leave balances are carried at present value as actuarial valuation.

3.2 Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in Pakistani Rupees, which is the Bank's functional and presentation currency.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented.

4.1 Business combination and goodwill

Business combination 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 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 recognised directly in profit and loss account.

4.2 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury banks and balances with other banks in current and deposit accounts.

4.3 Due to / from Financial Institutions**Bai Muajjal**

In bai muajjal transactions, the Bank sells sukuk on credit to other Financial Institutions. The credit price is agreed at the time of sale and such proceeds are received at the end of credit period.

Musharaka

In Musharaka, the Bank invests in the shariah compliant business pools of the financial institutions at the agreed profit and loss sharing ratio.

Musharaka from State Bank of Pakistan under Islamic Export Refinance Scheme (IERS)

Under IERS, the Bank accepts funds from the SBP under shirkat-ul-aqd to constitute a pool for investment in export refinance portfolio of the Bank under the guidelines issued by the SBP. The profit of the pool is shared as per the agreed weightages between

4.4 Investments**4.4.1 Investments are classified as follows:****(a) Held for trading**

These are securities, which are either acquired for generating a profit from short-term fluctuations in market prices, profit rate movements or are securities included in a portfolio in which a pattern of short-term profit taking exists. Such securities are normally sold within 90 days of the purchase date.

(b) Held to maturity

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

(c) Available for sale

These are investments, that do not fall under the 'held for trading' or 'held to maturity' categories.

4.4.2 Regular way contracts

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

4.4.3 Initial recognition and measurement

Investments other than those categorised as held for trading are initially recognised at fair value which includes transaction costs associated with the investments. Investments classified as held for trading are initially recognised at fair value, and transaction costs are expensed in the profit and loss account.

4.4.4 Subsequent measurement**(a) Held for trading**

These are measured at subsequent reporting dates at fair value. Gains and losses on remeasurement are included in the net profit and loss for the year.

(b) Held to maturity

These are measured at amortized cost using the effective profit rate method, less any impairment loss recognised to reflect irrecoverable amount.

(c) Available for sale

In accordance with the requirements of the SBP, quoted securities and Government securities other than those classified as 'held to maturity', are subsequently re-measured to market value. Surplus / deficit arising on revaluation of quoted securities classified as 'available for sale', is taken to a separate account shown in the statement of financial position as a component of equity.

Unquoted equity securities 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. In cases where the break up value of such shares is less than the cost, the difference of the cost and break up value is provided for accordingly by charging to the profit and loss account.

4.4.5 Impairment

Provision for diminution in the values of securities classified as available for sale and held to maturity (except sukuk certificates) is charged to profit and loss account. Provision for diminution in value of sukuk certificates is made as per the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

4.4.6 Cost of equity investments is determined on weighted average basis.

4.5 Islamic financing and related assets**4.5.1 Brief nature of Islamic financing arrangements**

Following is a brief nature of the financing arrangements entered into by the Bank.

Murabaha

Under murabaha financing, funds disbursed for purchase of goods are recorded as 'advance against murabaha finance'. On culmination of murabaha i.e. sale of goods to customers, murabaha financing are recorded at the deferred sale price net of deferred profit. Goods purchased but remaining unsold at the statement of financial position date are recorded as inventories.

Ijara Financing

In ijara financing, the Bank provides the assets on periodic rentals for specific tenor to customers.

Istasna

In istasna financing, the Bank places an order to purchase some specific goods / commodities from its customers to be delivered to the Bank within an agreed time. The goods are then sold by the customer on behalf of the Bank and the amount hence financed alongwith profit is paid back to bank.

Tijarah

In tijarah financing, the Bank purchases specific goods / commodities on cash basis from its customers for onward sale and on subsequent sale, the financed amount is paid back by the customer.

Diminishing Musharaka

In diminishing musharaka based financing, the Bank enters into musharaka based on Shirkat-ul-Mulk 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 Bank's musharaka share by the customer.

Service Ijarah

In the service Ijarah financing, the Bank provides financing by acquiring certain agreed services from the customer. After the purchase of services, the Bank appoints the customer to sell these services in the market over a period and provide a sale confirmation of such sale.

Salam

Salam is a sale transaction where the seller undertakes to supply some specific goods to the buyer at a future date against an advance price fully paid on spot.

Running Musharaka

Running musharaka is a shirkul-aqd based financing facility offered to the customers where the Bank participates in operating activities of the customer and share profit and loss as per the actual performance of their business.

4.5.2 Accounting policies of Islamic financing

Islamic financing and related assets (advance, inventories etc.) are stated net of specific and general provisions against non-performing Islamic financing, if any, which are charged to the profit and loss account.

Provisions against non-performing Islamic financing and related assets

Specific provision against non-performing islamic financing is determined in accordance with the Prudential Regulations and other directives issued by the SBP. The Bank maintains general reserve (provision), unless specific exemption is available from SBP in accordance with the applicable requirements of Prudential Regulations for consumer finance and small and medium enterprise financing.

Ijarah Assets

Ijarah financing booked is accounted for as per the requirements of IFAS 2, whereby assets leased out under ijarah are depreciated over the term of ijarah and the related rental income is recognised in the profit and loss account on an accrual basis.

Ijarah financing booked before 01 January 2009 is accounted for as a finance lease whereby assets under ijarah arrangements are presented as a receivable at an amount equal to net investment in ijarah. Unearned income i.e. excess of aggregate rentals over the cost of the asset is recorded at the inception of the ijarah and is amortized over the term of the ijarah so as to produce a constant rate of return on net investment in ijarah.

Islamic financing and related assets are written off when there is no realistic prospect of recovery.

Inventories

Goods purchased but remaining unsold at the statement of financial position date are recorded as inventories. The Bank values its inventories at the lower of cost and net realisable value. Cost of inventories represents the actual purchase price paid by the customer as an agent on behalf of the Bank from the funds disbursed for the purpose of culmination of murabaha.

The net realisable value is the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

4.6 Fixed Assets

4.6.1 Property and Equipment

Property and equipment, other than land, are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Land is stated at cost.

Depreciation is charged using the straight-line method in accordance with the rates specified in note 10.2 to these 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 statement of financial position 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 fixed assets are credited / charged to the profit and loss account and disclosed in other income.

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

4.6.2 Capital work in progress

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. All expenditure connected with specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to specific assets as and when assets become available for use.

Intangible assets

Intangible assets having a finite useful life 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 asset is amortized on the basis of the estimated useful life over which economic benefits are expected to flow to the Bank. The residual value, useful life and amortization method are reviewed and adjusted, if appropriate, at each statement of financial position date. Amortization rates are specified in note 11.1 to these financial statements.

Intangible assets with indefinite useful lives are not amortized but tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

4.7.1 Impairment

The carrying amount of assets are reviewed at each reporting 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 amount. The resulting impairment loss is taken to the profit and loss account.

4.8 Non-Banking Assets

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

Depreciation is determined with reference to the value assigned to such assets on revaluation and depreciation charge for the year/period is taken to the profit and loss account.

An amount equal to incremental depreciation for the year net of deferred taxation is transferred from "Surplus on revaluation of asset account" to accumulated losses through statement of changes in equity to record realisation of surplus to the extent of the incremental depreciation charge for the year.

4.9 Deposits

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 Account' and 'Fixed Deposit Accounts'.

No profit or loss is passed on to current account depositors. However, the funds of current accounts are treated as equity for the purpose of profit calculation and only any profit earned / loss incurred on these funds are allocated to the equity of the Bank. Profits realized in pool 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.

Mudarib (the Bank) can distribute its share of profit to Rab-ul-Maal in line with Shariah guidelines issued by SBP.

4.10 Sub-ordinated Loans

A subordinated loan is initially recorded at the amount of proceeds received. Profit accrued on subordinated loans is charged to the profit and loss account.

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4.11 Revenue Recognition

- Profit on murabaha transactions is recognised on accrual basis. Profit on Murabaha transactions for the period from the date of disbursement to the date of culmination of murabaha is recognised immediately upon the latter date.
- Rental income on ijarah financing booked is recognised on accrual basis.
- Profit on diminishing musharaka, running musharaka, mudaraba and service ijarah are recognised on accrual basis.
- Profit on tijarah and istisna is recognised on accrual basis commencing from the time of sale of goods till the realization of sale proceeds by the Bank.
- Profit on bai muajjal transactions are recognised on accrual basis.
- Commission on letters of credit, acceptances and letters of guarantee is recognised on receipt basis.
- Dividend income is recognised when the Bank's right to receive the dividend is established.
- Profit from investment in sukuk is recognised on accrual basis. Premium and discount on purchase of sukuk are being amortized through profit and loss account over the remaining maturity.
- Gains / losses on disposal of fixed assets, ijarah assets and musharaka assets are taken to profit and loss account in the period in which they arise.
- Gains / losses on sale of investments is included in profit and loss account.
- Income earned from avenues that are not Shariah compliant is not recognised in the profit and loss account. This income is classified as charity payable in accordance with the recommendation of the Shariah Advisor of the Bank.
- Realization of profit earlier suspended in compliance with the Prudential Regulations issued by SBP is credited to profit and loss account on receipt basis.

4.12 Taxation

Income tax expense comprises current and deferred tax. Expense is recognised in profit and loss account except to the extent when it relates to items recognised directly in equity or below equity.

(a) Current

The charge for current taxation is based on expected taxable income for the year at the current rate of transaction. The Bank assessed its taxation income under Section 113 of Income Tax Ordinance, 2001.

(b) Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. In addition, the Bank also records deferred tax asset on available tax losses. Deferred tax is calculated at the rates that are expected to apply to the period when the differences are expected to reverse, based on tax rates that have been enacted at the statement of financial position date.

A 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.

The carrying amount of deferred tax asset is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

The Bank also recognises a deferred tax asset / liability on the deficit / surplus on revaluation of assets which is adjusted against the related surplus / deficit in accordance with the requirements of the International Accounting Standard (IAS) 12, 'Income Taxes'.

4.13 Staff Retirement Benefits**(a) Defined benefit plan**

The Bank operates funded gratuity scheme for all its permanent employees. The benefits under the gratuity scheme are payable on retirement at the age of 60 or earlier cessation of service, in lump sum. The benefit is equal to one month's last drawn basic salary for each completed year of service, subject to a minimum of three years of service.

(b) Defined contribution plan

The Bank also operates a recognised contributory provident fund for all permanent employees. Equal monthly contributions are made, both by the Bank and the employees, to the fund at a rate of 10 percent of basic salary.

4.14 Provisions, Contingent Assets And Contingent Liabilities

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

Contingent assets are not recognised unless inflow of economic benefits is virtually certain.

Contingent liabilities are not recognised but are disclosed unless the probability of an outflow of resources embodying economic benefits is remote.

4.15 Provision For Guarantee Claims And Other Off-Balance Sheet Obligations

The Bank, in the ordinary course of business, issues letters of credit, acceptances, guarantees, bid bonds, performance bonds etc. The commission against such contracts is recognised in the profit and loss account under "fee and commission income" on receipt basis. The Bank's liability under such contracts is measured at the best estimate of the amount expected to settle any financial obligation arising under such contracts.

4.16 Foreign Currency Transactions

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak rupees at the exchange rates prevailing at the reporting date. Exchange gains or losses are included in the profit and loss account of the current period.

4.17 Commitments

Commitments for outstanding forward foreign exchange contracts are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are translated into Pak Rupees at the exchange rates ruling on the reporting date.

4.18 Acceptances

Acceptances representing undertakings by the Bank to pay bills of exchange drawn on customers are recognised as liabilities of the Bank at the date of acceptance. Previously, acceptances were only recognised as off-balance sheet obligations and disclosed under contingent liabilities.

4.19 Financial Instruments

(a) Financial assets and financial liabilities

Financial assets and financial liabilities are initially recognised at the time when the Bank becomes a party to the contractual provisions of the instrument. These include regular way purchases or sales of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the market place. Financial assets are de-recognised when the contractual right to future cash flows from the asset expires or is transferred along with the risk and rewards of ownership of the asset. Financial liabilities are de-recognised when obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial assets and liabilities is recognised in the profit and loss account of the current period.

(b) Off-setting

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

4.20 Earnings Per Share

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

4.21 Pool Management

The Bank operates general and specific pools for depositors.

Under the general deposits pool, the Bank accepts funds on Mudaraba basis from depositors (Rab-ul-Maal) where the Bank acts as Manager (Mudarib) and invests the funds in the Shariah Compliant modes of Islamic financings and related assets, investments and placements.

Specific pools are operated for funds acquired / accepted from State Bank of Pakistan for Islamic Export Refinance under the Musharaka mode.

The profit of each deposit pool is calculated on all the remunerative assets by utilizing the funds from the pool after deduction of expenses directly incurred in earning the income of such pool, if any. No provisions against any non performing assets of the pool is passed on to the pool. The profit of the pool is shared among the members of the pool on pre-defined mechanism based on the weightages announced before the profit calculation period.

The deposits and funds under the above mentioned pools are provided to diversified sectors and avenues of the economy / business and are also invested in Government of Pakistan backed ijarah sukuk and other sovereign securities. Musharaka investments from State Bank of Pakistan under Islamic Export Refinance are channelled towards the export sector of the economy.

		2018	2017
	Note	----- (Rupees in '000) -----	
5. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		2,590,755	2,217,811
Foreign currencies		533,505	524,591
		3,124,260	2,742,402
With State Bank of Pakistan in			
Local currency current account	5.1	9,630,719	5,076,417
Foreign currency current account	5.1	7,442	8,405
Foreign currency deposit account	5.1	972,084	722,169
		10,610,245	5,806,991
With National Bank of Pakistan in			
Local currency current account		1,200,287	366,185
Local currency deposit account		7	7
		1,200,294	366,192
		14,934,799	8,915,585

These include local and foreign currency amount required to be maintained by the Bank with SBP. These accounts are non-remunerative in nature.

		2018	2017
	Note	----- (Rupees in '000) -----	
6. BALANCES WITH OTHER BANKS			
In Pakistan			
In current account		2,566	1,431
In deposit account	6.1	19,048	1,942,672
		21,614	1,944,103
Outside Pakistan			
In current account		721,699	885,914
In deposit account		110,858	102,148
		832,557	988,062
		854,171	2,932,165

The expected return on these deposits ranges from 3.50% to 9% (31 December 2017: 2.50% to 5.74%) per annum.

