

# UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2017

	Note	2017 (Rupees in '000)	2016
<b>ASSETS</b>			
Cash and balances with treasury banks	6	70,381,435	74,071,384
Balances with other banks	7	4,508,835	9,373,123
Lendings to financial institutions	8	48,895,828	30,149,029
Investments - net	9	400,733,286	389,092,637
Advances - net	10	400,655,424	378,720,349
Operating fixed assets	11	17,627,997	18,133,267
Deferred tax assets		-	-
Other assets	12	46,026,023	17,917,264
		988,828,828	917,457,053
<b>LIABILITIES</b>			
Bills payable	13	12,461,866	12,886,990
Borrowings	14	206,223,572	178,311,035
Deposits and other accounts	15	653,406,071	640,944,254
Sub-ordinated loans	16	4,991,000	8,317,670
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities	17	3,153,750	2,650,428
Other liabilities	18	42,792,829	14,221,914
		923,029,088	857,332,291
<b>NET ASSETS</b>		<u>65,799,740</u>	<u>60,124,762</u>
<b>REPRESENTED BY</b>			
Share capital	19	16,075,720	15,952,076
Reserves		18,156,669	15,895,652
Unappropriated profit		24,312,240	17,337,458
		58,544,629	49,185,186
Surplus on revaluation of assets - net of tax	20	7,255,111	10,939,576
		<u>65,799,740</u>	<u>60,124,762</u>
<b>CONTINGENCIES AND COMMITMENTS</b>			
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The annexed notes 1 to 47 and Annexures I and II form an integral part of these unconsolidated financial statements.

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

DIRECTOR

DIRECTOR

DIRECTOR

# UNCONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2017

	Note	2017 (Rupees in '000)	2016
Mark-up / return / interest earned	24	56,919,089	57,144,032
Mark-up / return / interest expensed	25	27,638,502	28,152,734
Net mark-up / interest income		29,280,587	28,991,298
(Reversal) / provision against non-performing loans and advances - net	10.5	(434,162)	1,082,506
Provision for diminution in the value of investments - net	9.24	174,413	100,766
Bad debts written off directly	10.6.1	-	-
		(259,749)	1,183,272
<b>Net mark-up / interest income after provisions</b>		29,540,336	27,808,026
<b>Non mark-up / interest income</b>			
Fee, commission and brokerage income		6,166,498	5,238,974
Dividend income		460,319	584,805
Income from dealing in foreign currencies	26	1,746,251	1,003,575
Gain on sale of securities - net	27	1,274,066	1,681,621
Unrealised (loss) / gain on revaluation of investments classified as held for trading - net	9.26	(7,351)	109
Other income	28	254,209	398,244
Total non mark-up / interest income		9,893,992	8,907,328
		39,434,328	36,715,354
<b>Non mark-up / interest expenses</b>			
Administrative expenses	29	25,116,135	23,683,609
Reversal of provision against off-balance sheet obligations	18.1	(1,338)	(7,508)
Reversal of provision against other assets	12.3	(18,979)	(102,305)
Other charges	30	293,525	118,399
Total non mark-up / interest expenses		25,389,343	23,692,195
		14,044,985	13,023,159
Extra ordinary / unusual items		-	-
<b>Profit before taxation</b>		14,044,985	13,023,159
Taxation	31		
- Current		5,074,748	4,689,525
- Deferred		2,486,147	871,038
- Prior years		(1,883,205)	(437,312)
		5,677,690	5,123,251
<b>Profit after taxation</b>		8,367,295	7,899,908
		(Rupees)	
<b>Basic earnings per share</b>	32.1	5.21	4.93
<b>Diluted earnings per share</b>	32.2	5.19	4.93

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# UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2017

	Note	2017 (Rupees in '000)	2016
Profit after taxation		8,367,295	7,899,908
<b>Other comprehensive income</b>			
<b>Items that are or may be reclassified subsequently to profit and loss account</b>			
Exchange differences on translation of net investments in foreign branches		492,787	11,054
<b>Items that will never be reclassified to profit and loss account</b>			
Remeasurement of defined benefit plan	36.1.4	380,229	309,314
Related tax on remeasurement of defined benefit plan		(133,080)	(108,260)
		247,149	201,054
Comprehensive income - transferred to statement of changes in equity		<u>9,107,231</u>	<u>8,112,016</u>
<b>Components of comprehensive income not reflected in equity</b>			
<b>Items that are or may be reclassified subsequently to profit and loss account</b>			
Deficit on revaluation of available for sale securities		(5,696,653)	(88,251)
Related deferred tax liability		1,988,788	60,736
		<u>(3,707,865)</u>	<u>(27,515)</u>

The annexed notes 1 to 47 and Annexures I and II form an integral part of these unconsolidated financial statements.

# UNCONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2017

	Note	2017 (Rupees in '000)	2016 (Rupees in '000)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		14,044,985	13,023,159
Dividend income		(460,319)	(584,805)
		<u>13,584,666</u>	<u>12,438,354</u>
<b>Adjustments</b>			
Depreciation	29	1,819,620	1,691,261
Amortisation	29	446,135	357,473
(Reversal) / provision against non-performing loans and advances - net	10.5	(434,162)	1,082,506
Provision for diminution in value of investments - net	9.24	174,413	100,766
Reversal of provision against off-balance sheet obligations	18.1	(1,338)	(7,508)
Reversal of provision against other assets	12.3	(18,979)	(102,305)
Unrealised loss / (gain) on revaluation of investments classified as held for trading - net	9.26	7,351	(109)
Gain on sale of operating fixed assets - net	28	(11,655)	(53,226)
Charge for defined benefit plan	36.1.3	250,153	260,795
		<u>2,231,538</u>	<u>3,329,653</u>
		15,816,204	15,768,007
<b>(Increase) / decrease in operating assets</b>			
Lendings to financial institutions		(3,797,453)	(11,944,621)
Held for trading securities		(7,376,396)	3,891,325
Advances		(22,609,576)	(45,644,116)
Other assets (excluding advance taxation)		(13,809,497)	4,223,462
		<u>(47,592,922)</u>	<u>(49,473,950)</u>
<b>Increase / (decrease) in operating liabilities</b>			
Bills payable		(416,549)	3,153,061
Borrowings		27,912,537	5,971,645
Deposits and other accounts		36,952,995	755,519
Other liabilities		4,647,528	(576,087)
		<u>69,096,511</u>	<u>9,304,138</u>
		37,319,793	(24,401,805)
Contribution made to gratuity fund	36.1.3	(250,153)	(260,795)
Income tax paid		(5,037,257)	(4,692,207)
<b>Net cash generated from / (used in) operating activities</b>		<u>32,032,383</u>	<u>(29,354,807)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net investments in available for sale securities		(23,774,461)	(28,968,156)
Net investments in held to maturity securities		1,541,900	57,927,823
Investment in subsidiaries / associated companies		(769,230)	(8,481)
Disposal of investment in subsidiaries / associated companies		1,280,627	890,400
Dividend income received		488,730	549,605
Investments in operating fixed assets		(1,850,956)	(2,837,372)
Sale proceeds of property and equipments disposed-off	11.4	90,208	111,326
<b>Net cash (used in) / generated from investing activities</b>		<u>(22,993,182)</u>	<u>27,665,145</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of share capital		191,722	84,895
Redemption of sub-ordinated loans		(3,326,670)	(1,665,330)
Dividend paid		(1,931)	(1,585,581)
<b>Net cash used in financing activities</b>		<u>(3,136,879)</u>	<u>(3,166,016)</u>
Exchange difference on translation of net investments in foreign branches		492,787	11,054
<b>Increase / (decrease) in cash and cash equivalents</b>		<u>6,395,109</u>	<u>(4,844,624)</u>
Cash and cash equivalents at beginning of the year		90,124,073	93,351,641
Effects of exchange rate changes on cash and cash equivalents		(1,372,976)	244,080
		<u>88,751,097</u>	<u>93,595,721</u>
<b>Cash and cash equivalents at end of the year</b>	33	<u>95,146,206</u>	<u>88,751,097</u>

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# UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED DECEMBER 31, 2017

	Capital Reserves				Revenue Reserves		Total
	Share Capital	Share Premium	Statutory Reserve*	Exchange Translation Reserve	Employee Share Option Compensation Reserve	Unappropriated profit	
	(Rupees in '000)						
<b>Balance as at January 1, 2016</b>	15,898,062	4,329,648	8,140,904	1,572,966	120,602	12,362,596	42,424,778
<b>Changes in equity for 2016</b>							
<b>Total comprehensive income</b>							
Profit after taxation	-	-	-	-	-	7,899,908	7,899,908
<b>Other comprehensive income</b>							
Exchange difference on translation of net investment in foreign branches	-	-	-	11,054	-	-	11,054
Remeasurement of defined benefit plan (Note 36.1.4)	-	-	-	-	-	309,314	309,314
Related tax charge	-	-	-	-	-	(108,260)	(108,260)
	-	-	-	11,054	-	8,100,962	8,112,016
Transfer to statutory reserve	-	-	1,579,982	-	-	(1,579,982)	-
Transfer from surplus on revaluation of operating fixed assets - net of tax	-	-	-	-	-	43,688	43,688
<b>Transactions with owners recorded directly in equity</b>							
Shares issued during the year	54,014	30,881	-	-	-	-	84,895
Final cash dividend for the year ended December 31, 2015 @ 10%	-	-	-	-	-	(1,589,806)	(1,589,806)
Recognition of fair value charge of share based payments (Note 36.2)	-	-	-	-	132,026	-	132,026
Unamortised portion of deferred employee compensation expense	-	-	-	-	(22,411)	-	(22,411)
Transfer to Share Premium on issuance of shares under Stock Option Scheme	-	56,597	-	-	(56,597)	-	-
<b>Balance as at December 31, 2016</b>	15,952,076	4,417,126	9,720,886	1,584,020	173,620	17,337,458	49,185,186
<b>Changes in equity for 2017</b>							
<b>Total comprehensive income</b>							
Profit after taxation	-	-	-	-	-	8,367,295	8,367,295
<b>Other comprehensive income</b>							
Exchange difference on translation of net investment in foreign branches	-	-	-	492,787	-	-	492,787
Remeasurement of defined benefit plan (Note 36.1.4)	-	-	-	-	-	380,229	380,229
Related tax charge	-	-	-	-	-	(133,080)	(133,080)
	-	-	-	492,787	-	8,614,444	9,107,231
Transfer to statutory reserve	-	-	1,673,459	-	-	(1,673,459)	-
Transfer from surplus on revaluation of operating fixed assets - net of tax	-	-	-	-	-	33,797	33,797
<b>Transactions with owners, recorded directly in equity</b>							
Shares issued during the year	123,644	68,078	-	-	-	-	191,722
Recognition of fair value charge of share based payments (Note 36.2)	-	-	-	-	26,693	-	26,693
Transfer to Share Premium on issuance of shares under Stock Option Scheme	-	127,787	-	-	(127,787)	-	-
<b>Balance as at December 31, 2017</b>	16,075,720	4,612,991	11,394,345	2,076,807	72,526	24,312,240	58,544,629

\* This represents reserve created under section 21(i)(a) of the Banking Companies Ordinance, 1962.

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# NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

## 1 STATUS AND NATURE OF BUSINESS

Bank Alfalah Limited (the Bank) is a banking company incorporated in Pakistan on June 21, 1992 as a public limited company under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). It commenced its banking operations on November 1, 1992. The Bank's registered office is located at B. A. Building, I. I. Chundrigar Road, Karachi and is listed on the Pakistan Stock Exchange (formerly Karachi, Lahore and Islamabad Stock Exchanges). The Bank is engaged in banking services as described in the Banking Companies Ordinance, 1962 and is operating through 475 conventional banking branches including 22 sub branches (2016: 475 branches including 18 sub branches), 10 overseas branches (2016: 10 branches), 152 Islamic banking branches (2016: 153 branches) and 1 offshore banking unit (2016: 1 unit). The credit rating of the Bank is disclosed in note 34 of the unconsolidated financial statements.

## 2 BASIS OF PRESENTATION

- 2.1 These unconsolidated financial statements represent separate financial statements of Bank Alfalah Limited in which investment in subsidiaries and associates are accounted for on the basis of direct equity interest rather than on the basis of reported results.
- 2.2 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible form of trade-related modes of financing includes purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these unconsolidated financial statements as such, but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon. The Islamic Banking branches of the Bank have complied with the requirements set out under the Islamic Financial Accounting Standards issued by the Institute of Chartered Accountants of Pakistan and notified under the provisions of the repealed Companies Ordinance, 1984.
- 2.3 Key financial figures of the Islamic Banking branches are disclosed in Annexure II to the unconsolidated financial statements

## 3 STATEMENT OF COMPLIANCE

- 3.1 These unconsolidated financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFASs) issued by the Institute of Chartered Accountants of Pakistan as are notified under the repealed Companies Ordinance, 1984, the provisions of and directives issued under the repealed Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). In case the requirements differ, the provisions of and directives issued under the repealed Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and the directives issued by SECP and SBP shall prevail.
- 3.2 The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for banking companies through BSD Circular Letter No. 10 dated August 26, 2002 till further instructions. Further, the Securities and Exchange Commission of Pakistan has deferred the applicability of International Financial Reporting Standard (IFRS) 7, 'Financial Instruments: Disclosures' on banks through its notification S.R.O 411(I)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these unconsolidated financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.
- 3.3 The State Bank of Pakistan through BPRD Circular No. 04 of 2015 dated February 25, 2015 has deferred applicability of Islamic Financial Accounting Standard-3 for Profit and Loss Sharing on Deposits (IFAS-3) issued by the Institute of Chartered Accountants of Pakistan and notified by the Securities and Exchange Commission of Pakistan (SECP), vide their SRO No. 571 of 2013 dated June 12, 2013 for institutions offering Islamic Financial Services (IIFS). The standard will result in certain new disclosures in the financial statements of the Bank.
- 3.4 The Companies Ordinance, 1984, was repealed by enactment of the Companies Act, 2017, on May 30, 2017. The SECP vide its Circular No. 23 of 2017, dated October 04, 2017, has clarified that all those companies whose financial year closes on or before December 31, 2017 shall prepare financial statements in accordance with the provisions of repealed Companies Ordinance, 1984.

### 3.5 New and revised approved accounting standards not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2018:

- Classification and Measurement of Share-based Payment Transactions - amendments to IFRS 2 clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after January 1, 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognized for new and outstanding awards. The amendments are not likely to have an impact on Bank's financial statements.
- Annual Improvements to IFRSs 2014-2016 Cycle [Amendments to IAS 28 'Investments in Associates and Joint Ventures'] (effective for annual periods beginning on or after January 1, 2018) clarifies that a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on Bank's financial statements.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after January 1, 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The application of interpretation is not likely to have an impact on Bank's financial statements.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after January 1, 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax. The application of interpretation is not likely to have an impact on Bank's financial statements.
- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning on or after July 1, 2018). IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. The Bank is currently in the process of analyzing the potential impact of changes required in revenue recognition policies on adoption of the standard.
- IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after July 1, 2018 and January 1, 2019 respectively). IFRS 9 replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Bank is currently awaiting instructions from SBP as applicability of IAS 39 was deferred by SBP till further instructions.
- Amendment to IAS 28 'Investments in Associates and Joint Ventures' - Long Term Interests in Associates and Joint Ventures (effective for annual period beginning on or after January 1, 2019). The amendment will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. The amendments are not likely to have an impact on Bank's financial statements.

- Annual Improvements to IFRS Standards 2015–2017 Cycle - the improvements address amendments to following approved accounting standards:
  - IFRS3 'Business Combinations' and IFRS11 'Joint Arrangement' - the amendment aims to clarify the accounting treatment when a company increases its interest in a joint operation that meets the definition of a business. A company remeasures its previously held interest in a joint operation when it obtains control of the business. A company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
  - IAS 12 'Income Taxes' - the amendment clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transaction that generates the distributable profits.
  - IAS 23 'Borrowing Costs' - the amendment clarifies that a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

The above amendments are effective from annual period beginning on or after January 1, 2019 and are not likely to have an impact on Bank's financial statements.

The Companies Act, 2017 and the revised format of financial statements notified by SBP will be effective from the accounting year ending December 31, 2018. The Companies Act, 2017 and the revised format would result in additional disclosures and certain changes in the financial statement presentation.

## **4 BASIS OF MEASUREMENT**

### **4.1 Accounting convention**

These unconsolidated financial statements have been prepared under the historical cost convention except that certain fixed assets and other assets are stated at revalued amounts, and held for trading and available for sale investments and derivative financial instruments are measured at fair value.

### **4.2 Functional and Presentation Currency**

These unconsolidated financial statements are presented in Pakistani Rupees, which is the Bank's functional and presentation currency. The amounts are rounded off to the nearest thousand rupees except as stated otherwise.

### **4.3 Critical accounting estimates and judgements**

The preparation of these unconsolidated financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgement in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods.

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

- i) classification and provisioning against investments (notes 5.3 and 9)
- ii) classification and provisioning against non-performing loans and advances (notes 5.4 and 10)
- iii) income taxes (notes 5.9 and 31)
- iv) accounting for defined benefit plan and compensated absences (notes 5.10 and 36)
- v) depreciation / amortisation of operating fixed assets (notes 5.5 and 11)
- vi) impairment of assets (notes 5.3.5, 5.4.1 and 5.8)

## **5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

## **5.1 Cash and cash equivalents**

Cash and cash equivalents comprise of cash in hand, balances with treasury banks, balances with other banks in current and deposit accounts, national prize bonds, any overdrawn nostro accounts and call lendings having maturity of three months or less.

## **5.2 Lendings to / borrowings from financial institutions**

The Bank enters into transactions of repo and reverse repo at contracted rates for a specified period of time. These are recorded as under:

### **Sale of securities under repurchase agreements**

Securities sold subject to a repurchase agreement (repo) are retained in these unconsolidated financial statements as investments and the counter party liability is included in borrowings. The difference between the sale and contracted repurchase price is accrued on a time proportion basis over the period of the contract and recorded as an expense.

### **Purchase of securities under resale agreements**

Securities purchased under agreement to resell (reverse repo) are not recognised in these unconsolidated financial statements as investments and the amount extended to the counter party is included in lendings. The difference between the purchase and contracted resale price is accrued on a time proportion basis over the period of the contract and recorded as income.

## **5.3 Investments**

### **5.3.1 Classification**

The Bank classifies its investments as follows:

#### **Held for trading**

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

#### **Held to maturity**

These are investments with fixed or determinable payments and fixed maturities and the Bank has the positive intent and ability to hold them till maturity.

#### **Available for sale**

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

#### **Associates**

Associates are all entities over which the Bank has significant influence but not control. Investment in associates is carried at cost less accumulated impairment losses, if any.

#### **Subsidiaries**

Subsidiary is an entity over which the Bank has control. Investment in subsidiary is carried at cost less accumulated impairment losses, if any.

### **5.3.2 Regular way contracts**

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

### **5.3.3 Initial recognition and measurement**

Investments are initially recognised at fair value. Transaction costs associated with investments other than held for trading securities are included in cost of investments. Transaction costs on held for trading securities are expensed in the profit and loss account.

#### 5.3.4 Subsequent measurement

In accordance with the requirements of State Bank of Pakistan, quoted securities other than those classified as 'held to maturity', investment in associates and investment in subsidiaries are subsequently remeasured to market value. Surplus / (deficit) arising on revaluation of securities classified as 'available for sale' is taken to a separate account shown in the statement of financial position below equity. Surplus / (deficit) arising on revaluation of investments classified as 'held for trading' is taken to the profit and loss account. Investments classified as 'held to maturity' are carried at amortised cost.

Unquoted equity securities, excluding investment in subsidiaries and associates are valued at lower of cost and the 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 audited financial statements. Investment in subsidiaries and associates are carried at cost, less accumulated impairment losses, if any.

#### 5.3.5 Impairment

Impairment loss in respect of equity securities classified as available for sale, subsidiaries and associates and held to maturity is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in fair value of an equity investment below its cost is also considered an objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the Prudential Regulations issued by the State Bank of Pakistan. In case of impairment of available for sale securities, the cumulative loss that has been recognised directly in surplus / (deficit) on revaluation of securities on the statement of financial position below equity is removed there from and recognised in the profit and loss account. For investments classified as held to maturity and investment in subsidiaries and associates, the impairment loss is recognised in the profit and loss account.

Gains or losses on disposal of investments during the year are taken to the profit and loss account.

### 5.4 Advances

#### Loans and advances

Loans and advances including net investment in finance lease are stated net of provision against non-performing advances. Specific and general provisions against loans and advances in Pakistan operations are made in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan from time to time. The net provision made / reversed during the year is charged to profit and loss account and accumulated provision is netted-off against advances. Provisions pertaining to overseas loans and advances are made in accordance with the requirements of regulatory authorities of the respective countries. Advances are written off when there are no realistic prospects of recovery.

#### Islamic Financing and Related Assets

The Bank provides Islamic financing and related assets mainly through Murabaha, Ijarah, Diminishing Musharakah, Musharakah, Running Musharakah, Salam, Istisna, Tijara and Export Refinance under SBP Islamic Export Refinance Scheme. 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 utilised and the appropriate portion of profit thereon. The income on such financings is recognised in accordance with the principles of Islamic Shariah. The Bank determines specific and general provisions against Islamic financing and related assets on a prudent basis in accordance with the requirements of the Prudential Regulations issued by the SBP. The net provision made / reversed during the year is charged to profit and loss account and accumulated provision is netted off against Islamic financing and related assets. Islamic financing and related assets are written off when there are no realistic prospects of recovery.

#### Net investment in Finance Lease

Leases where the Bank transfers substantially all the risks and rewards incidental to the ownership of an asset are classified as finance leases. A receivable is recognised on commencement of lease term at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any. Unearned finance income is recognised over the term of the lease, so as to produce a constant periodic return on the outstanding net investment in lease. The Bank determines specific provisions against investment in finance lease on a prudent basis in accordance with the requirements of the Prudential Regulations issued by the SBP. The net provision made / reversed during the year is charged to profit and loss account and accumulated provision is netted off against net investment in finance lease. The assets are written off when there are no realistic prospects of recovery.

#### 5.4.1 Ijarah Assets (IFAS 2)

Ijarah assets are stated at cost less depreciation and are disclosed as part of 'Islamic financing and related assets'. The rental received/ receivable on Ijarah under IFAS 2 are recorded as income / revenue.

##### Depreciation

The Bank charges depreciation from the date of recognition of Ijarah of respective assets to Mustajir. Ijarah assets are depreciated over the period of Ijarah using the straight line method.

##### Impairment

Impairment of Ijarah rentals are determined in accordance with the Prudential Regulations of SBP. The provision for impairment of Ijarah Rentals is shown as part of 'Islamic financing and related assets'.

#### 5.5 Operating Fixed assets

##### Tangible assets

Operating fixed assets, except office premises which are carried at revalued amount less accumulated depreciation, are shown at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Depreciation is charged to income by applying the straight-line method using the rates specified in note 11.2 to these unconsolidated financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each reporting date. Depreciation on additions is charged from the date on which the assets are available for use and ceases on the date on which they are disposed off.

Maintenance and normal repairs are charged to income as and when incurred. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

Office premises are revalued by professionally qualified valuers every three years to ensure that the net carrying amount does not differ materially from their fair value.

Surplus arising on revaluation is credited to the surplus on revaluation of operating fixed assets account. Deficit arising on subsequent revaluation of operating fixed assets is adjusted against the balance in the above mentioned surplus account as allowed under the provisions of the repealed Companies Ordinance, 1984. The surplus on revaluation of operating fixed assets to the extent of incremental depreciation charged on the related assets is transferred to unappropriated profit.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of operating fixed assets are taken to the profit and loss account except that the related surplus / deficit on revaluation of operating fixed assets (net of deferred taxation) is transferred directly to unappropriated profit.

##### Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Such intangible assets are amortised using the straight-line method over their estimated useful lives. The useful lives and amortisation method are reviewed and adjusted, if appropriate at each reporting date. Intangible assets having an indefinite useful life are stated at acquisition cost, less impairment loss, if any.

#### 5.6 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 this head. These are transferred to specific assets as and when assets become available for use.

## 5.7 Non-current assets held for sale

The Bank classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

A non-current asset (or disposal group) held for sale is carried at the lower of its carrying amount and the fair value less costs to sell. Impairment losses are recognised through the profit and loss account for any initial or subsequent write down of the non-current asset (or disposal group) to fair value less costs to sell. Subsequent gains in fair value less costs to sell are recognised to the extent they do not exceed the cumulative impairment losses previously recorded. A non-current asset is not depreciated while classified as held for sale or while part of a disposal group classified as held for sale.

## 5.8 Impairment

The carrying amount of assets is reviewed at each reporting date to determine whether there is any indication of impairment of any asset or group of assets. If any such indication exists, the recoverable amount of such assets is estimated and impairment losses are recognised immediately in the consolidated financial statements. The resulting impairment loss is taken to the profit and loss account except for impairment loss on revalued assets, which is adjusted against related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

## 5.9 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit and loss account except to the extent that it relates to items recognised directly in other comprehensive income in which case it is recognised in statement of comprehensive income.

### Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into consideration available tax credit and rebate, if any. The charge for current tax also includes adjustments, where considered necessary relating to prior years, which arises from assessments / developments during the year.

### Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits can be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realised.

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

## 5.10 Employee benefits

### a) Defined benefit plan

The Bank operates an approved funded gratuity scheme, administered by the trustees, covering eligible employees whose period of employment with Bank is five years or more. Contributions to the fund are made on the basis of actuarial recommendations. Projected Unit Credit Method is used for the actuarial valuation. Actuarial gains and losses are recognised immediately in other comprehensive income.

### b) Defined contribution plan

The Bank operates an approved provident fund scheme for all its regular permanent employees, administered by the Trustees. Equal monthly contributions are made both by the Bank and its employees to the fund at the rate of 8.33% of the basic salary in accordance with the terms of the scheme.

**c) Compensated absences**

The Bank recognises the liability for compensated absences in respect of employees in the period in which these are earned up to the balance sheet date. The provision has been recognised on the basis of actuarial recommendations.

**d) Employees Stock Option Scheme**

The Bank has granted share options to its employees under the Bank's Employee Stock Options Scheme (ESOS), as approved by the shareholders and SECP. Under the scheme, the employees can subscribe to new ordinary shares for which options have been granted to them under the scheme upto the period of 2019. As per the scheme the entitlements and exercise price are subject to adjustments because of issuance of right shares and bonus issues.

The grant date fair value of equity settled share based payments to employees, determined as option discount as allowed by Public Companies (Employee Stock Option Scheme) Rules 2001, is recognized as employee compensation expense on a straight line basis over the vesting period with a consequent credit to equity as employee stock option compensation reserve. The deferred employee stock option cost is shown as a deduction from employee stock option compensation reserve. Option discount means the excess of market price of the share at the date of grant of an option under a Scheme over exercise price of the option.

When an unvested option lapses by virtue of an employee not conforming to the vesting conditions after recognition of an employee compensation expense in the profit and loss account, such employee compensation expense is reversed in the profit and loss account equal to the amortized portion with a corresponding effect to employee stock option compensation reserve equal to the un-amortized portion.

When a vested option lapses on expiry of the exercise period, employee compensation expense already recognized in the profit or loss is reversed with a corresponding reduction to employee stock option compensation reserve.

When the options are exercised, employee stock option compensation reserve relating to these options is transferred to share capital and share premium. An amount equivalent to the face value of related shares is transferred to share capital. Any amount over and above the share capital is transferred to share premium.

**5.11 Non-banking assets acquired in satisfaction of claim**

Non-banking assets acquired in satisfaction of claims are stated at revalued amounts less accumulated depreciation thereon. The valuation of properties acquired under this head is conducted regularly, so as to ensure that their net carrying value does not materially differ from their fair value. Any surplus arising on revaluation of such properties is transferred to the 'surplus on revaluation of fixed assets' account, while any deficit arising on revaluation is charged to profit and loss account directly. In addition, all direct costs, including legal fees and transfer costs linked with transferring the title of the property to bank is accounted as an expense in the profit and loss account. Furthermore, revaluation surplus on such assets shall not be admissible for calculating bank's Capital Adequacy Ratio (CAR) and exposure limits under the Prudential Regulations. However, the surplus can be adjusted upon realization of sale proceeds.

**5.12 Borrowings / deposits and their cost**

- a) Borrowings / deposits are recorded at the proceeds received.
- b) Borrowing costs are recognised as an expense in the period in which these are incurred using effective mark-up / interest rate method to the extent that they are not directly attributable to the acquisition of or construction of qualifying assets. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) are capitalised as part of the cost of that asset.

**5.13 Deposits - Islamic Banking**

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

Deposits taken on Qard basis are classified as 'Current Account' and Deposits generated on Modaraba basis are classified as 'Savings Account' and 'Fixed Deposit Accounts'.

No profit or loss is passed on to current account depositors.

Profits realised in investment pools are distributed in pre-agreed profit sharing ratio.

Rab-ul-Maal (Customer) share is distributed among depositors according to weightages assigned at the inception of profit calculation period.

Mudarib (Bank) can distribute its share of profit to Rab-ul-Maal upto a specified percentage of its profit.

Profits are distributed from the pool so the depositors (remunerative) only bear the risk of assets in the pool during the profit calculation period.

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

In case of loss in a pool during the profit calculation period, the loss is distributed among the depositors (remunerative) according to their ratio of Investments.

#### **5.14 Provisions**

Provision for guarantee claims and other off balance sheet obligations is recognised when intimated and reasonable certainty exists for the Bank to settle the obligation. Expected recoveries are recognised by debiting the customer's account. Charge to the profit and loss account is stated net-of expected recoveries.

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

#### **5.15 Acceptances**

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be simultaneously settled with the reimbursement from the customers. Acceptances are accounted for as off balance sheet transactions and are disclosed as contingent liabilities and commitments.

#### **5.16 Revenue recognition**

Revenue is recognised to the extent that the economic benefits associated with a transaction will flow to the Bank and the revenue can be reliably measured.

##### **Advances and investments**

Income on performing advances and debt securities is recognized on a time proportion basis as per the terms of the contract. Where debt securities are purchased at a premium or discount, such premium / discount is amortised through the profit and loss account over the remaining maturity of the debt security using the effective yield method.

Income recoverable on classified advances and investments is recognized on a receipt basis. Income on rescheduled / restructured advances and investments is recognized as permitted by SBP regulations or by the regulatory authorities of the countries where the Bank operates.

Murabaha income is recognised on deferred income basis.

##### **Lease financing**

Income from lease financing is accounted for using the financing method. Under this method, the unearned lease income (defined as the sum of total lease rentals and estimated residual value less the cost of the leased assets) is deferred and taken to income over the term of the lease so as to produce a constant periodic rate of return on the outstanding net investment in the lease. Gains or losses on termination of lease contracts are recognised as income when these are realised. Unrealised lease income and other fees on classified leases are recognised on a receipt basis.

Ijarah income is recognised on an accrual basis as and when the rentals becomes due.

#### **Non Markup / interest income**

Fee, commission and brokerage income except income from guarantees and bancaassurance business are accounted for on receipt basis.

Other income is recognised on accrual basis.

Dividend income is recognised at the time when the Bank's right to receive the dividend has been established.

### **5.17 Foreign currency translation**

#### **Functional and presentation currency**

Items included in the unconsolidated financial statements are measured using the currency of the primary economic environment in which the Bank operates.

#### **Transactions and balances**

Transactions in foreign currencies are translated into Pakistani rupees at the exchange rates prevailing on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Forward contracts relating to foreign currency deposits are valued at forward rates applicable to the respective maturities of the relevant foreign exchange contract. The forward cover received / paid on forward purchase contracts relating to foreign currency deposits are realised / charged directly to profit and loss account.

#### **Commitments**

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

#### **Foreign operations**

Assets and liabilities of foreign operations are translated into rupees at the exchange rate prevailing at the reporting date. The results of foreign operations are translated at average rate of exchange for the year. Translation gains and losses arising on revaluations of net investment in foreign operations are taken to Exchange Translation Reserve in the statement of comprehensive income. These are recognised in the profit and loss account on disposal.

### **5.18 Derivative financial instruments**

Derivative financial instruments are initially recognised at fair value on the date at which the derivative contract is entered into and subsequently remeasured at fair value using appropriate valuation techniques. All derivative financial instruments are carried as assets where fair value is positive and as liabilities where fair value is negative. Any changes in the fair value of derivative financial instruments are taken to the profit and loss account.

### **5.19 Off-setting**

Financial assets and financial liabilities are off-set and the net amount reported in the unconsolidated financial statements only when there is a legally enforceable right to set-off the recognised amount and the Bank intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

### **5.20 Dividend and appropriation to reserves**

Dividend and appropriation to reserves, except appropriations which are required under the law, after the reporting date, are recognised in the Bank's unconsolidated financial statements in the year in which these are approved.

## 5.21 Earnings per share

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

## 5.22 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting structure of the Bank. Segmented performance is reported to the senior management of the Bank on monthly basis for the purpose of strategic decision making and performance management.

### a) Business segments

#### Retail banking

This includes loans, deposits, trading activity, wealth management and other banking transactions with retail, commercial and small and middle sized customers of the Bank.

#### Corporate banking

This comprises of loans, deposits, project financing, trade financing, investment banking and other banking activities / with Bank's corporate and public sector customers.

#### Treasury

This segment includes liquidity management activities carried out through borrowing, lending, money market, capital market and merchant banking operations. The investments of the Bank primarily towards government securities and risk management activities via use of forward contracts & derivatives are reported here.

#### Consumer banking

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

#### Islamic banking

This segment pertains to full scale Islamic Banking operations of the Bank.

#### International operations

This segment includes amounts related to Bank's overseas operations, namely, commercial banking activities in Bangladesh, Afghanistan, United Arab Emirates and wholesale banking activities in the Kingdom of Bahrain.

#### Others

This includes the head office related activities, and all other activities not readily tagged to the segments above.

### b) Geographical segments

The Bank operates in three geographical regions being:

- Pakistan
- Asia Pacific (including South Asia)
- Middle East

	Note	2017 (Rupees in '000)	2016
<b>6 CASH AND BALANCES WITH TREASURY BANKS</b>			
<b>In hand</b>			
Local currency (including in transit 2017: Rs. 7 million, 2016: Rs. 12.122 million)		10,464,270	10,187,393
Foreign currencies (including in transit 2017: Rs. 4.230 million, 2016: Rs. 4.189 million)		4,031,567	2,579,051
<b>With State Bank of Pakistan in</b>			
Local currency current accounts	6.1	28,767,491	28,662,461
Foreign currency current accounts	6.2	2,927,953	2,553,016
Foreign currency deposit accounts	6.3	6,998,393	5,972,553
<b>With other central banks in</b>			
Foreign currency current accounts	6.4	1,403,720	4,117,412
Foreign currency deposit accounts	6.4	555,392	678,906
<b>With National Bank of Pakistan in</b>			
Local currency current account		15,208,850	19,292,758
<b>National Prize Bonds</b>		23,799	27,834
		<u>70,381,435</u>	<u>74,071,384</u>

- 6.1** This includes statutory liquidity reserves maintained with the SBP under Section 22 of the Banking Companies Ordinance, 1962.
- 6.2** As per BSD Circular No. 9 dated December 3, 2007, cash reserve of 5% is required to be maintained with the State Bank of Pakistan on deposits held under the New Foreign Currency Accounts Scheme (FE-25 deposits).
- 6.3** Special cash reserve of 15% is required to be maintained with the State Bank of Pakistan on FE-25 deposits as specified in BSD Circular No. 14 dated June 21, 2008. Profit rates on these deposits are fixed by SBP on a monthly basis. These deposits carry markup rates ranging from 0.22% to 0.37% per annum (2016: Nil).
- 6.4** These represent deposits with other central banks to meet their minimum cash reserves and capital requirements pertaining to the overseas operations of the Bank.

**7 BALANCES WITH OTHER BANKS**

	Note	2017 (Rupees in '000)	2016
<b>In Pakistan</b>			
On current accounts		519,902	306,450
On deposit accounts		-	1,000,555
<b>Outside Pakistan</b>			
On current accounts	7.1	2,056,222	4,375,099
On deposit accounts	7.2	1,932,711	3,691,019
		<u>4,508,835</u>	<u>9,373,123</u>

- 7.1** This includes amount held in Automated Investment Plans. The Bank is entitled to earn interest from the correspondent banks at agreed upon rates when the balance exceeds a specified amount.
- 7.2** This includes placement of funds generated through foreign currency deposits scheme (FE-25), at interest rates ranging from 1.00% to 8.40% per annum (2016: 1.00% to 5.50% per annum) having maturities upto March 2018 (2016: March 2017).

	Note	2017 (Rupees in '000)	2016 (Rupees in '000)
<b>8</b>	<b>LENDINGS TO FINANCIAL INSTITUTIONS</b>		
Call money lendings	8.1	20,255,936	5,306,590
Bai Muajjal	8.2	16,791,356	24,497,227
Repurchase agreement lendings	8.3	11,848,536	345,212
		<u>48,895,828</u>	<u>30,149,029</u>
<b>8.1</b>	These represent lendings to financial institutions at interest rates ranging from 1.5% to 9.75% per annum (2016: 0.25% to 9.00% per annum) having maturities upto March 2018 (2016: March 2017).		
<b>8.2</b>	These represent Bai Muajjal agreements entered into with State Bank of Pakistan (SBP) / other commercial banks, whereby the Bank sold Sukuks having carrying value of Rs. 16,791 million (2016: Rs. 24,497 million) on deferred payment basis. The rates of return range from 5.71% to 5.80% per annum (2016: 5.62% to 5.97% per annum), and these are due to mature by March 2018 (2016: June 2017).		
<b>8.3</b>	These represent short term lending to financial institutions against investment securities. These carry markup rates ranging from 5.8% to 6.2% per annum (2016: 6.15% per annum) with maturities upto June 2018 (2016: January 2017).		
<b>8.3.1</b>	<b>Securities held as collateral against lending to financial institutions</b>		

	2017			2016		
	Held by bank	Further given as collateral / sold	Total	Held by bank	Further given as collateral / sold	Total
	----- (Rupees in '000) -----					
Market Treasury Bills	5,593,265	-	5,593,265	345,212	-	345,212
Pakistan Investment Bonds	1,003,918	5,251,353	6,255,271	-	-	-
	<u>6,597,183</u>	<u>5,251,353</u>	<u>11,848,536</u>	<u>345,212</u>	<u>-</u>	<u>345,212</u>

	2017 (Rupees in '000)	2016 (Rupees in '000)
<b>8.4</b>	<b>Particulars of lendings to financial institutions</b>	
In local currency	43,346,538	28,842,439
In foreign currencies	5,549,290	1,306,590
	<u>48,895,828</u>	<u>30,149,029</u>

## 9 INVESTMENTS - NET

### 9.1 Investments by types

Note	2017			2016		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
----- (Rupees in '000) -----						
<b>Held for trading securities</b>						
Market Treasury Bills	22,759,650	-	22,759,650	14,120,130	-	14,120,130
Pakistan Investment Bonds	-	-	-	20,207	-	20,207
Overseas Bonds	19,443	-	19,443	549,615	-	549,615
Fully paid up ordinary shares / units - Listed	28,140	-	28,140	740,776	-	740,776
	22,807,233	-	22,807,233	15,430,728	-	15,430,728
<b>Available for sale securities</b>						
Market Treasury Bills	77,610,358	85,274,643	162,885,001	38,584,821	-	38,584,821
Pakistan Investment Bonds	43,168,310	64,920,622	108,088,932	78,936,759	128,150,711	207,087,470
Fully paid up ordinary shares / units - Listed	5,773,258	-	5,773,258	6,223,937	-	6,223,937
Fully paid up ordinary shares / units - Unlisted	350,507	-	350,507	82,056	-	82,056
Term Finance Certificates	1,297,084	-	1,297,084	514,483	-	514,483
Preference Shares - Listed	108,835	-	108,835	108,835	-	108,835
Preference Shares - Unlisted	25,000	-	25,000	25,000	-	25,000
Redeemable Participating Certificates	1,133,659	-	1,133,659	501,938	-	501,938
Commercial papers	90,201	-	90,201	-	-	-
Pakistan Euro Bonds	1,435,375	845,802	2,281,177	2,688,770	-	2,688,770
Overseas Bonds	1,479,097	2,526,175	4,005,272	7,819,677	4,839,993	12,659,670
Sukuk Bonds	36,191,513	6,939,721	43,131,234	38,663,395	5,023,937	43,687,332
	168,663,197	160,506,963	329,170,160	174,149,671	138,014,641	312,164,312
<b>Held to maturity securities</b>						
Market Treasury Bills	1,470,741	-	1,470,741	1,995,857	-	1,995,857
Pakistan Investment Bonds	31,637,988	-	31,637,988	31,793,773	-	31,793,773
Term Finance Certificates	524,266	-	524,266	524,266	-	524,266
Pakistan Euro Bonds	193,239	-	193,239	706,255	-	706,255
Commercial Papers	-	-	-	661,557	-	661,557
Overseas Bonds	4,945,043	1,095,269	6,040,312	9,714,052	1,036,079	10,750,131
Sukuk Bonds	4,097,810	-	4,097,810	3,847,273	-	3,847,273
	42,869,087	1,095,269	43,964,356	49,243,033	1,036,079	50,279,112
<b>Subsidiaries</b>						
Alfalah Securities (Private) Limited	300,000	-	300,000	1,126,000	-	1,126,000
Alfalah GHP Investment Management Limited	130,493	-	130,493	130,493	-	130,493
Alfalah GHP Cash Fund	-	-	-	525,474	-	525,474
	430,493	-	430,493	1,781,967	-	1,781,967
<b>Associates</b>						
Alfalah Insurance Limited	68,990	-	68,990	68,990	-	68,990
Sapphire Wind Power Company Limited	978,123	-	978,123	978,123	-	978,123
Alfalah GHP Money Market Fund	-	-	-	55,153	-	55,153
Alfalah GHP Income Multiplier Fund	-	-	-	250,000	-	250,000
Alfalah GHP Sovereign Fund	-	-	-	200,000	-	200,000
Alfalah GHP Islamic Stock Fund	-	-	-	250,000	-	250,000
TriconBoston Consulting Corporation (Private) Limited	769,230	-	769,230	-	-	-
	1,816,343	-	1,816,343	1,802,266	-	1,802,266
<b>Investments at cost</b>	236,586,353	161,602,232	398,188,585	242,407,665	139,050,720	381,458,385
<b>Provision for diminution in the value of investments</b>	9.24	(1,349,330)	(1,349,330)	(2,079,781)	-	(2,079,781)
<b>Investments (net of provisions)</b>		235,237,023	396,839,255	240,327,884	139,050,720	379,378,604
Surplus on revaluation of held for trading securities - net	9.26	(7,351)	(7,351)	109	-	109
Surplus on revaluation of available for sale securities - net	20.2	1,976,459	1,924,923	7,636,113	2,077,811	9,713,924
<b>Total investments</b>		237,206,131	400,733,286	247,964,106	141,128,531	389,092,637

9.1.1 Market value of held to maturity securities is Rs. 43,844 million (2016: Rs. 48,528 million).

	Note	2017 (Rupees in '000)	2016
<b>9.2 Strategic Investments</b>			
<b>Available for sale</b>			
<b>Fully paid up ordinary shares - Unlisted</b>			
Al Hamra Avenue (Private) Limited (Percentage of holding: 3.12% (2016: 3.12%))	9.11	50,000	50,000
<b>Subsidiaries</b>			
Alfalah Securities (Private) Limited (Percentage of holding: 97.91% (2016: 97.91%))	9.20	300,000	1,126,000
Alfalah GHP Investment Management Limited (Percentage of holding: 40.22% (2016: 40.22%))	9.20	130,493	130,493
<b>Associates</b>			
Alfalah Insurance Limited (Percentage of holding: 30% (2016: 30%))	9.21	68,990	68,990
Alfalah GHP Income Multiplier Fund (Percentage of holding: Nil (2016: 13.17%))		-	250,000
Sapphire Wind Power Company Limited (Percentage of holding: 30% (2016: 30%))	9.21	978,123	978,123
Alfalah GHP Islamic Stock Fund (Percentage of holding: Nil (2016: 6.45%))		-	250,000
		<u>1,527,606</u>	<u>2,853,606</u>
		<u>(50,000)</u>	<u>(876,000)</u>
Provision for diminution in the value of investments		<u>1,477,606</u>	<u>1,977,606</u>

**9.2.1** Strategic investments are those which the Bank makes with the intention of holding them for a long term duration and are marked as such at the time of investment. Disposals of such investments can only be made subject to the fulfilment of the requirements prescribed by the SBP. Further, as per the SBP instructions in BPRD Circular Letter No. 16 of 2006 dated August 01, 2006, investments marked as strategic have a minimum retention period of 5 years from the original purchase date. However, these can be sold before the stipulated period with the prior permission of the SBP.

	Note	2017 (Rupees in '000)	2016 (Rupees in '000)
<b>9.3 Investments by segments</b>			
<b>Federal Government Securities</b>			
- Market Treasury Bills	9.5	187,115,392	54,700,808
- Pakistan Investment Bonds	9.6	139,726,920	238,901,450
- Overseas Government Bonds	9.7	5,511,613	18,042,785
- Sukuk Bonds	9.8	38,408,132	41,567,768
- Pakistan Euro Bonds	9.9	2,474,416	3,395,025
- Commercial Papers		-	132,277
		373,236,473	356,740,113
<b>Fully Paid up Ordinary Shares / Preference Shares / Units / Certificates</b>			
- Listed companies / mutual funds	9.10	5,801,398	6,964,713
- Un-listed companies	9.11	350,507	82,056
- Preference Shares - Listed	9.12	108,835	108,835
- Preference Shares - Unlisted	9.13	25,000	25,000
		6,285,740	7,180,604
<b>Term Finance Certificates, Debentures, Bonds, Notes and Participation Term Certificates</b>			
- Listed TFCs	9.14	99,860	99,900
- Un-listed TFCs	9.15	1,721,490	938,849
- Sukuk Bonds	9.16	8,820,912	5,966,837
- Commercial Papers	9.17	90,201	529,280
- Overseas Bonds	9.18	4,553,414	5,916,631
- Redeemable Participating Certificates	9.19	1,133,659	501,938
		16,419,536	13,953,435
<b>Investment in Subsidiaries</b>	9.20	430,493	1,781,967
<b>Investment in Associates</b>	9.21	1,816,343	1,802,266
<b>Total investments at cost</b>		398,188,585	381,458,385
Provision for diminution in the value of investments	9.24	(1,349,330)	(2,079,781)
<b>Investments (net of provisions)</b>		396,839,255	379,378,604
Surplus on revaluation of held for trading securities - net	9.26	(7,351)	109
Surplus on revaluation of available for sale securities - net	20.2	3,901,382	9,713,924
<b>Total investments</b>		400,733,286	389,092,637

**9.4** Investments include certain approved / government securities which are held by the Bank to comply with the Statutory Liquidity Requirement determined on the basis of the Bank's demand and time liabilities as set out under section 29 of the Banking Companies Ordinance, 1962.

**9.5** Market Treasury Bills are for the periods of three months, six months and one year. The effective rates of profit on Market Treasury Bills range between 5.93% to 6.19% per annum (2016: 5.85% to 6.21% per annum) with maturities upto March 2018 (2016: September 2017).

**9.6** Pakistan Investment Bonds (PIBs) are for the periods of three, five, ten years and fifteen years. The rates of profit range from 6.36% to 12.72% per annum (2016: 6.21% to 12.73% per annum) with maturities from March 2018 to July 2022 (2016: July 2017 to July 2022).

#### 9.7 Federal Government Securities - Overseas Government Bonds

Country	Date of Maturity	Profit / interest rate per annum 2017	Profit / interest rate per annum 2016	2017 Rupees in '000)	2016
Afghanistan	January 2018 to February 2018	-	0.35% to 1.68%	-	3,659,152
Bangladesh	January 2018 to November 2034	2.97% to 12.48%	6.62% to 12.55%	4,964,487	5,567,738
Kazakhstan	October 2024	-	3.88%	-	309,038
Kingdom of Bahrain	-	-	0.055%	-	553,251
Kingdom of Jordan	January 2026 and January 2027	-	5.75% to 6.13%	-	208,419
Kingdom of Saudi Arabia	October 2026	-	3.25%	-	1,964,712
Sultanate of Oman	June 2026	-	4.75%	-	2,290,336
State of Qatar	June 2026	3.25%	2.38% to 3.28%	547,126	2,796,606
Republic of Indonesia	January 2022 to July 2025	-	2.63% to 4.35%	-	481,566
Republic of Sri Lanka	January 2022 and May 2027	-	5.75%	-	156,898
United Mexican State	March 2024	-	1.63%	-	55,069
				<u>5,511,613</u>	<u>18,042,785</u>

#### 9.8 Federal Government Securities - Sukuk Bonds

Investee company	Date of Maturity	Profit / interest rate per annum 2017	Profit / interest rate per annum 2016	2017 (Rupees in '000)	2016
Indonesia Sovereign	-	-	4.35%	-	524,754
Kingdom of Bahrain Sukuk	February 2024	5.60%	5.62%	552,041	522,993
Neelum Jhelum Hydro Power Company	June 2026 and October 2026	7.30% and 7.34%	7.19% and 7.28%	2,600,000	2,600,000
Pakistan Government Ijarah Sukuk XVI	Decemeber 2018	5.51%	5.45%	20,518,922	20,519,468
Pakistan Government Ijarah Sukuk XVII	February 2019	6.10%	6.10%	5,603,700	5,606,994
Pakistan Government Ijarah Sukuk XVIII	March 2019	5.59%	5.59%	4,000,000	4,000,000
Pakistan International Sukuk	December 2019	6.75%	6.75%	959,941	909,084
Pakistan International Sukuk	October 2021	5.50%	5.50%	3,202,099	4,719,034
South Africa Sovereign	-	-	3.90%	-	418,394
Turkey Sukuk	-	-	4.25%	-	366,095
WAPDA-III	October 2021	7.17%	7.06%	971,429	1,380,952
				<u>38,408,132</u>	<u>41,567,768</u>

**9.9** These represent Pakistan Euro Bonds of US Dollar 26.75 million (2016: US Dollar 33.14 million) issued by the Government of Pakistan. These bonds carry interest 8.25% per annum (2016: 7.25% to 8.25% per annum) with maturities upto September 2025 (2016: September 2025).

**9.10 Particulars of investments in listed companies / mutual funds include the following:**

<b>2017</b> <b>(Number of shares /</b> <b>certificates / units)</b>	<b>2016</b>		<b>2017</b> <b>(Rupees in '000)</b>	<b>2016</b>
		<b>OIL AND GAS EXPLORATION COMPANIES</b>		
3,110,000	2,275,000	Oil and Gas Development Corporation Limited	476,564	324,333
446,950	475,000	Pakistan Oilfields Limited	232,365	147,629
800,000	591,800	Pakistan Petroleum Limited	126,698	75,012
		<b>OIL AND GAS MARKETING COMPANIES</b>		
12,750	140,000	Attock Petroleum Limited	6,790	74,552
920,000	560,100	Pakistan State Oil Company Limited	290,240	209,845
225,000	-	Sui Northern Gas Pipelines Limited	21,949	-
-	200,000	Hi-Tech Lubricants Limited	-	22,898
		<b>AUTOMOBILE PARTS &amp; ACCESSORIES</b>		
375,000	592,200	Agriauto Industries Limited	123,882	139,293
-	200,000	Thal Limited	-	83,906
		<b>CHEMICALS</b>		
2,273,531	2,273,531	Agritech Limited	17,909	17,909
1,464,100	1,773,800	Engro Corporation Limited	444,315	497,166
-	3,745,500	Engro Fertilizer Limited	-	277,450
-	1,200,000	Fatima Fertilizer Company Limited	-	37,184
-	4,429,500	Fauji Bin Qasim Limited	-	232,669
-	1,875,000	Fauji Fertilizer Company Limited	-	232,121
		<b>PHARMACEUTICALS</b>		
-	300,000	Abbot Laboratories (Pakistan) Limited	-	255,055
		<b>CEMENT</b>		
1,326,300	851,300	Cherat Cement Company Limited	170,278	128,283
4,302,300	2,191,400	D G Khan Cement Limited	629,071	322,308
7,740,000	1,200,00	Fauji Cement Company Limited	218,265	44,363
1,092,200	997,700	Lucky Cement Limited	653,764	532,555
1,100,000	2,722,000	Pioneer Cement Limited	80,869	330,591
		<b>ENGINEERING</b>		
1,900,000	1,300,000	Amreli Steels Limited	167,071	69,969
-	124,000	Mughal Iron and Steel Industries Limited	-	11,810
		<b>TECHNOLOGY &amp; COMMUNICATION</b>		
-	550,000	Avanceon Limited	-	19,416
		<b>PAPER &amp; BOARD</b>		
-	128,900	Cherat Packaging Limited	-	48,034
		Balance carried forward	3,660,030	4,134,351

2017 (Number of shares / certificates / units)	2016		2017 (Rupees in '000)	2016 (Rupees in '000)
		Balance brought forward	3,660,030	4,134,351
		<b>REAL ESTATE INVESTMENT TRUST</b>		
41,622,117	41,622,117	Dolmen City Real Estate Investment Trust (REIT)	457,843	457,843
		<b>PERSONAL GOODS</b>		
-	624,500	Gul Ahmed Textile Mills Limited	-	34,007
-	250,000	Nishat (Chunian) Limited	-	14,434
		<b>FOOD &amp; PERSONAL CARE PRODUCTS</b>		
-	100,250	Al Shaheer Corporation Limited	-	5,432
		<b>CABLE &amp; ELECTRICAL GOODS</b>		
-	250,000	Pak Elektron Limited	-	17,480
		<b>POWER GENERATION &amp; DISTRIBUTION</b>		
1,849,000	221,000	Altern Energy Limited	73,633	7,949
667,000	5,540,000	K-Electric Limited	4,015	51,055
-	1,942,500	Kot Addu Power Company Limited	-	148,452
3,449,500	4,000,000	Nishat (Chunian) Power Company Limited	115,727	132,117
6,043,000	2,500,000	Nishat Power Company Limited	222,999	106,994
4,500,000	6,116,700	The Hub Power Company Limited	439,587	553,530
		<b>BANKS</b>		
-	891,700	Allied Bank Limited	-	88,485
1,261,500	5,500,000	Bank Al Habib Limited	51,852	226,069
1,800,720	1,800,720	First Dawood Investment Bank Limited	15,000	15,000
-	1,775,000	Habib Bank Limited	-	331,519
4,200,000	-	Habib Metropolitan Bank Limited	138,821	-
734,000	1,227,200	MCB Bank Limited	147,136	301,077
-	525,000	National Bank of Pakistan Limited	-	39,093
2,200,000	1,800,000	United Bank Limited	474,755	299,826
		<b>Financial Services</b>		
47,460	47,460	Visa Inc.	-	-
			<u>5,801,398</u>	<u>6,964,713</u>

#### 9.11 Investments in unlisted companies

2017 (Number of shares)	2016		2017 (Rupees in '000)	2016 (Rupees in '000)
572,531	572,531	<b>Pakistan Export Finance Guarantee Agency Limited</b> Liquidator: Mr. Usman Khawaja Break-up value per share: Rs. 0.5 Date of financial statements: June 30, 2010 (Audited)	5,725	5,725
		Balance carried forward	<u>5,725</u>	<u>5,725</u>

2017 (Number of shares)	2016		2017 (Rupees in '000)	2016
		Balance brought forward	5,725	5,725
24	24	<b>Society for Worldwide Interbank Financial Telecommunication</b> Chief Executive: Mr. Gottfried Leibbrandt Break-up value per share: Rs. 498,730 (2013: Rs. 425,866) Date of financial statements: December 31, 2016 (Audited)	4,096	4,096
5,000,000	5,000,000	<b>Al-Hamra Avenue (Private) Limited (Related party)</b> Chief Executive: Mr. Habib Ahmed Break-up value per share: Rs. 9.52 Date of financial statements: June 30, 2010 (Un-audited)	50,000	50,000
2,223,452	2,223,452	<b>Pakistan Mobile Communication Limited (Related party)</b> Chief Executive: Mr. Aamir Ibrahim Break-up value per share: Rs. 15.18 (2016: Rs. 15.52) Date of financial statements: December 31, 2016 (Audited)	22,235	22,235
10,800,000	-	<b>AGP Pharma</b> Chief Executive: Ms. Nusrat Munshi Break-up value per share: Rs. 19.68 Date of financial statements: December 31, 2017 (Audited)	256,211	-
1,224,000	-	<b>Pakistan Mortgage Refinance Company Limited (Related party)</b> Chief Executive: Mr. N. Kokularupan Narayanasamy Break-up value per share: Rs. 10.04 Date of financial statements: December 31, 2017 (Un-audited)	12,240	-
			<u>350,507</u>	<u>82,056</u>
<b>9.12 Investments in preference shares - Listed</b>				
10,883,486	10,883,486	<b>Agritech Limited</b> Chief Executive: Mr. Faisal Muzammil Redemption: Any time after the issuance of preference shares Break-up value per share: Rs. 1.12 (2015: Rs. 12.51) Date of financial statements: December 31, 2016 (Audited)	108,835	108,835
			<u>108,835</u>	<u>108,835</u>
<b>9.13 Investments in preference shares - Unlisted</b>				
2,500,000	2,500,000	<b>Trust Investment Bank Limited</b> Chief Executive: Mr. Ahsan Rafique Redemption: Any time after the issuance of preference shares Break-up value per share: Rs. 11.08 (2016: Rs. 14.92) Date of financial statements: June 30, 2017 (Audited)	25,000	25,000
			<u>25,000</u>	<u>25,000</u>

9.14	Particulars of Term Finance Certificates - Listed	2017 (Rupees in '000)	2016
	<b>MCB Bank formerly NIB Bank Limited - (2nd Issue)</b>	99,860	99,900
	20,000 (2016: 20,000) certificates of Rs. 5,000 each		
	Mark up: Average six months KIBOR + 115 basis points per annum with no floor and cap.		
	Redemption: The TFC is structured to redeem 0.3 percent of principal semiannually in the first ninety months followed by remaining 99.70% on maturity at the end of the ninety sixth month. The repayment obligations of the issuer pursuant to the TFCs unsecured and sub-ordinated to all other financial obligations of the issuer.		
	Maturity: June 2022		
	Rating: AAA (PACRA)		
	Chief Executive: Mr. Imran Maqbool		
		<u>99,860</u>	<u>99,900</u>
9.15	<b>Particulars of Term Finance Certificates - Unlisted</b>		
	<b>Agritech Limited</b>	499,586	499,586
	100,000 (2016: 100,000) certificates of Rs. 5,000 each		
	Mark up: Average six months KIBOR (Ask Side) + 175 basis point per annum (no floor & no cap)		
	Redemption: The principal and markup repayments are overdue.		
	Maturity: July 2017		
	Rating: Unrated		
	Chief Executive: Mr. Muhammad Faisal Muzammil		
	<b>Askari Bank Limited</b>	99,880	99,920
	20,000 (2016: 20,000) certificates of Rs. 5,000 each		
	Mark up: Average six months KIBOR plus 120 basis points per annum		
	Redemption: TFC is structured to redeem 0.36% of the issue amount during the tenor of the issue with 99.64% of the issue amount in year ten in 2 equal semi annual instalments of 49.82% each. The TFCs shall be sub-ordinated to the payment of the principal and profit to all other indebtedness of the issuer including deposits, and are not redeemable before maturity without the prior approval of the State Bank of Pakistan.		
	Maturity: September 2024		
	Rating: AA (PACRA)		
	Chief Executive: Mr. Syed Majeedullah Hussaini		
	<b>Azgard Nine Limited - Note 9.15.1</b>	43,350	43,350
	20,000 (2016: 20,000) certificates of Rs.5,000 each		
	Mark-up: Average Six months KIBOR (Ask Side) + 100 basis points per annum		
	Redemption: The principal and markup repayments are overdue.		
	Maturity: December 2017		
	Rating: Unrated		
	Chief Executive: Mr. Ahmed H. Shaikh		
	Balance carried forward	<u>642,816</u>	<u>642,856</u>

	2017 (Rupees in '000)	2016
Balance brought forward	642,816	642,856
<b>Azgard Nine Limited - Note 9.15.2</b>	32,870	32,870
6,574 (2016: 6,574) certificates of Rs.5,000 each		
Mark-up: Zero Rated		
Redemption: The principal and markup repayments are overvdue.		
Maturity: March 2017		
Rating: Unrated		
Chief Executive: Mr. Ahmed H. Shaikh		
<b>Faysal Bank Limited</b>	-	74,850
Nil (2016: 30,000 certificates of Rs. 5,000 each)		
<b>Fauji Akber Portia Marine Terminals Limited (FAP) - Note 9.15.4</b>	224,499	161,408
8 certificates of various PKR denominations (2016: 6 certificates of various PKR denominations)		
Mark up: Zero rated		
Redemption: Repayment will commence after the repayment of entire principal of reduced STF facility of FAP and will be made in 3 un-equal semi-annual instalments commencing from 2021.		
Maturity: May 2022		
Rating: Unrated		
Chief Executive: Commodore (Retd) Pervaiz Ahmed Khan		
<b>New Allied Electronics - Note 9.15.3</b>	2,185	2,185
437 (2016: 437) certificates of Rs. 5,000 each		
Mark up: Average three months KIBOR plus 275 basis points		
Redemption: The principal and markup repayments are overdue.		
Maturity: May 2011		
Rating: Unrated		
Chief Executive: Mr. Zeeshan Pervaiz Akhtar		
<b>Silk Bank Limited</b>		
20,000 (2016: Nil) certificates of Rs. 5,000 each	100,000	-
Mark up: Average 6 month KIBOR plus 185 basis points per annum		
Redemption: The instrument is structured to redeem 0.14 percent of principal semi-annually during the first seven years and remaining amount in 2 equal semi-annual instalments of 49.93%. The TFCs are sub-ordinated to all other indebttness of the issuer including deposits.		
Maturity: May 2025		
Rating: A- (JCR-VIS)		
Chief Executive: Mr. Azmat Tareen		
Balance carried forward	1,002,370	914,169

	2017 (Rupees in '000)	2016
Balance brought forward	1,002,370	914,169
<b>WAPDA - Dasu Hydro Power Project</b>	694,440	-
69,444 (2016: Nil) certificates of Rs. 10,000 each		
Mark up: Average six months KIBOR plus 145 basis points per annum		
Redemption: 20 equal semi-annual installments commencing from the 66th month from the first drawdown.		
Maturity: May 2032		
Rating: AAA (PACRA)		
Chief Executive: Lieutenant General Muzammil Hussain (Retd)		
<b>Zulekha Textile Mills Limited</b>	24,680	24,680
300 (2016: 300) certificates of Rs. 100,000 each		
Mark-up: Average Six Months KIBOR + 300 basis points per annum		
Redemption: 10 equal semi-annual instalments commencing from the 24th months from first drawdown.		
Maturity: October 2019		
Rating: Unrated		
Chief Executive: Mr. Shanzae Amjad	<u>1,721,490</u>	<u>938,849</u>

**9.15.1** In the year 2012, the Bank's exposure in the TFCs of Azgard Nine Limited (ANL) amounting to Rs. 99.920 million was restructured under a Debt / Asset Swap arrangement. As per the terms of the restructuring, the Bank received 1,616,036 shares of Agritech Limited (AGL) (valued at Rs. 35 per share) as partial settlement of the ANL's TFC exposure. In addition, the Bank also injected additional equity amounting to Rs. 11.631 million for acquisition of additional 332,297 shares in AGL. Subsequent to this settlement, Bank's exposure in the TFC of ANL has reduced to Rs. 43.350 million (as reflected in note 9.15). This exposure in TFC is fully provided while investment in shares has been held at fair value.