		2018	2017
	Note	----- (Rupees in '000) -----	
7. DUE FROM FINANCIAL INSTITUTIONS			
Bai Muajjal receivable			
- from State Bank of Pakistan	7.1	-	5,095,411
		2018	2017
		----- (Rupees in '000) -----	
7.1 Particulars of due from financial institution			
In local currency		-	5,095,411
In foreign currencies		-	-
		-	5,095,411

Handwritten mark

INVESTMENTS

Note	2018				2017				
	Cost / Amortized cost	Provision for diminution	Surplus / (Deficit)	Carrying Value	Cost / Amortized cost	Provision for diminution	Surplus / (Deficit)	Carrying Value	
8.1 Investments by type	(Rupees in '000)								
Held-for-trading securities									
Shares	132,305	-	(23,174)	109,131	33,135	-	(6,098)	27,037	
Available-for-sale securities									
Federal Government securities	8.2 & 8.4.1								
Shares	8.4.2 & 8.4.3	16,732,260	-	249,944	16,982,204	15,846,397	-	2,400	15,848,797
Non Government debt securities	8.2	1,453,504	(462,395)	(129,794)	861,315	1,324,785	(161,683)	(229,404)	933,698
Foreign securities	8.2	1,227,505	(111,455)	2,321	1,118,371	767,437	(117,087)	-	650,350
Units of open-end mutual funds		2,365,414	-	(91,110)	2,274,304	1,885,796	-	(21,920)	1,863,876
		-	-	-	-	69,408	-	320	69,728
		21,778,683	(573,850)	31,361	21,236,194	19,893,823	(278,770)	(248,604)	19,366,449
Total Investments		21,910,988	(573,850)	8,187	21,345,325	19,926,958	(278,770)	(254,702)	19,393,486

Note	2018				2017				
	Cost / Amortized cost	Provision for diminution	Surplus / (Deficit)	Carrying Value	Cost / Amortized cost	Provision for diminution	Surplus / (Deficit)	Carrying Value	
8.2 Investments by segments	(Rupees in '000)								
Federal Government Securities:									
Ijarah Sukuk									
Bal Muajjal									
Other Sukuks									
	8.4.1	8,114,508	-	(62,129)	8,052,379	10,299,102	-	2,400	10,301,502
		2,677,635	-	-	2,677,635	-	-	-	-
		6,040,117	-	312,073	6,352,190	5,547,295	-	-	5,547,295
		16,732,260	-	249,944	16,982,204	15,846,397	-	2,400	15,848,797
Shares:									
Listed companies									
Unlisted companies	8.4.3	1,529,587	(439,782)	(152,968)	936,837	1,305,720	(142,046)	(235,502)	928,172
		56,222	(22,613)	-	33,609	52,200	(19,637)	-	32,563
		1,585,809	(462,395)	(152,968)	970,446	1,357,920	(161,683)	(235,502)	960,735
Non Government Debt Securities									
Unlisted	8.4.4	1,227,505	(111,455)	2,321	1,118,371	767,437	(117,087)	-	650,350
Foreign Securities									
Government securities	8.4.5.1	417,385	-	(42,039)	375,346	332,004	-	(640)	331,364
Non Government Debt securities	8.4.5.2	1,948,029	-	(49,071)	1,898,958	1,553,792	-	(21,280)	1,532,512
		2,365,414	-	(91,110)	2,274,304	1,885,796	-	(21,920)	1,863,876
Units of open-end mutual funds		-	-	-	-	69,408	-	320	69,728
Total Investments		21,910,988	(573,850)	8,187	21,345,325	19,926,958	(278,770)	(254,702)	19,393,486

	2018	2017
	(Rupees in '000)	
8.3 Provision for diminution in value of investments		
8.3.1 Opening balance	278,770	164,728
Charge / reversals		
Charge for the year	308,383	116,449
Reversals for the year	(6,632)	(2,407)
Reversal on disposals	(7,671)	-
	295,080	114,042
Closing Balance	573,850	278,770

Category of classification	2018		2017	
	Non-performing Investment	Provision	Non-performing Investment	Provision
Domestic				
Other assets especially mentioned				
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
	111,455	(111,455)	117,087	(117,087)
	111,455	(111,455)	117,087	(117,087)

8.4 Quality of Available for Sale Securities

Details regarding quality of Available for Sale (AFS) securities are as follows:

8.4.1 Federal Government Securities

- Government guaranteed

Ijarah Sukuk
Bai Muajjal
Others

- Non-government guaranteed

Others

	2018	2017
	Cost	
	----- (Rupees in '000) -----	
	8,114,508	10,299,102
	2,577,635	-
	5,540,117	4,547,295
	16,232,260	14,846,397
	500,000	1,000,000
	16,732,260	15,846,397

8.4.2 Shares - at cost

Listed Companies

Chemicals and pharmaceutical
Fertilizer
Cement
Textile
Power generation and distribution
Oil and gas
Food producers
Paper and board
Automobile assembler
Engineering
Cable and electrical goods
Miscellaneous

	2018	2017
	121,654	117,305
	92,161	107,086
	307,416	261,891
	22,856	22,857
	109,803	101,774
	410,573	338,665
	41,961	41,961
	113,169	106,366
	62,712	74,651
	69,315	46,463
	32,462	40,366
	13,200	13,200
	1,397,282	1,272,585

8.4.3 Unlisted Companies

Takaful Pakistan Limited*
SWIFT

	2018		2017	
	Cost	Break-up value	Cost	Break-up value
	----- (Rupees in '000) -----			
	52,200	29,587	52,200	32,563
	4,022	4,022	-	-
	56,222	33,609	52,200	32,563

* The break-up value of Takaful Pakistan Limited is Rs.6.16 (un-audited) per share as per the available financial statements for the period ended 30 June 2018 and Rs. 5.8 per share as per the financial statements for the year ended 31 December 2017.

8.4.4 Non Government Debt Securities

Unlisted

- A+
- A
- Non-performing

	2018	2017
	Cost	
	----- (Rupees in '000) -----	
	432,000	-
	684,050	650,350
	111,455	117,087
	1,227,505	767,437

8.4.5 Foreign Securities

8.4.5.1 Government Securities

- Oman

	2018		2017	
	Cost	Rating	Cost	Rating
	----- (Rupees in '000) -----			
	417,385	BB+	332,004	BBB-

8.4.5.2 Non Government Debt Securities

Listed

- A+
- A

	2018	2017
	Cost	
	----- (Rupees in '000) -----	
	698,340	556,658
	1,249,689	997,134
	1,948,029	1,553,792

6/11

9. ISLAMIC FINANCING AND RELATED ASSETS

Note	Performing		Non Performing		Total	
	2018	2017	2018	2017	2018	2017
	(Rupees in '000)					
- Murabaha financing	7,287,788	6,835,562	2,604,584	2,768,071	9,892,372	9,603,633
- Advance against murabaha financing	1,021,163	1,928,214	204,339	173,337	1,225,502	2,101,551
- Export refinance under Islamic scheme	1,225,930	1,859,771	87,505	87,505	1,313,435	1,947,276
- Advance against export refinance under Islamic scheme	2,595,099	1,772,129	-	-	2,595,099	1,772,129
- Ijarah assets	1,006,762	2,106,598	656,162	672,412	1,662,924	2,779,010
- Diminishing musharaka financing	36,497,979	36,223,574	972,148	1,180,671	37,470,127	37,404,245
- Advance against diminishing musharaka finance	966,020	998,187	-	-	966,020	998,187
- Running musharaka	650,000	150,000	-	-	650,000	150,000
- Tijarah finance	2,212,594	1,378,591	-	-	2,212,594	1,378,591
- Over due acceptances	391,189	196,045	482,763	502,677	873,952	698,722
- Payment against guarantee	15,081	15,081	47,716	47,715	62,796	62,796
- Payment against documents	37,210	4,701	-	-	37,210	4,701
- Salam financing	-	-	-	22,087	-	22,087
- Advance against salam	9,258,028	7,537,874	1,194,456	1,430,187	10,452,484	8,968,061
- Salam inventory	25	8,160	-	-	25	8,160
- Financing against bills	599,487	556,097	13,735	13,735	613,222	569,832
- Istasna finance	495,331	815,959	408,691	419,454	904,022	1,235,413
- Advance against istasna	7,808,331	5,379,989	348,460	333,400	8,156,791	5,713,369
- Istasna inventory	616,004	30,800	-	-	616,004	30,800
- Qarz-e-Hasna	67,371	43,625	-	-	67,371	43,625
- Rahnuma travel services	-	-	48	81	48	81
Islamic financing and related assets - gross	72,751,392	67,840,937	7,020,606	7,651,332	79,771,998	75,492,269
Provisions for non-performing financing						
- Specific	-	-	(4,614,044)	(4,202,127)	(4,614,044)	(4,202,127)
- General	(145,978)	(87,086)	-	-	(145,978)	(87,086)
Islamic financing and related assets - net of provisions	72,605,414	67,753,851	2,406,562	3,449,205	75,011,976	71,203,056

Note	2018	2017
	(Rupees in '000)	
9.1 Murabaha receivable - gross	10,546,248	10,149,414
Less: Deferred murabaha income	(447,525)	(388,887)
Profit receivable shown in other assets	(206,351)	(156,894)
Murabaha financing	9,892,372	9,603,633
9.1.1 The movement in Murabaha financing during the year is as follows:		
Opening balance	9,603,633	13,811,162
Sales during the year	21,185,237	21,856,380
Adjusted during the year	(20,896,498)	(26,063,909)
Closing balance	9,892,372	9,603,633
9.1.2 Murabaha sale price	10,546,248	10,149,414
Murabaha purchase price	(9,892,372)	(9,603,633)
	653,876	545,781
9.1.3 Deferred murabaha income		
Opening balance	388,887	534,246
Arising during the year	782,842	577,075
Less: Recognised during the year	(724,204)	(722,434)
Closing balance	447,525	388,887
9.2 Ijarah assets		
- Ijarah assets under IFAS 2	1,550,431	2,646,543
- Net investment in Ijarah	112,493	112,493
- Advance against Ijarah	-	19,974
	1,662,924	2,779,010
9.2.1	2018	
	Cost	
	As at Jan 01 2018	As at Dec 31, 2018
	As at Jan 01 2018	As at Dec 31, 2018
	Depreciation	
	As at Jan 01 2018	As at Dec 31, 2018
	As at Jan 01 2018	As at Dec 31, 2018
	(Rupees in '000)	
Plant and machinery	1,624,639	1,220,537
Vehicles	3,882,188	2,627,497
Total	5,506,827	3,848,034
	As at Jan 01 2018	As at Dec 31, 2018
	As at Jan 01 2018	As at Dec 31, 2018
	(Rupees in '000)	
Plant and machinery	2,177,160	1,624,639
Vehicles	5,782,134	3,882,188
Total	7,959,294	5,506,827
	As at Jan 01 2017	As at Dec 31, 2017
	As at Jan 01 2017	As at Dec 31, 2017
	(Rupees in '000)	
Plant and machinery	2,177,160	1,624,639
Vehicles	5,782,134	3,882,188
Total	7,959,294	5,506,827

9.2.2 These represents the Ijarah financing contracts entered up to December 2008. These are accounted for as finance lease where by assets under Ijarah agreements are presented as a receivable at an amount equal to net investment in Ijarah.

	2018	2017
	(Rupees in '000)	
Present value of minimum Ijarah payments:		
- Not later than one year	112,493	112,493
	112,493	112,493

9.3 Particulars of Islamic financing and related assets (Gross)
In local currency
In foreign currencies

	79,123,864	74,338,139
	648,134	1,154,130
	79,771,998	75,492,269

2/11/18

9.4 Islamic financing and related assets include Rs.7,020.606 million (31 December 2016: Rs.7,651.332 million) which have been placed under non-performing status as detailed below:

Category of Classification	2018		2017	
	Classified Islamic financing and related assets	Provision	Classified Islamic financing and related assets	Provision
	----- (Rupees in '000) -----			
Domestic				
Other assets especially mentioned	70,337	-	35,182	-
Substandard	895,155	77,599	1,434,832	133,894
Doubtful	546,398	178,639	653,068	127,265
Loss	5,508,716	4,357,806	5,528,250	3,940,968
	<u>7,020,606</u>	<u>4,614,044</u>	<u>7,651,332</u>	<u>4,202,127</u>

9.5 Particulars of provisions against non-performing Islamic financing and related assets

Note	2018			2017		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
Opening balance	4,202,127	87,086	4,289,213	4,217,953	86,969	4,304,922
Charge for the year	813,543	58,892	872,435	458,907	117	459,024
Reversals for the year	(401,540)	-	(401,540)	(474,945)	-	(474,945)
	412,003	58,892	470,895	(16,038)	117	(15,921)
Amounts written off against provision	9.6 (28)	-	(28)	-	-	-
Amounts charged off / reversed - agriculture financing	(58)	-	(58)	212	-	212
Closing balance	<u>4,614,044</u>	<u>145,978</u>	<u>4,760,022</u>	<u>4,202,127</u>	<u>87,086</u>	<u>4,289,213</u>

9.5.1 The above provision against non-performing Islamic financing has been computed after considering allowable forced sale value (FSV) of collateral amounting to Rs. 1,886.235 (31 December 2017: Rs. 2,597.403) million. The FSV benefit recognised is not allowed for distribution of cash or stock dividend to shareholders and bonus to employees.

9.5.2 The Bank maintains general reserve (provisions) in accordance with the applicable requirements of Prudential Regulations for consumer financing.

9.5.3 Particulars of provisions against non-performing Islamic financing and related assets

	2018			2017		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
In local currency	4,600,449	145,978	4,746,427	4,188,532	87,086	4,275,618
In foreign currency	13,595	-	13,595	13,595	-	13,595
	<u>4,614,044</u>	<u>145,978</u>	<u>4,760,022</u>	<u>4,202,127</u>	<u>87,086</u>	<u>4,289,213</u>

9.6 PARTICULARS OF WRITE OFFS:	2018	2017
	----- (Rupees in '000) -----	
9.6.1 Against provisions	<u>28</u>	<u>-</u>

9.7 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 is given in Annexure-1.

10. FIXED ASSETS	Note	2018	2017
		----- (Rupees in '000) -----	
Capital work-in-progress	10.1	560,353	506,200
Property and equipment	10.2	1,750,225	1,855,376
		<u>2,310,578</u>	<u>2,361,576</u>
10.1 Capital work-in-progress			
Civil works		532,406	491,117
Advance to suppliers		27,947	15,083
Advance for purchase of property - related party		251,680	251,680
Provisions for impairment against advance for purchase of property		(251,680)	(251,680)
		-	-
Total capital work-in-progress		<u>560,353</u>	<u>506,200</u>

E-17

10.2 Property and Equipment

	2018					Total
	Leasehold land	Building on Leasehold land	Furniture and fixture	Electrical, office and computer equipment	Vehicles	
----- (Rupees in '000) -----						
At 01 January 2018						
Cost	707,104	1,198,202	343,950	1,606,603	86,917	3,942,776
Accumulated depreciation	-	(579,543)	(238,969)	(1,216,440)	(52,448)	(2,087,400)
Net book value	<u>707,104</u>	<u>618,659</u>	<u>104,981</u>	<u>390,163</u>	<u>34,469</u>	<u>1,855,376</u>
Year ended December 2018						
Opening net book value	707,104	618,659	104,981	390,163	34,469	1,855,376
Cost:						
Additions	-	5,093	1,419	97,573	-	104,085
Disposals	-	-	(2,270)	(1,107)	(23,934)	(27,311)
Write off	-	(12,200)	(150)	(863)	-	(13,213)
Depreciation:						
Depreciation charge for the year	-	(70,907)	(25,581)	(85,908)	(10,075)	(192,471)
Disposals	-	-	2,086	737	11,855	14,678
Write off	-	8,416	61	604	-	9,081
Closing net book value	<u>707,104</u>	<u>549,061</u>	<u>80,546</u>	<u>401,199</u>	<u>12,315</u>	<u>1,750,225</u>
At 31 December 2018						
Cost	707,104	1,191,095	342,949	1,702,206	62,983	4,006,337
Accumulated depreciation	-	(642,034)	(262,403)	(1,301,007)	(50,668)	(2,256,112)
Net book value	<u>707,104</u>	<u>549,061</u>	<u>80,546</u>	<u>401,199</u>	<u>12,315</u>	<u>1,750,225</u>
Rate of depreciation (%)	-	5% - 10%	10%	10% - 50%	20%	
----- (Rupees in '000) -----						
----- (Rupees in '000) -----						
	2017					Total
	Leasehold land	Building on Leasehold land	Furniture and fixture	Electrical, office and computer equipment	Vehicles	
----- (Rupees in '000) -----						
At 01 January 2017						
Cost	707,104	1,405,998	331,959	1,595,637	78,201	4,118,899
Accumulated depreciation	-	(647,086)	(212,022)	(1,157,354)	(47,937)	(2,064,399)
Net book value	<u>707,104</u>	<u>758,912</u>	<u>119,937</u>	<u>438,283</u>	<u>30,264</u>	<u>2,054,500</u>
Year ended December 2017						
Opening net book value	707,104	758,912	119,937	438,283	30,264	2,054,500
Cost:						
Additions	-	54,017	16,499	40,469	17,931	128,916
Disposals	-	(32,227)	(4,508)	(29,503)	(9,215)	(75,453)
Write off	-	(229,586)	-	-	-	(229,586)
Depreciation:						
Depreciation charge for the year	-	(100,656)	(30,682)	(84,965)	(11,288)	(227,591)
Disposals	-	21,849	3,735	25,879	6,777	58,240
Write off	-	146,350	-	-	-	146,350
Closing net book value	<u>707,104</u>	<u>618,659</u>	<u>104,981</u>	<u>390,163</u>	<u>34,469</u>	<u>1,855,376</u>
At 31 December 2017						
Cost	707,104	1,198,202	343,950	1,606,603	86,917	3,942,776
Accumulated depreciation	-	(579,543)	(238,969)	(1,216,440)	(52,448)	(2,087,400)
Net book value	<u>707,104</u>	<u>618,659</u>	<u>104,981</u>	<u>390,163</u>	<u>34,469</u>	<u>1,855,376</u>
Rate of depreciation (%)	-	5% - 10%	10%	10% - 50%	20%	

10.3 Disposal of assets - Related Party

Details of disposal of fixed assets made to any related party otherwise than through a regular auction are as follows:

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
----- (Rupees in '000) -----						
Vehicles						
Mercedes Benz	20,152	10,076	10,076	10,076	As per Bank's policy	Mr. Shafqaat Ahmed - Ex CEO
Corolla Allis Grande	2,453	450	2,003	2,003	As per Bank's policy	Mr. Shafqaat Ahmed - Ex CEO
31 December 2018	22,605	10,526	12,079	12,079		

10.4 Property and equipment include assets that are temporarily idle amounting to Rs.878.3 (31 December 2017: Rs.878.7) million.

10.5 Fully depreciated property and equipment

Details of property and equipment that are fully depreciated and are still in use are as follows:

	2018	2017
	----- (Rupees in '000) -----	
Building on leasehold land	197,555	126,045
Furniture and fixture	132,102	49,520
Electrical, office and computer equipment	974,997	854,442
Vehicles	42,472	21,051
	<u>1,347,126</u>	<u>1,051,058</u>

11 INTANGIBLE ASSETS

	Note	2018	2017
		----- (Rupees in '000) -----	
Computer software and core deposits	11.1 & 11.2	793,599	941,315
Brand	11.4	383,145	383,145
Goodwill		396,117	396,117
		<u>1,572,861</u>	<u>1,720,577</u>

11.1

	2018		
	Computer software	Core Deposits	Total
	----- (Rupees in '000) -----		
At 01 January 2018			
Cost	757,589	1,386,000	2,143,589
Accumulated amortization	(669,712)	(532,562)	(1,202,274)
Net book value	<u>87,877</u>	<u>853,438</u>	<u>941,315</u>
Year ended December 2018			
Opening net book value	87,877	853,438	941,315
Cost:			
Additions			
- through acquisitions / purchased	38,593	-	38,593
Accumulated Amortization:			
Amortization charge for the year	(53,326)	(132,983)	(186,309)
Closing net book value	<u>73,144</u>	<u>720,455</u>	<u>793,599</u>
At 31 December 2018			
Cost	796,182	1,386,000	2,182,182
Accumulated amortization	(723,038)	(665,545)	(1,388,583)
Net book value	<u>73,144</u>	<u>720,455</u>	<u>793,599</u>
Rate of amortization (%)	20% - 33%	8.33% - 10%	
Useful life	3 to 5 Years	10 to 12 Years	

2017

	Computer software	Core Deposits	Total
	(Rupees in '000)		
At 01 January 2017			
Cost	721,184	1,386,000	2,107,184
Accumulated amortization	(614,032)	(387,879)	(1,001,911)
Net book value	107,152	998,121	1,105,273
Year ended December 2017			
Opening net book value	107,152	998,121	1,105,273
Cost:			
Additions			
- through acquisitions / purchased	36,405	-	36,405
Accumulated Amortization:			
Amortization charge for the year	(55,680)	(144,683)	(200,363)
Disposals	-	-	-
Closing net book value	<u>87,877</u>	<u>853,438</u>	<u>941,315</u>
At 31 December 2017			
Cost	757,589	1,386,000	2,143,589
Accumulated amortization	(669,712)	(532,562)	(1,202,274)
Net book value	<u>87,877</u>	<u>853,438</u>	<u>941,315</u>
Rate of amortization (%)	<u>20% - 33%</u>	<u>8.33% - 10%</u>	
Useful life	<u>3 to 5 Years</u>	<u>10 to 12 Years</u>	

- 11.2 Core deposit is an intangible asset acquired by the Bank during its amalgamation with Ex-Emirates Global Islamic Bank Limited and Ex-Burj Bank Limited. The value of core deposit has been valued by independent valuer. The carrying amount of core deposits is Rs. 720.455 (31 December 2017: 853.438) million with a remaining amortization period of 8 years.
- 11.3 Intangible assets include computer software that are fully amortized and are still in use aggregating to Rs.637.966 (31 December 2017: Rs.549.992) million.
- 11.4 Intangible assets include brand having indefinite useful life with a carrying amount of Rs.383.145 (31 December 2017: Rs.383.145) million. This represents Bank's ability to attract new customers and generate superior returns from existing customers due to brand recognition. The management considers that the benefits from usage of brand will be available to the Bank for indefinite time period.
- 11.5 During the year, the management has assessed the fair value of the Bank which exceeds its breakup value. IAS 36 "Impairment of assets" requires that an impairment loss shall be recognised for a cash-generating unit if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). Accordingly, no impairment loss has been recognised in these financial statements on the Intangible assets.

The key assumptions used for the purpose of the projections are as under:

- Discount rate - Pre tax 19.75% per annum

Discount rates

Discount rates take into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Bank. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a post-tax discount rate.

Terminal growth value

Terminal growth rate is a stable growth rate at which an asset will continue to grow perpetually. It is calculated as average price to book value of comparable companies i.e. 0.87 multiplied with the year end book value of the Bank.

Sensitivity to changes in assumptions

Management believes that after considering the various scenarios no reasonable possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

		2018			
		At Jan 01 2018	Recognised in P&L A/C	Recognised in OCI	At Dec 31 2018
		----- (Rupees in '000) -----			
12. DEFERRED TAX ASSETS					
Deductible Temporary Differences on:					
- Tax losses carried forward		2,055,194	(83,041)	-	1,972,153
- Minimum tax		496,202	8,221	-	504,423
- Post retirement employee benefits		17,521	-	(7,979)	9,542
- Provision against assets		905,313	161,199	-	1,066,512
		3,474,230	86,379	(7,979)	3,552,630
Taxable Temporary Differences on:					
- Surplus on revaluation of investments		87,011	8,111	(97,988)	(2,866)
- Surplus on revaluation of non-banking assets - net of tax effect of incremental depreciation transferred to retained earning		(179,680)	-	111	(179,569)
- Accelerated tax depreciation		(142,576)	11,290	-	(131,286)
		(235,245)	19,401	(97,877)	(313,721)
		3,238,985	105,780	(105,856)	3,238,909

		2017			
		At Jan 01 2017	Recognised in P&L A/C	Recognised in OCI	At Dec 31 2017
		----- (Rupees in '000) -----			
Deductible Temporary Differences on:					
- Tax losses carried forward		1,837,553	217,641	-	2,055,194
- Minimum tax		432,702	63,500	-	496,202
- Post retirement employee benefits		14,715	-	2,806	17,521
- Provision against assets		969,399	(64,086)	-	905,313
		3,254,369	217,055	2,806	3,474,230
Taxable Temporary Differences on:					
- Surplus on revaluation of investments		(31,761)	-	118,772	87,011
- Surplus on revaluation of non-banking assets - net of tax effect of incremental depreciation transferred to retained earning		(186,171)	-	6,491	(179,680)
- Accelerated tax depreciation		(163,300)	20,724	-	(142,576)
		(381,232)	20,724	125,263	(235,245)
		2,873,137	237,779	128,069	3,238,985

12.1	The deferred tax asset has been recognised in these financial statements as the management estimates that sufficient taxable profits will be available in future years against which the unused carry forward tax losses and other deductible temporary differences can be utilised. Deferred tax asset on minimum tax has been recognised in these financial statements based on availability of taxable profits to utilize the aforesaid asset. The estimates of future taxable profits are based on financial projections of the Bank for the next five years approved by the Board. The projections involve certain key assumptions underlying the estimation of future taxable profits. Key assumptions include income tax rates, cost to income ratio, deposit composition, Kibor rates, growth of deposits and Islamic financing, investment returns, product mix of Islamic financing and related assets, potential provision against assets and branch expansion plan. Any significant change in the key assumptions may have an effect on the realisability of the deferred tax asset.				
13. OTHER ASSETS				2018	2017
			Note	----- (Rupees in '000) -----	
Profit / return accrued in local currency				2,222,222	2,061,371
Profit / return accrued in foreign currency				15,330	12,399
Advances, deposits, advance rent and other prepayments				676,239	724,044
Advance taxation (payments less provisions)				314,565	351,742
Receivable in respect of defined benefit plan				21,897	12,579
Receivable against sale of shares				8,980	72,739
Non-banking assets acquired in satisfaction of claims		13.1.1		1,661,527	1,800,544
Branch adjustment account				64,890	21,919
Unrealised gain on re-measurement of forward exchange contracts				204,872	140,174
Stamps and stationery				4,925	5,722
Acceptances				3,737,369	1,991,792
Others				248,218	232,370
				9,181,034	7,427,395
Less: Provision held against other assets		13.2		(148,305)	(148,305)
Other assets (net of provision)				9,032,729	7,279,090
Surplus on revaluation of non-banking assets acquired in satisfaction of claims		13.1.1		511,691	512,462
Other assets - total				9,544,420	7,791,552
13.1	Market value of non-banking assets acquired in satisfaction of claims			2,247,402	2,361,522

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13.1.1 The non-banking assets acquired in satisfaction of claims have been revalued by professionally qualified valuers listed on Pakistan Banking Association panel of valuers namely Oceanic Surveyors Private Limited, Al-Noor Consultants & Evaluators, Professional Associates, Harvester Services Private Limited, Asrem Private Limited and Medallaion Services Private Limited.

13.1.2 Non-banking assets acquired in satisfaction of claims	Note	2018 ----- (Rupees in '000) -----	2017
Opening balance		2,313,006	2,351,512
Additions		-	248,000
Revaluation surplus/deficit - net		(316)	(18,548)
Disposals		(113,804)	(242,291)
Depreciation for the year		(25,667)	(25,667)
Closing balance		<u>2,173,219</u>	<u>2,313,006</u>

13.1.3 Gain/Loss on Disposal of Non-banking assets acquired in satisfaction of claims

Disposal Proceeds	122,000	275,000
less		
- Cost	(113,804)	(242,291)
Gain on disposal	<u>8,196</u>	<u>32,709</u>

13.2 Provision held against other assets

Non-performing receivables	148,059	148,059
Others	246	246
	<u>148,305</u>	<u>148,305</u>

13.2.1 Movement in provision held against other assets

Opening balance	148,305	144,520
Charge for the year	-	8,381
Reversal during the year	-	(4,596)
	-	3,785
Closing balance	<u>148,305</u>	<u>148,305</u>

14. **BILLS PAYABLE**

In Pakistan	3,697,477	3,658,120
Outside Pakistan	-	-
	<u>3,697,477</u>	<u>3,658,120</u>

DUE TO FINANCIAL INSTITUTIONS

Secured

Borrowings from State Bank of Pakistan
Under export refinance scheme

15.1 3,703,399 3,209,400

Unsecured

Overdrawn nostro accounts

132,623 -
3,836,022 3,209,400

15.1 The range of profit rates on these borrowings is 1.0% to 2.0% (31 December 2017: 1.0% to 2.0%) per annum. The maximum limit approved by SBP to the Bank under Islamic Export Refinance Scheme is Rs.4.65 (31 December 2017: Rs.4.65) billion. The above contracts will mature starting from 19 January 2019 to 02 July 2019.