As per the terms of agreement, AGL shares shall be held by the respective trustees for the TFC issue in their name and on behalf of the TFC Holders who shall be the beneficial owners of the subject shares in proportion to their holdings. The Trustees of the TFC issue are authorised pursuant to shareholders investors agreement to hold the said ordinary shares for and on behalf of TFC holders for a period of five years from the date of transfer. Hence, 1,616,036 shares received by the Bank are held by the trustees of the TFCs.

Under the terms of Investor's Buy-Back Agreement entered into by the Bank in 2012, the strategic investor issued a put option notice to the Bank in January 2016. The Bank being one of the financing investors has purchased 325,198 shares of AGL at a price of Rs. 35 per share.

Subsequent to the year end, in line with the term of the agreement, 1,616,036 shares of AGL have been transferred to the Bank by the Trustee of the TFC on January 29, 2018.

**9.15.2** This represents Zero Rated Term Finance Certificates of Azgard Nine Limited (ANL) received in settlement of overdue mark-up outstanding on the actual TFC exposure of the Bank, amounting to Rs. 99.920 million. The settlement was made as per the Investor Agreement entered into between ANL and the Bank. As at December 31, 2017, this investment is fully provided.

**9.15.3** These represent TFCs of New Allied Electronics amounting to Rs. 2.185 million, received partially in lieu of the fully impaired unlisted TFCs of First Dawood Investment Bank previously held by the Bank. As at December 31, 2017, this investment is fully provided.

- 9.15.4** During the year 2017, the Bank received zero rated TFCs of Fauji Akbar Portia Marine Terminal Limited (FAP) amounting to Rs. 63.091 million (2016: Rs. 59.339 million). These TFCs were received in settlement of overdue mark-up instalments on reduced STF facility of FAP. The Bank will continue to receive TFCs in settlement of mark-up to be accrued on semi-annual basis till May 2021. As at December 31, 2017, the exposure in the TFCs amounts to Rs. 224.499 million which stands fully provided.

**9.16 Investments in sukuk bonds**

Investee company	Date of Maturity	Profit rate per annum	Number of Certificates	2017 (Rupees in '000)	2016
Albaraka Turk Katilim Bankasi	June 2019	6.25%	925,697	977,192	925,697
BRR Guardian Modaraba	December 2016	1 months KIBOR	20,000	20,593	36,177
Dubai Islamic Bank	February 2022	3.66%	Not applicable	1,545,841	-
Kuveyt Turk Katilim Bankasi	June 2019	5.16%	-	-	522,993
Liberty Power Tech Limited	March 2021	3 months KIBOR plus 3.00%	100,000	254,917	297,132
Pakistan Mobile Communication Limited	December 2019	3 months KIBOR plus 0.88 %	340,000	1,133,333	1,700,000
Qatar Islamic Bank	May 2022	3.25%	Not applicable	1,656,258	-
Quetta Textile Mills Limited	September 2019	6 months KIBOR plus 1.50%	30,000	72,619	72,619
Security Leasing Corporation Limited-I	January 2022	3% Cash + 3% accrual	5,000	6,418	6,418
Security Leasing Corporation Limited-II	September 2022	6 months KIBOR plus 1.95%	35,000	52,350	52,350
Sharjah International Bank	May 2021	3.08%	418,394	441,669	418,394
Sitara Peroxide (Private) Limited	August 2016	3 months KIBOR plus 1.00%	60,000	118,052	118,052
Sui Southern Gas Company Limited	October 2019	3 months KIBOR plus 0.4%	300,000	1,500,000	1,500,000
TF Varlik Kiralama AS	April 2019	5.38%	-	-	317,005
WAPDA - Dasu Hydro Power Project	May 2032	7.60%	104,167	1,041,670	-
				<u>8,820,912</u>	<u>5,966,837</u>

- 9.17** These represent Commercial papers amounting to Rs. 90.201 million (2016: Rs. 529.280 million), Interest rate on these commercial papers is 9 months KIBOR+1% (2016: ranges between 7.75% to 9.50% per annum ), and are due for maturity upto September 2018 (2016: upto April 2017 ).

**9.18 Overseas Bonds**

Investee company	Date of Maturity	Profit rate per annum	2017 (Rupees in '000)	2016
ABQ Finance Limited	February 22, 2022	3.50%	549,512	-
ADCB Finance Cayman Ltd	-	-	-	1,045,995
Africa Finance Corp	April 29, 2020	4.38%	219,322	-
African Import Export	May 24, 2021	4.00%	548,143	518,251
Afrin 2020	June 24, 2020	3.90%	659,321	623,371
Burgan Senior SPC Limited	September 14, 2021	3.13%	439,332	415,625
Deutsche Bank AG	March 17, 2025	1.13%	264,092	216,011
Gulf International Bank	March 25, 2022	3.50%	879,304	-
Halk Bank	-	-	-	521,933
Qatar National Bank	September 7, 2021	3.05%	214,443	812,695
RAK Funding Cayman Limited	-	-	-	208,412
TC Zirrati Bankasi A.S	-	-	-	260,908
Turkey Halk Bankasi	-	-	-	52,281
Turkey IS Bankasi A.S	June 25, 2021	5.00%	328,896	310,991
Turkey Sanai	May 18, 2021	4.88%	54,911	51,945
Türkiye Garanti Bankasi A.S	July 8, 2019	3.38%	396,138	326,014
Union National Bank	-	-	-	552,199
			4,553,414	5,916,631

- 9.19** These represents redeemable participating certificates amounting to USD 10.267 million (2016 USD 4.8 million) issued by Baltoro Growth Fund, registered in Mauritius. The fund has a life of ten years and distributions would be made at the end of the life.

## 9.20 Particulars of investment in subsidiaries

The paid up value of these shares / units is Rs. 10 unless otherwise stated.

2017 (Number of shares / units)	2016		2017 (Rupees in '000)	2016
-	1,050,926	<b>Alfalalah GHP Cash Fund</b>	-	525,474
13,049,070	13,049,070	<b>Alfalalah GHP Investment Management Limited</b> Percentage of holding: 40.22% (2016: 40.22%) Break-up value per share: Rs. 21.35 (2015: Rs. 16.24) Date of un-audited financial statements: December 31, 2017 Chief Executive: Ms. Maheen Rehman	130,493	130,493
24,478,043	112,600,000	<b>Alfalalah Securities (Private) Limited - Note 9.24.1</b> Percentage of holding: 97.91% (2016: 97.91%) Break-up value per share: Rs. 9.27 (2016: Rs. 1.98) Date of un-audited financial statements: December 31, 2017 Chief Executive: Atif Mohammed Khan	300,000	1,126,000
			<u>430,493</u>	<u>1,781,967</u>

## 9.21 Particulars of investments in associates

The paid up value of these shares / units is Rs. 10 unless otherwise stated.

2017 (Number of shares / units)	2016		2017 (Rupees in '000)	2016
-	5,481,236	<b>Alfalalah GHP Income Multiplier Fund</b>	-	250,000
-	5,590,077	<b>Alfalalah GHP Islamic Stock Fund</b>	-	250,000
-	567,660	<b>Alfalalah GHP Money Market Fund</b>	-	55,153
-	1,978,187	<b>Alfalalah GHP Sovereign Fund</b>	-	200,000
14,997,825	14,997,825	<b>Alfalalah Insurance Limited</b> Percentage of holding: 30% (2016: 30%) Break-up value per share: Rs. 21.14 (2016: Rs. 19.70) Date of un-audited financial statements: December 31, 2017 Chief Executive: Mr. Nasar us Samad Qureshi	68,990	68,990
97,812,317	97,812,317	<b>Sapphire Wind Power Company Limited</b> Percentage of holding: 30% (2016: 30%) Break-up value per share: Rs. 15.63 (2016: Rs. 12.19) Date of un-audited financial statements: December 31, 2017 Chief Executive: Mr. Nadeem Abdullah	978,123	978,123
76,922,999	-	<b>TriconBoston Consulting Corporation (Private) Limited</b> Percentage of holding: 9.25% Break-up value per share: Rs. 9.80 Date of un-audited financial statements: December 31, 2017 Chief Executive: Nadeem Abdullah	769,230	-
			<u>1,816,343</u>	<u>1,802,266</u>

	2017 (Rupees in '000)	2016
<b>9.22 Particulars of Assets and Liabilities of Subsidiaries and Associates</b>		
<b>SUBSIDIARIES</b>		
<b>Alfalalah Securities (Private) Limited</b>		
Date of un-audited financial statements: December 31, 2017		
Assets	929,124	1,150,647
Liabilities	697,447	922,533
Revenue	192,868	92,430
Profit / (loss) for the year	19,537	(36,811)
<b>Alfalalah GHP Investment Management Limited</b>		
Date of un-audited financial statements: December 31, 2017		
Assets	947,545	760,053
Liabilities	254,687	225,661
Revenue	539,105	394,273
Profit for the year	164,739	90,184
<b>ASSOCIATES</b>		
<b>Alfalalah Insurance Limited</b>		
Date of un-audited financial statements: December 31, 2017		
Assets	3,169,013	2,781,815
Liabilities	2,111,909	1,851,276
Revenue	187,093	173,803
Profit for the year	122,720	126,723
<b>Sapphire Wind Power Company Limited</b>		
Date of un-audited financial statements: December 31, 2017		
Assets	13,782,491	13,634,295
Liabilities	8,685,366	9,658,325
Revenue for the six months period	1,184,593	873,864
Profit for the six months period - after tax	468,632	155,593
<b>TriconBoston Consulting Corporation (Private) Limited</b>		
Date of un-audited financial statements: December 31, 2017		
Assets	24,253,943	-
Liabilities	16,107,746	-
Revenue for the six months period	161	-
(Loss) for the six months period - after tax	(35,196)	-

## 9.23 Quality of available for sale securities

	Market value		Cost		Long / Medium Term Credit Rating	Rated by
	2017	2016	2017	2016		
----- (Rupees in '000) -----						
Market Treasury Bills	162,802,351	38,574,968	162,885,001	38,584,821	(Unrated - Government Securities)	
Pakistan Investmet Bonds	111,245,404	213,763,528	108,088,932	207,087,470	(Unrated - Government Securities)	
Term Finance Certificates						
Askari Bank Limited	100,113	101,769	99,880	99,920	AA	PACRA
MCB Bank formerly						
NIB Bank Limited - (2nd Issue)	101,413	101,034	99,860	99,900	AAA	PACRA
Faysal Bank Limited	-	75,457	-	74,850	AA	PACRA
Silk Bank Limited	89,740	-	100,000	-	A-	JCR-VIS
WAPDA - Dasu Hydro Power Project	694,440	-	694,440	-	AAA	PACRA
New Allied Electronics *	Not Applicable	Not Applicable	2,185	2,185	----- (Unrated) -----	
Fauji Akbar Portia Marine						
Terminals Limited *	Not Applicable	Not Applicable	224,499	161,408	----- (Unrated) -----	
Azgard Nine Limited *	Not Applicable	Not Applicable	43,350	43,350	----- (Unrated) -----	
Azgard Nine Limited (Zero rated) *	Not Applicable	Not Applicable	32,870	32,870	----- (Unrated) -----	
	985,706	278,260	1,297,084	514,483		

\* These Term Finance Certificates are quoted, however due to absence of trading their market value is not available. Adequate provision has been made against these certificates.

### Shares in Listed Companies / Certificates / Units

Agritech Limited	11,072	28,828	17,909	17,909	------(Unrated)-----	
Allied Bank Limited	-	106,300	-	88,485	AA+	PACRA
Amreli Steels Limited	176,054	86,567	167,071	69,969	A	PACRA
Altern Energy Limited	79,544	9,116	73,633	7,949	------(Unrated)-----	
Abbot Laboratories (Pakistan) Limited	-	287,127	-	255,055	------(Unrated)-----	
Agriauto Industries Limited	119,258	212,002	123,882	139,293	------(Unrated)-----	
Attock Petroleum Limited	6,669	95,847	6,790	74,552	------(Unrated)-----	
Bank Al Habib Limited	73,621	324,445	51,852	226,069	AA+	PACRA
Cherat Cement Company Limited	147,100	121,828	170,278	103,254	A	PACRA
Cherat Packaging Limited	-	43,566	-	48,034	------(Unrated)-----	
Dolmen City Real Estate						
Investment Trust (REIT)	457,843	452,432	457,843	457,843	RR1	JCR-VIS
Engro Fertilizer Limited	-	254,619	-	277,450	AA-	PACRA
Engro Corporation Limited	402,261	458,330	444,315	397,140	AA	PACRA
Fatima Fertilizer Limited	-	44,268	-	37,184	AA-	PACRA
Fauji Bin Qasim Limited	-	226,835	-	232,669	------(Unrated)-----	
Fauji Cement Company Limited	193,577	49,588	218,265	40,218	------(Unrated)-----	
Fauji Fertilizer Company Limited	-	195,694	-	232,121	AA	PACRA
First Dawood Investment Bank Limited	3,025	6,501	15,000	15,000	------(Unrated)-----	
Habib Metropolitan Bank Limited	144,900	-	138,821	-	AA+	PACRA
Kot Addu Power Company Limited	-	153,069	-	148,452	AA+	JCR-VIS
K-Electric Limited	4,209	-	4,015	-	AA	JCR-VIS
Lucky Cement Limited	565,115	779,634	653,764	452,197	------(Unrated)-----	
DG Khan Cement Limited	575,304	443,460	629,071	281,352	------(Unrated)-----	
Habib Bank Limited	-	485,019	-	331,519	AAA	JCR-VIS
MCB Bank Limited	155,843	219,984	147,136	230,466	AAA	PACRA
Nishat (Chunian) Power Company Limited	113,523	221,920	115,727	132,117	------(Unrated)-----	
Nishat Power Company Limited	205,462	160,225	222,999	106,994	A+	PACRA
Oil & Gas Development Corporation Limited	506,277	330,700	476,564	279,433	AAA	JCR-VIS
Pakistan Oilfields Limited	265,605	253,945	232,365	147,629	------(Unrated)-----	
Pioneer Cement Limited	69,432	351,673	80,869	300,277	A	PACRA
Pakistan Petroleum Limited	164,728	111,365	126,698	75,012	------(Unrated)-----	
Balance carried forward	4,440,422	6,514,887	4,574,867	5,205,642		

	Market value		Cost		Long / Medium Term Credit Rating	Rated by
	2017	2016	2017	2016		
----- (Rupees in '000) -----						
Balance brought forward	4,440,422	6,514,887	4,574,867	5,205,642		
Thal Limited	-	101,706	-	83,906	----- (Unrated) -----	
Pakistan State Oil Company Limited	263,799	217,105	284,049	185,526	AA	PACRA
The Hub Power Company Limited	409,500	648,269	439,587	449,037	AA+	PACRA
United Bank Limited	413,534	430,020	474,755	299,826	AAA	JCR-VIS
Visa Shares	597,510	387,310	-	-	----- (Unrated) -----	
	6,124,765	8,299,297	5,773,258	6,223,937		
<b>Shares in Un-listed Companies</b>						
Pakistan Export Finance Guarantee Agency Limited	Not Applicable		5,725	5,725	----- (Unrated) -----	
Society for Worldwide Interbank Financial Telecommunication	Not Applicable		4,096	4,096	----- (Unrated) -----	
Al-Hamra Avenue (Private) Limited	Not Applicable		50,000	50,000	----- (Unrated) -----	
Pakistan Mobile Communication Limited	Not Applicable		22,235	22,235	AA-	PACRA
AGP Pharma	Not Applicable		256,211	-	----- (Unrated) -----	
Pakistan Mortgage Refinance Company Limited	Not Applicable		12,240	-	----- (Unrated) -----	
			350,507	82,056		
<b>Preference Shares in Listed Companies</b>						
Agriotech Limited	Not Applicable		108,835	108,835	----- (Unrated) -----	
<b>Preference Shares in Un-listed Companies</b>						
Trust Investment Bank Limited	Not Applicable		25,000	25,000	----- (Unrated) -----	
<b>Commercial Papers</b>						
U Micro finance Bank Limited	90,201	-	90,201	-	A-	JCR-VIS
<b>Overseas Bonds</b>						
Kingdom of Bahrain Bond	-	545,314	-	553,251	BB+	Fitch
Kazakistan Sovereign Bond	-	315,076	-	309,038	BBB	Fitch
State of Qatar 2026	-	1,010,354	-	1,035,677	AA-	Fitch
Oman International Bond 2021	-	1,045,906	-	1,044,923	BBB-	S&P
Oman International Bond 2026	-	1,210,450	-	1,245,414	BBB-	S&P
Republic of Sri lanka (2022)	-	152,043	-	156,898	B+	Fitch
Republic of Indonesia (2027)	-	156,959	-	156,261	BBB	Fitch
Republic of Indonesia (2022)	-	52,536	-	52,179	BBB	Fitch
Saudi International Bond	-	1,028,153	-	1,032,378	A+	Fitch
Abu Dhabi Commercial Bank Cayman Limited	-	1,047,062	-	1,045,995	A+	Fitch
United Mexican State	-	53,781	-	55,069	BBB+	Fitch
Indonesia Government Bond	-	226,902	-	218,302	BBB-	Fitch
Republic of Indonesia 2023 (Euro)	-	55,712	-	54,825	BB+	S&P
Kingdom of Saudi Arabia	-	913,644	-	932,332	AA-	Fitch
Qatar 21	-	512,815	-	517,972	AA	Fitch
Qatar 26	-	202,221	-	207,291	AA	Fitch
TC Zirrat Bankasi A.S	-	257,677	-	260,908	BBB-	Fitch
Turkiye Halk Bankasi	-	51,493	-	52,281	BBB-	Fitch
RAK Funding Cayman Limited	-	209,189	-	208,412	BBB+	Fitch
Turkiye IS Bankasi A.	332,411	298,865	328,896	310,991	BB+	Fitch
Turkiye Garanti Bankasi A.S	406,743	330,617	396,138	326,014	BBB-	Fitch
Africa Finance Corporation	222,853	644,304	219,322	623,370	A3	Moody's
Deutsche Bank	271,162	207,408	264,092	216,011	BBB+	Fitch
Turkey Sanai	54,861	48,965	54,911	51,945	BB+	Fitch
Halk Bank 21	-	514,499	-	521,933	BBB-	Fitch
Balance carried forward	1,288,030	11,091,945	1,263,359	11,189,670		

	Market value		Cost		Long / Medium Term Credit Rating	Rated by
	2017	2016	2017	2016		
	------(Rupees in '000) -----					
Balance carried forward	1,288,030	11,091,945	1,263,359	11,189,670		
Burgan Senior SPC Limited	439,827	412,850	439,332	415,625	A+	Fitch
Qatar National Bank	211,064	497,486	214,443	502,176	A+	Fitch
Union National Bank	-	540,718	-	552,199	A+	Fitch
Afrin 2020	682,338	-	659,322	-	BB+	Fitch
Gulf Investment	883,028	-	879,304	-	A2	Moody's
ABQ Finance	541,326	-	549,512	-	BBB+	Fitch
	4,045,613	12,542,999	4,005,272	12,659,670		
Pakistan Euro Bonds	2,386,528	2,790,198	2,281,177	2,688,770	B	Fitch
<b>Redeemable Participating Certificates</b>						
Baltoro Growth Fund	1,133,659	501,938	1,133,659	501,938	------(Unrated)-----	
<b>Sukuk Bonds</b>						
Pakistan Sukuk Bond 19	996,778	964,535	959,942	909,084	B	Fitch
Pakistan Sukuk Bond 21	3,233,640	4,273,644	3,202,099	4,183,940	B	Fitch
TF Varlik Kiralama AS	-	321,644	-	317,005	BBB	Fitch
Kuveyt Turk Katilim Bankasi	-	534,917	-	522,992	BBB	Fitch
Albaraka Turk Katilim Bankasi	972,658	923,623	977,192	925,697	BB-	S&P
Sharjah International Bank	439,186	414,984	441,669	418,394	A3	Moody's
Dubai Islamic Bank UH Sukuk	1,564,545	-	1,545,841	-	A3	Moody's
Qatar Islamic Bank Sukuk	1,607,846	-	1,656,258	-	A	Fitch
Pakistan International Sukuk	-	534,173	-	535,094	B	Fitch
Indonesia Sovereign	-	524,687	-	524,754	BBB-	Fitch
South Africa Sovereign	-	424,448	-	418,394	BBB-	Fitch
Turkey Sukuk	-	355,372	-	366,095	BBB-	Fitch
Kingdom of Bahrain	553,999	536,643	552,041	522,993	BB+	Fitch
GoP - Ijara Sukuk XVI	20,664,083	21,021,100	20,518,921	20,519,468	------(Unrated)-----	
GoP - Ijara Sukuk XVII	5,675,600	5,782,560	5,603,700	5,606,994	------(Unrated)-----	
GoP - Ijara Sukuk XVIII	4,029,600	4,080,400	4,000,000	4,000,000	------(Unrated)-----	
Neelam Jehlum Hydel Power Company	2,600,000	2,600,000	2,600,000	2,600,000	AAA	JCR-VIS
WAPDA Sukuk III	1,014,991	1,267,973	971,429	1,214,286	------(Unrated)-----	
Security Leasing Corporation Limited I	Not Applicable	Not Applicable	6,418	6,418	------(Unrated)-----	
Security Leasing Corporation Limited II	Not Applicable	Not Applicable	23,105	23,105	------(Unrated)-----	
Quetta Textile Mills limited	Not Applicable	Not Applicable	72,619	72,619	------(Unrated)-----	
	43,352,926	44,560,703	43,131,234	43,687,332		

		2017 (Rupees in '000)	2016
<b>9.24</b>	<b>Particulars of provision for diminution in value of investments - net</b>		
	Opening balance	2,079,781	6,345,811
	Charge for the year	189,997	100,766
	Reversals during the year	(15,584)	-
		174,413	100,766
	Provision adjusted during the year	(904,864)	(4,366,796)
	Closing balance	1,349,330	2,079,781
<b>9.24.1</b>	In the EOGM held on November 20, 2015, the members of Alfalah Securities (Private) Limited had resolved to reduce the paid up capital of the company from Rs. 1,150 million (115 million ordinary shares of Rs.10 each) to Rs. 250 million (25 million ordinary shares of Rs. 10 each). The reduction was affected in the current year, whereby the paid-up capital of the company was reduced by Rs. 900 million, by cancelling 90 million ordinary shares of the company without payment of any amount to the shareholders.		
	This reduction of capital was carried out pursuant to the provision of Section 96 of the repealed Companies Ordinance, 1984 and was confirmed by the High Court of Sindh at Karachi on March 14, 2017.		
	Pursuant to the aforementioned capital reduction exercise, the Bank has fully adjusted the provision held against its investment in the subsidiary, amounting to Rs. 826 million during the year ended December 31, 2017.		
	<b>Note</b>	<b>2017</b>	<b>2016</b>
		<b>(Rupees in '000)</b>	
<b>9.25</b>	<b>Particulars of provision for diminution in value of investments by type and segment</b>		
	<b>Available for sale securities</b>		
	<b>Listed companies / mutual funds</b>		
	- <b>Fully paid up ordinary shares / units</b>		
	- First Dawood Investment Bank Limited	15,000	15,000
	- <b>Preference shares</b>		
	- Agritech Limited	108,835	108,835
	<b>Unlisted companies</b>		
	- <b>Fully paid up ordinary shares of Rs. 10 each</b>		
	- AGP Limited	43,632	-
	- Al-Hamra Avenue (Private) Limited	50,000	50,000
	- Pakistan Export Finance Guarantee Agency Limited	5,725	5,725
	- Pakistan Mobile Communications Limited (Related party)	3,936	3,936
	<b>Unlisted securities</b>		
	- <b>Term finance certificates / sukuks</b>		
	- Azgard Nine Limited	76,220	76,220
	- Fauji Akbar Portia Marine Terminals Limited	224,499	161,407
	- New Allied Electronics	2,185	2,185
	- Quetta Textile Mills Limited	72,619	72,619
	- Security Leasing Corporation Limited I	6,418	6,418
	- Security Leasing Corporation Limited II	23,105	23,105
	- <b>Preference shares</b>		
	- Trust Investment Bank Limited	25,000	25,000
	<b>Held to maturity securities</b>		
	<b>Unlisted securities</b>		
	- <b>Term finance certificates / sukuk bonds</b>		
	- Agritech Limited	499,586	499,586
	- BRR Guardian Modaraba	20,593	36,177
	- Security Leasing Corporation Limited	29,245	29,245
	- Sitara Peroxide (Private) Limited	118,052	113,643
	- Zulekha Textile Mills	24,680	24,680
	<b>Investment in subsidiaries</b>		
	<b>Unlisted company</b>		
	- <b>Fully paid up ordinary shares of Rs. 10 each</b>		
	- Alfalah Securities (Private) Limited (Related party)	9.24.1	826,000
		1,349,330	2,079,781

**9.26 Unrealised gain / (loss) on revaluation of investments classified as held for trading - net**

	Unrealised gain / (loss)		Cost	
	2017	2016	2017	2016
	------(Rupees in '000)-----			
Market Treasury Bill	(11,486)	(3,790)	22,759,650	14,120,130
Pakistan Investment Bonds	-	(441)	-	20,207
Overseas Bonds	5,125	(16,137)	19,443	549,615
Fully paid up ordinary shares / units - Listed	(990)	20,477	28,140	740,776
	<u>(7,351)</u>	<u>109</u>	<u>22,807,233</u>	<u>15,430,728</u>

	Note	2017 (Rupees in '000)	2016 (Rupees in '000)
<b>10 ADVANCES - NET</b>			
Loans, cash credits, running finances, etc.			
In Pakistan		331,070,523	309,121,955
Outside Pakistan		<u>14,338,182</u>	<u>13,181,132</u>
		345,408,705	322,303,087
Net investment in finance lease			
In Pakistan	10.2	<u>4,090,945</u>	<u>4,181,047</u>
Outside Pakistan		-	-
		4,090,945	4,181,047
Islamic financing and related assets (gross)	10.3	56,880,169	57,908,118
Bills discounted and purchased (excluding market treasury bills)			
Payable in Pakistan		<u>5,444,779</u>	<u>5,033,339</u>
Payable outside Pakistan		<u>5,357,334</u>	<u>6,437,71</u>
		10,802,113	11,471,057
	10.1	<u>417,181,932</u>	<u>395,863,309</u>
Provision against advances			
Specific provision against non-performing loans and advances	10.5	<u>(15,683,771)</u>	<u>(16,366,993)</u>
General provision against advances	10.5	<u>(842,737)</u>	<u>(775,967)</u>
		(16,526,508)	(17,142,960)
		<u>400,655,424</u>	<u>378,720,349</u>
<b>10.1 Particulars of advances - gross of provisions</b>			
In local currency		391,178,231	362,259,686
In foreign currencies		<u>26,003,701</u>	<u>33,603,623</u>
		<u>417,181,932</u>	<u>395,863,309</u>
Short term (upto one year)		263,051,133	249,579,074
Long term (over one year)		<u>154,130,799</u>	<u>146,284,235</u>
		<u>417,181,932</u>	<u>395,863,309</u>

**10.2 Net investment in finance lease**

	2017				2016			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	------(Rupees in '000)-----							
Lease rentals receivable	925,485	2,089,153	70,316	3,084,954	501,660	2,568,669	55,185	3,125,514
Residual value	370,194	911,824	40,100	1,322,118	146,820	1,237,330	-	1,384,150
Minimum lease payments	1,295,679	3,000,977	110,416	4,407,072	648,480	3,805,999	55,185	4,509,664
Financial charges for future periods	(94,838)	(220,262)	(1,027)	(316,127)	(48,731)	(276,485)	(3,401)	(328,617)
Present value of minimum lease payments	1,200,841	2,780,715	109,389	4,090,945	599,749	3,529,514	51,784	4,181,047

**10.3** These represents financing and related assets placed under shariah permissible modes and presented in note A-II.1 and A-II.2

**10.4** Advances include Rs. 17,579 million (2016: Rs. 19,019 million) which have been placed under non-performing status as detailed below:

	2017								
	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	------(Rupees in '000)-----								
<b>Category of Classification</b>									
Other Assets Especially									
Mentioned (Agri Financing)	84,960	-	84,960	4,979	-	4,979	4,979	-	4,979
Substandard	1,359,006	-	1,359,006	338,582	-	338,582	338,582	-	338,582
Doubtful	1,854,513	-	1,854,513	1,245,152	-	1,245,152	1,245,152	-	1,245,152
Loss	13,977,344	303,018	14,280,362	13,836,719	258,339	14,095,058	13,836,719	258,339	14,095,058
	17,275,823	303,018	17,578,841	15,425,432	258,339	15,683,771	15,425,432	258,339	15,683,771

  

	2016								
	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	------(Rupees in '000)-----								
<b>Category of Classification</b>									
Other Assets Especially									
Mentioned (Agri Financing)	149,224	-	149,224	4,318	-	4,318	4,318	-	4,318
Substandard	2,336,995	-	2,336,995	577,634	-	577,634	577,634	-	577,634
Doubtful	1,990,208	-	1,990,208	1,483,906	-	1,483,906	1,483,906	-	1,483,906
Loss	14,223,167	318,921	14,542,088	14,061,997	239,138	14,301,135	14,061,997	239,138	14,301,135
	18,699,594	318,921	19,018,515	16,127,855	239,138	16,366,993	16,127,855	239,138	16,366,993

**10.5 Particulars of provisions against non-performing loans and advances**

	Note	2017			2016		
		Specific	General	Total	Specific	General	Total
		------(Rupees in '000)-----					
Opening balance		16,366,993	775,967	17,142,960	15,452,555	739,904	16,192,459
Exchange adjustment and other movements		2,221	(9,425)	(7,204)	347	(1,135)	(788)
Charge for the year		2,230,902	169,445	2,400,347	3,408,125	157,643	3,565,768
Reversals / recoveries during the year		(2,741,259)	(93,250)	(2,834,509)	(2,362,817)	(120,445)	(2,483,262)
		(510,357)	76,195	(434,162)	1,045,308	37,198	1,082,506
Amounts written off	10.6.1	(175,086)	-	(175,086)	(131,217)	-	(131,217)
Closing balance		15,683,771	842,737	16,526,508	16,366,993	775,967	17,142,960

**10.5.1** The additional profit arising from availing the forced sales value (FSV) benefit - net of tax at December 31, 2017 which is not available for distribution as either cash or stock dividend to shareholders/ bonus to employees amounted to Rs. 29.899 million (2016: Rs. 95.817 million).

**10.5.2** General provision against consumer loans represents provision maintained at an amount equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by the Prudential Regulations issued by the State Bank of Pakistan. General reserve of at least 1% of the secured performing SE portfolio and 2% of the unsecured performing SE portfolio is also maintained as required under Prudential Regulations for Small and Medium Enterprise Financing

**10.5.3** Exposure amounting to Rs. 8.421 billion relating to certain facilities of Power Holding (Private) Limited, which is guaranteed by the Government of Pakistan, has not been classified as non-performing, pursuant to a relaxation given by SBP in this respect. The relaxation is valid upto December 31, 2017.

#### 10.5.4 Particulars of provisions against advances

	2017			2016		
	Specific	General	Total	Specific	General	Total
----- (Rupees in '000) -----						
In local currency	15,425,432	701,035	16,126,467	16,127,855	655,224	16,783,079
In foreign currencies	258,339	141,702	400,041	239,138	120,743	359,881
	15,683,771	842,737	16,526,508	16,366,993	775,967	17,142,960

10.5.5 Although the Bank has made provision against its non-performing portfolio as per the category of classification of the loan, the Bank holds enforceable collateral in the event of recovery through litigation. These securities comprise of charge against various tangible assets of the borrower including land, building and machinery, stock in trade etc.

10.6	Particulars of write-offs	2017 (Rupees in '000)	2016 (Rupees in '000)
10.6.1	Against provisions	175,086	131,217
	Directly charged to profit and loss account	-	-
		<u>175,086</u>	<u>131,217</u>
10.6.2	Write offs of Rs. 500,000 and above	113,741	75,143
	Write offs of below Rs. 500,000	61,345	56,074
		<u>175,086</u>	<u>131,217</u>
10.7	Details of loans written-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 loans written-off or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2017 is given in Annexure-I.

10.8	Particulars of loans and advances to directors, executives, associated companies, etc.	Note	2017 (Rupees in '000)	2016 (Rupees in '000)
	Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons			
	- Balance at beginning of the year		6,273,449	5,735,039
	- Loans granted during the year		3,768,906	2,722,298
	- Repayments during the year		(3,513,141)	(2,183,888)
	- Balance at end of the year		<u>6,529,214</u>	<u>6,273,449</u>
	Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members			
	- Balance at beginning of the year		3,308,831	1,499,410
	- Loans granted during the year		10,746,475	5,374,930
	- Repayments during the year		(9,554,990)	(3,565,509)
	- Balance at end of the year		<u>4,500,316</u>	<u>3,308,831</u>
	Debts due by subsidiary company, controlled firms, managed modarabas and other related parties			
	- Balance at beginning of the year		4,731,405	4,840,040
	- Loans granted during the year		4,874,252	16,687,444
	- Repayments during the year		(6,514,646)	(16,796,079)
	- Balance at end of the year		<u>3,091,011</u>	<u>4,731,405</u>
	Total		<u>14,120,541</u>	<u>14,313,685</u>
11	OPERATING FIXED ASSETS			
	Capital work-in-progress	11.1	209,328	775,408
	Property and equipment	11.2	16,076,088	16,098,712
	Intangible assets	11.3	1,342,581	1,259,147
			<u>17,627,997</u>	<u>18,133,267</u>
11.1	Capital work-in-progress			
	Civil works		14,816	292,809
	Equipment		43,868	34,439
	Intangibles		129,689	397,849
	Advances to suppliers and contractors		12,968	54,015
	Others		7,987	1,496
			<u>209,328</u>	<u>780,608</u>
	Provision against capital work-in-progress		-	(5,200)
			<u>209,328</u>	<u>775,408</u>

## 11.2 Property and equipment

Description	2017													
	Cost / revaluation as at January 1, 2017	Additions / (disposals) / *adjustments	Surplus on revaluation / (adjustment against accumulated depreciation)	Write Off Cost	Cost of assets held for sale	Cost / Revaluation as at December 31, 2017	Accumulated depreciation as at January 1, 2017	Depreciation/ Impairment for the year / (on disposal) / *adjustments	Depreciation on Revaluation	Write Off Accumulated Depreciation	Accumulated depreciation on assets held for sale	Accumulated depreciation as at December 31, 2017	Net book value as at December 31, 2017	Rate of depreciation %
------(Rupees in '000)----- per annum														
Office premises	5,732,324	206,273	-	-	-	5,904,407	82,594	80,077	-	-		162,671	5,741,736	2.5%
		(34,190)		-				-	-	-				
		* -		-				* -	-	-				
Revaluation	5,435,838	-		-	-	5,419,868	49,995		49,800	-		99,569	5,320,299	2.5%
		(15,970)		-				(226)	-	-				
		* -		-				* -	-	-				
	11,168,162	206,273	-		-	11,324,275	132,589	80,077	49,800	-		262,240	11,062,035	
		(50,160)	-					(226)		-				
		* -	-					* -		-				
Lease hold	4,802,297	518,612	-	-		5,110,322	3,200,899	329,842	-	-		3,375,387	1,734,935	10%-20%
improvements		(1,633)		(156,636)				(1,203)		(119,147)				
		* (17,320)			(34,998)			* (939)			(34,065)			
Furniture and	1,975,248	26,106	-	-		1,973,238	1,423,640	141,091	-	-		1,541,720	431,518	10%- 25%
fixtures		(7,531)		(4,033)				(6,356)		(3,950)				
		* 1,061			(17,613)			* 1,014			(13,719)			
Office equipment	10,364,540	1,058,880	-	-		11,155,314	7,630,817	1,140,613	-	-		8,509,580	2,645,734	12.5%- 50%
		(223,005)		(3,044)				(215,888)		(3,019)				
		* 14,150			(56,207)			* 6,173			(49,116)			
Vehicles	413,895	123,575	-	-		429,009	237,486	78,197	-	-		227,143	201,866	25%
		(93,878)						(73,981)						
		* 813			(15,396)			* 837			(15,396)			
	28,724,142	1,933,446	-	-	-	29,992,158	12,625,431	1,769,820	49,800	-	-	13,916,070	16,076,088	
		(376,207)	-	(163,713)	-			(297,654)	-	(126,116)	-			
		* (1,296)		-	(124,214)			* 7,085		-	(112,296)			

Description	2016													
	Cost / revaluation as at January 1, 2016	Additions / (disposals) / *adjustments	Surplus on revaluation / (adjustment against accumulated depreciation)	Write Off Cost		Cost / Revaluation as at December 31, 2016	Accumulated depreciation as at January 1, 2016	Depreciation/ Impairment for the year / (on disposal) / *adjustments	Depreciation on Revaluation	Write Off Accumulated Depreciation		Accumulated depreciation as at December 31, 2016	Net book value as at December 31, 2016	Rate of depreciation %
----- (Rupees in '000) ----- per annum														
Office premises	4,893,362	751,091  (36,519)  ** 124,390	-	-  -  -		5,732,324	-	75,982  -  ** 6,611	-  -  -	-  -  -		82,593	5,649,731	2.5%
Revaluation	5,399,467	-  (11,191)  ** 47,562	-	-  -  -		5,435,838	-	-  -  -	49,995  -  -	-  -  -		49,995	5,385,843	2.5%
	10,292,829	751,091  (47,710)  ** 171,952	-			11,168,162	-	75,982  -  ** 6,611	49,995	-  -  -		132,588	11,035,574	
Lease hold improvements	4,777,757	160,912  (1,516)  * (6,760)	-	-  (128,096)		4,802,297	2,909,432	336,691  (1,471)  * (6,363)	-  -  -	-  (37,390)		3,200,899	1,601,398	10% - 20%
Furniture and fixtures	1,944,494	62,931  (32,408)  * 231	-	-		1,975,248	1,291,442	158,338  (26,332)  * 192	-	-		1,423,640	551,608	10% - 25%
Office equipment	9,422,103	1,155,990  (207,925)  * (5,628)	-	-		10,364,540	6,834,037	1,006,830  (203,656)  * (6,394)	-	-		7,630,817	2,733,723	20% - 25%
Vehicles	347,956	144,518  (78,646)  * 67	-	-		413,895	252,612	63,425  (78,646)  * 95	-	-		237,486	176,409	25%
	26,785,139	2,275,442  (368,205)  * 159,862	-	-  (128,096)		28,724,142	11,287,523	1,641,266  (310,105)  * (5,859)	49,995  -  -	-  (37,390)  -		12,625,430	16,098,712	

\*\* This includes cost and surplus of two properties transferred from non-banking assets acquired in satisfaction of claims

- 11.2.1** Included in cost of property and equipment are fully depreciated items still in use have cost of Rs. 8,644.77 million (2016: Rs. 7,611.24 million).
- 11.2.2** Office premises were last revalued on December 31, 2015 on the basis of market values determined by independent valuer M/s. Akbani & Javed Associates, M/s. Harvester Services (Private) Limited and M/s. Asif Associates (Private) Limited. Had there been no revaluation, the net book value of the office premises would have been Rs. 5,741.736 million (2016: Rs. 5,649.731 million).
- 11.2.3** During the year, the management of the Bank has revised its estimate of the useful life of ATM machines, which have been increased from 5 years to 8 years. The revision has been made after taking into account the expected pattern of recovery of economic benefits associated with the use of these assets. The revision has been accounted for as a change in accounting estimate as defined in International Accounting Standards. Had the revision in useful life of ATMs not been made, depreciation expense for the year would have been higher by Rs. 37.422 million and consequently profit before taxation would have been lower by the same amount. The revision would have almost similar effect on next year's profit.
- 11.2.4** The Companies Act, 2017, which shall be applicable for financial periods beginning on 1 January 2018, shall require a change in accounting policy related to surplus on revaluation of fixed assets. Under the new requirement, the treatment of such surplus shall be in line with the requirements of IAS 16 – Property, plant and equipment, since Section 235 of the repealed Companies Ordinance, 1984 has not been carried forward in the Companies Act, 2017. This change will result in retrospective restatement of retained earnings, which shall be lower by Rs. 45.583 million.

**11.3 Intangible assets**

Description	2017							Book value as at December 31, 2017	Rate of amortisation %
	Cost			Accumulated Amortisation					
	As at January 1, 2017	Additions/ (deletions)/ *adjustment	As at December 31, 2017	As at January 1, 2017	Amortisation (deletions) / *adjustment	As at December 31, 2017			
------(Rupees in '000)-----									per annum
Computer software	2,918,660	529,449	3,446,404	1,659,513	446,135	2,103,823	1,342,581	20%	
		-			-				
		* (1,705)			* (1,825)				
Goodwill	56,031	-	56,031	56,031	-	56,031	-		
	2,974,691	529,449	3,502,435	1,715,544	446,135	2,159,854	1,342,581		
		-			-				
		* (1,705)			* (1,825)				
Description	2016							Book value as at December 31, 2016	Rate of amortisation %
	Cost			Accumulated Amortisation					
	As at January 1, 2016	Additions/ (deletions)/ *adjustment	As at December 31, 2016	As at January 1, 2016	Amortisation (deletions) / *adjustment	As at December 31, 2016			
------(Rupees in '000)-----									per annum
Computer software	2,341,848	578,813	2,918,660	1,302,477	357,473	1,659,513	1,259,147	20%	
		-			-				
		* (2,001)			* (437)				
Goodwill	56,031	-	56,031	56,031	-	56,031	-	-	
	2,397,879	578,813	2,974,691	1,358,508	357,473	1,715,544	1,259,147		
		-			-				
		* (2,001)			* (437)				

- 11.3.1** Included in cost of intangible assets are fully amortized items still in use having cost of Rs. 1,010.07 million (2016: Rs. 836.84 million)

#### 11.4 Details of disposals of operating fixed assets

Details of disposals of operating fixed assets having cost of more than Rs. 1,000,000 or net book value of Rs. 250,000 or above are given below:

Description	Cost	Accumulated depreciation	Net book Value	Sale proceeds	Mode of disposal	Particulars of purchaser
------(Rupees in '000)-----						
<b>Land &amp; Building</b>						
Leasehold Land	48,000	166	47,834	48,340	Negotiation	Mr. Jawwad Moosa & Others
Leasehold Building	2,160	60	2,100	2,160	Negotiation	Mr. Jawwad Moosa & Others
	<b>50,160</b>	<b>226</b>	<b>49,934</b>	<b>50,500</b>		
<b>Leasehold Improvements</b>						
Civil & Electrical Works	1,076	810	266	332	Insurance Claim	Alfalsh Insurance
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	557	393	164	172	Insurance Claim	Alfalsh Insurance
	<b>1,633</b>	<b>1,203</b>	<b>430</b>	<b>504</b>		
<b>Furniture and fixtures</b>						
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	7,531	6,356	1,175	1,136	Various	Various
	<b>7,531</b>	<b>6,356</b>	<b>1,175</b>	<b>1,136</b>		
<b>Computers</b>						
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	18,633	17,336	1,297	2,222	Various	Various
	<b>18,633</b>	<b>17,336</b>	<b>1,297</b>	<b>2,222</b>		
<b>Office equipment</b>						
ATM	1,197	1,197	-	8	Bid	M/S Hafeez Traders
ATM	3,578	3,578	-	24	Bid	M/S Hafeez Traders
ATM	1,175	1,175	-	15	Bid	M/S M.ASons
ATM	1,142	1,142	-	10	Bid	M/S Mian
ATM	1,072	1,072	-	9	Bid	M/S M.Ibraheem
ATM	1,194	1,194	-	10	Bid	M/S National Traders
ATM	1,042	1,042	-	10	Bid	M/S Abdul Rab
ATM	1,073	1,073	-	10	Bid	M/S Mian
ATM	1,625	1,625	-	10	Bid	M/S Mian
ATM	1,051	1,051	-	10	Bid	M/S Mian
ATM	1,025	1,025	-	10	Bid	M/S Mian
ATM	1,088	1,088	-	6	Bid	M/S Computer Corner
ATM	1,270	1,270	-	8	Bid	M/S Qadri Computers
ATM	1,194	1,194	-	18	Bid	M/S M Ejaz
ATM	1,197	1,197	-	14	Bid	M/S M Ejaz
ATM	1,197	1,197	-	14	Bid	M/S Muhammad Usman Akram
ATM	1,108	1,108	-	15	Bid	M/S M.Aashiq
ATM	1,625	1,625	-	14	Bid	M/S M Ejaz
ATM	1,128	1,128	-	16	Bid	M/S Hanif
ATM	1,625	1,625	-	15	Bid	M/S M Ejaz
ATM	1,194	1,194	-	15	Bid	M/S Muhammad Usman Akram
ATM	1,194	1,194	-	14	Bid	M/S M Ejaz
ATM	1,105	1,105	-	18	Bid	M/S M Ejaz
ATM	1,174	1,174	-	18	Bid	M/S M Ejaz
ATM	1,175	1,175	-	12	Bid	M/S Muhammad Usman Akram
ATM	1,175	1,175	-	16	Bid	M/S Zaid & Hassan
ATM	1,174	1,174	-	14	Bid	M/S M Ejaz

Description	Cost	Accumulated depreciation	Net book Value	Sale proceeds	Mode of disposal	Particulars of purchaser
------(Rupees in `000)-----						
ATM	1,175	1,175	-	8	Bid	M/S National Traders
ATM	1,051	1,051	-	12	Bid	M/S Muhammad Usman Akram
ATM	1,043	1,043	-	14	Bid	M/S Muhammad Usman Akram
ATM	1,043	1,043	-	14	Bid	M/S M Ejaz
ATM	1,082	1,082	-	8	Bid	M/SQadri Computers
ATM	1,088	1,088	-	18	Bid	M/S M Ejaz
ATM	1,088	1,088	-	14	Bid	M/S Muhammad Usman Akram
NAC Chassis	12,648	12,648	-	580	Bid	Citi Bank
Generators	1,276	947	329	1,252	Insurance Claim	Alfalsh Insurance
Generators	1,350	1,350	-	344	Bid	Sarfraz Ahmed
Elevator	1,889	1,889	-	200	Bid	Mr. Uzair Abdul Sattar
Sign Board	421	122	299	350	Insurance Claim	Alfalsh Insurance
Sign Board	527	106	421	424	Insurance Claim	Alfalsh Insurance
Sign Board	333	82	251	308	Insurance Claim	Alfalsh Insurance
Sign Board	517	127	390	221	Insurance Claim	Alfalsh Insurance
Sign Board	449	167	282	250	Insurance Claim	Alfalsh Insurance
Sign Board	404	150	254	227	Insurance Claim	Alfalsh Insurance
Sign Board	557	85	472	93	Insurance Claim	Alfalsh Insurance
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	141,634	138,512	3,122	7,256	Various	Various
	204,372	198,552	5,820	11,946		

#### Vehicles

Toyota Land Cruiser	8,500	8,500	-	850	As Per Policy	Mr. Rizwan Ata
Honda City	1,515	1,515	-	152	As Per Policy	Mr. Sajan Malik
Toyota Prado	8,500	8,500	-	850	As Per Policy	Mr. Sohail Yaqoob
Toyota Land Cruiser	8,500	8,500	-	850	As Per Policy	Mr. Aly Mustansir
Honda City	1,754	1,754	-	175	As Per Policy	Mr. Haroon Khalid
Toyota Corolla	1,846	937	909	908	As Per Policy	Mr. Imran Zafar
BMW	12,566	4,111	8,455	8,446	As Per Policy	Dr. Mushtaq A. Khan
Mercedes Benz	13,706	3,173	10,533	10,524	As Per Policy	Mr. Khurram Hussain
Toyota Prado	1,642	1,642	-	571	Negotiation	M/S. Al Futtaim Motors
Toyota Corolla	922	922	-	572	Negotiation	M/S. Al Futtaim Motors
Honda Accord	6,617	6,617	-	-	As Per Policy	Mr. Atif Bajwa
Range Rover	27,750	27,750	-	-	As Per Policy	Mr. Atif Bajwa
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	60	60	-	2	Various	Various
	93,878	73,981	19,897	23,900		

**Total - December 31, 2017 (Note 11.2)**      376,207      297,654      78,553      90,208

**Total - December 31, 2016**      368,205      310,105      58,100      111,326

\* Disposal as per Bank's policy represents vehicles sold to employees as per the terms of their employment.

	Note	2017 (Rupees in '000)	2016 (Rupees in '000)
<b>12 OTHER ASSETS</b>			
Income / mark-up accrued in local currency		11,595,263	13,797,059
Income / mark-up accrued in foreign currencies		461,959	661,808
Advances, deposits, advance rent and other prepayments		2,477,690	2,116,356
Tax recoverable		1,067,133	-
Non-banking assets acquired in satisfaction of claims	12.1	775,211	471,365
Dividend receivable		13,892	42,303
Unrealised gain on forward foreign exchange contracts		1,960,858	320,749
Unrealised gain on interest rate swaps		31,700	55,336
Stationery and stamps on hand		67,522	95,569
Defined benefit plan	36.1.3	729,546	349,317
Assets held for sale - Afghanistan Operations	21	26,821,724	-
Balance held with bank	12.2	-	413,074
Others		170,779	218,206
		<u>46,173,277</u>	<u>18,541,142</u>
Provision held against other assets	12.3	<u>(147,254)</u>	<u>(623,878)</u>
		<u>46,026,023</u>	<u>17,917,264</u>
<b>12.1</b> Market value of non-banking assets acquired in satisfaction of claims		<u>782,636</u>	<u>519,570</u>
<b>12.2</b> This represents an amount of USD 3.949 million held in the Bank's Nostro Account in New York, United States of America, which has been put on hold by a commercial bank pursuant to receipt of notice of seizure based on the order passed by the District Court, District of Columbia, USA.			
Based on the fact that the said amount is not readily available for use of the Bank, the amount has been reclassified from Balances with Other banks to Other Assets. Although the management is confident that the matter will be decided in the Bank's favour, as at December 31, 2017, the Bank has maintained full provision against the same (December 31, 2016: USD 3.949 million).			
As at December 31, 2017, the entire balance and the related provision there against has been classified as part of Assets Held for Sale - Afghanistan Operations.			
<b>12.3</b> Provision held against other assets			
Opening balance		623,878	774,156
(Reversal) / charge for the year		(18,979)	(102,305)
Amount written off		(1,229)	(35,304)
Exchange and other adjustments		(20,363)	(12,669)
Classified as held for sale		<u>(436,053)</u>	<u>-</u>
Closing balance		<u>147,254</u>	<u>623,878</u>
<b>13 BILLS PAYABLE</b>			
In Pakistan		12,370,898	12,743,285
Outside Pakistan		<u>90,968</u>	<u>143,705</u>
		<u>12,461,866</u>	<u>12,886,990</u>
<b>14 BORROWINGS</b>			
In Pakistan		186,966,566	161,138,463
Outside Pakistan		<u>19,257,006</u>	<u>17,172,572</u>
		<u>206,223,572</u>	<u>178,311,035</u>
<b>14.1</b> Particulars of borrowings with respect to currencies			
In local currency		186,966,566	161,138,463
In foreign currencies		<u>19,257,006</u>	<u>17,172,572</u>
		<u>206,223,572</u>	<u>178,311,035</u>

	Note	2017	2016
		(Rupees in '000)	
<b>14.2 Details of borrowings secured / unsecured</b>			
<b>Secured</b>			
Borrowings from State Bank of Pakistan under:			
Export refinance scheme	14.3	20,568,840	18,725,467
Long-Term Finance Facility	14.4	7,173,372	2,851,400
Financing Facility for Storage of Agriculture Produce (FFSAP)	14.5	56,536	92,049
Repurchase agreement borrowings	14.6	125,220,096	136,763,030
Borrowings from other central banks		-	198,418
Bai Muajjal	14.7	37,650,637	-
		190,669,481	158,630,364
<b>Unsecured</b>			
Call borrowings	14.8	10,332,574	13,461,835
Bai Muajjal		-	6,218,836
Trading liabilities	14.9	5,221,517	-
		15,554,091	19,680,671
		<u>206,223,572</u>	<u>178,311,035</u>

- 14.3** This facility is secured against a demand promissory note executed in favour of the State Bank of Pakistan. The mark-up rate on this facility ranges from 1.00% to 3.00% per annum (2016: 1.00% to 2.00% per annum) payable on a quarterly basis.
- 14.4** This facility is secured against a demand promissory note executed in favour of the State Bank of Pakistan. The mark-up rate on this facility ranges from 2.00% to 5.00% per annum (2016: 2.00% to 5.00% per annum) payable on a quarterly basis.
- 14.5** This represents repurchase agreement borrowing from SBP and other banks at the rate of 2.50% to 10.00% per annum respectively (2016: 3.25% to 6.50% per annum).
- 14.6** This represents repurchase agreement borrowing from SBP and other banks at the rate of 1.55% to 5.82% per annum respectively (2016: 1.10% to 5.95% per annum) having maturities upto February 2018 (2016: February 2017).
- 14.7** This represents borrowings from financial institutions at mark-up rates ranging from 5.73% to 5.83% per annum respectively (2016: Nil) having maturities upto October 2018 (2016: Nil).
- 14.8** This represents borrowings from financial institutions at mark-up rates ranging from 0.60% to 5.75% per annum respectively (2016: 0.55% to 5.80%) having maturities upto March 2018 (2016: March 2017).
- 14.9** This represents liability in respect of short selling of Pakistan Investment Bonds held as collateral against repurchase agreement lendings.

		2017	2016
		(Rupees in '000)	
<b>15</b>	<b>DEPOSITS AND OTHER ACCOUNTS</b>		
	<b>Customers</b>		
	Fixed deposits	131,010,038	94,268,250
	Savings deposits	215,129,943	229,010,684
	Current accounts - non-remunerative	266,018,609	283,711,087
	Others	6,505,849	4,721,828
		618,664,439	611,711,849
	<b>Financial institutions</b>		
	Remunerative deposits	29,548,087	27,435,848
	Non-remunerative deposits	5,193,545	1,796,557
		34,741,632	29,232,405
		653,406,071	640,944,254
<b>15.1</b>	<b>Particulars of deposits</b>		
	In local currency	582,846,073	557,824,338
	In foreign currencies	70,559,998	83,119,916
		653,406,071	640,944,254
		2017	2016
		(Rupees in '000)	
<b>16</b>	<b>SUB-ORDINATED LOANS</b>		
	<b>Term Finance Certificates IV - Private, Unsecured</b>	-	3,324,670
	<b>Term Finance Certificates V - Quoted, Unsecured</b>	4,991,000	4,993,000
	Mark up	Base Rate + 1.25 percent (Base Rate is defined as the simple average of the ask rate of the six months KIBOR prevailing on one business day prior to each redemption date for the redemption amount payable on the beginning of each semi-annual period for the markup due at the end of that period).	
	Subordination	The TFCs are subordinated as to the payment of principal and profit to all other indebtedness of the bank.	
	Issue date	February 2013	
	Rating	AA	
	Tenor	Eight years	
	Redemption	The instrument will be structured to redeem semi-annually in such a way that 0.30% of the principal will be redeemed in the first 90 months and remaining principal of 99.70% at maturity in the 96th month.	
	Maturity	February 2021	
		4,991,000	8,317,670

17 DEFERRED TAX LIABILITIES - NET

2017  
(Rupees in '000)

2016

**Deferred debits arising due to**

Provision for doubtful debts  
Provision against off-balance sheet obligations  
Impairment in the value of investments  
Provision against other assets

(118,504)	(392,066)
-	(13,078)
(174,218)	(2,264,329)
(244,487)	(309,218)
(537,209)	(2,978,691)

**Deferred credits arising due to**

Accelerated tax depreciation  
Gain on remeasurement of held for trading investments  
Surplus on revaluation of available for sale investments  
Surplus on revaluation of operating fixed assets

1,454,141	1,388,669
(2,573)	38
1,411,085	3,399,873
828,306	840,539
3,690,959	5,629,119
3,153,750	2,650,428

17.1 Reconciliation of deferred tax assets/ liabilities

	January 2016	Recognized in Profit and Loss Account	Recognized in Other Comprehensive Income / Surplus on revaluation of assets	December 31, 2016	Recognized in Profit and Loss Account	Recognized in Other Comprehensive Income / Surplus on revaluation of assets	December 31, 2017
(Rupees in '000)							
<b>Deferred debits arising due to</b>							
Provision for doubtful debts	(1,434,609)	1,042,543	-	(392,066)	273,562	-	(118,504)
Provision against off-balance sheet obligations	(15,706)	2,628	-	(13,078)	13,078	-	-
Impairment in the value of investments	(2,247,184)	(17,145)	-	(2,264,329)	2,090,111	-	(174,218)
Provision against other assets	(334,501)	25,283	-	(309,218)	64,731	-	(244,487)
	(4,032,000)	1,053,309	-	(2,978,691)	2,441,482	-	(537,209)
<b>Deferred credits arising due to</b>							
Accelerated tax depreciation	1,473,306	(84,637)	-	1,388,669	65,472	-	1,454,141
Gain on remeasurement of held for trading investments	80,172	(80,134)	-	38	(2,611)	-	(2,573)
Surplus on revaluation of available for sale investments	3,460,609	-	(60,736)	3,399,873	-	(1,988,788)	1,411,085
Surplus on revaluation of operating fixed assets	841,967	(17,500)	16,072	840,539	(18,198)	5,965	828,306
	5,856,054	(182,271)	(44,664)	5,629,119	44,663	(1,982,823)	3,690,959
<b>Net deferred tax liabilities</b>	1,824,054	871,038	(44,664)	2,650,428	2,486,145	(1,982,823)	3,153,750

	Note	2017	2016
		(Rupees in '000)	
<b>18 OTHER LIABILITIES</b>			
Mark-up / return / interest payable in local currency		1,388,149	1,549,223
Mark-up / return / interest payable in foreign currencies		203,540	175,609
Unearned commission and income on bills discounted		230,353	238,539
Accrued expenses		5,689,011	3,393,977
Branch adjustment account		1,741,333	816,333
Payable against redemption of credit card reward points		200,433	142,453
Taxation payable		-	257,212
Security deposits		5,767,660	5,225,935
Unclaimed dividend		60,729	62,660
Unrealised loss on forward foreign exchange contracts		968,982	555,131
Unrealised loss on interest rate swaps		6,202	37,078
Provision against off-balance sheet obligations	18.1	65,463	69,708
Workers' Welfare Fund	30.1	578,831	588,278
Compensated Absences	18.2	393,496	401,644
Liabilities held for sale - Afghanistan Operations	21	24,759,096	-
Others		739,551	708,134
		<u>42,792,829</u>	<u>14,221,914</u>

#### 18.1 Provision against off-balance sheet obligations

Opening balance	69,708	77,590
(Reversal) / charge for the year	(1,338)	(7,508)
Exchange and other adjustments	(2,907)	(374)
Closing balance	<u>65,463</u>	<u>69,708</u>

**18.2** During the year, a valuation for compensated absences has been carried out by an actuary appointed for the purpose. Major assumptions considered for the purposes of valuation are as follows:

Mortality Rate	SLIC 2001-2005
Salary Increase rate	8.0% p.a.

### 19 SHARE CAPITAL

#### 19.1 Authorised capital

2017	2016		2017	2016
(Number of shares)			(Rupees in '000)	
<u>2,300,000,000</u>	<u>2,300,000,000</u>	Ordinary shares of Rs. 10 each	<u>23,000,000</u>	<u>23,000,000</u>

#### 19.2 Issued, subscribed and paid up capital

2017	2016	Ordinary shares of Rs. 10 each	2017	2016
(Number of shares)			(Rupees in '000)	
883,165,724	870,801,304	Fully paid in cash	8,831,657	8,708,013
724,406,250	724,406,250	Issued as bonus shares	7,244,063	7,244,063
<u>1,607,571,974</u>	<u>1,595,207,554</u>		<u>16,075,720</u>	<u>15,952,076</u>

During the year the Bank has issued 12,364,420 ordinary shares having face value of Rs. 10/- each to its employees on exercise of options vested under the Employees Stock Option Scheme (ESOS) (note 35.2). The paid-up capital of the Bank before issuance of shares to employees was Rs. 15,952,075,540 (divided into 1,595,207,554 shares of Rs. 10 each) and after issuance of shares to the employees has increased to Rs. 16,075,719,740 (divided into 1,607,571,974 shares of Rs. 10 each).

	Note	2017 (Rupees in '000)	2016
<b>20 SURPLUS ON REVALUATION OF ASSETS - NET OF TAX</b>			
Surplus arising on revaluation of:			
- Operating fixed assets	20.1	4,515,221	4,559,251
- Non-banking assets acquired in satisfaction of claims	20.1	104,372	36,942
		<u>4,619,593</u>	<u>4,596,193</u>
- Available for sale securities	20.2	2,550,831	6,343,383
- Surplus on revaluation of Investment held for sale in Afghanistan	20.2.1	84,687	-
		<u>7,255,111</u>	<u>10,939,576</u>
<b>20.1 Surplus on revaluation of fixed assets</b>			
Surplus on revaluation of operating fixed assets at January 01		5,436,733	5,399,467
Transferred to retained earnings in respect of incremental depreciation charged during the year - net of tax		(33,797)	(32,497)
Revaluation of fixed assets / non-banking assets during the year		78,906	50,890
Surplus on revaluation of fixed assets recognized during the year		-	47,562
Related deferred tax liability in respect of incremental depreciation charged during the year		(18,198)	(17,498)
Reversal of surplus on account of disposal of property	11.2	(15,744)	(11,191)
		<u>11,167</u>	<u>37,266</u>
		<u>5,447,900</u>	<u>5,436,733</u>
Related deferred tax liability on surplus as at January 01		840,540	841,968
Deferred tax liability charge / (reversal)		5,965	16,070
Deferred tax liability in respect of incremental depreciation charged during the year		(18,198)	(17,498)
		<u>(12,233)</u>	<u>(1,428)</u>
		<u>828,307</u>	<u>840,540</u>
		<u>4,619,593</u>	<u>4,596,193</u>
<b>20.2 Surplus on revaluation of available for sale securities</b>			
Government securities		3,539,730	7,642,123
Quoted shares / units / certificates / sukuks / bonds		370,126	2,068,211
Term finance certificates		(8,474)	3,590
		<u>3,901,382</u>	<u>9,713,924</u>
Related deferred tax liability		(1,365,484)	(3,399,873)
		<u>2,535,898</u>	<u>6,314,051</u>
Derivatives		14,933	29,332
		<u>2,550,831</u>	<u>6,343,383</u>
<b>20.2.1 Surplus on revaluation of Investment held for sale in Afghanistan</b>			
Investment securities		130,288	-
Related deferred tax liability		(45,601)	-
		<u>84,687</u>	<u>-</u>
		<u>2,635,518</u>	<u>6,343,383</u>

## 21 ASSETS AND LIABILITIES HELD FOR SALE

- 21.1** On August 17, 2017, the Board of Directors of the Bank Alfalah Limited (the Bank) in their meeting accorded its in-principle approval and authorized the management of the Bank to explore the possibility to sell the Afghanistan Operations of the Bank to the potential buyer, subject to obtaining all regulatory approvals, compliance with applicable laws and regulations in the matter.