15.2 Particulars of due to financial institutions with respect to currencies	2018 ----- (Rupees in '000) -----	2017
In local currency	3,703,399	3,209,400
In foreign currency	132,623	-
	<u>3,836,022</u>	<u>3,209,400</u>

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16. 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	20,537,128	3,462,711	23,999,839	18,521,802	3,586,152	22,107,954
Savings deposits	40,960,738	4,852,170	45,812,908	46,407,893	2,927,353	49,335,246
Term deposits	19,551,887	927,952	20,479,839	17,810,291	719,756	18,530,047
Others	2,035,387	-	2,035,387	1,359,486	-	1,359,486
	83,085,140	9,242,833	92,327,973	84,099,472	7,233,261	91,332,733
Financial Institutions						
Current deposits	30,254	19,405	49,659	80,511	7,776	88,287
Savings deposits	6,042,698	631	6,043,329	4,449,396	459	4,449,855
Term deposits	1,494,050	-	1,494,050	752,050	-	752,050
	7,567,002	20,036	7,587,038	5,281,957	8,235	5,290,192
	90,652,142	9,262,869	99,915,011	89,381,429	7,241,496	96,622,925

16.1 Composition of deposits

	2018	2017
	----- (Rupees in '000) -----	
- Individuals	48,860,050	44,489,966
- Government (Federal and Provincial)	3,495,032	2,296,551
- Public Sector Entities	862,909	6,208,340
- Banking Companies	1,475,994	900
- Non-Banking Financial Institutions	6,111,054	5,289,292
- Private Sector	39,109,902	38,337,876
	99,915,011	96,622,925

16.2 This includes deposits eligible to be covered under insurance arrangements amounting to Rs.66,096 (31 December 2017: Rs.56,473) million.

17. SUBORDINATED DEBT

	Note	2018	2017
		----- (Rupees in '000) -----	
Tier II mudaraba sukuk - first issue	17.1	857,136	1,142,852
Tier II mudaraba sukuk - second issue	17.2	1,500,000	1,500,000
Additional Tier I capital	17.3	1,389,241	-
		3,746,377	2,642,852

17.1 In September 2014, the Bank issued regulatory Shariah compliant unsecured, subordinated privately placed Tier-II Sukuk (First Issue) based on Mudaraba of Rs.2 Billion as instruments of redeemable capital under section 66 of the Companies Act, 2017. A brief description of Tier-II Sukuk (First Issue) is as follows:

Credit Rating	A- by PACRA (The Pakistan Credit Rating Agency Limited)
Issue Date	26 September 2014
Tenor	7 years from the issue date.
Profit payment frequency	Semi-annually in arrears
Redemption	Semi-annually
Expected Periodic Profit Amount (Mudaraba Profit Amount)	Mudaraba Profit is computed under the General Depositors' Pool on the basis of Profit Sharing Ratio (PSR) and monthly weightages announced by the Bank. Profit rate is 6 Month KIBOR + 1.25% per annum.
Call Option	The Bank may call Tier-II Sukuk with prior approval of SBP after completion of five years from the date of issue.
Loss Absorbency	The Tier-II Sukuk, at the option of the SBP, will be fully and permanently converted into common shares upon the occurrence of a Point of Non-Viability (PONV) trigger event as determined by SBP or for any other reason as may be directed by SBP.
Lock-in-Clause	Profit and/or redemption amount can be held back in respect of the Tier-II Sukuk, if such payment will result in a shortfall in the Bank's Minimum Capital Requirement (MCR) or Capital Adequacy Ratio (CAR) requirement.

17.2 In August 2017; the Bank issued regulatory Shariah compliant unsecured, subordinated privately placed Tier-II Sukuk (Second Issue) based on Mudaraba of Rs.1.5 Billion as instruments of redeemable capital under section 66 of the Companies Act, 2017. A brief description of Tier-II Sukuk (Second Issue) is as follows:

Credit Rating	A by JCR-VIS Credit Rating Company Limited.
Issue Date	August 22, 2017
Tenor	7 years from the issue date.
Profit payment frequency	Semi-annually in arrears
Redemption	Bullet payment at the end of the seventh year.
Expected Periodic Profit Amount (Mudaraba Profit Amount)	Mudaraba Profit is computed under the General Depositors' Pool on the basis of Profit Sharing Ratio (PSR) and monthly weightages announced by the Bank. Profit rate is 6 Months KIBOR + 0.75% per annum.
Call Option	The Bank may call Tier-II Sukuk with prior approval of SBP after completion of five years from the date of issue.
Loss Absorbency	The Tier-II Sukuk, at the option of the SBP, will be fully and permanently converted into common shares upon the occurrence of a Point of Non-Viability (PONV) trigger event as determined by SBP or for any other reason as may be directed by SBP.
Lock-in-Clause	Profit amount can be held back in respect of the Tier-II Sukuk, if such payment will result in a shortfall in the Bank's Minimum Capital Requirement (MCR) or Capital Adequacy Ratio (CAR) requirement.

- 17.3 In December 2018, the Bank issued regulatory Shariah compliant unsecured, subordinated privately placed Additional Tier-I (ADT-1) Capital based on Mudaraba of Rs.1.4 Billion as instrument of redeemable capital under section 66 of the Companies Act, 2017. A brief description of Additional Tier-I (ADT-1) Capital is as follows:

Credit Rating	Not rated
Issue Date	26 December 2018
Tenor	Perpetual
Profit payment frequency	Monthly in arrears.
Redemption	Perpetual
Expected Periodic Profit Amount (Mudaraba Profit Amount)	Mudaraba Profit is computed under the General Depositors' Pool on the basis of Profit Sharing Ratio (PSR) and monthly weightages announced by the Bank. Profit rate is 1 Year KIBOR + 2.50% per annum.
Call Option	The Bank may call Tier-II Sukuk with prior approval of SBP after completion of five years from the date of issue.
Loss Absorbency	The ADT-1 Capital, at the option of the SBP, will be fully and permanently converted into common shares upon the occurrence of a Point of Non-Viability (PONV) trigger event as determined by SBP or for any other reason as may be directed by SBP.
Lock-in-Clause	Profit and/or redemption amount can be held back in respect of the ADT-1 Capital, if such payment will result in a shortfall in the Bank's Minimum Capital Requirement (MCR) or Capital Adequacy Ratio (CAR) requirement.

18. OTHER LIABILITIES	Note	2018 ----- (Rupees in '000) -----	2017
Return on deposits and borrowings:			
- payable in local currency		614,569	521,698
- payable in foreign currencies		4,334	2,643
Accrued expenses		325,160	323,905
Advance payments		636,790	728,936
Charity fund balance	18.1	46,736	76,218
Security deposits against ijarah		822,737	1,213,895
Payable against purchase of listed shares		66,273	182,324
Takaful payable against ijarah and diminishing musharakah assets		254,756	213,935
Acceptances		3,737,369	1,991,792
Others		404,345	501,529
		<u>6,913,069</u>	<u>5,756,875</u>
Charity Fund			
Opening balance		76,218	49,928
Additions during the period			
Received from customers on account of delayed payment		51,570	44,793
Dividend purification amount		1,773	-
Non-shariah compliant income		-	14,433
Others		417	-
		53,760	59,226
Payments / utilization during the period			
Education		(16,007)	(7,801)
Health		(32,824)	(13,607)
Mass wedding		(1,530)	(1,350)
Ramzan rashan drive		-	(3,313)
Infrastructure and development		(7,500)	-
Others		(25,382)	(6,865)
		<u>(83,243)</u>	<u>(32,936)</u>
Closing balance		<u>46,735</u>	<u>76,218</u>

19. SHARE CAPITAL

19.1 Authorized Capital

2018	2017		2018	2017
Number of shares			----- (Rupees in '000) -----	
<u>2,000,000,000</u>	<u>1,800,000,000</u>	Ordinary shares of Rs.10 each	<u>20,000,000</u>	<u>18,000,000</u>

19.2 Issued, subscribed and paid up capital

2018	2017		2018	2017
Number of shares			----- (Rupees in '000) -----	
450,000,000	450,000,000	Ordinary shares of Rs.10 each fully paid in cash	4,500,000	4,500,000
923,962,760	923,962,760	Issued for consideration other than cash	9,239,628	9,239,628
<u>1,373,962,760</u>	<u>1,373,962,760</u>		<u>13,739,628</u>	<u>13,739,628</u>
-	-	Less: Discount on issue of shares	(632,766)	(632,766)
<u>1,373,962,760</u>	<u>1,373,962,760</u>		<u>13,106,862</u>	<u>13,106,862</u>

19.3 Shareholders having more than 10% shareholding in 2018 and 2017

Name of shareholder	2018		2017	
	Number of shares held	Percentage of shareholding	Number of shares held	Percentage of shareholding
AlBaraka Islamic Bank (Bahrain) B.S.C. (c) Islamic Corporation for the Development of the Private Sector	812,446,082	59.13%	812,446,582	59.13%
Mal Al Khaleej Investment L.L.C.	162,847,717	11.85%	162,847,717	11.85%
	158,360,039	11.53%	158,360,039	11.53%

20. SURPLUS ON REVALUATION OF ASSETS

Surplus / (deficit) on revaluation of:

	Note	2018	2017
		----- (Rupees in '000) -----	
- Available for sale securities	8.1	31,361	(248,604)
- Non-banking assets acquired in satisfaction of claims	20.1	512,040	512,810
		543,401	264,206

Deferred tax on surplus / (deficit) on revaluation of:

- Available for sale securities		(10,976)	87,011
- Non-banking assets acquired in satisfaction of claims	20.1	(179,213)	(179,483)
		(190,189)	(92,472)
		<u>353,212</u>	<u>171,734</u>

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2018 2017
 Note ----- (Rupees in '000) -----

**20.1 Surplus on revaluation of non-banking assets
 acquired in satisfaction of claims**

Surplus on revaluation as at January 1	512,810	531,811
Recognised during the year	-	26,362
Realised on disposal during the year - net of deferred tax	(316)	(44,909)
Transferred to accumulated loss in respect of incremental depreciation charged during the year - net of deferred tax	(295)	(295)
Related deferred tax liability on incremental depreciation charged during the year	(159)	(159)
Surplus on revaluation as at December 31	<u>512,040</u>	<u>512,810</u>
Less: related deferred tax liability on:		
- revaluation as at January 1	(179,483)	(186,133)
- revaluation recognised during the year	-	(9,227)
- surplus realised on disposal during the year	111	15,718
- incremental depreciation charged during the year	159	159
	<u>(179,213)</u>	<u>(179,483)</u>
	<u>332,827</u>	<u>333,327</u>

21 CONTINGENCIES AND COMMITMENTS

- Guarantees	21.1	6,102,780	7,115,257
- Commitments	21.2	24,431,754	17,225,950
		<u>30,534,534</u>	<u>24,341,207</u>

21.1 Guarantees:

Financial guarantees	243,587	274,807
Performance guarantees	4,203,683	4,887,914
Other guarantees	1,655,510	1,952,536
	<u>6,102,780</u>	<u>7,115,257</u>

21.2 Commitments:

Documentary credits and short-term trade-related transactions			
- letters of credit		6,681,946	8,082,529
- Shipping guarantees		-	2,650
		<u>6,681,946</u>	<u>8,085,179</u>
Commitments in respect of forward foreign exchange contracts	21.2.1	17,738,138	9,130,270
Commitments for acquisition of operating fixed assets		11,670	10,501
		<u>24,431,754</u>	<u>17,225,950</u>

sum

2018 2017
 ----- (Rupees in '000) -----

21.2.1 Commitments in respect of forward foreign exchange contracts

Purchase	10,892,346	5,582,401
Sale	6,845,792	3,547,869
	<u>17,738,138</u>	<u>9,130,270</u>

21.3 Other Contingencies

21.3.1 The Bank has received various assessment orders from Deputy Commissioner Inland Revenue (DCIR) stating that the Bank has short paid Federal Excise Duty (FED) on specific income of the Bank for the years 2009 to 2011 amounting to Rs. 86.5 million and Rs. 34.575 million in respect of year 2012. In response to the Bank's appeal, Appellate Tribunal Inland Revenue (ATIR) has set aside the orders relating to years 2009 to 2011 for fresh adjudication and the said matter is pending decision for further proceedings. For year 2012, Commissioner Inland Revenue (CIR) Appeal has dropped the proceedings amounting to Rs.8.991 million. Accordingly, the Bank has filed the appeal before ATIR against the order of CIR Appeal amounting to Rs.25.584 million.

In respect of assessments of ex - Burj Bank Limited (now AlBaraka Bank (Pakistan) Limited), the taxation authorities have raised a demand of Rs.1.9 million on account of minimum tax in respect of tax year 2011 which has been challenged by the management and is currently pending before the ATIR.

21.3.2 The Bank has filed appeals before ATIR against the orders in respect of assessment years 2001-2002, 2002-2003 and tax years 2004 to 2011. Moreover, the Income Tax Department has also filed appeals before ATIR against the orders in respect of assessment years 2001-2002, 2002-2003 and tax year 2004 to 2011 issued by CIR Appeals. Appeals filed by the Bank and the Income Tax Department are pending for decision. The management of the Bank is confident that the appeals are likely to be decided in favor of the Bank and, hence no provision has been made in these financial statements for the income tax claims amounting to Rs.116.512 (31 December 2017: Rs.116.512)

22 PROFIT / RETURN EARNED ON ISLAMIC FINANCING AND RELATED ASSETS, INVESTMENTS AND PLACEMENTS

On:

a) Islamic financing and related assets	6,395,523	5,318,191
b) Investments	1,178,552	1,105,136
c) Due from financial institutions	445,033	222,926
d) Balances with banks	12,502	71,317
	<u>8,031,610</u>	<u>6,717,570</u>

23 RETURN ON DEPOSITS AND OTHER DUES EXPENSED

Deposits	3,512,413	2,780,128
Borrowings	41,588	109,056
Subordinated debt	200,204	131,799
On export refinance under Islamic scheme	60,627	56,738
	<u>3,814,832</u>	<u>3,077,721</u>

24 FEE & COMMISSION INCOME

Branch banking customer fees	89,376	78,707
Consumer finance related fees	86,439	77,521
Debit card related fees and income	61,261	58,873
Investment banking fees	119,392	101,070
Commission on trade	224,668	216,063
Commission on guarantees	42,460	72,714
Commission on cash management	2,228	1,391
Commission on remittances including home remittances	10,097	8,836
Commission on bancatakaful	33,549	44,556
Others	13,331	8,412
	<u>682,801</u>	<u>668,143</u>

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ALBARAKA BANK (PAKISTAN) LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 ----- (Rupees in '000) -----	2017
25 LOSS ON SECURITIES			
Realised	25.1	(8,156)	(4,659)
Unrealised - held for trading	8.1	<u>(23,174)</u>	<u>(6,098)</u>
		<u><u>(31,330)</u></u>	<u><u>(10,757)</u></u>
25.1 Realised gain / (loss) on:			
Federal Government securities		3,721	(1,234)
Shares		(12,370)	(3,425)
Mutual fund		493	-
		<u>(8,156)</u>	<u>(4,659)</u>
26 OTHER INCOME			
Rent on property		14,930	1,147
Gain on sale of fixed assets-net		1,631	59,170
Gain on sale of non banking assets		<u>8,196</u>	<u>32,709</u>
		<u><u>24,757</u></u>	<u><u>93,026</u></u>
27 OPERATING EXPENSES			
Compensation expense			
Salaries, allowances, etc.		1,792,003	1,763,780
Charge for defined benefit / contribution plan and other benefits		134,868	111,939
		1,926,871	1,875,719
Property expense			
Rent & taxes		723,449	792,908
Insurance		22,389	30,190
Utilities cost		186,853	191,238
Security (including guards)	27.1	202,026	209,858
Repair and maintenance (including janitorial charges)	27.1	80,728	79,488
Depreciation		70,907	100,655
Depreciation - non banking assets		25,667	25,668
Others		10,275	9,386
		1,322,294	1,439,391
Information technology expenses			
Software maintenance		169,175	172,074
Hardware maintenance		68,458	59,649
Depreciation		11,279	13,940
Amortization		53,326	55,680
Network charges		74,523	82,180
Others		31,332	34,033
		408,093	417,556
Other operating expenses			
Directors' fees and allowances		46,595	41,252
Fees and allowances to Shariah Board		3,161	3,446
Legal and professional charges		51,689	48,370
Outsourced services costs	27.1	154,798	186,407
Travelling and conveyance		23,008	29,105
NIFT clearing charges		14,354	16,134
Depreciation		110,286	112,995
Amortization		132,983	144,683
Takaful and registration of Ijarah		91,841	137,641
Training and development		11,489	6,183
Postage and courier charges		17,278	19,996
Communication		48,350	53,008
Stationery and printing	27.1	64,381	60,046
Marketing, advertisement and publicity		37,665	76,964
Repair and maintenance		40,639	47,110
Auditors' remuneration	27.2	17,852	11,804
Depositor's protection		45,178	-
Brokerage, commission and bank charges		158,836	100,900
Others		54,890	100,337
		1,125,273	1,196,381
		<u><u>4,782,531</u></u>	<u><u>4,929,047</u></u>

27.1 These amounts include outsourcing services with regards to janitorial services, security services, contractual employees over third party contracts and printing activities.

			Note	2018	2017	(Rupees in '000)	
				-----	-----	-----	-----
27.2	Auditors' remuneration						
	Audit fee			2,512	2,392		
	Fee for limited scope review-half yearly			756	720		
	Fee for audit of group reporting			4,293	3,712		
	Fee for other statutory certifications			1,603	2,229		
	Fee for audit of AJK and Gilgit Region branches			424	404		
	Special certifications and sundry advisory services			5,950	650		
	Tax services			40	-		
	Sindh sales tax			1,246	809		
	Out-of-pocket expenses			1,028	888		
				<u>17,852</u>	<u>11,804</u>		
28	OTHER CHARGES						
	Penalties imposed by State Bank of Pakistan			<u>5,998</u>	<u>24,317</u>		
29	PROVISIONS AND WRITE OFFS - NET						
	Provisions for diminution in value of investments	8.3.1		295,080	114,042		
	Provision / (reversal) against non-performing Islamic financing and rel	9.5		470,837	(15,709)		
	Provision against other assets			-	3,785		
	Fixed assets write off			4,112	83,236		
				<u>770,029</u>	<u>185,354</u>		
30	TAXATION						
	Current			(114,496)	(96,143)		
	Deferred			105,780	237,778		
				<u>(8,716)</u>	<u>141,635</u>		
31	BASIC AND DILUTED LOSS PER SHARE						
	Loss after taxation for the year			<u>(253,728)</u>	<u>(389,438)</u>		
				--- Number of shares ---			
	Weighted average number of ordinary shares			<u>1,373,962,760</u>	<u>1,373,962,760</u>		
	Basic / diluted loss per share - Rupee			<u>(0.18)</u>	<u>(0.28)</u>		
32	CASH AND CASH EQUIVALENTS						
	Cash and balance with treasury banks			14,934,799	8,915,585		
	Balance with other banks			854,171	2,932,165		
				<u>15,788,970</u>	<u>11,847,750</u>		

242

33 Reconciliation of movement of liabilities to cash flow arising from financing activities

	Subordinated debt	
	2018	2017
	----- (Rupees in '000) -----	
Balance as at 01 January 2018	2,642,852	1,428,568
Change from financing cash flows		
Repayment of Tier II mudaraba sukuk-first issue	(285,716)	(285,716)
Issuance of Tier II mudaraba sukuk-second issue	-	1,500,000
Receipt of Additional Tier I Capital	1,389,241	-
Balance as at December 31, 2018	3,746,377	2,642,852

34 STAFF STRENGTH

	----- Number -----	
Permanent	1,691	1,591
On bank contract	340	337
Consultants	1	1
Bank's own staff strength at the end of the year	2,032	1,929

34.1 In addition to the above, 552 (31 December 2017: 626) employees of outsourcing services companies were assigned to the Bank as at the end of the year to perform services other than guarding and janitorial services.

35 DEFINED BENEFIT PLAN

35.1 General description and funding policy

The Bank operates funded gratuity scheme for all its permanent employees. The benefits under the gratuity scheme are payable on retirement at the age of 60 or earlier cessation of service, in lump sum. The benefit is equal to one month's last drawn basic salary for each completed year of service, subject to a minimum of three years of service. The bank contributes to the gratuity fund based on the independent actuarial valuations.

35.2 Number of Employees under the scheme

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

	2018	2017
	----- Number -----	
- Gratuity fund	1,712	1,405

35.3 Principal actuarial assumptions

The actuarial valuations were carried out as at 31 December 2018 using the following significant assumptions:

	Note	2018 ----- Per annum -----	2017 -----
Discount rate		13.75%	9.25%
Expected rate of return on plan assets		13.75%	9.75%
Expected rate of salary increase		8.75%	7.75%
35.4 Reconciliation of (receivable from) / payable to defined benefit plans			
Present value of obligations		240,391	260,828
Fair value of plan assets		<u>(262,288)</u>	<u>(273,407)</u>
		<u>(21,897)</u>	<u>(12,579)</u>
35.5 Movement in defined benefit obligations			
Obligations at the beginning of the year		260,828	219,727
Current service cost		56,158	44,145
Interest cost		21,092	18,906
Benefits paid by the Bank		(65,619)	(19,321)
Transferred within the year		3,452	-
Past service cost / other adjustment		6,683	-
Re-measurement gain		<u>(42,203)</u>	<u>(2,629)</u>
Obligations at the end of the year		<u>240,391</u>	<u>260,828</u>
35.6 Movement in fair value of plan assets			
Fair value at the beginning of the year		273,407	272,058
Expected return on plan assets		24,539	23,947
Contribution by the Bank - net		49,368	7,369
Benefits paid		(65,619)	(19,321)
Re-measurements: Net return on plan assets over interest income loss	35.8.2	<u>(19,407)</u>	<u>(10,646)</u>
Fair value at the end of the year		<u>262,288</u>	<u>273,407</u>
35.7 Movement in receivable under defined benefit schemes			
Opening balance		(12,579)	(52,331)
Charge for the year		62,846	39,104
Contribution by the Bank - net		(49,368)	(7,369)
Re-measurement loss / (gain) recognised in OCI during the year	35.8.2	<u>(22,796)</u>	8,017
Closing balance		<u>(21,897)</u>	<u>(12,579)</u>
35.8 Charge for defined benefit plans			
35.8.1 Cost recognised in profit and loss			
Current service cost		56,158	44,145
Transferred within the year		3,452	-
Past service cost / other adjustments		6,683	-
Net interest on defined benefit asset / liability		<u>(3,447)</u>	<u>(5,041)</u>
		<u>62,846</u>	<u>39,104</u>
35.8.2 Re-measurements recognised in OCI during the year			
Loss / (gain) on obligation			
- Financial assumptions		(27,886)	-
- Experience adjustment		(14,317)	(2,629)
Return on plan assets over interest income		19,407	10,646
Total re-measurements recognised in OCI		<u>(22,796)</u>	<u>8,017</u>

	2018	2017
	----- (Rupees in '000) -----	
35.9 Components of plan assets		
Cash and cash equivalents - net	221,766	230,518
Units of Mutual Funds	40,522	42,889
35.10 Sensitivity analysis		
1% increase in discount rate	215,834	234,230
1% decrease in discount rate	269,218	292,366
1 % increase in expected rate of salary increase	270,885	293,774
1 % decrease in expected rate of salary increase	226,268	232,677
35.11 Expected contributions to be paid to the funds in the next financial year	45,336	37,760
35.12 Expected charge for the next financial year	45,336	37,760
35.13 Maturity profile		
Weighted average duration of the defined benefit obligation		
Distribution of timing of benefit payments	11.16 years	11.05 years
Less than 12 months	8,607	25,726
Between 1 year and 5 years	54,634	33,329
Between 6 and 10 years	138,601	102,932
Above 10 years	1,830,910	828,228

35.14 Risks associated with defined benefit plan

- Investment risks:

The risk arises when the actual performance of the investments is lower than expectation and thus creating a shortfall in the funding objectives.

- Longevity risks:

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 risk:

The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation.

36 DEFINED CONTRIBUTION PLAN

The Bank also operates a recognised contributory provident fund for all permanent employees. Equal monthly contributions are made, both by the Bank and the employees, to the fund at a rate of 10% of basic salary.

	2018	2017
	----- (Rupees in '000) -----	
Contribution from the Bank	72,022	72,835
Contribution from the employees	72,022	72,835
	144,044	145,670

6/11

37 COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive Officer		Directors		Executives*	
	2018	2017	2018	2017	2018	2017
	----- (Rupees in '000) -----					
Fees and Allowances etc.	-	-	46,595	41,252	-	-
Managerial Remuneration						
i) Fixed	18,669	29,921	-	-	486,816	453,099
ii) Cash Bonus / Awards	6,062	1,807	-	-	40,596	31,082
Charge for defined benefit plan	1,527	401	-	-	30,588	3,863
Contribution to defined contribution plan	1,832	2,992	-	-	41,812	40,340
Rent & house maintenance	4,845	5,069	-	-	140,121	148,916
Utilities	1,615	1,690	-	-	46,242	43,069
Medical	1,615	1,690	-	-	48,039	44,609
Conveyance	666	696	-	-	56,480	71,452
Others	5,368	3,641	-	-	161,376	126,395
Total	42,199	47,907	46,595	41,252	1,052,070	962,825
Number of Persons	2	1	9	9	549	481

*Executives means employees other than the Chief Executive Officer and Directors, whose basic salary exceeds five hundred thousand rupees in a financial year.

The amount paid to president / chief executive officer includes managerial remuneration and related allowances that we paid during the year to outgoing president / chief executive officer.

- 37.2 The Bank also provides Bank maintained car to certain executives for their own use and business use.
- 37.3 SBP vide its letter NO. BPRD/R&PD/2018/17232 dated 08 August 2018 has differed the disclosure required in Annual Financial Statements in respect of Governance and Remuneration practices by 31 December 2019.

38 FAIR VALUE MEASUREMENTS

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

The fair value of traded investments is based on quoted market prices, except for tradable securities classified by the Bank as 'held to maturity'. These securities are carried at amortized cost in order to comply with the requirements of BSD Circular No. 14 dated 24 September 2004. As of 31 December 2018, the Bank does not have any investment as 'held to maturity'.

Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available financial statements.

Fair value of Islamic financing and related assets, other liabilities and fixed term deposits 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 Islamic financing has been calculated in accordance with the Bank's accounting policy.

The repricing profile and maturity are stated in note 43.2.3 and 43.4.1 to these financial statements.