Pursuant to receipt of a non-binding offer and in-principle approval from the State Bank of Pakistan, the Bank is in the process of completing all the above formalities including the due diligence of its Afghanistan Operations and the negotiations with the potential buyer.

As a result of above, the assets and liabilities related to above transaction have been classified as assets and liabilities held for sale.

- 21.2** The carrying amounts of the assets and liabilities classified as held for sale are as follows:

	2017
	(Rupees in '000)
<b>Assets Held for Sale</b>	
Cash and balances with treasury banks	7,594,852
Balances with other banks	1,025,996
Lendings to financial institutions	5,288,982
Investments - net	11,592,895
Advances - net	1,108,663
Operating fixed assets	11,918
Deferred tax assets	-
Other assets	198,418
	<u>26,821,724</u>
<b>Liabilities Held for Sale</b>	
Bills payable	8,575
Borrowings	-
Deposits and other accounts	24,491,178
Sub-ordinated loans	-
Liabilities against assets subject to finance lease	-
Deferred tax liabilities	45,601
Other liabilities	213,742
	<u>24,759,096</u>

	2017 (Rupees in '000)	2016 (Rupees in '000)
<b>22 CONTINGENCIES AND COMMITMENTS</b>		
<b>22.1 Direct credit substitutes</b>		
i) Government	433,745	1,632,063
ii) Banking companies & other financial institutions	-	-
iii) Others	6,531	53,167
	<u>440,276</u>	<u>1,685,230</u>
<b>22.2 Transaction-related contingent liabilities</b>		
i) Government	50,621,775	32,243,564
ii) Banking companies & other financial institutions	1,030,744	544,762
iii) Others	12,083,556	11,725,088
	<u>63,736,075</u>	<u>44,513,414</u>
<b>22.3 Trade-related contingent liabilities</b>		
Letters of credit	<u>73,773,817</u>	<u>73,061,529</u>
Acceptances	<u>10,701,434</u>	<u>12,188,691</u>
<b>22.4 Other contingencies</b>		
<b>22.4.1 Claims against the Bank not acknowledged as debts</b>	<u>18,973,919</u>	<u>13,847,649</u>
These mainly represents counter claims filed by the borrowers for restricting the Bank from disposal of assets (such as hypothecated / mortgaged / pledged assets kept as security), damage to reputation and cases filed by Ex. employees of the Bank for damages sustained by them consequent to the termination from the Bank's employment. Based on legal advice and / or internal assessment, management is confident that the matters will be decided in Bank's favour and the possibility of any outcome against the Bank is remote and accordingly no provision has been made in these financial statements.		
	2017 (Rupees in '000)	2016 (Rupees in '000)
<b>22.5 Commitments in respect of forward lendings</b>		
Commitments to extend credit	<u>22,628,329</u>	<u>28,450,269</u>
Commitments in respect of investments	<u>7,579,043</u>	<u>3,596,186</u>
<b>22.6 Commitments in respect of forward exchange contracts</b>		
Purchase	<u>60,285,544</u>	<u>53,992,848</u>
Sale	<u>31,823,206</u>	<u>41,084,440</u>
<b>22.7 Commitments for the acquisition of fixed assets</b>	<u>318,978</u>	<u>336,774</u>
<b>22.8 Commitments in respect of repo transactions</b>		
Repurchase	<u>125,378,959</u>	<u>136,912,078</u>
Resale	<u>12,017,776</u>	<u>349,222</u>
<b>22.9 Other commitments</b>		
Interest rate swaps	<u>8,865,756</u>	<u>7,622,307</u>
Donations	<u>23,952</u>	<u>22,000</u>
<b>22.10 Contingency for tax payable (note 31.1)</b>		

## 23 DERIVATIVE INSTRUMENTS

Derivatives are a type of financial contract, the value of which is determined by reference to one or more underlying assets or indices. The major categories of such contracts include forwards, futures, swaps and options. Derivatives also include structured financial products that have one or more characteristics of forwards, futures, swaps and options.

At present the bank deals in the following instruments:

- Forward Exchange Contracts
- Interest Rate Swaps
- Share Options (note 9.15.1)

### 23.1 Product analysis

Counter Parties	Interest Rate Swaps				Forward Rate Agreements			
	2017		2016		2017		2016	
	No. of Contracts	Notional Principal *	No. of Contracts	Notional Principal *	No. of Contracts	Notional Principal *	No. of Contracts	Notional Principal *
		(Rupees in '000)				(Rupees in '000)		
<b>With Banks for</b>								
Hedging	23	8,865,756	20	7,622,307	-	-	-	-
Market Making	-	-	-	-	153	84,890,887	179	80,299,452
<b>With FIs other than banks</b>								
Hedging	-	-	-	-	-	-	-	-
Market Making	-	-	-	-	-	-	-	-
<b>With other entities for</b>								
Hedging	-	-	-	-	-	-	-	-
Market Making	-	-	-	-	382	7,217,863	620	14,777,835
<b>Total</b>								
Hedging	23	8,865,756	20	7,622,307	-	-	-	-
Market Making	-	-	-	-	535	92,108,750	799	95,077,288

\* At the exchange rate prevailing at the year end

### 23.2 Unrealised gain / (loss) on derivatives financial instruments.

	Contractual / notional amount		Unrealised gain / (loss)	
	2017	2016	2017	2016
	(Rupees in '000)			
Interest Rate Swaps	8,865,756	7,622,307	14,174	18,258
Forward Exchange Contract Purchase	60,285,544	53,992,848	1,955,858	(513,325)
Forward Exchange Contract Sale	31,823,206	41,084,440	(963,982)	278,943

### 23.3 Maturity Analysis - Forward Exchange Contract Purchase

#### Forward Exchange Contract Sale and Interest Rate Swap (Fixed Rate)

Remaining Maturity	Number of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
			----- (Rupees in '000) -----		
Upto 1 month	136	35,487,790	(218,163)	863,516	645,353
1 to 3 months	153	35,044,225	(310,429)	879,123	568,694
3 to 6 months	153	19,434,459	(423,843)	145,834	(278,009)
6 months to 1 year	93	2,142,276	(16,547)	72,385	55,838
1 to 2 years	11	4,504,277	(5,168)	17,166	11,998
2 to 3 years	2	1,104,172	(1,033)	5,689	4,656
3 to 5 years	6	2,153,135	-	9,866	9,866
5 to 10 years	4	1,104,172	(13,275)	929	(12,346)
Interest rate swaps pertaining to Afghanistan Operations - Held for Sale	(5)	(1,877,092)	13,274	(1,950)	11,324
	553	99,097,414	(975,184)	1,992,558	1,017,374

24 MARK-UP / RETURN / INTEREST EARNED		2017	2016
		(Rupees in '000)	
a) On loans and advances to:			
i) customers		28,033,146	23,828,088
ii) financial institutions		257,693	106,941
b) On investments in:			
i) held for trading securities		883,176	969,854
ii) available for sale securities		21,521,406	22,420,671
iii) held to maturity securities		3,539,674	6,962,638
c) On deposits with financial institutions		2,189,247	2,602,799
d) On securities purchased under resale agreements		494,747	253,041
		<u>56,919,089</u>	<u>57,144,032</u>

25 MARK-UP / RETURN / INTEREST EXPENSED			
Deposits		15,956,982	18,553,408
Securities sold under repurchase agreements		8,802,388	7,189,657
Other short term borrowings		2,184,244	1,456,368
Term finance certificates		626,498	953,301
Reward points		68,390	-
		<u>27,638,502</u>	<u>28,152,734</u>

## 26 INCOME FROM DEALING IN FOREIGN CURRENCIES

This includes Rs. 1,051.8 million (2016: Rs. 405.4 million) being income on account of interest on cross currency swap transactions, which corresponds to the cost included under 'Mark-up / return / interest expensed' in this regard.

	Note	2017 (Rupees in '000)	2016
<b>27 GAIN ON SALE OF SECURITIES - NET</b>			
Federal Government Securities			
- Market Treasury Bills		(12,416)	41,607
- Pakistan Investment Bonds		639,959	748,725
Overseas Bonds		77,313	65,553
Shares / Mutual Funds		512,477	772,690
Sukuk Bonds		56,733	53,046
		<u>1,274,066</u>	<u>1,681,621</u>
<b>28 OTHER INCOME</b>			
Gain on sale of operating fixed assets	11.4	11,655	53,226
Gain on exchange of assets		-	22,235
Bad debts recovered		227,779	262,184
Others		14,775	60,599
		<u>254,209</u>	<u>398,244</u>
<b>29 ADMINISTRATIVE EXPENSES</b>			
Non executive directors fee & allowances		126,018	110,609
Salaries, allowances, etc.	29.1	9,566,750	8,818,110
Charge for defined benefit plan	36.1.3	250,153	260,795
Contribution to defined contribution plan	37	320,476	326,341
Charge for employee stock option scheme	36.2	26,693	109,615
Charge for staff compensated absences		(8,148)	87,714
Staff training expenses		155,637	226,702
Brokerage and commission		171,019	211,705
Rent, taxes, insurance, electricity, etc.		3,596,661	3,526,417
Legal and professional charges		1,353,361	664,892
Communications		793,166	839,619
Repairs and maintenance		1,651,961	1,564,255
Stationery and printing		442,859	420,001
Advertisement and publicity		669,192	801,164
Donations	29.2	9,948	31,960
Auditors' remuneration	29.3	33,015	30,704
Depreciation	11.2	1,819,620	1,691,261
Amortisation of intangible assets	11.3	446,135	357,473
Travelling, conveyance and fuel expenses		441,940	473,354
Entertainment		144,975	185,592
Subscription		27,792	32,499
Charge for outsourced services		1,295,009	1,198,399
Security service charges		972,387	984,093
Others		809,516	730,335
		<u>25,116,135</u>	<u>23,683,609</u>

- 29.1** The Bank operates a short term employee benefit scheme which includes cash awards / performance bonus for all eligible employees. Under this scheme, the bonus for all executives, including the CEO is determined on the basis of employees' evaluation and Bank's performance during the year. The aggregate amount determined for the eligible employees in respect of the above scheme relating to the Key Management Personnel of the Bank and for Other Executives amounted to Rs. 260.190 million (2016: Rs. 423.464 million) and Rs. 369.285 million (2016: Rs. 549.710 million) respectively.

During the year, the Bank has also made ex-gratia payments to outgoing executives including the outgoing CEO. The amounts included in respect of Ex-gratia accrued / paid in respect of Executives in 2017 was Rs. 694.474 million (2016: Nil).

	Note	2017 (Rupees in '000)	2016
<b>29.2 Donations</b>			
Aman Foundation		6,300	-
Karachi Lions Pediatric Nephrology Project (NICH)		1,000	-
The Aga Khan University Hospital Medical College Foundation		2,000	-
Shabab Murshid Development Foundation - Bangladesh		648	-
Alif Noon Parents Foundation		-	20,000
Network of Organizations Working for People with Disabilities - Pakistan		-	3,000
Karachi Vocational Training Centre		-	2,460
Family Education Services Foundation		-	6,500
		<u>9,948</u>	<u>31,960</u>

### 29.3 Auditors' remuneration

Audit fee		9,666	9,010
Half yearly review		2,430	2,268
Special certifications and sundry advisory services		8,618	10,360
Out-of-pocket expenses		<u>1,810</u>	<u>1,947</u>
		22,524	23,585
Fee for audit of foreign branches		<u>10,491</u>	<u>7,119</u>
		<u>33,015</u>	<u>30,704</u>

### 30 OTHER CHARGES

Penalties imposed by the State Bank of Pakistan		34,650	5,690
Workers' Welfare Fund	30.1	<u>258,875</u>	<u>112,709</u>
		<u>293,525</u>	<u>118,399</u>

**30.1** Through Finance Act 2008, the Federal Government introduced amendments to the Workers' Welfare Fund (WWF) Ordinance, 1971 whereby the definition of industrial establishment was extended. The amendments were challenged and conflicting judgments were rendered by various courts. Appeals against these orders were filed in the Supreme Court.

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

A legal advice was obtained by the Pakistan Banking Association which highlights that consequent to filing of these review petitions, a risk has arisen and the judgment is not conclusive until the review petition is decided. Accordingly, the amount charged for Workers Welfare Fund since 2008 has not been reversed.

31 TAXATION	2017 (Rupees in '000)	2016
<b>For the year</b>		
Current	5,074,748	4,689,525
Deferred	66,298	(157,060)
	5,141,046	4,532,465
<b>For prior years</b>		
Current	(1,883,205)	(437,312)
Deferred	2,419,849	1,028,098
	536,644	590,786
	<u>5,677,690</u>	<u>5,123,251</u>

- 31.1** a) The income tax assessments of the Bank have been finalized upto and including tax year 2017. Matters of disagreement exist between the Bank and tax authorities for various assessment years and are pending with the Commissioner of Inland Revenue (Appeals), Appellate Tribunal Inland Revenue (ATIR), High Court of Sindh and Supreme Court of Pakistan. These issues mainly relate to addition of mark up in suspense to income, taxability of profit on government securities, bad debts written off and disallowances relating to profit and loss expenses.

In respect of tax years 2008, 2011, 2014 to 2017, the tax authorities have raised certain issues including default in payment of WWF, allocation of expenses to dividend and capital gains, dividend income from mutual funds not being taken under income from business, disallowance of leasehold improvements resulting in additional demand of Rs. 1,033.519 million (2016: Rs. 1,467.175 million). As a result of appeal filed before Commissioner Appeals against these issues, relief has been provided for tax amount of Rs. 493.672 million (2016: Rs. 1,023.719 million) appeal effect orders are pending. Bank has filed appeals on these issues which are pending before Commissioner Appeals. The management is confident that these matters will be decided in favour of the Bank and consequently has not made any provision in respect of these amounts.

The Bank has received amended orders for Tax Years from 2010 to 2015 wherein Tax Authorities considered Ijarah Lease as Finance Lease and raised a tax demand of Rs. 133.799 million. Commissioner Appeal for Tax Years 2010 to 2013, decided the matter in favour of the bank to the extent of not taxing principal amounts. The Bank is in appeal before Appellate Tribunal and Commissioner Appeals on the matter. The Bank has not made any provision against these orders as the management is of the view that the matter will be settled in Bank's favour through appellate process.

- b) In respect of monitoring of withholding taxes, the Bank has received various orders from tax authorities. The Bank has not made provision amounting to Rs. 42.539 million against tax demand for tax years 2016 and 2017. The Bank has filed appeals and the management is of the view that the matter will be settled in Bank's favour.
- c) The Bank has received an order from a provincial tax authority wherein tax authority has disallowed certain exemptions of sales tax on banking services and demanded sales tax and penalty amounting to Rs. 77.592 million (excluding default surcharge) for the period from July 2011 to June 2014. Bank's appeal against this order is currently pending before Commissioner Appeals. The Bank has not made any provision against this order and the management is of the view that the matter will be settled in Bank's favour through appellate process.

	Note	2017 (Rupees in '000)	2016 (Rupees in '000)
<b>31.2 Relationship between tax expense and accounting profit</b>			
Profit before taxation		<u>14,044,985</u>	<u>13,023,159</u>
Tax at the applicable rate of 35% (2016: 35%)		4,915,745	4,558,106
Effect of:			
permanent differences		42,844	1,992
tax charge pertaining to overseas branches		110,039	60,628
adjustment of prior years		536,644	590,786
others		72,418	(88,261)
Tax expense for the year		<u>5,677,690</u>	<u>5,123,251</u>
<b>32 EARNINGS PER SHARE</b>			
<b>32.1 BASIC EARNINGS PER SHARE</b>			
Profit after taxation for the year		<u>8,367,295</u>	<u>7,899,908</u>
		(Number of shares in thousand)	
Weighted average number of ordinary shares		1,605,989	1,601,035
		(Rupees)	
Basic earnings per share		<u>5.21</u>	<u>4.93</u>
<b>32.2 DILUTED EARNINGS PER SHARE</b>			
		(Rupees in '000)	
Profit after taxation for the year		8,367,295	7,899,908
		(Number of shares in thousand)	
Weighted average number of ordinary shares		<u>1,611,597</u>	<u>1,601,035</u>
		(Rupees)	
Diluted earnings per share		<u>5.19</u>	<u>4.93</u>
<b>32.3 Reconciliation of basic and diluted earning per share</b>			
		(Number of shares in thousand)	
Weighted average number of ordinary shares		1,605,989	1,601,035
Plus: Employee stock option scheme		5,608	-
Dilutive potential ordinary shares		<u>1,611,597</u>	<u>1,601,035</u>
<b>33 CASH AND CASH EQUIVALENTS</b>			
		2017 (Rupees in '000)	2016 (Rupees in '000)
Cash and balances with treasury banks	6	70,381,435	74,071,384
Balances with other banks	7	4,508,835	9,373,123
Call money lendings	8.1	20,255,936	5,306,590
		<u>95,146,206</u>	<u>88,751,097</u>

## 33.1 Reconciliation of movement of liabilities to cash flows from financing activities

	2017							
	Bills payable	Borrowings	Deposits and other accounts	Sub-ordinated loans	Other liabilities	Share capital	Reserves	Unappropriated profit
	(Rupees in '000)							
<b>Balance as at January 1, 2017</b>	12,886,990	178,311,035	640,944,254	8,317,670	14,221,914	15,952,076	15,895,652	17,337,458
<b>Change from financing cashflow</b>								
Issuance of share capital	-	-	-	-	-	123,644	68,078	-
Redemption of sub-ordinated loans	-	-	-	(3,326,670)	-	-	-	-
<b>Total Change from financing cash flows</b>	-	-	-	(3,326,670)	-	123,644	68,078	-
<b>The effect of changes due to foreign exchange translation</b>	-	-	-	-	-	-	492,787	-
<b>Changes due to liabilities being held for sale</b>	(8,575)	-	(24,491,178)	-	(213,742)	-	-	-
<b>Other equity related changes</b>	-	-	-	-	-	-	26,693	280,946
<b>Liability related changes</b>								
Changes in bills payable	(416,549)	-	-	-	-	-	-	-
Changes in borrowings	-	27,912,537	-	-	-	-	-	-
Changes in deposits and other accounts	-	-	-	-	-	-	-	-
Changes in other liabilities	-	-	36,952,995	-	-	-	-	-
Cash based	-	-	-	-	4,033,709	-	-	-
Non cash based - compensated absences	-	-	-	-	(8,148)	-	-	-
Liabilities held for sale	-	-	-	-	24,759,096	-	-	-
Transfer of profit to reserve	-	-	-	-	-	-	1,673,459	-
	(416,549)	27,912,537	36,952,995	-	28,784,657	-	1,673,459	6,693,836
	12,461,866	206,223,572	653,406,071	4,991,000	42,792,829	16,075,720	18,156,669	24,312,240
	12,886,990	178,311,035	640,944,254	8,317,670	14,221,914	15,952,076	15,895,652	17,337,458
	2016							
	Bills payable	Borrowings	Deposits and other accounts	Sub-ordinated loans	Other liabilities	Share capital	Reserves	Unappropriated profit
	(Rupees in '000)							
<b>Balance as at January 1, 2016</b>	9,733,929	172,393,198	640,188,735	9,983,000	15,131,430	15,898,062	14,164,120	12,362,596
<b>Change from financing cashflow</b>								
Issuance of share capital	-	-	-	-	-	54,014	30,881	-
Redemption of sub-ordinated loans	-	-	-	(1,665,330)	-	-	-	-
<b>Total Change from financing cash flows</b>	-	-	-	(1,665,330)	-	54,014	30,881	-
<b>The effect of changes due to foreign exchange translation</b>	-	-	-	-	-	-	11,054	-
<b>Other equity related changes</b>	-	-	-	-	-	-	109,615	244,742
<b>Liability related changes</b>								
Changes in bills payable	3,153,061	-	-	-	-	-	-	-
Changes in borrowings	-	5,917,837	-	-	-	-	-	-
Changes in deposits and other accounts	-	-	755,519	-	-	-	-	-
Changes in other liabilities	-	-	-	-	-	-	-	-
Cash based	-	-	-	-	(997,230)	-	-	-
Non cash based - compensated absences	-	-	-	-	87,714	-	-	-
Dividend Paid	-	-	-	-	-	-	(1,589,806)	(1,589,806)
Transfer of profit to reserve	-	-	-	-	-	-	1,579,982	-
	3,153,061	5,917,837	755,519	-	(909,516)	-	1,579,982	4,730,120
	12,886,990	178,311,035	640,944,254	8,317,670	14,221,914	15,952,076	15,895,652	17,337,458

### 34 CREDIT RATING

The Bank has been assigned an upgraded Entity Rating of 'AA+' (Double A Plus) for the Long Term and 'A1+' (A-One Plus) for the Short Term by PACRA, with Outlook assigned as Stable. The unsecured subordinated debt (Term Finance Certificates) of the Bank has been awarded an upgraded credit rating of AA (double A). These ratings were upgraded at June 2017 and were maintained at December 2017.

Furthermore, JCR-VIS Credit Rating Company Limited (JCR-VIS) also assigned an entity rating of 'AA+' (Double A Plus) for the Long Term and 'A-1+' (A-One Plus) for the short term to the Bank, with Outlook assigned as 'Stable'. These ratings were as signed in February 2017, and were maintained at August 2017.

The assigned ratings reflect the Bank's diversified operations, healthy financial risk profile, strong sponsors and existing market presence. These ratings denote a very low expectation of credit risk, a strong capacity for timely payment of financial commitments in the long term and the highest capacity for timely repayment in the short term, respectively.

35 STAFF STRENGTH	2017 (Number of employees)	2016 (Number of employees)
Permanent	7,698	7,615
Temporary / on contractual basis	151	193
Total staff strength	<u>7,849</u>	<u>7,808</u>

### 36 EMPLOYEE BENEFITS

#### 36.1 DEFINED BENEFIT PLAN

##### 36.1.1 Principal actuarial assumptions

The projected unit credit method, as required by the International Accounting Standard 19 - 'Employee Benefits', was used for actuarial valuation based on the following significant assumptions:

	2017	2016
Withdrawal rates	High	High
Mortality rates	Adjusted SLIC 2001 - 2005	Adjusted SLIC 2001 - 2005
Valuation discount rate (p.a)	9.50%	9.50%
Salary increase rate (p.a) - Short term (3 years)	5.75%	7.50%
Salary increase rate (p.a) - Long term	9.00%	9.50%
Expected rate of return on plan assets (p.a)	9.50%	9.50%
Normal retirement age	60 Years	60 Years
Duration	10 Years	10.46 Years

The disclosures made in notes 36.1 to 36.1.13 are based on the information included in the actuarial valuation report of the Bank as of December 31, 2017.

	Note	2017 (Rupees in '000)	2016
<b>36.1.2 Reconciliation of receivable from defined benefit plan</b>			
Present value of defined benefit obligation	36.1.6	1,657,387	1,920,065
Fair value of plan assets	36.1.7	(2,386,933)	(2,269,382)
		<u>(729,546)</u>	<u>(349,317)</u>
<b>36.1.3 Movement in (receivable) / payable from defined benefit plan</b>			
Opening balance		(349,317)	(40,003)
Charge for the year - in profit and loss account	36.1.4	250,153	260,795
Other comprehensive Income	36.1.4	(380,229)	(309,314)
Bank's contribution to fund made during the year		(250,153)	(260,795)
Closing balance		<u>(729,546)</u>	<u>(349,317)</u>
<b>36.1.4 Charge for defined benefit plan</b>			
<b>Recognised in profit and loss account</b>			
Current service cost		306,923	277,835
Net interest		(56,770)	(17,040)
		250,153	260,795
<b>Recognised in other comprehensive income</b>			
Actuarial gain on obligations		433,234	55,216
Actuarial (loss) / gain on Assets		(53,005)	254,098
		380,229	309,314
<b>Total</b>		<u>(130,076)</u>	<u>(48,519)</u>
<b>36.1.5 Actual return on plan assets</b>		<u>171,531</u>	<u>434,975</u>
<b>36.1.6 Reconciliation of present value of obligation</b>			
Present value of obligation as at January 1		1,920,065	1,743,133
Current service cost		306,923	277,835
Interest cost		167,766	163,837
Benefits paid		(304,133)	(209,524)
Remeasurement gain on obligation		(433,234)	(55,216)
Present value of obligation as at December 31		<u>1,657,387</u>	<u>1,920,065</u>
<b>36.1.7 Changes in the fair value of plan assets are as follows</b>			
Opening fair value of plan assets		2,269,382	1,783,136
Expected return		224,536	180,877
Contributions by the Bank		250,153	260,795
Benefits paid		(304,133)	(209,524)
Remeasurement (loss) / gain		(53,005)	254,098
Fair value at end of the year	36.1.8	<u>2,386,933</u>	<u>2,269,382</u>

**36.1.8 Plan assets consist of the following:**

	2017		2016	
	(Rupees in '000)	%	(Rupees in '000)	%
Ordinary shares	1,172,369	49%	1,047,132	46%
Treasury bills	659,789	28%	-	0%
Pakistan Investment Bonds	-	0%	536,864	22%
Units of mutual funds	295,861	12%	283,810	13%
Cash and bank balances	258,914	11%	401,576	17%
	<u>2,386,933</u>	<u>100%</u>	<u>2,269,382</u>	<u>100%</u>

**36.1.9** Amount for the current year and the previous four years of the present value of the defined benefit obligation, the fair value of plan assets, surplus / deficit and experience adjustments arising thereon are as follows:

	2017	2016	2015	2014	2013
	(Rupees in '000)				
Defined benefit obligation	1,657,387	1,920,065	1,743,133	1,770,352	1,547,856
Fair value of plan assets	2,386,933	2,269,382	1,783,136	2,008,875	1,429,334
Surplus / (deficit)	<u>729,546</u>	<u>349,317</u>	<u>40,003</u>	<u>238,523</u>	<u>(118,522)</u>
Experience adjustments on plan liabilities	433,234	55,216	252,372	267	(56,337)
Experience adjustments on plan assets	(53,005)	254,098	(451,334)	356,778	127,174

**36.1.10 Expected gratuity expense for the next year**

Expected gratuity expense for the year ending December 31, 2018, works out to Rs. 185.753 million.

**36.1.11 Sensitivity Analysis**

Particulars	Present Value of Defined Benefit Obligation (Rs. in '000)	Percentage Change
Current Liability	1,657,387	
+1% Discount Rate	1,501,935	-9.38%
-1% Discount Rate	1,839,706	11.00%
+1% Salary Increase Rate	1,848,535	11.53%
-1% Salary Increase Rate	1,492,009	-9.98%
+10% Withdrawal Rates	1,657,879	0.03%
-10% Withdrawal Rates	1,656,774	-0.04%
1 Year Mortality age set back	1,657,106	-0.02%
1 Year Mortality age set forward	1,657,666	0.02%

### 36.1.12 Maturity Profile

Particulars	Undiscounted Payments (Rs. in '000)
Year 1	145,295
Year 2	105,860
Year 3	114,378
Year 4	115,521
Year 5	101,511
Year 6 to Year 10	635,082
Year 11 and above	4,622,736

### 36.1.13 Risks Associated with Defined Benefit Plans

**(a) 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.

**(b) 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.

**(c) 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.

**(d) Withdrawal Risk:**

The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

## 36.2 EMPLOYEES STOCK OPTION SCHEME

The Bank grants share options to its employees under the Bank's Employee Stock Options Scheme (ESOS), as approved by the shareholders and SECP vide its letter No. SMD/CIW/ESOS/02/2013 dated December 27, 2013.

Under the Scheme, the Bank has granted options over a period from 2014 to 2016 to certain critical employees selected by the Board Compensation Committee to subscribe to new ordinary shares over the defined vesting period. As per the Scheme, the entitlement and exercise price are subject to adjustments because of issue of right shares and bonus shares. The options carry neither right to dividends nor voting rights till shares are issued to employees on exercise of options.

The grant dates and the vesting period for the options are laid down under the scheme. The options vest over a three year period with one third of the options vesting on completion of each year of service from the date of grant. The options not exercised on completion of first and second year of vesting may be carried forward to be exercised on completion of three year period. After the expiry of the third exercise period, the option holder will lose all the rights of exercise for any remaining options not exercised.

The details of the scheme including details of year wise option granted, shares issued, option lapsed and option discounts etc. are annexed as part of these financial statements, summary of which is as follow:

	Granted in the year 2016	Granted in the year 2015	Granted in the year 2014
	----- (In '000) -----		
Option issued	13,737	12,614	11,331
Option no longer in issue	3,181	3,019	1,732
Options vested	4,415	7,811	9,919
Options exercised	3,838	6,892	9,599
Options available for exercise	6,718	2,703	-
Exercise price per share	Rs. 14.95	Rs. 15.15	Rs. 16.32
Option discount per share	Rs. 9.96	Rs. 10.10	Rs. 10.88

### 37 DEFINED CONTRIBUTION PLAN

The Bank operates an approved provident fund scheme for all its permanent employees to which both the Bank and employees contribute @ 8.33% of basic salary in equal monthly contributions.

During the year, the Bank contributed Rs. 320.476 million (2016: Rs. 326.341 million) in respect of this fund.

### 38 COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2017	2016	2017	2016	2017	2016
	----- (Rupees in '000) -----					
Fee	-	-	126,018	110,609	-	-
Managerial remuneration - note 38.2	107,186	82,669	-	-	3,320,026	3,293,386
Post employment benefits	7,676	9,481	-	-	378,720	384,712
Rent and house maintenance	-	3,840	-	-	990,317	974,851
Utilities	4,607	5,691	-	-	249,635	244,947
	119,469	101,681	126,018	110,609	4,938,698	4,897,896
Number of persons *	1	1	6	6	1,973	2,128

\* During the year, Mr. Nauman Ansari was appointed President and Chief Executive Officer following the resignation of Mr. Atif Bajwa.

**38.1** The Chief Executive and certain Executives have been provided with the free use of cars and household equipment as per Bank's policy.

**38.2** All executives, including the CEO are entitled to certain short term employee benefits which are disclosed in note 29.1 to these financial statements. In addition, the Bank also granted share options to certain key employees of the Bank in the year 2014, 2015 and 2016, which shall vest till the year 2019 - refer note 36.2 and Annexure on Employee Stock Option Scheme.

## 39 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of quoted securities is based on quoted market price. The fair value of unquoted equity securities, other than investments in associates and subsidiaries, is determined on the basis of the break-up value of these investments as per their latest available audited financial statements.

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

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 these are either short-term in nature or, in the case of customer loans and deposits, are frequently repriced.