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

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

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

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

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

39 SEGMENT INFORMATION

39.1 Segment Details with respect to Business Activities

	2018					Total
	Corporate Banking	Commercial & SME Banking	Retail Banking	Trading & Sales	Others	
	(Rupees in '000)					
Profit and Loss						
Net profit / return earned	3,701,746	1,311,332	(1,429,403)	748,752	(115,649)	4,216,778
Inter segment revenue - net	-	-	6,329,060	-	449,168	6,778,228
Other income	314,169	91,709	250,882	405,555	34,453	1,096,768
Total Income	4,015,915	1,403,041	5,150,539	1,154,307	367,972	12,091,774
Segment direct expenses	(155,962)	(184,047)	(2,507,743)	(58,946)	(1,881,831)	(4,788,529)
Inter segment expense allocation	(3,674,983)	(1,289,666)	(1,120,284)	(693,295)	-	(6,778,228)
Total expenses	(3,830,945)	(1,473,713)	(3,628,027)	(752,241)	(1,881,831)	(11,566,767)
Provisions	(353,625)	(45,597)	(74,706)	(290,179)	(5,922)	(770,029)
Profit / (loss) before tax	(168,655)	(116,269)	1,447,806	111,887	(1,519,781)	(245,012)
Statement of Financial Position						
Cash and balances with treasury banks	-	-	14,934,799	-	-	14,934,799
Balances with other banks	-	-	-	854,171	-	854,171
Investments	6,377,963	-	-	14,967,362	-	21,345,325
Net inter segment lending	-	-	63,473,277	-	4,107,365	67,580,642
Islamic financing and related assets - performing	38,634,445	17,474,001	14,810,307	505,378	1,181,283	72,605,414
- non-performing	971,789	1,155,508	93,431	-	184,834	2,406,562
Others	5,503,026	1,018,787	1,096,898	210,798	8,837,260	16,666,768
Total assets	51,487,222	19,649,296	94,408,712	16,537,709	14,310,742	196,393,681
Bills payable	-	-	3,697,477	-	-	3,697,477
Due to financial institutions	3,432,199	271,200	-	132,623	-	3,836,022
Subordinated debt	-	-	-	-	3,746,377	3,746,377
Deposits and other accounts	3,840,499	3,368,473	87,560,819	5,145,220	-	99,915,011
Net inter segment borrowing	40,878,365	15,559,117	-	11,143,160	-	67,580,642
Others	3,504,815	566,775	1,702,610	4,820	1,134,049	6,913,069
Total liabilities	51,655,878	19,765,565	92,960,906	16,425,823	4,880,426	185,688,598
Equity	(168,655)	(116,269)	1,447,806	111,887	9,430,314	10,705,083
Total equity and liabilities	51,487,223	19,649,296	94,408,712	16,537,710	14,310,740	196,393,681
Contingencies and commitments	7,171,694	5,613,032	11,670	17,738,138	230,581	30,765,115
	2017					
	Corporate Banking	Commercial & SME Banking	Retail Banking	Trading & Sales	Others	Total
	(Rupees in '000)					
Profit and Loss						
Net profit / return earned	3,183,475	1,020,091	(1,066,462)	544,471	(41,726)	3,639,849
Inter segment revenue - net	-	-	4,847,891	-	833,797	5,681,688
Other income	306,186	132,723	215,125	213,798	99,964	967,796
Total Income	3,489,661	1,152,814	3,996,554	758,269	892,035	10,289,333
Segment direct expenses	(119,995)	(190,952)	(2,543,974)	(59,920)	(2,038,523)	(4,953,364)
Inter segment expense allocation	(3,180,333)	(1,028,450)	(836,715)	(636,190)	-	(5,681,688)
Total expenses	(3,300,328)	(1,219,402)	(3,380,689)	(696,110)	(2,038,523)	(10,635,052)
Provisions	183,149	(216,532)	(47,756)	(17,194)	(87,021)	(185,354)
Profit / (loss) before tax	372,482	(283,120)	568,109	44,965	(1,233,509)	(531,073)
Statement of Financial Position						
Cash and balances with treasury banks	-	-	8,915,585	-	-	8,915,585
Balances with other banks	-	-	-	2,932,165	-	2,932,165
Investments	5,823,502	-	-	13,569,984	-	19,393,486
Net inter segment lending	-	-	67,612,333	-	6,175,773	73,788,106
Due from financial institutions	-	-	-	5,095,411	-	5,095,411
Islamic financing and related assets - performing	38,754,105	15,011,607	12,716,546	-	1,271,593	67,753,851
- non-performing	2,007,369	1,241,798	112,951	-	87,087	3,449,205
Others	4,875,399	875,574	2,038,345	521,721	6,801,651	15,112,690
Total assets	51,460,375	17,128,979	91,395,760	22,119,281	14,336,104	196,440,499
Bills payable	-	-	3,658,120	-	-	3,658,120
Due to financial institutions	2,867,000	342,400	-	-	-	3,209,400
Subordinated debt	-	-	-	-	2,642,852	2,642,852
Deposits and other accounts	3,856,625	3,372,832	85,626,750	3,766,718	-	96,622,925
Net inter segment borrowing	42,542,208	12,941,957	-	18,303,941	-	73,788,106
Others	1,822,060	754,910	1,542,781	3,657	1,633,467	5,756,875
Total liabilities	51,087,893	17,412,099	90,827,651	22,074,316	4,276,319	185,678,278
Equity	372,482	(283,120)	568,109	44,965	10,059,785	10,762,221
Total equity and liabilities	51,460,375	17,128,979	91,395,760	22,119,281	14,336,104	196,440,499
Contingencies and commitments	9,242,824	5,957,612	10,501	9,130,270	230,581	24,571,788

39.2 Segment details with respect to geographical locations

GEOGRAPHICAL SEGMENT ANALYSIS

	Pakistan	
	2018	2017
	(Rupees in '000)	
Loss before tax	(245,012)	(531,073)
Total assets	128,813,039	122,652,393
Total liabilities	118,107,956	111,890,172
Total equity and liabilities	128,813,039	122,652,393
Contingencies and commitments	30,765,115	24,571,788

40 TRUST ACTIVITIES

The Bank commonly act as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions including on behalf of certain related parties. These are not assets of the Bank and, therefore, are not included in the Statement of Financial Position. The following is the list of assets held under trust:

Category	Type	2018	2017	2018	2017
		Number of IPS account		Face value (Rupees in '000)	
Takaful company	Government of Pakistan Ijara Sukuk	1	1	223,500	50,000
Employee funds	Government of Pakistan Ijara Sukuk	1	1	50,000	50,000
		<u>2</u>	<u>2</u>	<u>273,500</u>	<u>100,000</u>

41 RELATED PARTY TRANSACTIONS

The Bank has related party transactions with its parent, employee benefit plans and its directors and Key Management Personnel.

The Banks 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 employee 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.

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				
	Parent	Directors	Key management personnel	Other related parties	Total	Parent	Directors	Key management personnel	Other related parties	Total
Investments	(Rupees in '000)									
Investments	-	-	-	52,200	52,200	-	-	-	52,200	52,200
Provision for diminution in value of investments	-	-	-	22,613	22,613	-	-	-	19,637	19,637
Islamic financing and related assets										
Opening balance	-	-	238,894	90,366	329,260	-	-	233,323	153,345	386,668
Addition during the year	-	-	60,600	-	60,600	-	-	31,146	-	31,146
paid during the year	-	-	(37,697)	(60,244)	(97,941)	-	-	(24,458)	(62,979)	(87,437)
transfer in/(out)	-	-	4,775	-	4,775	-	-	(1,117)	-	(1,117)
Closing balance	-	-	266,572	30,122	296,694	-	-	238,894	90,366	329,260
Fixed assets										
Fixed assets	-	-	-	251,680	251,680	-	-	-	251,680	251,680
Provision for impairment	-	-	-	251,680	251,680	-	-	-	251,680	251,680
Other assets										
Profit receivable on Islamic financing and related assets	-	-	240	87	327	-	-	199	142	341
Receivable in respect of defined benefit plan	-	-	-	21,897	21,897	-	-	-	12,579	12,579
Subordinated debt										
Opening balance	-	-	-	5,714	5,714	-	-	-	7,143	7,143
Issued during the year	1,389,241	-	-	-	1,389,241	-	-	-	-	-
Redemption during the year	-	-	-	(5,714)	(5,714)	-	-	-	(1,429)	(1,429)
Closing balance	1,389,241	-	-	-	1,389,241	-	-	-	5,714	5,714
Deposits and other accounts										
Opening balance	6,973	47,405	197,466	764,824	1,016,668	10,480	54,091	172,200	681,383	918,154
received during the year	4	23,193	346,575	606,922	976,694	-	37,513	480,987	373,568	892,068
withdrawn during the year	(1,040)	(409,051)	(372,372)	(581,076)	(1,363,539)	(3,507)	(44,199)	(504,582)	(289,276)	(841,564)
Transfer in/(out)	-	550,175	(143,795)	(5,952)	400,428	-	-	48,861	(851)	48,010
Closing balance	5,937	211,722	27,874	784,716	1,030,251	6,973	47,405	197,466	764,824	1,016,668
Other Liabilities										
Return payable on deposits	-	1,132	100	8,834	10,066	-	135	1,137	3,021	4,293
Return payable on Sub-ordinated debt	3,144	-	-	-	3,144	-	-	-	113	113
Other liabilities	-	-	-	657	657	-	-	-	657	657
Non-funded exposure										
	-	-	-	18,051	18,051	-	-	-	-	-
Related party transactions										
Income										
Profit earned on Islamic financing and related assets	-	-	8,358	5,578	13,936	-	-	8,522	9,556	18,078
Revenue earned from non funded exposure	-	-	-	74	74	-	-	-	-	-
Expense										
Return on deposits expenses	-	13,046	1,195	39,337	53,578	-	1,595	7,480	32,818	41,893
Salaries, allowances and benefits	-	-	187,674	-	187,674	-	-	210,063	-	210,063
Director fee and other allowances	-	46,595	-	-	46,595	-	41,252	-	-	41,252
Shariah Board fee	-	-	-	3,161	3,161	-	-	-	3,446	3,446
Rent Expense	-	-	-	42,803	42,803	-	-	-	65,348	65,348
Contribution to defined contribution plan	-	-	-	72,022	72,022	-	-	-	72,835	72,835
Contribution to defined benefit plan	-	-	-	62,846	62,846	-	-	-	39,104	39,104
Return on Sub-ordinated loan	3,144	-	-	81	3,225	-	-	-	498	498

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CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

2018 2017
 ----- (Rupees in '000) -----

Minimum Capital Requirement (MCR):

Paid-up capital (net of losses)

10,192,523 10,431,139

Capital Adequacy Ratio (CAR):

Eligible Common Equity Tier 1 (CET 1) Capital

6,182,404 6,401,164

Eligible Additional Tier 1 (ADT 1) Capital

1,192,947 -

Total Eligible Tier 1 Capital

7,375,351 6,401,164

Eligible Tier 2 Capital

1,988,245 1,929,943

Total Eligible Capital (Tier 1 + Tier 2)

9,363,596 8,331,107

Risk Weighted Assets (RWAs):

Credit Risk

68,803,363 71,780,960

Market Risk

2,069,243 1,998,329

Operational Risk

8,657,185 8,103,776

Total

79,529,791 81,883,065

Common Equity Tier 1 Capital Adequacy ratio

7.77% 7.82%

Tier 1 Capital Adequacy Ratio

9.27% 7.82%

Total Capital Adequacy Ratio

11.77% 10.17%

Leverage Ratio (LR):

Eligible Tier-1 Capital

7,375,351 6,401,164

Total Exposures

137,949,522 141,187,419

Leverage Ratio

5.35% 4.53%

Liquidity Coverage Ratio (LCR):

Total High Quality Liquid Assets

30,686,016 24,576,501

Total Net Cash Outflow

27,670,494 21,573,713

Liquidity Coverage Ratio

110.90% 113.92%

Net Stable Funding Ratio (NSFR):

Total Available Stable Funding

87,255,154 76,134,641

Total Required Stable Funding

71,457,322 70,522,464

Net Stable Funding Ratio

122.11% 107.96%

42.1 The full disclosures on the CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS as per SBP instructions issued from time to time have been placed on the website. The link to the full disclosure is available at www.albaraka.com.pk.

43 RISK MANAGEMENT

The primary goal of risk management is to identify, assess and monitor risks inherent in the activities of the Bank and take adequate measures to manage and control these risks on timely basis. This will help in achieving sustainable business growth and financial and non-financial targets with better protection and soundness. The Bank's aim is to achieve an appropriate balance between risk and return and minimizing potential adverse effects on the Bank's financial performance.

This section presents information about Bank's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments:

- Credit risk is the risk of loss resulting from client or counterparty default (note 43.1).
- Market risk is exposure to market variables such as benchmark rates, exchange rates and equity indices (note 43.2).
- Liquidity risk is the potential loss arising from Bank's inability to meet its obligations when due (note 43.4).
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events and Shariah non compliance (note 43.3).

The objective of risk management is to effectively manage uncertainties that arise in the normal course of business activities. The Bank manages the risk through a framework of risk management, policies and principles, organizational structures, and risk measurement and monitoring processes that are closely aligned with the business activities of the Bank.

Risk management principles

- The Board of Directors (the Board) provides overall risk management supervision. The Board Risk Committee (BRC) regularly monitors the Bank's risk profile.

- The Bank has set up objectives and policies to manage the risks that arise in connection with the Bank's activities. The risk management framework and policies of the Bank are guided by specific objectives to ensure that comprehensive and adequate risk management policies are established to mitigate the salient risk elements in the operations of the Bank.
- The establishment of the overall financial risk management objectives is consistent and tandem with the strategy to create and enhance shareholders value, while guided by a prudent and robust framework of risk management policies.
- The structure of risk management function is closely aligned with the organizational structure of the Bank.

Risk management organization

The Board through its sub-committee called BRC oversees the overall risk of the Bank. The Risk Management Department (RMD) is the organizational arm performing the functions of identifying, measuring, monitoring and controlling the various risk and assists the apex level committee and the various sub-committees in conversion of policies into action.

The BRC comprises Executive, Directors, Non Executive Directors and the Chief Risk Officer. One of the Non Executive directors of the Bank chairs the BRC, who is responsible for planning, management and control of the aforementioned risks of the Bank.

The BRC has delegated some of its tasks of risk management to sub committees which are as follows:

Name of the committees	Chaired by
Credit committee	Chief Executive Officer
Asset and liability management committee (ALCO)	Chief Executive Officer
Audit committee	Non executive director

Credit committee is responsible for approving and monitoring all financing transactions and also the overall quality of the asset portfolio. For this purpose it has formulated credit policy so as to effectively monitor the risk profile of the Bank's asset portfolio and to ensure strict adherence to the SBP's Prudential Regulations, Banking Companies Ordinance, 1962 and any other regulatory requirement.

ALCO has the responsibility for the formulation of overall strategy and oversight of the assets liability management function. ALCO monitors the maintenance of liquidity ratios, depositor's concentration both in terms of overall funding mix and avoidance of reliance on large deposits. The Board have approved a comprehensive liquidity management policy.

The Board has constituted an Audit Committee. The Audit Committee works to ensure that the best practices of the Code of Corporate Governance and other policies and procedures are being complied with.

The Bank's Risk Management, Compliance and Internal Audit and Legal Departments support the risk management function. The role of the risk management department is to quantify the risk and the quality and integrity of the Bank's risk-related data. The Compliance Department ensures that all the directives and guidelines issued by SBP are being complied with in order to mitigate the compliance and operational risks. Internal Audit Department reviews the compliance of internal control procedures with internal and regulatory standards.

43.1 Credit Risk

Credit risk is the risk of loss to Bank as a result of failure by a client or counterparty to meet its contractual obligations when due. Exposure to credit risks for the Bank arises primarily from financing and investing activities.

The management of credit risk is governed by credit policies approved by the Board. The procedures set out the relevant approval authorities, limit, risks, credit ratings and other matters involved in order to ensure sound credit granting standards.

The Bank has a well defined credit structure duly approved by the Board under which delegated authorities at various levels are operating and which critically scrutinize and sanction credit. The emphasis is to provide short to medium term trade related Islamic financing and related assets to reputable names, which are self liquidating and Shariah compliant. The risk appraisal system of the Bank has enabled it to build a sound portfolio.

Credit risk management framework forms part of the overall business strategy and credit operations of the Bank. The principles for credit risk management have been laid down in the Bank's credit risk policy, credit manual and credit operations procedure manuals. The policy has been developed in accordance with the requirements of the State Bank of Pakistan and is reviewed and updated (where required) on periodic basis.

The Bank has a rigorous pre-approval evaluation process of credit risk embedded in each credit transactions executed by the business units. The entire process broadly encompasses, gathering relevant information on the borrower, credit investigations and visits, detailed credit appraisal and credit risk assessment and measurement. In addition to monitoring credit limits specified in the Prudential Regulations of the State Bank of Pakistan, credit limit structure includes internal limits as established by the senior management and the BOD. Internal limits include limits with respect to BOD approved risk appetite, industry/sector, credit approval authority and exposure with financial institutions. All these limits are monitored on regular basis and exceptions are reported to the relevant authorities for their timely action where necessary.

Besides managing credit risk at transaction level, the Bank regularly monitors credit risk at portfolio level and ensures that no undue concentration of risk is present in the overall credit exposure. The Bank has well established management information set-up which allows efficient and effective assessment, monitoring and management of its credit risk profile in various dimensions.

Provisions are determined in accordance with the requirements of the SBP. The authority to determine provisions and credit valuation adjustments for impaired claims, vests in Credit Operations Department and is according to the SBP regulations.

43.1.1 Due from financial institutions

Credit risk by public / private sector	2018	2017	2018	2017	2018	2017
	Due from financial institutions (Gross)		Non-performing due from financial institutions		Provision held	
	(Rupees in '000)					
Public/ Government	-	5,095,411	-	-	-	-
Private	-	-	-	-	-	-
	-	5,095,411	-	-	-	-

43.1.2 Investment in debt securities

Credit risk by industry sector	2018	2017	2018	2017	2018	2017
	Gross investments		Non-performing investments		Provision held	
	(Rupees in '000)					
Agriculture, Forestry, Hunting and Fishing	93,183	88,401	-	-	-	-
Mining and Quarrying	125,569	68,831	125,569	-	44,433	-
Textile	125,069	124,351	125,069	107,845	69,841	44,340
Chemical and Pharmaceuticals	702,229	750,438	101,737	51,507	113,799	107,845
Cement	267,118	202,576	74,767	37,515	69,841	44,340
Sugar	41,961	41,961	41,961	41,961	41,034	9,788
Automobile and transportation equipment	62,710	66,122	62,710	41,961	41,961	41,961
Electronics and electrical appliances	471,931	31,343	32,461	27,317	36,472	7,406
Power (electricity), Gas, Water, Sanitary	5,433,328	4,522,924	-	-	20,011	-
Transport, Storage and Communication	1,325,000	1,325,000	-	-	75,650	-
Financial	2,008,200	1,611,481	9,242	9,242	9,242	9,242
Insurance	52,200	52,200	52,200	52,200	22,613	19,637
Sovereign	11,005,360	10,632,866	-	-	-	-
Others	205,317	153,762	182,484	71,409	98,794	38,551
	21,919,175	19,672,256	998,160	398,996	573,850	278,770

Credit risk by public / private sector

	Gross investments		Non-performing investments		Provision held	
	2018	2017	2018	2017	2018	2017
	(Rupees in '000)					
Public/ Government	16,482,206	14,848,798	-	-	-	-
Private	5,436,969	4,823,458	998,160	398,996	573,850	278,770
	21,919,175	19,672,256	998,160	398,996	573,850	278,770

43.1.3 Islamic financing and related assets

Credit risk by industry sector	Islamic financing and related assets (Gross)		Non-performing Islamic financing and related assets		Provision held	
	2018	2017	2018	2017	2018	2017
	(Rupees in '000)					
Agriculture, Forestry, Hunting and Fishing	2,317,559	1,563,657	6,756	7,535	4,655	5,457
Mining and Quarrying	1,754,819	823,804	12,202	12,202	12,202	12,202
Textile	9,752,477	9,008,919	2,635,635	2,641,093	2,386,110	2,123,809
Chemical and Pharmaceuticals	5,856,866	5,491,892	482,645	486,718	382,639	308,458
Cement	2,042,173	1,200,000	-	-	-	-
Sugar	2,062,308	2,714,624	323,744	608,142	71,243	20,810
Footwear and Leather garments	941,280	801,811	60,081	60,081	45,999	39,067
Automobile and transportation equipment	1,403,262	400,683	-	-	-	-
Electronics and electrical appliances	4,004,209	3,599,684	570,021	555,030	288,359	258,624
Construction	1,527,631	1,363,782	296,169	440,151	129,294	101,813
Power (electricity), Gas, Water, Sanitary	2,291,178	2,658,626	-	4,062	-	4,062
Wholesale and Retail Trade	2,706,967	2,995,312	92,564	80,140	40,206	48,009
Exports/Imports	1,049,190	1,039,901	29,022	41,270	7,123	5,859
Transport, Storage and Communication	8,412,242	9,175,629	70,368	381,440	37,309	62,330
Financial	126,294	236,441	89,035	102,804	88,051	101,820
Insurance	12,216	12,845	-	3	-	1
Services	3,786,486	3,369,623	185,026	80,492	53,851	80,109
Individuals / staff	16,613,022	14,411,247	498,814	398,591	209,975	201,576
Food products and beverages	9,348,806	9,134,036	1,045,612	1,120,614	407,223	414,780
Others	3,763,013	5,434,753	622,912	630,964	449,805	413,341
	79,771,998	75,492,269	7,020,606	7,651,332	4,614,044	4,202,127

	Islamic financing and related assets (Gross)		Non-performing Islamic financing and related assets		Provision held	
	2018	2017	2018	2017	2018	2017
----- (Rupees in '000) -----						
Credit risk by public / private sector						
Public/ Government	6,960,061	7,667,695	-	-	-	-
Private	72,811,937	67,824,574	7,020,606	7,651,332	4,614,044	4,202,127
	<u>79,771,998</u>	<u>75,492,269</u>	<u>7,020,606</u>	<u>7,651,332</u>	<u>4,614,044</u>	<u>4,202,127</u>

43.1.4 Contingencies and Commitments

Credit risk by industry sector	2018	2017
	Amount in Rs '000	
Agriculture, Forestry, Hunting and Fishing	79,931	14,671
Mining and Quarrying	90,358	-
Textile	1,139,746	961,396
Chemical and Pharmaceuticals	1,472,627	3,066,488
Cement	51,006	222,341
Sugar	-	44,855
Footwear and Leather garments	243,169	47,296
Automobile and transportation equipment	766,426	961,270
Electronics and electrical appliances	1,352,578	639,134
Construction	653,167	1,834,411
Power (electricity), Gas, Water, Sanitary	1,076,945	96,942
Wholesale and Retail Trade	1,239,035	1,754,338
Exports/Imports	1,031,713	123,919
Transport, Storage and Communication	292,685	164,939
Financial	17,756,189	9,279,222
Services	766,732	1,343,713
Food products and beverages	44,953	331,782
Others	2,707,855	3,685,071
	<u>30,765,115</u>	<u>24,571,788</u>
Credit risk by public / private sector		
Public/ Government	331,370	329,475
Private	30,433,745	24,242,313
	<u>30,765,115</u>	<u>24,571,788</u>

43.1.5 Concentration of Islamic financing and related assets

The bank top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs 17,054 (31 December 2017: Rs 15,702) million are as following:

	2018	2017
	Rupees in '000	
Funded	14,026,459	13,293,528
Non Funded	3,027,679	2,407,960
Total Exposure	<u>17,054,138</u>	<u>15,701,488</u>

The sanctioned limits against these top 10 exposures aggregated to Rs 20,796 (31 December 2017: Rs 16,158) million. The bank's top 10 exposures are performing in nature.

43.1.6 Islamic financing and related assets - Province/Region-wise Disbursement & Utilization

Province/Region	2018						
	Disbursements			Utilization			
	Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan	
Punjab	50,042,911	48,558,407	1,000,000	198,860	-	285,644	-
Sindh	32,599,364	3,210	32,596,154	-	-	-	-
KPK including FATA	163,312	-	-	163,312	-	-	-
Balochistan	22,610	-	-	22,610	-	-	-
Islamabad	4,306,741	-	-	-	4,306,741	-	-
AJK including Gilgit-Baltistan	19,249	-	-	-	-	-	19,249
Total	<u>87,154,187</u>	<u>48,561,617</u>	<u>33,596,154</u>	<u>362,172</u>	<u>22,610</u>	<u>4,592,385</u>	<u>19,249</u>

Province/Region	2017						
	Disbursements			Utilization			
	Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan	
Punjab	56,864,236	55,618,732	1,000,000	-	-	245,504	-
Sindh	33,583,210	33,583,210	-	-	-	-	-
KPK including FATA	98,918	-	-	98,918	-	-	-
Balochistan	-	-	-	-	-	-	-
Islamabad	6,464,810	-	-	-	6,464,810	-	-
AJK including Gilgit-Baltistan	1,084	-	-	-	-	-	1,084
Total	<u>97,012,258</u>	<u>55,618,732</u>	<u>34,583,210</u>	<u>98,918</u>	<u>-</u>	<u>6,710,314</u>	<u>1,084</u>

43.2 Market Risk

Market risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as profit rates, credit spreads, commodity prices, equity prices and foreign exchange rates.

The main objective of the Bank's market risk management is to minimize market risk and to facilitate business growth within a controlled and transparent risk management framework.

Market risk arise from investment in sukuk, equities and dealing in foreign exchange transactions.

Market risk is being monitored by ALCO and performs following functions in relation to market risk:

- Regular periodic review of market risk, based on economic review reports.
- Keeps an eye on the structure / composition of Bank's assets and liabilities and decide upon product pricing for deposits, Islamic financing and related assets.
- Develop future business strategy in view of the latest trends / policy in the market, economic conditions and local regulatory requirements.
- Review and recommend to the Board of Directors, new opportunities for generating revenues.

43.2.1 Statement of Financial Position 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	14,934,799	-	14,934,799	8,915,585	-	8,915,585
Balances with other banks	854,171	-	854,171	2,932,165	-	2,932,165
Due from financial institutions	-	-	-	5,095,411	-	5,095,411
Investments	20,437,114	908,211	21,345,325	18,505,340	888,146	19,393,486
Islamic financing and related assets	75,011,976	-	75,011,976	71,203,056	-	71,203,056
Fixed assets	2,310,578	-	2,310,578	2,361,576	-	2,361,576
Intangible assets	1,572,861	-	1,572,861	1,720,577	-	1,720,577
Deferred tax assets	3,238,909	-	3,238,909	3,238,985	-	3,238,985
Other assets	9,544,420	-	9,544,420	7,791,552	-	7,791,552
	127,904,828	908,211	128,813,039	121,764,247	888,146	122,652,393

43.2.2 Foreign Exchange Risk

Foreign exchange risk arises from the fluctuation in the value of financial instruments consequent to the changes in foreign exchange rates. Objective of foreign exchange risk management function is to minimize the adverse impact of foreign exchange assets and liabilities mismatch and maximize the earnings. The Bank manages this risk by setting and monitoring dealer, currency, inter exposures, stop loss and counter party limits for on and off balance sheet financial instruments.

	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)				(Rupees in '000)			
Pakistan rupee	122,056,956	107,227,736	4,046,554	18,875,774	115,976,712	103,227,632	2,034,532	14,783,612
United States dollar	6,046,429	7,927,340	(2,772,886)	(4,653,797)	6,196,583	6,263,320	(1,089,473)	(1,156,210)
Great Britain pound	237,337	750,266	(689,304)	(1,202,233)	166,442	626,303	(601,404)	(1,061,265)
Euro	305,939	1,895,229	(445,641)	(2,034,931)	136,064	1,623,122	(360,674)	(1,847,732)
Arab Emirates Dirham	142,374	167,696	-	(25,322)	164,546	147,304	-	17,242
Japanese Yen	2,351	132,641	(138,723)	(269,013)	7,896	2,466	-	5,430
Canadian Dollar	2,043	-	-	2,043	935	-	-	935
Singapore Dollar	23	23	-	-	23	23	-	-
Swiss Frank	11,427	-	-	11,427	3,190	-	17,019	20,209
Chinese Yuan	8,158	7,023	-	1,135	-	-	-	-
Malaysian Ringit	2	2	-	-	2	2	-	-
	128,813,039	118,107,956	-	10,705,083	122,652,393	111,890,172	-	10,762,221

The exposures of the Bank to foreign exchange risk is also restricted by the statutory limit on aggregate exposure prescribed by the SBP.