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

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

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

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

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

2017

	Carrying Amount							Fair value				
	HFT	AFS	HTM	Loans and	Subsidiaries & Associates	Derivative Instrument Receivables Held for Risk Management (Rupees in '000)	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>On balance sheet financial instruments</b>												
<b>Financial assets measured at fair value</b>												
- Other assets												
Forward foreign exchange contracts	1,960,858	-	-	-	-	-	-	1,960,858		1,960,858		1,960,858
Interest rate swaps	31,700	-	-	-	-	-	-	31,700		31,700		31,700
- Investments												
Government Securities (Tbills, PIBs, GoP Sukuks, Overseas Govt. Sukuk, Overseas and Euro bonds)	22,772,733	315,202,970	-	-	-	-	-	337,975,703		337,975,703		337,975,703
Overseas Bonds - others	-	4,045,616	-	-	-	-	-	4,045,616		4,045,616		4,045,616
Ordinary shares of listed companies	27,149	6,124,766	-	-	-	-	-	6,151,915	6,151,915			6,151,915
Debt securities (TFCs)	-	985,706	-	-	-	-	-	985,706		985,706		985,706
Sukuk-Other than Govt	-	4,584,236	-	-	-	-	-	4,584,236		4,584,236		4,584,236
<b>Financial assets not measured at fair value</b>												
- Cash and bank balances with treasury banks	-	-	-	70,381,435	-	-	-	70,381,435				
- Balances with other banks	-	-	-	4,508,835	-	-	-	4,508,835				
- Lending to financial institutions	-	-	-	48,895,828	-	-	-	48,895,828				
- Advances	-	-	-	400,655,424	-	-	-	400,655,424				
- Other assets	-	-	-	42,123,604	-	-	-	42,123,604				
- Investments												
Government Securities (PIBs, WAPDA Sukuks, Overseas, Euro bonds and Commercial Paper)	-	-	38,794,138	-	-	-	-	38,794,138		39,352,880		39,352,880
Overseas Bonds - Others	-	-	548,143	-	-	-	-	548,143		561,046		561,046
Unlisted shares (Ordinary & Preference)	-	247,214	-	-	-	-	-	247,214				
Redemable Participating Certificate	-	1,133,659	-	-	-	-	-	1,133,659				
Commercial Paper	-	90,201	-	-	-	-	-	90,201				
Sukuk-Other than Govt	-	-	3,929,920	-	-	-	-	3,929,920				
Associates												
- Mutual Funds	-	-	-	-	-	-	-	-				-
- Ordinary shares of unlisted companies	-	-	-	-	1,816,343	-	-	1,816,343				
Subsidiaries												
- Mutual Funds	-	-	-	-	-	-	-	-				-
- Ordinary shares of unlisted companies	-	-	-	-	430,493	-	-	430,493				
	24,792,440	332,414,368	43,272,201	566,565,126	2,246,836	-	-	969,290,971				
<b>Financial liabilities measured at fair value</b>												
- Other liabilities												
Forward foreign exchange contracts	968,982	-	-	-	-	-	-	968,982		968,982		968,982
Interest rate swaps	6,202	-	-	-	-	-	-	6,202		6,202		6,202
<b>Financial liabilities not measured at fair value</b>												
- Bills Payable	-	-	-	-	-	-	12,461,866	12,461,866				
- Borrowings	-	-	-	-	-	-	206,223,572	206,223,572				
- Deposits and other accounts	-	-	-	-	-	-	653,406,071	653,406,071				
- Subordinated loans	-	-	-	-	-	-	4,991,000	4,991,000				
- Other liabilities	-	-	-	-	-	-	40,942,997	40,942,997				
	975,184	-	-	-	-	-	918,025,506	919,000,690				
<b>Off balance sheet financial instruments</b>												
- Forward Exchange Contracts Purchase	-	-	-	-	-	60,285,544	-	60,285,544		62,241,402		62,241,402
- Forward Exchange Contracts Sale	-	-	-	-	-	31,823,206	-	31,823,206		32,787,188		32,787,188
- Interest Rate Swaps	-	-	-	-	-	8,865,756	-	8,865,756		8,879,930		8,879,930

	2016											
	Carrying Amount						Fair value					
	HFT	AFS	HTM	Loans and	Subsidiaries & Associates	Derivative Instrument Receivables Held for Risk Management	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
	(Rupees in '000)											
On balance sheet financial instruments												
Financial assets measured at fair value												
- Other assets												
Forward foreign exchange contracts	320,749	-	-	-	-	-	-	320,749		320,749		320,749
Interest rate swaps	55,336	-	-	-	-	-	-	55,336		55,336		55,336
- Investments												
Government Securities (Tbills, PIBs, GoP Sukus, Overseas Govt. Sukuk, Overseas and Euro bonds)	14,371,242	304,976,096	-	-	-	-	-	319,347,338		319,347,338		319,347,338
Overseas Bonds - others	298,341	5,061,134	-	-	-	-	-	5,359,475		5,359,475		5,359,475
Ordinary shares of listed companies	761,255	8,292,796	-	-	-	-	-	9,054,051	9,054,051			9,054,051
Debt securities (TFCs)	-	278,260	-	-	-	-	-	278,260		278,260		278,260
Sukuk-Other than Govt	-	2,195,167	-	-	-	-	-	2,195,167		2,195,167		2,195,167
Fassets not measured at fair value												
- Cash and bank balances with treasury banks	-	-	-	74,071,384	-	-	-	74,071,384				
- Balances with other banks	-	-	-	9,373,123	-	-	-	9,373,123				
- Lending to financial institutions	-	-	-	30,149,029	-	-	-	30,149,029				
- Advances	-	-	-	378,720,349	-	-	-	378,720,349				
- Other assets	-	-	-	16,974,249	-	-	-	16,974,249				
- Investments												
Government Securities (PIBs, WAPDA Sukus, Overseas, Euro bonds and Commercial papers)	-	-	45,026,708	-	-	-	-	45,026,708		45,937,908		45,937,908
Overseas Bonds - Others	-	-	518,251	-	-	-	-	518,251				
Unlisted shares (Ordinary & Preference)	-	22,395	-	-	-	-	-	22,395				
Redeemable Participating Certificate	-	501,938	-	-	-	-	-	501,938				
Commercial papers	-	-	529,280	-	-	-	-	529,280				
Sukuk-Other than Govt	-	-	3,501,541	-	-	-	-	3,501,541				
Associates												
- Mutual Funds	-	-	-	-	755,153	-	-	755,153		1,009,483		1,009,483
- Ordinary shares of unlisted companies	-	-	-	-	1,047,113	-	-	1,047,113				
Subsidiaries												
- Mutual Funds	-	-	-	-	525,474	-	-	525,474		534,264		534,264
- Ordinary shares of unlisted companies	-	-	-	-	430,493	-	-	430,493				
	15,806,923	321,327,786	49,575,780	509,288,134	2,758,233	-	-	898,756,856				
Financial liabilities measured at fair value												
- Other liabilities												
Forward foreign exchange contracts	555,131	-	-	-	-	-	-	555,131		555,131		555,131
Interest rate swaps	37,078	-	-	-	-	-	-	37,078		37,078		37,078
Financial liabilities not measured at fair value												
- Bills Payable	-	-	-	-	-	-	12,886,990	12,886,990				
- Borrowings	-	-	-	-	-	-	178,311,035	178,311,035				
- Deposits and other accounts	-	-	-	-	-	-	640,944,254	640,944,254				
- Subordinated loans	-	-	-	-	-	-	8,317,670	8,317,670				
- Other liabilities	-	-	-	-	-	-	12,475,968	12,475,968				
	592,209	-	-	-	-	-	852,935,917	853,528,126				
Off balance sheet financial instruments												
- Forward Exchange Contracts Purchase	-	-	-	-	-	53,992,848	-	53,992,848		53,479,523		53,479,523
- Forward Exchange Contracts Sale	-	-	-	-	-	41,084,440	-	41,084,440		40,805,498		40,805,498
- Interest Rate Swaps	-	-	-	-	-	7,622,307	-	7,622,307		7,640,565		7,640,565

**39.2** Office premises are carried at revalued amounts determined by professional valuers (level 3 measurement) based on their assessment of the market values as disclosed in note 11. The valuations are conducted by the valuation experts appointed by the Bank which are also on the panel of State Bank of Pakistan. The valuation experts used a market based approach to arrive at the fair value of the Bank's properties. The market approach used prices and other relevant information generated by market transactions involving identical or comparable or similar properties. These values are adjusted to reflect the current condition of the properties. The effect of changes in the unobservable inputs used in the valuations cannot be determined with certainty, accordingly a qualitative disclosure of sensitivity has not been presented in these financial statements.

#### 40 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	2017							
	Retail Banking	Corporate Banking	Treasury	Consumer Banking	Islamic Banking	International Operations	Others*	Total
	---(Rupees in '000)---							
Segment income	9,945,493	14,500,738	25,207,299	4,812,173	8,825,768	3,787,111	(265,501)	66,813,081
Inter-segment income / (expense)	15,078,988	(7,633,360)	(7,735,457)	(1,127,468)	(796)	-	1,418,093	-
Segment expenses	18,494,776	2,778,562	10,306,647	1,922,775	6,143,763	2,497,986	10,623,587	52,768,096
Profit before tax	6,529,705	4,088,816	7,165,195	1,761,930	2,681,209	1,289,125	(9,470,995)	14,044,985
Segment assets	151,491,709	203,974,935	353,898,318	27,372,009	139,066,088	74,522,709	38,503,060	988,828,828
Segment non-performing loans	8,330,204	7,124,711	-	300,465	1,595,173	303,018	(74,730)	17,578,841
Segment provision required against loans and advances	7,708,272	6,229,875	-	786,721	1,275,003	400,041	126,596	16,526,508
Segment liabilities	447,580,060	101,831,886	162,530,146	2,217,545	125,976,973	64,988,452	17,904,026	923,029,088
Segment return on assets (ROA) (%)	1.30%	1.50%	1.10%	6.60%	1.90%	1.90%	-8.10%	1.50%
Segment cost of funds (%)	3.10%	5.00%	5.70%	5.30%	2.60%	2.00%	3.00%	3.40%
	2016							
	Retail Banking	Corporate Banking	Treasury	Consumer Banking	Islamic Banking	International Operations	Others*	Total
	---(Rupees in '000)---							
Segment income	7,298,058	13,531,759	29,756,911	4,112,573	8,328,274	3,574,977	(551,192)	66,051,360
Inter-segment income / (expense)	16,118,158	(5,651,265)	(10,727,863)	(953,836)	-	-	1,214,806	-
Segment expenses	19,221,682	6,209,065	8,191,894	1,847,509	6,669,397	1,919,015	8,969,639	53,028,201
Profit before tax	4,194,534	1,671,429	10,837,154	1,311,228	1,658,877	1,655,962	(8,306,025)	13,023,159
Segment assets - net	140,271,845	205,760,792	312,980,625	21,723,442	138,753,216	68,423,352	29,543,781	917,457,053
Segment non-performing loans	8,620,164	7,771,668	-	435,243	1,785,331	318,921	87,188	19,018,515
Segment provision required against loans and advances	7,959,603	6,703,930	-	909,939	1,187,405	361,707	20,376	17,142,960
Segment liabilities	428,263,389	80,352,604	143,261,894	1,490,927	127,051,522	59,363,853	17,548,102	857,332,291
Segment return on assets (ROA) (%)	0.87%	0.60%	1.57%	6.17%	1.24%	2.78%	-7.51%	1.49%
Segment cost of funds (%)	3.25%	5.07%	5.56%	5.46%	2.98%	2.10%	3.44%	3.63%

\* Profit before tax of this segment includes head office related expenses

#### 41 TRUST ACTIVITIES

The Bank is not engaged in any significant trust activities. However, it acts as security agent for various Term Finance Certificates it arranges and distributes on behalf of its customers. In addition, the Bank is also holding investments of other entities in its IPS account maintained with the State Bank of Pakistan.

#### 42 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include major shareholders, subsidiary company, associated companies with or without common directors, retirement benefit funds and directors and key management personnel and their close family members.

Banking transactions with the related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk.

Contributions to and accruals in respect of staff retirements and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan. Remuneration and benefits to executives is determined in accordance with the terms of their appointment and human resource policy.

Details of transactions with related parties and balances with them as at the year-end other than disclosed elsewhere are as follows:

2017					
Directors	Key management personnel	Subsidiaries	Associates	Others related parties	Total
----- (Rupees in '000) -----					
<b>Statement of Financial Position</b>					
<b>Lendings</b>					
Balance at the beginning of the year	-	-	-	-	-
Placements during the period	-	-	-	89,750,000	89,750,000
Withdrawals during the period	-	-	-	(88,250,000)	(88,250,000)
Balance at the end of the period	-	-	-	1,500,000	1,500,000
<b>Investments</b>					
Balance at the beginning of the year	-	-	1,781,967	1,802,266	2,579,489
Investments during the period	-	-	-	769,230	1,819,585
Redemptions during the period	-	-	(1,351,474)	(755,153)	(3,081,266)
Balance at the end of the period	-	-	430,493	1,816,343	1,317,808
Provisions held against investments	-	-	-	53,936	53,936
<b>Advances</b>					
Balance at the beginning of the year	79,130	351,335	-	-	8,040,236
Placements during the period	21,130	314,797	-	-	15,620,727
Withdrawals / adjustments during the period	(100,260)	(221,547)	-	-	(16,069,636)
Balance at the end of the period	-	444,585	-	-	7,591,327
Provisions held against advances	-	-	-	-	1,540,029
<b>Mark-up held in suspense against classified advances</b>					
	-	-	-	-	1,161,382
<b>Other receivable</b>					
	-	-	2,496	-	8,936
<b>Borrowings</b>					
Balance at the beginning of the year	-	-	-	-	-
Borrowing during the period	-	-	-	-	34,192,883
Repayments during the period	-	-	-	-	(33,690,083)
Balance at the end of the period	-	-	-	-	502,800
<b>Deposits</b>					
Balance at the beginning of the year	10,201	164,506	90,030	1,031,859	8,662,986
Placements during the period	308,744	1,684,639	7,676,656	56,650,035	111,897,086
Withdrawals / adjustments during the period	(312,670)	(1,688,729)	(7,706,702)	(56,171,951)	(116,381,285)
Balance at the end of the period	6,275	160,416	59,984	1,509,943	4,178,787
<b>Sub-Ordinated Loans</b>					
Balance at the beginning of the year	-	132,348	-	79,003	332,467
Sub-Ordinated loans issued during the year	-	-	-	-	-
Sub-Ordinated loans redemption during the year	-	(112,384)	-	(33,959)	(332,467)
Balance at the end of the period	-	19,964	-	45,044	-
<b>Other payables</b>					
	-	-	316	-	9,444
<b>Off Balance Sheet Items</b>					
Letters of credit, acceptance and Guarantees outstanding	-	-	-	129,188	2,589,842
<b>Receipts / payments</b>					
Mark-up received on lendings	-	-	-	-	23,130
Mark-up received on investments	-	-	-	-	113,864
Mark-up received on advances	2,319	20,447	-	-	315,960
Mark-up paid on deposits	119	3,313	81,071	-	216,945
Mark-up paid on borrowing	-	-	-	-	20,333
Mark-up paid on sub-ordinated loans	-	16,355	3,693	-	37,404
Brokerage	-	-	967	-	967
Insurance Premium paid	-	-	505,826	-	505,826
Insurance Claim received-Fixed Assets	-	-	8,109	-	8,109
Rent paid	-	-	-	-	9,902
Purchase and maintenance of machines / equipments and services	-	-	-	-	229,182
<b>Profit and Loss Account</b>					
Provision / (reveral) against non-performing advances	-	-	-	-	(3,025)
Provision / (reveral) against investments	-	-	-	-	-
Dividend income	-	-	-	-	9,481
Capital gain	-	-	323,374	-	323,374
Other income	-	-	6,478	156,149	181,235
Administrative expenses	-	-	-	-	2,901

2016

	Directors	Key management personnel	Subsidiaries	Associates	Others related parties	Total
----- (Rupees in '000) -----						
<b>Statement of Financial Position</b>						
<b>Lendings</b>						
Balance at the beginning of the year	-	-	-	-	-	-
Placements during the period	-	-	-	-	17,250,000	17,250,000
Withdrawals during the period	-	-	-	-	(17,250,000)	(17,250,000)
Balance at the end of the period	-	-	-	-	-	-
<b>Investments</b>						
Balance at the beginning of the year	-	-	2,131,967	2,334,185	4,716,796	9,182,948
Investments during the year	-	-	-	258,481	2,529,489	2,787,970
(Redemptions) / adjustments during the year	-	-	(350,000)	(790,400)	(4,666,796)	(5,807,196)
Balance at the end of the year	-	-	1,781,967	1,802,266	2,579,489	6,163,722
Provisions held against investments	-	-	826,000	-	53,936	879,936
<b>Advances</b>						
Balance at the beginning of the year	89,000	328,280	-	-	6,339,450	6,756,730
Placements during the period	-	287,570	-	-	22,062,374	22,349,944
Withdrawals / adjustments during the period	(9,870)	(264,515)	-	-	(20,361,588)	(20,635,973)
Balance at the end of the period	79,130	351,335	-	-	8,040,236	8,470,701
Provisions held against advances	-	-	-	-	1,543,054	1,543,054
<b>Mark-up held in suspense against classified advances</b>	-	-	-	-	886,583	886,583
<b>Other receivable</b>	-	-	416	112,350	-	112,766
<b>Borrowings</b>						
Balance at the beginning of the year	-	-	-	-	-	-
Borrowing during the period	-	-	-	-	2,200,000	2,200,000
Repayments during the period	-	-	-	-	(2,200,000)	(2,200,000)
Balance at the end of the period	-	-	-	-	-	-
<b>Deposits</b>						
Balance at the beginning of the year	14,825	120,281	130,841	271,252	6,095,049	6,632,248
Placements during the period	306,363	1,257,912	2,928,929	44,116,212	91,600,256	140,209,672
Withdrawals / adjustments during the period	(310,987)	(1,213,687)	(2,969,740)	(43,355,605)	(89,032,319)	(136,882,338)
Balance at the end of the period	10,201	164,506	90,030	1,031,859	8,662,986	9,959,582
<b>Sub-Ordinated Loans</b>						
Balance at the beginning of the year	-	186,591	-	94,018	498,800	779,409
Sub-Ordinated loans issued during the year	-	-	-	-	-	-
Sub-Ordinated loans redemption during the year	-	(54,243)	-	(15,015)	(166,333)	(235,591)
Balance at the end of the period	-	132,348	-	79,003	332,467	543,818
<b>Other payables</b>	-	-	296	-	9,164	9,460
<b>Off Balance Sheet Items</b>						
Letters of credit, acceptance and Guarantees outstanding	-	-	-	122,380	1,724,344	1,846,724
<b>Receipts / payments</b>						
Mark-up received on lendings	-	-	-	-	3,350	3,350
Mark-up received on investments	-	-	-	-	32,991	32,991
Mark-up received on advances	4,782	16,924	-	-	443,096	464,802
Mark-up paid on deposits	135	2,767	48,509	-	266,215	317,626
Mark-up paid on borrowing	-	-	-	-	362	362
Mark-up paid on sub-ordinated loans	-	29,407	5,997	-	74,813	110,217
Brokerage	-	-	943	-	-	943
Insurance Premium paid	-	-	544,525	-	-	544,525
Insurance claim received-fixed assets	-	-	1,137	-	-	1,137
Rent paid	-	-	-	-	5,910	5,910
Purchase and maintenance of machines / equipments and services	-	-	-	-	309,175	309,175
<b>Profit and Loss Account</b>						
Provision / (reveral) against non-performing advances	-	-	-	-	1,543,054	1,543,054
Provision / (reveral) against investments	-	-	-	-	3,936	3,936
Dividend income	-	-	108,704	-	-	108,704
Capital gain	-	-	104,800	-	139,200	244,000
Other income	-	-	34,038	111,090	17,096	162,224
Administrative expenses	-	-	3,304	-	2,900	6,204

2017                      2016  
(Rupees in '000)

**The key management personnel / directors compensation are as follows:**

Managerial remuneration (including allowances)	1,850,512	1,263,958
Fair value charge against employee stock option scheme	26,693	109,615
Contribution to employee funds	570,629	587,136
	<u>2,447,834</u>	<u>1,960,709</u>

In addition, the Chief Executive and certain Executives are provided with Bank maintained cars and other benefits.

Fee for attending Directors' meetings is disclosed in note 38 to these unconsolidated financial statements.

### **43 CAPITAL ASSESSMENT AND ADEQUACY**

#### **43.1 Scope of Applications**

##### **Amounts subject to Pre - Basel III treatment**

The Basel-III Framework is applicable to the bank both at the consolidated level (comprising of wholly/partially owned subsidiaries & associates) and also on a stand alone basis. Subsidiaries are included while calculating Consolidated Capital Adequacy for the Bank using full consolidation method whereas associates in which the bank has significant influence on equity method. Standardized Approach is used for calculating the Capital Adequacy for Credit and Market risks, whereas, higher of Alternate Standardized Approach (ASA) or 70% of Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purpose.

#### **43.2 Capital Management**

##### **43.2.1 Objectives and goals of managing capital**

The Bank manages its capital to attain following objectives and goals:

- an appropriately capitalized status, as defined by banking regulations;
- acquire strong credit ratings that enable an optimized funding mix and liquidity sources at lesser costs;
- cover all risks underlying business activities; and
- retain flexibility to harness future investment opportunities, build and expand even in stressed times.

##### **43.2.2 Statutory Minimum Capital Requirement and Capital Adequacy Ratio**

The State Bank of Pakistan through its BSD Circular No.07 of 2009 dated April 15, 2009 requires the minimum paid up capital (net of losses) of all locally incorporated banks to have a minimum paid-up capital of Rs. 10 billion. The paid up capital of the Bank for the year ended December 31, 2017 stands at Rs. 16.075 billion and is in compliance with the SBP requirement.

The capital adequacy ratio of the Bank is subject to the Basel III capital adequacy guidelines stipulated by the State Bank of Pakistan through its BPRD Circular No. 06 of 2013 dated August 15, 2013. These instructions are effective from December 31, 2013 in a phased manner with full implementation intended by December 31, 2019. Under Basel III guidelines banks are required to maintain the following ratios on an ongoing basis:

**Phase-in arrangement and full implementation of the minimum capital requirements:**

Sr. No	Ratio	2016	2017	2018	As of December 31, 2019
1	CET 1	6.0%	6.0%	6.0%	6.0%
2	ADT 1	1.5%	1.5%	1.5%	1.5%
3	Tier 1	7.5%	7.5%	7.5%	7.5%
4	Total Capital	10.0%	10.0%	10.0%	10.0%
5	*CCB	0.65%	1.28%	1.90%	2.50%
6	Total Capital Plus CCB	10.65%	11.28%	11.90%	12.50%

\* Capital conservation buffer

**43.2.3 Bank's regulatory capital is analysed into three tiers**

Common Equity Tier 1 capital (CET1), includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves, statutory reserves as per the financial statements and net unappropriated profits after all regulatory adjustments applicable on CET1 (refer note 43.4).

Additional Tier 1 Capital (AT1), includes perpetual non-cumulative preference shares / TFCs and share premium resulting from the issuance of preference shares balance in share premium account after all regulatory adjustments applicable on AT1 (refer to note 43.4).

Tier 2 capital, includes Subordinated debt/ Instruments, share premium on issuance of Subordinated debt/ Instruments, general provisions for loan losses (up to a maximum of 1.25% of credit risk weighted assets), net reserves on revaluation of fixed assets and equity investments up to a maximum of 45% of the balance, further in the current year additional benefit of revaluation reserves (net of tax effect) is availed at the rate of 80% per annum for the remaining portion of 55% of revaluation reserve and foreign exchange translation reserves after all regulatory adjustments applicable on Tier-2 (refer to note 43.4).

The required capital adequacy ratio (11.28% of the risk-weighted assets) was achieved by the Bank through improvement in the capital base, asset quality at the existing volume level, ensuring better recovery management and composition of asset mix with low risk. Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise of the credit risk, market risk and operational risk.

Basel-III Framework enables a more risk-sensitive regulatory capital calculation to promote long term viability of the Bank. As the Bank carry on the business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across entire organization and aggregate the risks so as to take an integrated approach/view. Maximization of the return on risk-adjusted capital is the principal basis to be used in determining how capital is allocated within the Bank to particular operations. The Bank remained compliant with all externally imposed capital requirements through out the year. Further, there has been no material change in the Bank's management of capital during the year.

**43.2.4 Leverage Ratio**

The leverage ratio of the Bank as at December 31, 2017 is 4.06% (2016: 3.45%). The ratio has been computed as prescribed by State Bank of Pakistan through Instructions for Basel-III Implementation in Pakistan.

As on December 31, 2017; Total Tier 1 capital of the Bank amounts to Rs. 53,260,259 thousand (2016: Rs. 42,549,933 thousand) whereas the total exposure measure amounts to Rs. 1,311,946,047 thousand (2016: Rs. 1,231,632,253 thousand).

Favourable shift in leverage ratio is mainly due to an increase in Bank's Tier 1 capital as compared to the last year.

### 43.3 Capital Adequacy

Bank's approach for assessing the adequacy of the capital to support current and future business operations based on the following:

- a. Capital Adequacy plays key consideration for not only arriving at the business projections / plans but is religiously monitored while undertaking transactions.
- b. Bank has demonstrated the capability to comfortably meet new & enhanced capital adequacy standards, therefore it is now following controlled growth strategy. The TFC was issued to support the growth but gradually the bank is enriching the Tier 1 capital while ensuring regular dividend to share holders.
- c. To further augment its capital base, the Bank is in process of issuing listed Additional Tier I Capital amounting to PKR 7 Billion.
- d. The capital base forms the very basic foundation of business plans. The capital base is sufficient to support the envisaged business growth and this would be monitored regularly.
- e. Current and potential risk exposures across all the major risk types are:

Risk Type	Materiality Level for Bank– High/Medium/Low	Adequacy of controls (Adequate / Partially adequate/ Not adequate)
Credit	High	Adequate
Market	Medium	Adequate
Operational	High	Adequate
Model	Low	Adequate
Concentration	Medium	Adequate
Interest rate risk in Banking Book	High	Adequate
Liquidity	High	Adequate
Country	Medium	Adequate
Reputation	Medium	Adequate
Strategic / Business	Medium	Adequate
Legal Risk	Medium	Adequate

- f. Bank also performs ICAAP exercise on annual basis in order to assess the adequacy of capital internally which yields surplus capital inclusive of stress testing and pillar 2 risks.
- g. The Bank enjoys strong sponsor support from Abu Dhabi Group and IFC , leading to increased investor confidence. Moreover, the Bank has been issuing TFCs successfully on a regular basis, demonstrating Bank's capacity to raise capital when required.
- h. Bank follows Standardised Approach for Credit and Market Risk, and Alternative Standardized Approach for Operational Risk. The assessment of capital adequacy is based on regulatory requirements.

#### 43.3.1 Stress Testing

Stress testing & scenario analysis examines the sensitivity of Bank's Capital for Regulatory capital as well as Economic capital under a number of scenarios and ensures that emerging risks stemming into its portfolio are appropriately accounted. The exercise is submitted to the regulator at regular intervals as per the requirements. The scope of this exercise has been expanded to incorporate internally developed scenarios based on macroeconomic situation & portfolio composition as well.

**43.4 Capital Adequacy Ratio as at December 31, 2017**

	2017	2016 (Restated)
	(Rupees in '000)	
<b>Common Equity Tier 1 capital (CET1): Instruments and reserves</b>		
1 Fully Paid-up Capital / Capital deposited with SBP	16,075,720	15,952,076
2 Balance in Share Premium Account	4,612,991	4,417,126
3 Reserve for issue of Bonus Shares	-	-
4 Discount on Issue of shares	-	-
5 General / Statutory Reserves	11,466,871	9,894,506
6 Gain / (losses) on derivatives held as Cash Flow Hedge	-	-
7 Unappropriated/unremitted profits/ (losses)	24,312,240	17,337,458
8 Minority Interests arising from CET1 capital instruments issued to third parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	-
9 <b>CET 1 before Regulatory Adjustments</b>	56,467,822	47,601,166
10 Total regulatory adjustments applied to CET1 (Note 43.4.1)	3,207,563	5,051,233
11 <b>Common Equity Tier 1</b>	53,260,259	42,549,933
<b>Additional Tier 1 (AT 1) Capital</b>		
12 Qualifying Additional Tier-1 capital instruments plus any related share premium	-	-
13 of which: Classified as equity	-	-
14 of which: Classified as liabilities	-	-
15 Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)	-	-
16 of which: instrument issued by subsidiaries subject to phase out	-	-
17 <b>AT1 before regulatory adjustments</b>	-	-
18 Total regulatory adjustment applied to AT1 capital (Note 43.4.2)	49,633	203,991
19 Additional Tier 1 capital after regulatory adjustments	-	-
20 <b>Additional Tier 1 capital recognized for capital adequacy</b>	-	-
21 <b>Tier 1 Capital (CET1 + admissible AT1) (11+20)</b>	53,260,259	42,549,933
<b>Tier 2 Capital</b>		
22 Qualifying Tier 2 capital instruments under Basel III plus any related share premium	2,992,200	3,990,400
23 Tier 2 capital instruments subject to phaseout arrangement issued under pre-Basel 3 rules	-	-
24 Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group tier 2)	-	-
25 of which: instruments issued by subsidiaries subject to phase out	-	-
26 General provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	907,449	820,775
27 Revaluation Reserves (net of taxes) c=a+b	6,364,158	8,504,055
28 of which: Revaluation reserves on fixed assets a	4,018,547	3,556,216
29 of which: Unrealized gains/losses on AFS b	2,345,611	4,947,839
30 Foreign Exchange Translation Reserves	2,076,807	1,584,020
31 Undisclosed/Other Reserves (if any)	-	-
32 <b>T2 before regulatory adjustments</b>	12,340,614	14,899,250
33 <b>Total regulatory adjustment applied to T2 capital (Note 43.4.3)</b>	251,159	546,938
34 Tier 2 capital (T2) after regulatory adjustments	12,089,455	14,352,312
35 Tier 2 capital recognized for capital adequacy	12,089,455	14,352,312
36 Portion of Additional Tier 1 capital recognized in Tier 2 capital	-	-
37 <b>Total Tier 2 capital admissible for capital adequacy</b>	12,089,455	14,352,312
38 <b>TOTAL CAPITAL (T1 + admissible T2) (21+37)</b>	65,349,714	56,902,245
39 <b>Total Risk Weighted Assets (RWA) (for details refer Note 43.7)</b>	475,713,078	432,152,180
<b>Capital Ratios and buffers (in percentage of risk weighted assets)</b>		
40 <b>CET1 to total RWA</b>	11.20%	9.85%
41 <b>Tier-1 capital to total RWA</b>	11.20%	9.85%
42 <b>Total capital to total RWA</b>	13.74%	13.17%
43 Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)	7.28%	6.65%
44 of which: capital conservation buffer requirement	1.28%	0.65%
45 of which: countercyclical buffer requirement	-	-
46 of which: D-SIB or G-SIB buffer requirement	-	-
47 <b>CET1 available to meet buffers (as a percentage of risk weighted assets)</b>	5.20%	3.85%
<b>National minimum capital requirements prescribed by SBP</b>		
48 <b>CET1 minimum ratio</b>	6.00%	6.00%
49 <b>Tier 1 minimum ratio</b>	7.50%	7.50%
50 <b>Total capital minimum ratio [Inclusive of 1.275% CCB for 2017 (2016:0.65%)]</b>	11.28%	10.65%

# Regulatory Adjustments and Additional Information

2017  
Amounts  
subject to  
Pre- Basel III  
treatment\*  
Amount  
2016  
Amounts  
subject to  
Pre- Basel III  
treatment\*  
(Rupees in '000)

## 43.4.1 Common Equity Tier 1 capital: Regulatory adjustments

1	Goodwill (net of related deferred tax liability)	-	-	-	-
2	All other intangibles (net of any associated deferred tax liability)	1,472,270	-	1,723,207	-
3	Shortfall in provisions against classified assets	-	-	-	-
4	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	431,826	107,956	1,787,215	1,191,477
5	Defined-benefit pension fund net assets	583,637	-	209,590	-
6	Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities	632,863	-	1,026,250	-
7	Cash flow hedge reserve	-	-	-	-
8	Investment in own shares/ CET1 instruments	37,334	-	100,980	-
9	Securitization gain on sale	-	-	-	-
10	Capital shortfall of regulated subsidiaries	-	-	-	-
11	Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	-	-	-	-
12	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	-
13	Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	-	-
14	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-	-	-
15	Amount exceeding 15% threshold	-	-	-	-
16	of which: significant investments in the common stocks of financial entities	-	-	-	-
17	of which: deferred tax assets arising from temporary differences	-	-	-	-
18	National specific regulatory adjustments applied to CET1 capital	-	-	-	-
19	Investments in TFCs of other banks exceeding the prescribed limit	-	-	-	-
20	Any other deduction specified by SBP (mention details)	-	-	-	-
21	Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions	49,633	-	203,991	-
22	<b>Total regulatory adjustments applied to CET1 (sum of 1 to 21)</b>	<b>3,207,563</b>		<b>5,051,233</b>	

## 43.4.2 Additional Tier-1 & Tier-1 Capital: regulatory adjustments

23	Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment]	-	-	-	-
24	Investment in own AT1 capital instruments	-	-	-	-
25	Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial and insurance entities	-	-	-	-
26	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	-
27	Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-	-
28	Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from additional tier-1 capital	49,633	(49,633)	203,991	(203,991)
29	Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-	-	-
30	<b>Total regulatory adjustment applied to AT1 capital (sum of 23 to 29)</b>	<b>49,633</b>		<b>203,991</b>	

## 43.4.3 Tier 2 Capital: regulatory adjustments

31	Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	49,633	(49,633)	203,991	(203,991)
32	Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities	201,526	-	342,120	-
33	Investment in own Tier 2 capital instrument	-	-	827	-
34	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	-
35	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-	-
36	<b>Total regulatory adjustment applied to T2 capital (sum of 31 to 35)</b>	<b>251,159</b>		<b>546,938</b>	

\*The amount represents regulatory deductions that are still subject to pre-Basel-III treatment during the transitional period.