	2018		2017	
	Banking	Trading book	Banking book	Trading book
	(Rupees in '000)			
Impact of 1% change in foreign exchange rates on				
- Profit and loss account	(39,971)	40,466	(19,349)	20,345

43.2.3 Mismatch of Yield Rate Sensitive Assets and Liabilities

	Effective Yield rate	Total	2018										Non-interest bearing financial instruments	
			Exposed to Yield risk											
			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			
Assets														
On-balance sheet financial instruments														
Cash and balances with treasury banks	-	14,934,799	-	-	-	-	-	-	-	-	-	-	-	14,934,799
Balances with other banks	7.03%	854,171	129,906	-	-	-	-	-	-	-	-	-	-	724,265
Due from financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	6.51%	21,345,325	600,000	6,612,553	5,852,191	-	-	3,266,189	-	-	-	375,347	-	970,445
Islamic financing and related assets-net	10.97%	75,011,976	21,771,048	15,691,411	15,410,313	12,508,771	-	3,135,981	316,667	-	-	-	-	8,902,556
Other assets	-	6,347,786	-	-	-	-	-	-	-	-	-	-	-	6,347,786
Liabilities														
Bills payable	-	118,484,057	22,500,954	22,303,964	21,262,504	12,508,771	-	3,452,648	-	-	849,527	-	-	31,879,851
Due to financial institutions	4.23%	3,687,477	144,823	1,383,799	1,591,900	615,500	-	-	-	-	-	-	-	3,687,477
Deposits and other accounts	5.82%	3,836,022	73,830,126	-	-	-	-	-	-	-	-	-	-	26,084,885
Subordinated debt	9.62%	99,915,011	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	3,746,377	-	2,357,136	-	1,389,241	-	-	-	-	-	-	-	-
		6,846,478	-	-	-	-	-	-	-	-	-	-	-	6,846,478
On-balance sheet gap		118,041,365	73,374,949	3,740,935	1,691,900	2,004,741	-	3,452,648	-	-	849,527	-	-	36,628,840
		452,692	(51,473,995)	18,563,029	19,570,604	10,504,030	-	3,452,648	-	-	849,527	375,347	-	(4,748,989)
Non financial assets														
Fixed assets		2,310,578	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets		1,572,861	-	-	-	-	-	-	-	-	-	-	-	-
Other assets		3,196,634	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets		3,238,909	-	-	-	-	-	-	-	-	-	-	-	-
		10,318,982	-	-	-	-	-	-	-	-	-	-	-	-
Non financial liabilities		66,591	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities		66,591	-	-	-	-	-	-	-	-	-	-	-	-
Total net assets		10,705,083	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments														
Commitments in respect of:														
- forward foreign exchange contracts		17,738,138	-	-	-	-	-	-	-	-	-	-	-	17,738,138
- guarantees		6,102,780	-	-	-	-	-	-	-	-	-	-	-	6,102,780
- letter of credit		6,681,946	-	-	-	-	-	-	-	-	-	-	-	6,681,946
- acquisition of operating fixed assets		11,670	-	-	-	-	-	-	-	-	-	-	-	11,670
- others		230,581	-	-	-	-	-	-	-	-	-	-	-	230,581
Off-balance sheet gap		30,765,115	-	-	-	-	-	-	-	-	-	-	-	30,765,115
Total Yield Risk Sensitivity Gap		(51,473,995)	18,563,029	19,570,604	10,504,030	3,452,648	-	3,360,491	849,527	375,347	-	-	(4,748,989)	
Cumulative Yield Risk Sensitivity Gap		(51,473,995)	(32,910,966)	(13,340,362)	(2,836,332)	616,316	3,976,807	4,826,334	5,201,681	5,201,681	452,692	-	-	452,692

5/11/18

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

2017

Effective Yield rate	Total	Exposed to Yield risk							Non-interest bearing financial instruments		
		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)									
		8,915,585	-	-	-	-	-	-	-	-	8,915,585
		2,932,165	2,044,820	-	-	-	-	-	-	-	887,345
		5,095,411	-	5,095,411	-	-	-	-	-	-	-
		19,393,486	1,000,000	7,190,990	-	5,656,009	2,538,651	995,659	331,364	-	1,030,463
		71,203,056	20,085,355	15,859,320	9,772,382	17,110,344	63,129	60,002	209,892	781,059	6,806,339
		4,432,057	-	-	-	-	-	-	-	-	4,432,057
		111,971,760	23,130,175	16,509,670	9,772,382	29,396,745	2,601,780	1,055,661	541,256	781,059	22,071,789
		3,658,120	-	-	-	-	-	-	-	-	3,658,120
		3,209,400	1,702,700	-	-	1,506,700	-	-	-	-	-
		96,622,925	73,067,198	-	-	-	-	-	-	-	23,555,727
		2,642,852	2,642,852	-	-	-	-	-	-	-	-
		5,678,818	-	-	-	-	-	-	-	-	-
		111,812,115	73,067,198	4,345,552	1,506,700	-	-	-	-	-	5,678,818
		159,845	(49,937,023)	12,164,118	27,890,045	9,772,382	6,111,243	2,601,780	1,055,661	541,256	(10,820,876)
		2,361,576	-	-	-	-	-	-	-	-	2,361,576
		1,720,577	-	-	-	-	-	-	-	-	1,720,577
		3,359,495	-	-	-	-	-	-	-	-	3,359,495
		3,238,985	-	-	-	-	-	-	-	-	3,238,985
		10,680,633	-	-	-	-	-	-	-	-	10,680,633
		78,057	-	-	-	-	-	-	-	-	78,057
		10,762,221	-	-	-	-	-	-	-	-	10,762,221
		9,130,270	-	-	-	-	-	-	-	-	9,130,270
		7,117,907	-	-	-	-	-	-	-	-	7,117,907
		8,082,529	-	-	-	-	-	-	-	-	8,082,529
		10,501	-	-	-	-	-	-	-	-	10,501
		230,581	-	-	-	-	-	-	-	-	230,581
		24,571,788	-	-	-	-	-	-	-	-	24,571,788
		(49,937,023)	12,164,118	27,890,045	9,772,382	6,111,243	2,601,780	1,055,661	541,256	781,059	(10,820,876)
		(49,937,023)	(37,772,905)	(110,478)	6,000,765	8,602,545	10,199,462	9,658,206	10,980,521	159,645	159,645

43.3 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events and Shariah non-compliance. In this regard, an Operational Risk Management unit has been established within the Risk Management Department.

The Bank has Basic Indicator Approach (BIA) for assessing the capital charge for operational risk. Under BIA the capital charge is calculated by multiplying average annual gross income of the Bank over the past three years with 15% as per guidelines issued by SBP.

The Bank ensures that the key operational risks are managed in a timely and effective manner by raising awareness of operational risk, improving early warning information and allocating risk ownership and responsibilities. The Bank has developed policies, guidelines and manuals necessary for the mitigation of operational risk.

The Bank is also supervised by the Shariah Board which sets out guidelines, policies and procedures for the Bank to ensure that all its activities and products are Shariah compliant. The internal audit function of the Bank performs regular audit on various operations of the Bank and monitors the key risk exposure areas to ensure that internal control procedures are in place and those procedures are able to mitigate risk associated with operational activities.

A business continuity program have also been formulated and approved by the Board of Directors to ensure uninterrupted flow of operations of the Bank. *EM*

44. PROFIT / (LOSS) DISTRIBUTION TO DEPOSITOR'S POOL

44.1 General remunerative depositors' pools / IERS pools / Treasury Pools

2018							
Remunerative pools	Period	Profit sharing ratio (average)	Profit rate and weightage announcement period	Mudarib share (Rupees in '000)	Percentage of Mudarib Share transferred through Hilba	Profit rate return earned	Profit rate return distributed
General Pool - PKR	Jan to Dec 2018	50%	Monthly	2,828,307	26.5%	7.8%	4.9%
General Pool - FCY	Jan to Dec 2018	70%	Monthly	60,240	3.1%	2.1%	0.7%
Islamic Export Refinance Pool	Jan to Dec 2018	86%	Monthly	-	-	5.9%	2.0%
Treasury Pool	Jan to Dec 2018	94%	Variable	-	-	7.1%	7.0%
Special Depositors' Pool	Nov to Dec 2018	50%	Variable	115,962	35.6%	12.9%	8.6%

45. COMPLAINT MANAGEMENT

45.1 Mechanism of the Compliant Management Unit

The Bank has a designated separate and independent Complaint Management Unit (CMU) under Corporate Communication Department to handle complaints / grievances of the customers as per the Consumer Grievances Handling Mechanism (CGHM) policy issued by SBP. The unit is efficiently performing its role and it is totally independent in scrutinizing, investigating and efficient closures of the complaints / queries raised by customers.

The unit's core focus is the quick and efficient resolution of the complaints, analyse root cause of complaints and taking necessary measures to ensure its non-recurrence and to improve the service quality. The statistical data provided by CMU enables the concerned departments / units in improving performance and provision of quality service to the customers.

Lodgement of complaints

The complaint lodgement procedure is adequately displayed in all our branches as well as on our Corporate website www.albaraka.com.pk. Further, details regarding lodgement of a complaint to Banking Mohtasib Pakistan and State Bank of Pakistan are also prominently displayed.

The Bank receive complaints from following sources:

- 1) Phone Banking / call centre
- 2) Letter / CEO Office / Drop Box / Email
- 3) Banking Mohtasib Pakistan / SBP

During 2018, the Bank received 6,017 complaints through different channels, out of which 98.9% were investigated and resolved. The Bank follows defined standards, practices and regulatory requirements in resolution of complaints lodged with the Bank.

45.3 Steps of compliant resolution or handling of complaint

Fundamental steps of compliant handling as defined by SBP in BC & CPD Circular No. 01 of 2016 being followed in the Bank are as

- 1) Acknowledgment of receipt of complaint.
- 2) Investigation and tagging of complaint to relevant department / branches.
- 3) Interim update to customer, if complaint resolution exceeds the defined timeline.
- 4) Intimation of resolution of complaint to customer.
- 5) Root cause analysis of the complaint.
- 6) Suggestions for required actions and its non-recurrence.
- 7) Issuing monthly MIS to all the stakeholders.

4. New initiatives

The Bank has introduced the root cause analysis of complaints which are of regular nature along with the monitoring of several key service indicators at branch level to deep dive in the actual reason for the complaint.

46. RECLASSIFICATIONS

Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate comparisons. There were no significant reclassifications / restatements during the year except as disclosed in note 2.1.2 and as disclosed below.

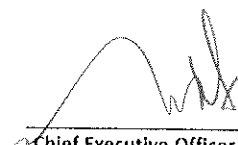
Transfer from	Transfer to	(Rupees in '000) Aggregate
Deposits	Bills payable	<u>1,966,979</u>

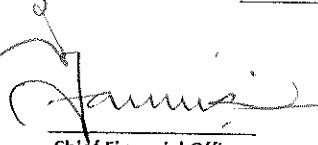
47. GENERAL

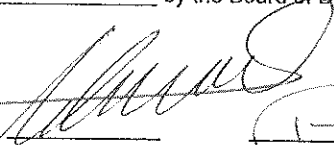
Figures have been rounded off to the nearest thousand rupees.

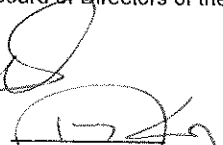
48. DATE OF AUTHORISATION

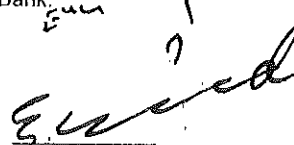
These financial statements were authorized for issue on 07 MAR 2019 by the Board of Directors of the Bank.


 Chief Executive Officer


 Chief Financial Officer


 Chairman


 Director


 Director

STATEMENT SHOWING WRITTEN-OFF FINANCING OR ANY OTHER FINANCIAL RELIEF OF RUPEES 500,000 OR ABOVE DURING THE YEAR ENDED 31 DECEMBER 2018

Annexure - I

Sr. No.	Name of the borrower	Name of individuals / partners / directors (with N.I.C. No.)	Father's name	Outstanding Liabilities at beginning of year				Written-off		Waiver		Total (9+10+11)
				Principal	Profit	Other financial relief	Total (5+6+7)	Principal	Profit	Other financial relief		
										5	6	
1	2	3	4									
1	Danish Traders	Farooq Ahmed - 36302-3995490-9	Bashir Ahmed	14,600	962	24,098	39,660	-	-	23,660		23,660
2	Makkah Flour & General Mills	Abdul Mannan - 34101-2679509-5	Muhammad Hussain	40,000	1,927	12,429	54,356	-	1,927	12,429		14,356
3	A J Sizing Industry	Amir Javaid - 34101-9599994-7	Ch. Nabi Ahmad	21,000	1,616	23,825	46,441	-	-	23,825		23,825
				<u>75,600</u>	<u>4,505</u>	<u>60,352</u>	<u>140,457</u>	<u>-</u>	<u>1,927</u>	<u>59,914</u>		<u>61,841</u>

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ALBARAKA BANK (PAKISTAN) LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Annexure - II

STATEMENT SHOWING CHARITY PAID OF RUPEES 500,000 OR ABOVE DURING THE YEAR ENDED 31 DECEMBER 2018

----Rupees in thousands----

Names	31 December 2018	31 December 2017
Indus Hospital	10,000	-
Alamgir Welfare Trust International	7,772	-
SC Infrastructure and development scheme	7,500	-
The Citizens Foundation	7,200	3,000
Shahid Afridi Foundation	5,000	-
HELP International Welfare Trust	4,600	-
Afzal Memorial Thalassemia Foundation	4,000	2,000
Shaukat Khanum Memorial Cancer Hospital & Research Centre	2,500	-
Shaukat Khanum Memorial Trust	2,500	-
Patient's Behbud Society For Akhu	2,500	1,500
Health Oriented Preventive Education (HOPE)	1,900	-
Family Educational Services Foundation	1,600	1,600
Bayeban Pakistan	1,530	1,350
Namal Education Foundation	1,035	-
Al Mustafa Trust	1,000	-
Ihsan Trust	1,000	-
Karigar Training Institute	1,000	-
Shifa International Hospital Ltd	1,000	-
Saylani Welfare International Trust	1,000	-
Caravan of Life Pakistan Trust	1,000	-
Lahore Businessmen Association For Rehabilitation Of The Disabled-Punjab	1,000	1,000
Patients Aid Foundation	1,000	1,000
Aman Institute for Vocational Training	967	-
Tasneem Qamar	919	-
Hira Foundation School (HIES)	720	-
North West General Hospital	700	-
IBP School of Special Education	600	-
Bint-e-Fatima Old Home Trust	500	-
Child Care Foundation of Pakistan	500	-
Family Welfare Society - Mumtaz Girls School	500	-
Patel Hospital-Patel Foundation	500	-
Muhammad Asif	500	-
National Epilepsy Centre	500	-
Parents Voice Association	500	-
Bakhtawar Amin Memorial Trust	-	1,000
Burn And Children Care Welfare Organization	-	1,000
Endowment Fund Trust (Gc University Lahore)	-	1,000
Indus Foundation	-	1,000
Khairun Nisa Hospital Foundation	-	1,000
Children Health & Education Foundation (Chaef)	-	795
Care Foundation	-	500
Green Crescent Trust	-	500
Hira Foundation Academy	-	500
Ibrahim Trust Gujranwala	-	500
Sos Children's Village	-	500
Sundas Foundation	-	500
	75,543	20,245

Suma