	2017	2016 (Restated)
	Rupees in '000	
<b>43.4.4 Additional Information</b>		
<b>Risk Weighted Assets subject to pre-Basel III treatment</b>		
37 Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment)	410,728,644	368,934,296
(i) of which: deferred tax assets	107,956	1,191,477
(ii) of which: Defined-benefit pension fund net assets	145,909	139,727
(iii) of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity	50,189	171,571
(iv) of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity	99,267	407,983
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
38 Non-significant investments in the capital of other financial entities	50,189	171,571
39 Significant investments in the common stock of financial entities	397,066	611,974
40 Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
<b>Applicable caps on the inclusion of provisions in Tier 2</b>		
41 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	907,449	820,775
42 Cap on inclusion of provisions in Tier 2 under standardized approach	5,139,150	4,635,563
43 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
44 Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-

#### 43.5 Capital Structure Reconciliation

Table: 43.5.1

	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	2017 (Rupees in '000)	
<b>Assets</b>		
Cash and balances with treasury banks	70,381,435	70,381,435
Balances with other banks	4,508,835	4,508,835
Lending to financial institutions	48,895,828	48,895,828
Investments	400,733,286	400,733,286
Advances	400,655,424	400,655,424
Operating fixed assets	17,627,997	17,627,997
Deferred tax assets	-	-
Other assets	46,026,023	46,026,023
<b>Total assets</b>	<b>988,828,828</b>	<b>988,828,828</b>
<b>Liabilities &amp; Equity</b>		
Bills payable	12,461,866	12,461,866
Borrowings	206,223,572	206,223,572
Deposits and other accounts	653,406,071	653,406,071
Sub-ordinated loans	4,991,000	4,991,000
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	3,153,750	3,153,750
Other liabilities	42,792,829	42,792,829
<b>Total liabilities</b>	<b>923,029,088</b>	<b>923,029,088</b>
Share capital/ Head office capital account	16,075,720	16,075,720
Reserves	18,156,669	18,156,669
Unappropriated/ Unremitted profit/ (losses)	24,312,240	24,312,240
Minority Interest	-	-
Surplus on revaluation of assets	7,255,111	7,255,111
<b>Total equity</b>	<b>65,799,740</b>	<b>65,799,740</b>
<b>Total liabilities &amp; equity</b>	<b>988,828,828</b>	<b>988,828,828</b>

Table: 43.5.2

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	2017 (Rupees in '000)		
<b>Assets</b>			
Cash and balances with treasury banks	70,381,435	70,381,435	
Balances with other banks	4,508,835	4,508,835	
Lending to financial institutions	48,895,828	48,895,828	
Investments	400,733,286	400,733,286	
- of which: Non-significant investments in the capital instruments of banking, financial and insurance entities exceeding 10% threshold	-	-	a
- of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold	-	-	b
- of which: Mutual Funds exceeding regulatory threshold	-	-	c
- of which: reciprocal crossholding of capital instrument	-	-	
CET1	632,863	632,863	d
AT1	-	-	
T2	201,526	201,526	
- of which: others (mention details)	-	-	e
Advances	400,655,424	400,655,424	
- shortfall in provisions/ excess of total EL amount over eligible provisions under IRB	-	-	f
- general provisions reflected in Tier 2 capital	842,737	842,737	g
Fixed Assets	17,627,997	17,627,997	
- of which: Intangibles	1,472,270	1,472,270	k
Deferred Tax Assets	-	-	
- of which: DTAs that rely on future profitability excluding those arising from temporary differences	539,782	539,782	h
- of which: DTAs arising from temporary differences exceeding regulatory threshold	-	-	i
Other assets	46,026,023	46,026,023	
- of which: Goodwill	-	-	j
- of which: Defined-benefit pension fund net assets	729,546	729,546	l
<b>Total assets</b>	988,828,828	988,828,828	
<b>Liabilities &amp; Equity</b>			
Bills payable	12,461,866	12,461,866	
Borrowings	206,223,572	206,223,572	
Deposits and other accounts	653,406,071	653,406,071	
Sub-ordinated loans	4,991,000	4,991,000	
- of which: eligible for inclusion in AT1	-	-	m
- of which: eligible for inclusion in Tier 2	2,992,200	2,992,200	n
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	3,153,750	3,153,750	
- of which: DTLs related to goodwill	-	-	o
- of which: DTLs related to intangible assets	-	-	p
- of which: DTLs related to defined pension fund net assets	-	-	q
- of which: other deferred tax liabilities	-	-	r
Other liabilities	42,792,829	42,792,829	
<b>Total liabilities</b>	923,029,088	923,029,088	
<b>Share capital</b>	16,075,720	16,075,720	
- of which: amount eligible for CET1	16,075,720	16,075,720	s
- of which: amount eligible for AT1	-	-	t
<b>Reserves</b>	18,156,669	18,156,669	
- of which: portion eligible for inclusion in CET1	16,079,862	16,079,862	u
General Reserve	11,466,871	11,466,871	
Share Premium	4,612,991	4,612,991	
- of which: portion eligible for inclusion in Tier 2	2,076,807	2,076,807	v
Unappropriated profit/ (losses)	24,312,240	24,312,240	w
Minority Interest	-	-	
- of which: portion eligible for inclusion in CET1	-	-	x
- of which: portion eligible for inclusion in AT1	-	-	y
- of which: portion eligible for inclusion in Tier 2	-	-	z
<b>Surplus on revaluation of assets</b>	7,255,111	7,255,111	
- of which: Revaluation reserves on Fixed Assets	4,515,221	4,515,221	aa
- of which: Non-banking assets acquired in satisfaction of claims	104,372	104,372	
- of which: Unrealized Gains/Losses on AFS	2,635,518	2,635,518	
- In case of Deficit on revaluation (deduction from CET1)	-	-	ab
<b>Total equity</b>	65,799,740	65,799,740	
<b>Total liabilities &amp; equity</b>	988,828,828	988,828,828	

Table: 43.5.3

	Component of regulatory capital reported by bank 2017 (Rupees in '000)	Reference
<b>Common Equity Tier 1 capital (CET1): Instruments and reserves</b>		
1 Fully Paid-up Capital/ Capital deposited with SBP	16,075,720	(s)
2 Balance in Share Premium Account	4,612,991	
3 Reserve for issue of Bonus Shares	-	
4 General/ Statutory Reserves	11,466,871	(u)
5 Gain/(Losses) on derivatives held as Cash Flow Hedge		
6 Unappropriated/unremitted profits/ (losses)	24,312,240	(w)
7 Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	(x)
8 <b>CET 1 before Regulatory Adjustments</b>	56,467,822	
<b>Common Equity Tier 1 capital: Regulatory adjustments</b>		
9 Goodwill (net of related deferred tax liability)	-	(j) - (o)
10 All other intangibles (net of any associated deferred tax liability)	1,472,270	(k) - (p)
11 Shortfall of provisions against classified assets	-	(f)
12 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	431,826	{(h) - (r)} * 80%
13 Defined-benefit pension fund net assets	583,637	{(l) - (q)} * 80%
14 Reciprocal cross holdings in CET1 capital instruments	632,863	(d)
15 Cash flow hedge reserve	-	
16 Investment in own shares/ CET1 instruments	37,334	
17 Securitization gain on sale	-	
18 Capital shortfall of regulated subsidiaries	-	
19 Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	-	(ab)
20 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(a) - (ac) - (ae)
21 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	(b) - (ad) - (af)
22 Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	(i)
23 Amount exceeding 15% threshold	-	
24 of which: significant investments in the common stocks of financial entities	-	
25 of which: deferred tax assets arising from temporary differences	-	
26 National specific regulatory adjustments applied to CET1 capital	-	
27 of which: Investment in TFCs of other banks exceeding the prescribed limit	-	
28 of which: Any other deduction specified by SBP (mention details)	-	
29 Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	49,633	
30 <b>Total regulatory adjustments applied to CET1 (sum of 9 to 29)</b>	3,207,563	
31 <b>Common Equity Tier 1</b>	53,260,259	
<b>Additional Tier 1 (AT 1) Capital</b>		
32 Qualifying Additional Tier-1 instruments plus any related share premium	-	
33 of which: Classified as equity	-	(t)
34 of which: Classified as liabilities	-	(m)
35 Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-	(y)
36 of which: instrument issued by subsidiaries subject to phase out	-	
37 <b>AT1 before regulatory adjustments</b>	-	
<b>Additional Tier 1 Capital: regulatory adjustments</b>		
38 Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	
39 Investment in own AT1 capital instruments	-	
40 Reciprocal cross holdings in Additional Tier 1 capital instruments	-	
41 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ac)
42 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(ad)
43 Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital	49,633	
44 Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
45 <b>Total of Regulatory Adjustment applied to AT1 capital (sum of 38 to 43)</b>	49,633	
46 <b>Additional Tier 1 capital</b>	-	
47 <b>Additional Tier 1 capital recognized for capital adequacy</b>	-	
48 <b>Tier 1 Capital (CET1 + admissible AT1) (31+47)</b>	53,260,259	

Table: 43.5.3

	Component of regulatory capital reported by bank 2017 (Rupees in '000)	Reference
<b>Tier 2 Capital</b>		
49 Qualifying Tier 2 capital instruments under Basel III plus any related share premium	2,992,200	(n)
50 Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-	
51 Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	-	(z)
52 of which: instruments issued by subsidiaries subject to phase out	-	
53 General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	907,449	(g)
54 Revaluation Reserves	6,364,158	
55 of which: Revaluation reserves on fixed assets	4,018,547	portion of (aa)
56 of which: Unrealized Gains/Losses on AFS	2,345,611	
57 Foreign Exchange Translation Reserves	2,076,807	(v)
58 Undisclosed/Other Reserves (if any)	-	
59 <b>T2 before regulatory adjustments</b>	12,340,614	
<b>Tier 2 Capital: regulatory adjustments</b>		
60 Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	49,633	
61 Reciprocal cross holdings in Tier 2 instruments	201,526	
62 Investment in own Tier 2 capital instrument		
63 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ae)
64 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(af)
65 <b>Amount of Regulatory Adjustment applied to T2 capital (sum of 60 to 64)</b>	251,160	
66 Tier 2 capital (T2)	12,089,454	
67 Tier 2 capital recognized for capital adequacy	12,089,454	
68 Excess Additional Tier 1 capital recognized in Tier 2 capital	-	
69 <b>Total Tier 2 capital admissible for capital adequacy</b>	12,089,454	
<b>70 TOTAL CAPITAL (T1 + admissible T2) (48+69)</b>	65,349,713	

### 43.6 Main Features Template of Regulatory Capital Instruments

Disclosure template for main features of regulatory capital instruments			
S.No.	Main Features	Common Shares	Instrument - 2
1	Issuer	Bank Alfalah Limited	Bank Alfalah Limited
2	Unique identifier (eg PSX Symbol or Bloomberg identifier etc.)	BAFL	BAFL TFC 5
3	Governing law(s) of the instrument	Laws of Islamic Republic of Pakistan	Laws of Islamic Republic of Pakistan
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1	Tier 2
5	Post-transitional Basel III rules	Common Equity Tier 1	Ineligible
6	Eligible at solo/ group/ group&solo	Solo and Group	Solo and Group
7	Instrument type	Ordinary shares	Subordinated debt
8	Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting date)	Rs. 16,075,720	Rs. 2,992,200
9	Par value of instrument	Rs. 10	Rs. 5,000
10	Accounting classification	Share holders' equity	Liability
11	Original date of issuance	21-Jun-92	Feb 19 & 20, 2013
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	NA	Feb 2021
14	Issuer call subject to prior supervisory approval	NA	No
15	Optional call date, contingent call dates and redemption amount	NA	NA
16	Subsequent call dates, if applicable	NA	NA
	Coupons / dividends		
17	Fixed or floating dividend/ coupon	NA	Floating
18	Coupon rate and any related index/ benchmark	NA	Floating at 6 Months KIBOR*(Base Rate) plus 125 basis points per annum without any floor or CAP
19	Existence of a dividend stopper	No	No
20	Fully discretionary, partially discretionary or mandatory	NA	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	No
22	Noncumulative or cumulative	NA	Cumulative
23	Convertible or non-convertible	NA	Convertible
24	If convertible, conversion trigger (s)	NA	At the option of supervisor it can be converted into common equity upon occurrence of certain trigger events, called point of non viability (PONV). The PONV is the earlier of; 1. A decision made by SBP that a conversion or temporary/ permanent write off is necessary without which the bank would become non viable. 2. the decision to make a public sector injection of capital, or equivalent support, without which the bank would have become non viable, as determined by SBP.
25	If convertible, fully or partially	NA	May convert fully or partially
26	If convertible, conversion rate	NA	To be determined in the case of trigger event
27	If convertible, mandatory or optional conversion	NA	Optional
28	If convertible, specify instrument type convertible into	NA	Common Equity Tier 1
29	If convertible, specify issuer of instrument it converts into	NA	BAFL
30	Write-down feature	No	Yes
31	If write-down, write-down trigger(s)	NA	At the option of supervisor it can be either written off upon occurrence of a certain trigger event, called point of non viability (PONV). The PONV is the earlier of; 1. A decision made by SBP that a conversion or temporary/ permanent write off is necessary without which the bank would become non viable. 2. the decision to make a public sector injection of capital, or equivalent support, without which the bank would have become non viable, as determined by SBP.
32	If write-down, full or partial	NA	either may be written-down fully or may be written down partially;
33	If write-down, permanent or temporary	NA	Temporary
34	If temporary write-down, description of write-up mechanism	NA	As may be determined by reversal of trigger event and subject to regulator's approval
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA	Deposits
36	Non-compliant transitioned features	NA	No
37	If yes, specify non-compliant features	NA	N/A

## Risk Weighted Assets

The capital requirements for the banking group as per the major risk categories should be indicated in the manner given below:-

Capital Requirements		Risk Weighted Assets	
2017	2016 (Restated)	2017	2016 (Restated)

(Rupees in '000)

### Credit Risk

#### On-Balance sheet

Portfolios subject to standardized approach (Simple or Comprehensive)

Cash & cash equivalents

Sovereign

Public Sector entities

Banks

Corporate

Retail

Residential Mortgages

Past Due loans

Operating Fixed Assets

Other assets

-	-	-	-
3,521,120	3,038,749	31,229,449	28,532,859
613,595	485,776	5,442,086	4,561,275
2,360,005	1,531,628	20,931,310	14,381,486
24,312,970	20,516,468	215,636,100	192,642,891
5,743,471	4,049,701	50,939,882	38,025,363
401,193	348,457	3,558,258	3,271,896
211,712	271,911	1,877,714	2,553,152
1,822,902	1,747,671	16,167,646	16,410,061
532,198	601,669	4,720,167	5,649,474
39,519,166	32,592,030	350,502,612	306,028,457

Portfolios subject to Internal Rating Based (IRB) Approach

e.g. Corporate, Sovereign, Corporate, Retail, Securitization etc.

- - - -

#### Off-Balance sheet

Non-market related

Financial guarantees

Acceptances

Performance Related Contingencies

Trade Related Contingencies

1,818,001	2,767,404	16,124,179	25,985,017
905,914	120,141	8,034,715	1,128,089
1,188,855	1,235,126	10,544,176	11,597,424
1,255,892	1,197,543	11,138,740	11,244,536
5,168,662	5,320,214	45,841,810	49,955,066

Market related

Foreign Exchange contracts

Derivatives

70,359	52,978	624,033	497,446
4,979	5,225	44,168	49,064
75,338	58,203	668,201	546,510

#### Equity Exposure Risk in the Banking Book

Under simple risk weight method

Listed Equity Investment

Unlisted Equity Investment

629,685	774,420	5,584,793	7,271,546
962,270	750,130	8,534,549	7,043,475
1,591,955	1,524,550	14,119,342	14,315,021

Under Internal models approach

- - - -

### Market Risk

Capital Requirement for portfolios subject to Standardized Approach

Interest rate risk

Equity position risk

Foreign Exchange risk

189,215	181,139	2,365,188	2,264,238
4,344	156,890	54,300	1,961,125
95,048	10,455	1,188,100	130,688
288,607	348,484	3,607,588	4,356,051

Capital Requirement for portfolios subject to Internal Models Approach

**Operational Risk** [70% of BIA or ASA whichever is higher is taken as capital charge (2016: 70%)]\*

Capital Requirement for operational risks

4,877,882 4,556,086 60,973,525 56,951,075

#### Total Risk Weighted Exposures

51,521,610 44,399,567 475,713,078 432,152,180

\* SBP has accorded approval to the bank vide SBP letter No. BPRD/ BA&CP/ 614/ 17838/2013 dated December 03, 2013 for adoption of ASA based on the following capital floor i.e. operational risk charge under ASA should not fall below a certain percentage of operational risk capital charge calculated under Basic Indicator Approach (BIA)

Capital Floor (for operational risk capital charge only)		
December 2013 - December 2014	Year 2015	Year 2016 and Year 2017
90%	80%	70%

Capital Adequacy Ratios	2017		2016	
	Required	Actual	Required	Actual
CET1 to total RWA	6.00%	11.20%	6.00%	9.85%
Tier-1 capital to total RWA	7.50%	11.20%	7.50%	9.85%
Total capital to total RWA	11.28%	13.74%	10.65%	13.17%

## 44 RISK MANAGEMENT

The variety of business activities undertaken by the Bank require effective identification, measurement, monitoring, integration and management of different financial and non-financial risks that are constantly evolving as business activities change in response to concurrent internal and external developments. The Board Risk Management Committee (BRMC) is appointed and authorized by the Board of Directors (BOD) to assist in design, regular evaluation and timely updating of the risk management framework of the Bank. The Board has further authorized management committees i.e. Central Management Committee (CMC) and Central Credit Committee (CCC). To complement CMC and to supervise risk management activities within their respective scopes, CMC has further established sub-committees such as Assets & Liabilities Committee (ALCO), Investment Committee, Principal Investment Committee, Information Technology Steering Committee (ITSC), Internal Control & Compliance Committee (ICCC) and Process Improvement Committee.

The risk management framework endeavours to be a comprehensive and evolving guideline to cater to changing business dynamics. The framework includes:

- Clearly defined risk management policies and procedures.
- Well constituted organizational structure, in the form of a separate risk management department, which ensures that individuals responsible for risk approval are independent from risk taking units i.e. Business Units.
- Mechanism for ongoing review of policies and procedures and risk exposures.

The primary objective of this architecture is to inculcate risk management into the organization flows to ensure that risks are accurately identified & assessed, properly documented, approved, and adequately monitored & managed in order to enhance long term earnings and to protect the interests of the Bank's depositors and shareholders.

The Bank's risk management framework has a well-defined organizational structure for effective management of credit risk, market risk, liquidity risk, operational risk, IT security risk and environment and social risk.

### 44.1 Credit risk

Credit risk is the identification of probability that counterparty will cause a financial loss to the Bank due to its inability or unwillingness to meet its contractual obligation. This credit risk arises mainly from both direct lending activities as well as contingent liabilities. Credit risk management processes encompass identification, assessment, measurement, monitoring and control of Bank's exposure to credit risk. The Bank's credit risk management philosophy is based on Bank's overall business strategy/direction as established by the Board. The Bank is committed to the appropriate level of due diligence to ensure that credit risks have been properly analysed, fully disclosed to the approving authorities and appropriately quantified, also ensuring that the credit commitment is appropriately structured, priced (in line with market practices) and documented.

The Bank has built and maintained a sound loan portfolio in terms of well-defined credit policy approved by BOD. Its credit evaluation system comprises of well-designed credit appraisal, sanctioning and review procedures for the purpose of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio. In order to have an effective and efficient risk assessment, and to closely align its functions with Business, Credit Division has separate units for corporate banking, Islamic banking, commercial & SME banking, agricultural financing, and overseas operations.

The Bank manages its portfolio of loan assets with a view to limit concentrations in terms of risk quality, industry, maturity and large exposure. Internal rating based portfolio analysis is also conducted on regular basis. This portfolio level oversight is maintained by Credit & Risk Management Group.

A sophisticated internal credit rating system is in place, which is capable of quantifying counter-party & transaction risk in accordance with the best practices. The risk rating system takes into consideration qualitative and quantitative factors of the counter-party, transaction structure & security and generates internal ratings at Obligor and Facility levels. The facility rating system, developed in line with SBP's guidelines, also provides estimated LGD (Loss Given Default). This has been implemented in Corporate Banking, Islamic Banking and Retail & Middle Market segments. Furthermore, this system has an integrated loan origination module, which is currently being used in Corporate Banking, Islamic Banking and Retail segments. The system is regularly reviewed for improvements as per SBP's guidelines for Internal Credit Rating and Risk Management. Furthermore, Bank has also automated Internal Rating validation process based on statistical tests for Corporate, Commercial, ME, SE & Agri rating models. It covers both discrimination & calibration statistical tests as per best international practices. The system is backed by secured database with backup support and is capable of generating MIS reports providing snapshot of the entire portfolio for strategizing and decision making. The system has been enhanced to compute the risk weighted assets required for supporting the credit facilities at the time of credit origination and computation of Risk Weighted Assets for the quarterly credit risk related Basel submissions.

A centralized Credit Administration Division (CAD) under Credit & Risk Management Group is working towards ensuring that terms of approval of credit sanctions and regulatory stipulations are complied, all documentation including security documentation is regular & fully enforceable and all disbursements of approved facilities are made only after necessary authorization by CAD. Credit Monitoring, under CAD, keeps a watch on the quality of the credit portfolio in terms of borrowers' behaviour, identifies weakening accounts relationships and reports it to the appropriate authority with a view to arrest deterioration.

To handle the specialized requirements of managing delinquent and problem accounts, the Bank has a separate client facing unit to negotiate repayment/ settlement of the Bank's non-performing exposure and protect the interests of the bank's depositors and stakeholders. Unlike other banking groups, where the priority is the maximization of Bank's revenue, the priority of the Special Asset Management Group (SAMG) is recovery of funds and/or to structure an arrangement (such as rescheduling, restructuring, settlement or a combination of these) by which the interests of the Bank are protected. Where no other recourse is possible, SAMG may proceed with legal recourse so as to maximize the recovery of the Bank's assets. The Risk Management Division also monitors the NPL portfolio of the Bank and reports the same to CCC/ BRMC.

#### **44.1.1 Credit Risk - General Disclosures Basel Specific**

Bank Alfalah Limited is using Standardized Approach (SA) of SBP Basel accord for the purpose of estimating Credit Risk Weighted Assets. Under SA, banks are allowed to take into consideration external rating(s) of counter-party(s) for the purpose of calculating Risk Weighted Assets. A detailed procedural manual specifying return-based formats, methodologies and processes for deriving Credit Risk Weighted Assets in accordance with the SBP Basel Standardized Approach is in place and firmly adhered to.

#### **44.1.2 Disclosures for portfolio subject to the Standardised Approach & Supervisory risk weights**

##### **44.1.2.1 External ratings**

SBP Basel III guidelines require banks to use ratings assigned by specified External Credit Assessment Institutions - (ECAIs) namely PACRA, JCR-VIS, Moodys, Fitch and Standard & Poors.

The State Bank of Pakistan through its letter number BSD/BAI-2/201/1200/2009 dated December 21, 2009 has accorded approval to the Bank for use of ratings assigned by Credit Rating Agency of Bangladesh (CRAB) and CRISL. The Bank uses these ECAIs to rate its exposures denominated in Bangladeshi currency on certain corporate and banks incorporated in Bangladesh.

The Bank uses external ratings for the purposes of computing the risk weights as per the Basel III framework. For exposures with a contractual maturity of less than or equal to one year, short-term rating given by approved Rating Agencies is used, whereas for long-term exposure with maturity of greater than one year, long-term rating is used.

Where there are two ratings available, the lower rating is considered and where there are three or more ratings the second - lowest rating is considered.

#### **44.1.3 Disclosures with respect to Credit Risk Mitigation for Standardised Approach**

##### **44.1.3.1 Credit risk mitigation policy**

The Bank defines collateral as the assets or rights provided to the Bank by the borrower or a third party in order to secure a credit facility. The Bank would have the rights of secured creditor in respect of the assets / contracts offered as security for the obligations of the borrower / obligor.

##### **44.1.3.2 Collateral valuation and management**

As stipulated in the SBP Basel II / III guidelines, the Bank uses the comprehensive approach for collateral valuation. Under this approach, the Bank reduces its credit exposure to a counterparty when calculating its capital requirements to the extent of risk mitigation provided by the eligible financial collateral as specified in the Basel III guidelines. In line with Basel II / III guidelines, the Bank makes adjustments in eligible collaterals received for possible future fluctuations in the value of the collateral in line with the requirements specified by SBP guidelines. These adjustments, also referred to as 'haircuts', to produce volatility-adjusted amounts for collateral, are reduced from the exposure to compute the capital charge based on the applicable risk weights.

##### **44.1.3.3 Types of collateral taken by the Bank**

Bank Alfalah Limited determines the appropriate collateral for each facility based on the type of product and counterparty. In case of corporate and SME financing, fixed assets are generally taken as security for long tenor loans and current assets for working capital finance usually backed by mortgage or hypothecation. For project finance, security of the assets of the borrower and assignment of the underlying project contracts is generally obtained. Additional security such as pledge of shares, cash collateral, TDRs, SSC/DSCs, charge on receivables may also be taken. Moreover, in order to cover the entire exposure Personal Guarantees of Directors / Borrowers are also obtained generally by the Bank. For retail products, the security to be taken is defined in the product policy for the respective products. Housing loans and automobile loans are secured by the security of the property/automobile being financed respectively. The valuation of the properties is carried out by an approved valuation agency.

The Bank also offers products which are primarily based on collateral such as shares, specified securities and pledged commodities. These products are offered in line with the SBP prudential regulations and approved product policies which also deal with types of collateral, valuation and margining.

The decision on the type and quantum of collateral for each transaction is taken by the credit approving authority as per the credit approval authorization approved by the Central Credit Committee (CCC) under its delegation powers. For facilities provided as per approved product policies (retail products, loan against shares etc.), collateral is taken in line with the policy.

#### 44.1.3.4 Types of eligible financial collateral

For credit risk mitigation purposes (capital adequacy purposes), the Bank considers all types of financial collaterals that are eligible under SBP Basel III accord. This includes Cash / TDRs, Gold, securities issued by Government of Pakistan such as T-Bills and PIBs, National Savings Certificates, certain debt securities rated by a recognised credit rating agency, mutual fund units where daily Net Asset Value (NAV) is available in public domain and guarantees from certain specified entities (Government of Pakistan, Banks etc.) under substitution effect of Basel in general, for capital calculation purposes, in line with the SBP Basel III requirements, the Bank recognises only eligible collaterals as mentioned in the SBP Basel III accord.

#### 44.1.3.5 Credit concentration risk

Credit concentration risk arises mainly due to concentration of exposures under various categories viz. industry, geography, and single/group borrower exposures. Within credit portfolio, as a prudential measure aimed at better risk management and avoidance of concentration of risks, the SBP has prescribed regulatory limits on banks' maximum exposure to single borrower and group borrowers. Moreover, in order to restrict the industry concentration risk, Bank's annual credit plan spells out the maximum allowable exposure that it can take on specific industry. Additionally, the Internal Rating System allows the Bank to monitor risk rating concentration of borrowers against different grades / scores ranging from 1 - 12 (1 being the best and 12 being loss category) .

#### 44.1.4 Segmental information

##### 44.1.4.1 Segments by class of business

	2017					
	Advances (Gross)		Deposits		Contingent liabilities*	
	(Note 10)		(Note 15)			
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Agribusiness	6,958,483	1.67%	4,112,065	0.63%	160,841	0.11%
Automobile & Transportation Equipment	8,446,433	2.02%	10,426,331	1.60%	5,462,448	3.67%
Chemical and Pharmaceuticals	8,356,218	2.00%	8,707,432	1.33%	4,598,642	3.09%
Cement	8,187,225	1.96%	624,789	0.10%	2,624,005	1.77%
Communication	8,002,340	1.92%	3,581,438	0.55%	4,326,435	2.91%
Electronics and Electrical Appliances	9,876,062	2.37%	1,015,791	0.16%	2,058,532	1.38%
Educational Institutes	2,858,838	0.69%	22,401,752	3.43%	259,882	0.17%
Financial	6,426,199	1.54%	26,965,922	4.13%	21,367,955	14.37%
Fertilizers	9,390,324	2.25%	3,521,001	0.54%	68,945	0.05%
Food & Allied Products	44,367,216	10.63%	5,669,158	0.87%	1,261,412	0.85%
Glass & Ceramics	406,166	0.10%	383,783	0.06%	638,311	0.43%
Ghee & Edible Oil	12,260,174	2.94%	3,055,915	0.47%	4,036,595	2.72%
Housing Societies / Trusts	2,196,225	0.53%	14,461,710	2.21%	115,466	0.08%
Insurance	14,575	0.00%	5,824,657	0.89%	97,548	0.07%
Import & Export	6,729,325	1.61%	1,279,732	0.20%	4,448,217	2.99%
Iron / Steel	10,717,131	2.57%	3,119,998	0.48%	9,970,711	6.71%
Oil & Gas	18,278,658	4.38%	26,011,596	3.98%	12,763,578	8.59%
Paper & Board	3,901,426	0.94%	319,462	0.05%	2,024,110	1.36%
Production and Transmission of Energy	54,918,997	13.16%	14,022,366	2.15%	6,321,821	4.25%
Real Estate / Construction	11,464,098	2.75%	43,318,344	6.63%	16,039,865	10.79%
Retail / Wholesale Trade	19,026,791	4.56%	33,242,158	5.09%	8,387,755	5.64%
Rice Processing and Trading/ Wheat	14,036,860	3.36%	1,742,917	0.27%	57,343	0.04%
Sugar	11,040,365	2.65%	914,483	0.14%	1,034,309	0.70%
Shoes and Leather garments	1,415,212	0.34%	916,772	0.14%	390,888	0.26%
Sports Goods	379,159	0.09%	488,212	0.07%	74,685	0.05%
Surgical Goods	476,854	0.11%	446,577	0.07%	8,408	0.01%
Textile Spinning	27,683,766	6.64%	2,650,133	0.41%	8,836,061	5.94%
Textile Weaving	13,781,715	3.30%	3,433,765	0.53%	2,628,112	1.77%
Textile Composite	30,015,476	7.19%	4,197,487	0.64%	6,059,721	4.08%
Welfare Institutions	185,205	0.04%	9,260,966	1.42%	-	0.00%
Individuals	42,018,969	10.07%	350,603,677	53.66%	151,857	0.10%
Others	23,365,447	5.62%	46,685,682	7.10%	22,377,144	15.05%
	417,181,932	100.00%	653,406,071	100.00%	148,651,602	100.00%

	2017					
	Advances (Gross)		Deposits		Contingent liabilities*	
	(Note 10)		(Note 15)			
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Agribusiness	5,683,533	1.44%	4,512,814	0.70%	676,226	0.51%
Automobile & Transportation Equipment	6,716,530	1.70%	6,896,102	1.08%	4,942,532	3.76%
Chemical and Pharmaceuticals	4,074,952	1.03%	4,367,174	0.68%	4,036,635	3.07%
Cement	6,310,583	1.59%	998,229	0.16%	4,105,149	3.12%
Communication	6,316,495	1.60%	5,688,168	0.89%	2,894,449	2.20%
Electronics and Electrical Appliances	4,299,732	1.09%	2,686,895	0.42%	4,467,410	3.40%
Educational Institutes	1,915,871	0.48%	7,980,970	1.25%	267,878	0.20%
Financial	8,621,617	2.18%	26,319,240	4.11%	16,187,989	12.32%
Fertilizers	10,855,791	2.74%	418,538	0.07%	130,998	0.10%
Food & Allied Products	51,950,136	13.12%	8,758,225	1.37%	2,755,962	2.10%
Glass & Ceramics	361,281	0.09%	401,428	0.06%	349,719	0.27%
Ghee & Edible Oil	9,421,674	2.38%	3,419,859	0.53%	5,259,148	4.00%
Housing Societies / Trusts	2,535,735	0.64%	23,360,992	3.64%	54,801	0.04%
Insurance	-	0.00%	3,497,192	0.55%	-	0.00%
Import & Export	6,645,776	1.68%	3,618,472	0.56%	8,483	0.01%
Iron / Steel	9,725,608	2.46%	4,467,572	0.70%	6,357,746	4.84%
Oil & Gas	18,578,938	4.69%	20,598,300	3.21%	17,873,323	13.60%
Paper & Board	3,652,792	0.92%	495,440	0.08%	1,361,049	1.04%
Production and Transmission of Energy	58,281,948	14.72%	19,430,454	3.03%	5,256,974	4.00%
Real Estate / Construction	10,281,339	2.60%	31,372,965	4.89%	5,653,556	4.30%
Retail / Wholesale Trade	14,605,147	3.69%	28,724,702	4.48%	12,486,802	9.50%
Rice Processing and Trading/ Wheat	9,470,043	2.39%	2,189,755	0.34%	67,897	0.05%
Sugar	8,501,559	2.15%	1,635,158	0.26%	733,111	0.56%
Shoes and Leather garments	2,373,883	0.60%	2,173,422	0.34%	342,355	0.26%
Sports Goods	402,310	0.10%	443,678	0.07%	126,329	0.10%
Surgical Goods	490,108	0.12%	521,150	0.08%	25,256	0.02%
Textile Spinning	31,099,133	7.86%	2,747,373	0.43%	6,469,700	4.92%
Textile Weaving	14,184,418	3.58%	3,147,400	0.49%	2,783,776	2.12%
Textile Composite	25,362,710	6.41%	4,963,715	0.77%	5,202,455	3.96%
Welfare Institutions	1,000,000	0.25%	17,551,301	2.74%	-	0.00%
Individuals	36,637,139	9.25%	347,531,549	54.22%	684,330	0.52%
Others	25,506,528	6.45%	50,026,022	7.81%	19,886,826	15.11%
	395,863,309	100.00%	640,944,254	100.01%	131,448,864	100.00%

#### 44.1.4.2 Segment by sector

	2017					
	Advances (Gross)		Deposits		Contingent liabilities*	
	(Note 10)		(Note 15)			
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	66,349,619	15.90%	61,248,565	9.37%	30,591,094	20.58%
Private	350,832,313	84.10%	592,157,506	90.63%	118,060,508	79.42%
	417,181,932	100.00%	653,406,071	100.00%	148,651,602	100.00%

  

	2016					
	Advances (Gross)		Deposits		Contingent liabilities*	
	(Note 10)		(Note 15)			
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	86,223,360	21.78%	18,982,770	2.96%	22,410,079	17.05%
Private	309,639,949	78.22%	621,961,484	97.04%	109,038,785	82.95%
	395,863,309	100.00%	640,944,254	100.00%	131,448,864	100.00%

\* Contingent liabilities for the purpose of this note are presented at cost and includes direct credit substitutes, transaction related contingent liabilities and trade related contingent liabilities.

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

	2017		2016	
	Classified advances	Specific provision held	Classified advances	Specific provision held
	(Note 10.4)			
	(Rupees in '000)			
Agribusiness	229,657	144,776	378,541	216,924
Automobile & Transportation equipment	1,059,593	399,080	1,131,004	417,619
Chemical & Pharmaceuticals	88,462	72,711	225,513	225,513
Communication	1,788,981	1,788,981	1,870,813	1,870,813
Educational Institutes	38,699	37,931	52,322	45,972
Financial	951,150	951,150	1,302,880	1,288,470
Fertilizers	757,476	757,560	765,136	765,136
Food and allied products	359,269	341,556	257,302	175,802
Glass / Ceramics	7,346	7,079	17,133	17,133
Ghee & Edible Oil	328,286	328,286	457,638	457,638
Import & Export	733,558	682,557	885,121	829,730
Iron and steel	821,004	797,622	227,394	187,622
Oil and gas	635,574	635,574	1,701,406	1,356,224
Paper & Board	79,270	76,765	90,892	90,892
Production and transmission of energy	146,684	146,684	148,839	148,839
Real Estate / Construction	532,860	531,861	557,536	534,411
Retail Trade & Wholesale	2,117,306	1,772,832	2,002,294	1,400,352
Rice processing and trading / wheat	1,127,920	1,104,920	1,092,534	1,048,501
Sugar	7,132	6,690	7,322	6,737
Shoes & Leather garments	104,669	104,669	94,654	94,654
Sports	30,990	30,990	30,990	30,990
Surgical goods	48,453	39,428	32,153	32,153
Textile Spinning	1,666,854	1,563,266	1,398,435	1,391,135
Textile Weaving	1,062,503	1,019,001	1,104,051	1,024,229
Textile Composite	1,105,086	971,966	1,051,420	937,481
Individuals	810,209	661,408	982,412	790,055
Others	939,850	708,428	1,152,780	981,968
	17,578,841	15,683,771	19,018,515	16,366,993

#### 44.1.4.4 Details of non-performing advances and specific provisions by sector

	2017		2016	
	Classified advances	Specific provision held	Classified advances	Specific provision held
	(Rupees in '000)			
Public / Government	-	-	-	-
Private	17,578,841	15,683,771	19,018,515	16,366,993
	17,578,841	15,683,771	19,018,515	16,366,993

#### 44.1.4.5 Geographical segment analysis

	2017			
	Profit before taxation	Total assets employed	Net assets employed	Contingent liabilities*
	(Rupees in '000)			
Pakistan	12,755,860	914,306,119	56,265,483	144,077,498
Asia Pacific (including South Asia)	882,701	54,245,117	8,492,474	4,462,202
Middle East	406,424	20,277,592	1,041,783	111,902
	14,044,985	988,828,828	65,799,740	148,651,602
	2016			
	Profit before taxation	Total assets employed	Net assets employed	Contingent liabilities*
	(Rupees in '000)			
Pakistan	11,367,197	849,033,701	51,065,263	125,163,263
Asia Pacific (including South Asia)	1,107,779	48,111,705	8,201,003	4,665,616
Middle East	548,183	20,311,647	858,496	1,619,985
	13,023,159	917,457,053	60,124,762	131,448,864

\* Contingent liabilities for the purpose of this note are presented at cost and includes direct credit substitutes, transaction related contingent liabilities and trade related contingent liabilities.

#### 44.2 Market risk

Market risk exposes the Bank to the risk of financial losses resulting from movements in market prices. It is the risk associated with changes in the interest rates, foreign exchange rates, equity prices and commodity prices. To manage and control market risk, a well-defined risk management structure, under Board approved Market & Liquidity Risk Management Policy, is in place. The policy outlines methods to measure and control market risk which are carried out at a portfolio level. Moreover, it also includes controls which are applied, where necessary, to individual risk types, to particular books and to specific exposures. These controls include limits on exposure to individual market risk variables as well as limits on concentrations of tenors and issuers. This structure is reviewed, adjusted and approved periodically.

The Bank's Asset and Liability Committee (ALCO) and Investment Committee (IC) are primarily responsible for the oversight of the market risk, supported by Market Risk Management Unit of Risk Management Division (RMD). The Bank uses the Standardized Approach to calculate capital charge for market risk as per the current regulatory framework under Basel II / III. Currently, the Bank calculates 'Value at Risk (VaR)' on a regular basis. Moreover, the Bank also carries out stress testing on regular intervals by applying shocks on fixed income, equity and foreign exchange positions.

##### 44.2.1 Foreign exchange risk

Foreign exchange (FX) risk arises from the fluctuation in the value of financial instruments due to the changes in foreign exchange rates. The Bank manages this risk by setting and monitoring dealer and currency-wise limits.

FX risk is mainly managed through matched positions. Unmatched positions are covered substantially through derivative instruments such as forwards and swaps. VaR analysis are conducted on regular basis to measure and monitor the FX risk.

The currency risk is regulated and monitored against the regulatory/statutory limits enforced by the State Bank of Pakistan. The foreign exchange exposure limits in respective currencies are managed against the prescribed limits.

The analysis below represents the concentration of the Bank's foreign currency risk for on and off balance sheet financial instruments:

	2017			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	895,191,571	803,555,816	(27,024,039)	64,611,716
United States Dollar	61,529,055	80,687,137	20,318,024	1,159,942
Great Britain Pound	1,659,845	5,457,565	3,808,651	10,931
Arab Emirates Dirham	189,571	198,056	12,024	3,539
Euro	2,409,902	5,286,262	2,881,809	5,449
Other currencies	27,848,884	27,844,252	3,531	8,163
Total foreign currency exposure	93,637,257	119,473,272	27,024,039	1,188,024
Total currency exposure	<u>988,828,828</u>	<u>923,029,088</u>	<u>-</u>	<u>65,799,740</u>
	2016			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	823,029,084	751,909,373	(10,905,418)	60,214,293
United States Dollar	67,833,338	72,455,525	4,491,512	(130,675)
Great Britain Pound	1,295,998	4,856,018	3,574,955	14,935
Arab Emirates Dirham	20,544	5,479	-	15,065
Euro	2,413,419	5,258,522	2,850,232	5,129
Other currencies	22,864,670	22,847,374	(11,281)	6,015
Total foreign currency exposure	94,427,969	105,422,918	10,905,418	(89,531)
Total currency exposure	<u>917,457,053</u>	<u>857,332,291</u>	<u>-</u>	<u>60,124,762</u>

Currency wise assets and liabilities considered above have been presented on gross basis as per respective currencies.

##### 44.2.2 Equity investment risk

Equity investment risk arises due to the risk of changes in the prices of individual stocks held by the bank. The Bank's equity investments are classified as Available for Sale (AFS) and Held for Trading (HFT) investments. The objective of investments classified as HFT portfolio is to take advantage of short term capital gains, while the AFS portfolio is maintained with a medium term view of capital gains and dividend income. The Bank's Investment Committee is primarily responsible for the oversight of the equity investment risk. Market Risk Management Unit of RMD monitors and reports portfolio and scrip level internal and external limits.

##### 44.3 Interest rate risk

Interest Rate Risk is the adverse impact on the bank's shareholder's equity due to changes in the interest rates. It may be further elaborated as changes in the present value of the asset, liabilities and commitments due to changes in the term structure of the interest rates. The Bank is exposed to interest rate risk primarily as a result of mismatches in the amounts of assets and liabilities and off-balance sheet instruments within a certain range of maturity due to re-pricing (whichever is earlier). The Bank has formulated a separate Interest Rate Risk Management (IRRM) framework which establishes aggregate and tenor-wise balance sheet level PV01 (Price Value of 1bps) limits to manage interest rate risk within the Board approved risk appetite. Treasury and FI Group is primarily responsible for management of interest rate risk on a daily basis, and the Asset and Liability Committee (ALCO) oversees the interest rate risk at Bank level. Market Risk Management Unit of Risk Management Division independently monitors, analyses and reports various limits including management action point limits and re-pricing of the assets and liabilities on a regular basis.

#### 44.3.1 Mismatch of interest rate sensitive assets and liabilities

2017

	Effective yield/ interest rate	Exposed to yield / interest rate risk										Non-interest bearing financial instruments
		Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
(Rupees in '000)												
On-balance sheet financial instruments												
Financial Assets												
Cash and balances with treasury banks	0.02%	70,381,435	7,553,785	-	-	-	-	-	-	-	-	62,827,650
Balances with other banks	1.53%	4,508,835	1,079,271	853,440	-	-	-	-	-	-	-	2,576,124
Lendings to financial institutions	5.78%	48,895,828	30,693,824	16,031,822	2,170,182	-	-	-	-	-	-	-
Investments	6.83%	400,733,286	88,286,210	142,701,377	26,814,457	24,753,061	43,682,519	25,299,396	33,959,355	6,300,078	290,869	8,645,964
Advances	7.26%	400,655,424	174,725,255	85,137,877	80,768,167	26,482,451	1,690,872	1,810,295	8,019,137	17,836,363	3,747,465	437,542
Other assets		44,116,162	-	-	26,821,724	-	-	-	-	-	-	17,294,438
		969,290,970	302,338,345	244,724,516	136,574,530	51,235,512	45,373,391	27,109,691	41,978,492	24,136,441	4,038,334	91,781,718
Financial Liabilities												
Bills payable		12,461,866	-	-	-	-	-	-	-	-	-	12,461,866
Borrowings	4.97%	206,223,572	132,052,552	40,275,497	8,922,666	17,764,270	47,439	114,330	903,120	6,143,698	-	-
Deposits and other accounts	2.60%	653,406,071	240,800,347	51,264,080	67,373,239	16,091,928	610,096	306,949	82,329	-	-	276,877,103
Sub-ordinated loans	8.77%	4,991,000	-	4,991,000	-	-	-	-	-	-	-	-
Other liabilities		41,918,181	-	-	24,759,096	-	-	-	-	-	-	17,159,085
		919,000,690	372,852,899	96,530,577	101,055,001	33,856,198	657,535	421,279	985,449	6,143,698	-	306,498,054
On-balance sheet gap												
		50,290,280	(70,514,554)	148,193,939	35,519,529	17,379,314	44,715,856	26,688,412	40,993,043	17,992,743	4,038,334	(214,716,336)
Off-balance sheet financial instruments												
Forward exchange contracts - purchase		60,285,544	27,287,134	22,912,300	8,575,250	1,510,860	-	-	-	-	-	-
Forward exchange contracts - sale		31,823,206	8,200,656	12,131,925	10,859,209	631,416	-	-	-	-	-	-
Interest Rate Swaps - receipts		8,865,756	1,942,598	6,923,158	-	-	-	-	-	-	-	-
Interest Rate Swaps - payments		8,865,756	-	-	-	-	4,504,276	1,104,172	2,153,135	1,104,173	-	-
Off-balance sheet gap												
		28,462,338	21,029,076	17,703,533	(2,283,959)	879,444	(4,504,276)	(1,104,172)	(2,153,135)	(1,104,173)	-	-
Total yield / interest rate risk sensitivity gap												
		(49,485,478)	165,897,472	35,235,570	18,258,758	40,211,580	25,584,240	38,839,908	16,888,570	4,038,334	-	-
Cumulative yield / interest rate risk sensitivity gap												
		(49,485,478)	116,411,994	149,647,564	167,906,322	208,117,902	233,702,142	272,542,05	289,430,620	293,468,954	-	-

2016

	Effective yield/ interest rate	Exposed to yield / interest rate risk										Non-interest bearing financial instruments
		Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
------(Rupees in '000)-----												
On-balance sheet financial instruments												
Financial Assets												
Cash and balances with treasury banks	-	74,071,384	6,651,459	-	-	-	-	-	-	-	-	67,419,925
Balances with other banks	0.78%	9,373,123	3,256,176	1,435,399	-	-	-	-	-	-	-	4,681,548
Lendings to financial institutions	4.90%	30,149,029	3,857,883	11,892,500	14,398,646	-	-	-	-	-	-	-
Investments	7.61%	389,092,637	29,919,376	27,023,435	1,542,424	58,458,677	88,541,189	97,689,618	46,175,864	27,259,389	647,989	11,834,676
Advances	7.27%	378,720,349	29,811,582	128,342,849	186,754,816	28,899,125	63,943	154,176	266,316	195,322	4,232,220	-
Other assets		17,350,334	-	-	-	-	-	-	-	-	-	17,350,334
		898,756,856	73,496,476	168,694,183	202,695,886	87,357,802	88,605,132	97,843,794	46,442,180	27,454,711	4,880,209	101,286,483
Financial Liabilities												
Bills payable		12,886,990	-	-	-	-	-	-	-	-	-	12,886,990
Borrowings	5.12%	178,311,035	147,557,104	8,014,324	19,796,157	-	-	-	-	2,943,450	-	-
Deposits and other accounts	3.04%	640,944,254	290,491,729	20,059,108	23,733,050	15,172,690	753,186	477,159	27,860	-	-	290,229,472
Sub-ordinated loans	9.68%	8,317,670	-	4,993,000	2,524,154	800,516	-	-	-	-	-	-
Other liabilities		13,068,177	-	-	-	-	-	-	-	-	-	13,068,177
		853,528,126	438,048,833	33,066,432	46,053,361	15,973,206	753,186	477,159	27,860	2,943,450	-	316,184,639
On-balance sheet gap												
		45,228,730	(364,552,357)	135,627,751	156,642,525	71,384,596	87,851,946	97,366,635	46,414,320	24,511,261	4,880,209	(214,898,156)
Off-balance sheet financial instruments												
Forward exchange contracts - purchase		53,992,848	26,259,608	15,818,226	8,080,646	3,834,368	-	-	-	-	-	-
Forward exchange contracts - sale		41,084,440	21,036,937	15,055,056	4,614,498	377,949	-	-	-	-	-	-
Interest Rate Swaps - receipts		7,622,307	1,586,974	6,035,333	-	-	-	-	-	-	-	-
Interest Rate Swaps - payments		7,622,307	-	-	-	-	-	4,222,855	2,039,671	1,359,781	-	-
Off-balance sheet gap		12,908,408	6,809,645	6,798,503	3,466,148	3,456,419	-	(4,222,855)	(2,039,671)	(1,359,781)	-	-
Total yield / interest rate risk sensitivity gap												
		(357,742,712)	142,426,254	160,108,673	74,841,015	87,851,946	93,143,780	44,374,649	23,151,480	4,880,209		
Cumulative yield / interest rate risk sensitivity gap												
		(357,742,712)	(215,316,458)	(55,207,785)	19,633,230	107,485,176	200,628,956	245,003,605	268,155,085	273,035,294		
44.3.2 Reconciliation of Assets and Liabilities exposed to yield / interest rate risk with Total Assets and Liabilities												
				2017		2016		(Rupees in '000)				
Total financial assets as per note 44.3.1								969,290,970		898,756,856		
Add: Non financial assets												
Operating fixed assets								17,627,997		18,133,267		
Other assets								1,909,861		566,930		
Total assets as per statement of financial position								988,828,828		917,457,053		
Total liabilities as per note 44.3.1								919,000,690		853,528,126		
Add: Non financial liabilities												
Deferred tax liabilities								3,153,750		2,650,428		
Other liabilities								874,648		1,153,737		
Total liabilities as per statement of financial position								923,029,088		857,332,291		

#### 44.4 Country risk

Country risk, refers to the possibility that economic and political conditions in a foreign country could adversely impact the Bank's exposure in that country. For the Bank, country risk arises as a result of the Bank's foreign currency lending, trade and treasury business with counterparties domiciled in other countries as well as investments and capital transactions. In order to manage the risk, Bank has in place a comprehensive country risk management framework. Under this framework, the transfer risk is measured using financial market and economic factors. Political risk is measured using a variety of indicia indicative of relative certainty of payment of foreign obligations. Based on this framework, risk limits are assigned to countries within the Board approved limits. The limits and their utilization are monitored and managed at head office level and country risk exposures are reported to the relevant committees at a defined frequency.

#### 44.5 Liquidity risk

Liquidity is a financial institution's capacity to meet its obligations as they fall due without incurring losses. Liquidity risk is the risk to an institution's earnings, capital & reputation arising from its inability (real or perceived) to meet its contractual obligations in a timely manner without incurring unacceptable losses when they come due.

With reference to SBP Basel III Liquidity Standards issued under BPRD circular # 08 dated June 23, 2016, Bank Alfalah calculates Liquidity Coverage Ratio (LCR) on monthly basis. Based on December 31, 2017 numbers Bank's LCR is 1.49 or 149% against SBP minimum requirement of 90%, with Total Stock of High Quality Liquid Assets (HQLA) of PKR 273.9Bn and Net Cash Outflows of PKR 183.5Bn.

Moreover, under the same circular the Banks are expected to calculate Net Stable Funding Ratio (NSFR) on quarterly basis and maintain a minimum of 100% with effect from December 31, 2017. Based on December 31, 2017 numbers Bank Alfalah's NSFR is 137%, with Total Available Stable Funding of PKR 555.3 Bn and Total Required Stable Funding of PKR 405.2Bn.

The Bank manages and controls liquidity risk through a detailed risk management framework, which includes BoD approved policy, management level procedural document and Asset & Liability Committee (ALCO) level guidelines. Under this framework, various liquidity metrics are implemented and monitored on a regular basis.

At BAFL, BoD approves the Liquidity Risk Policy. Further, it also approves the Bank's overall liquidity risk appetite and broad liquidity risk strategy through Annual Business Plan. The Bank's ALCO is primarily responsible for the implementation of BoD's strategy through oversight of the asset liability function including liquidity management. Treasury front office manages the Bank's liquidity on day to basis and is the Bank's first line of defense against liquidity risk. Under Risk Management Division, Liquidity Risk Management Unit is responsible for independent monitoring of the overall liquidity risk in line with regulatory requirements and bank's own risk appetite.

The Bank's overall funding strategy is based on the principles of diversification and stability. The Bank has a diverse funding base, which includes stable funding in the form of equity, retail and small business deposits. Moreover, for non-stable funding in form of Large Volume Depositors. The Bank has in place internally approved limits to monitor and manage risk emanating from volatile funding concentration. Moreover, the Bank is fully compliant with Basel III LCR and NSFR, which ensure sufficient stock of High Quality Liquidity Assets in relation to its liability profile.

At BAFL, Stress Testing is used in an attempt to highlight the vulnerability of the Bank's Balance Sheet to hypothetical stress events and scenarios. Under the same, liquidity risk factors are given major shocks and their resulting impact on the balance sheet is calculated. BAFL carries out the stress testing based on SBP Stress Tests and internal defined scenarios to gauge the potential impacts of different liquidity stress scenarios on the Bank's stock of liquid assets. The results are shared with the senior management, BoD and the regulator.

At BAFL, Contingency Funding Plan, is implemented to address liquidity issues in times of stress / crises situations. The Global Treasury prepares the CFPs for all operations on annual basis for identifying the stress scenarios and the funding plan for such scenarios along with early warning indicators. These plans are reviewed by the Risk Management Division and are approved by the ALCO annually.

Main drivers of LCR results are HQLA and Net Cash Outflow. HQLA is defined by the liquidity quality of the Bank's assets and net cash outflow is mainly determined through volatility of the Bank's liability profile. The table below show cases the composition of HQLA as of December 31, 2017.

HQLA*	Market Value	Weighted Amount
	(Rs. in millions)	
Level 1 Assets	271,298	271,298
Level 2A Assets	543	462
Level 2B Assets	4,378	2,189
	<u>276,219</u>	<u>273,949</u>

\* These have been defined in detail in SBP Circular No. 08, dated June 23, 2016.

### Liquidity Coverage Ratio

	Total Unweighted <sup>a</sup> Value (average)	Total Weighted <sup>b</sup> Value (average)
<b>High Quality Liquid Assets</b>	<b>(Rupees in '000)</b>	
1 Total high quality liquid assets (HQLA)		234,488,065
<b>Cash Outflows</b>		
2 Retail deposits and deposits from small business customers of which:	415,719,968	41,571,997
2.1 Stable deposit	-	-
2.2 Less stable deposit	415,719,968	41,571,997
3 Unsecured wholesale funding of which:	224,761,158	134,978,873
3.1 Operational deposits (all counterparties)	-	-
3.2 Non-operational deposits (all counterparties)	212,614,296	122,832,011
3.3 Unsecured debt	12,146,862	12,146,862
4 Secured wholesale funding		6,754,570
5 Additional requirements of which:	28,305,702	3,023,760
5.1 Outflows related to derivative exposures and other collateral requirements	213,153	213,153
5.2 Outflows related to loss of funding on debt products	-	-
5.3 Credit and Liquidity facilities	28,092,549	2,810,607
6 Other contractual funding obligations	-	-
7 Other contingent funding obligations	455,722,662	6,912,420
8 <b>Total Cash Outflows</b>		193,241,620
<b>Cash Inflows</b>		
9 Secured lending	9,587,551	-
10 Inflows from fully performing exposures	37,930,718	26,997,552
11 Other Cash inflows	440,821	440,821
12 <b>Total Cash Inflows</b>		27,438,373
	<b>Total Adjusted Value</b>	
13 <b>Total HQLA</b>		234,488,065
14 <b>Total Net Cash Outflows</b>		165,803,247
15 <b>Liquidity Coverage Ratio</b>		141%

- a Unweighted values must be calculated as outstanding balances maturing or callable within 30 days ( for inflows and outflows)
- b "Weighted values must be calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows)"
- c Adjusted values must be calculated after the application of both (i) haircuts and inflow and outflow rates and (ii) any applicable caps (ie cap on level 2B and level 2 assets for HQLA abd cap on inflows

**Net Stable Funding Ratio**

(Rupees. in '000)		unweighted value by residual maturity				weighted value
		No Maturity	< 6 months	6 months to < 1 yr	≥ 1 yr	
ASF Item						
1	Capital:					
2	Regulatory capital	65,696,345	-	-	2,992,200	68,686,545
3	Other capital instruments		2,000	-	1,996,800	-
4	Retail deposits and deposit from small business customers:					
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	401,062,889	12,914,358	6,245,704	2,425,510	380,626,165
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	147,443,582	274,048,950	31,398,362	8,569,633	104,387,656
10	Other liabilities:					
11	NSFR derivative liabilities					-
12	All other liabilities and equity not included in other categories		29,053,964	3,159,413		1,579,707
13	Total ASF					555,280,073
RSF item						
14	Total NSFR high-quality liquid assets (HQLA)					59,155,466
15	Deposits held at other financial institutions for operational purposes	10,322,937				5,161,468
16	Performing loans and securities:					
17	Performing loans to financial institutions secured by Level 1 HQLA		11,848,536			1,184,854
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	6,116,797	1,141,414	-	8,536,731
19	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	122,329,221	84,482,871	41,982,211	103,042,496	224,377,475
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	8,078,351	5,079,067	150,000	29,753,885	24,543,557
21	Securities that are not in default and do not qualify as HQLA including exchange-traded equities.	1,195,060			8,033,759	7,844,496
22	Other assets:					
23	Physical traded commodities, including gold	-				-
24	Assets posted as initial margin for derivative contracts		-			-
25	NSFR derivative assets		-			-
26	NSFR derivative liabilities before deduction of variation margin posted		-			-
27	All other assets not included in the above categories		48,174,048			48,174,048
28	Off-balance sheet items		341,696,628	93,129,348	117,088,428	26,176,167
29	Total RSF					405,154,261
30	Net Stable Funding Ratio (%)					137%

#### 44.5.1 Maturities of assets and liabilities - based on working prepared by the Asset and Liability Management Committee (ALCO) of the Bank

2017										
Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year (Rupees in '000)	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
<b>Assets</b>										
Cash and balances with treasury banks	70,381,435	32,115,460	3,715,036	2,409,089	5,844,770	5,724,712	1,492,631	3,185,947	7,379,272	8,514,518
Balances with other banks	4,508,835	3,655,395	853,440	-	-	-	-	-	-	-
Lendings to financial institutions	48,895,828	30,693,824	16,031,822	2,170,182	-	-	-	-	-	-
Investments	400,733,286	88,313,361	141,257,265	563,870	50,944,397	42,685,741	27,429,507	35,330,676	9,337,145	4,871,324
Advances	400,655,424	160,356,755	50,841,977	30,346,004	11,198,984	11,268,053	34,538,717	44,691,212	42,384,818	15,028,904
Operating fixed assets	17,627,997	118,320	236,641	354,961	709,923	1,419,846	1,419,846	2,600,222	2,471,713	8,296,525
Other assets	46,026,023	15,070,139	259,023	27,210,258	1,472,547	1,022,980	247,769	371,653	371,654	-
	988,828,828	330,323,259	213,195,204	63,054,364	70,170,621	62,121,332	65,128,470	86,179,710	61,944,602	36,711,271
<b>Liabilities</b>										
Bills payable	12,461,866	12,461,866	-	-	-	-	-	-	-	-
Borrowings	206,223,572	132,052,552	40,275,497	8,922,666	17,764,270	47,439	114,330	903,120	6,143,698	-
Deposits and other accounts	653,406,071	41,887,130	66,589,225	46,680,748	65,450,111	95,285,044	24,395,193	47,059,811	117,376,183	148,682,626
Sub-ordinated loans	4,991,000	-	1,000	-	1,000	2,000	2,000	4,985,000	-	-
Deferred tax liabilities	3,153,750	-	-	-	3,153,750	-	-	-	-	-
Other liabilities	42,792,829	10,129,376	668,876	25,826,174	2,918,653	812,438	812,438	1,624,875	-	-
	923,029,088	196,530,924	107,534,598	81,429,588	89,287,784	96,146,921	25,323,961	54,572,806	123,519,881	148,682,626
<b>Net assets</b>	65,799,740	133,792,330	105,660,606	(18,375,224)	(19,117,163)	(34,025,589)	39,804,509	31,606,904	(61,575,279)	(111,971,355)
Share capital	16,075,720									
Reserves	18,156,669									
Unappropriated profit	24,312,240									
Surplus on revaluation of assets - net of tax	7,255,111									
	65,799,740									

2016										
Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year (Rupees in '000)	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
<b>Assets</b>										
Cash and balances with treasury banks	74,071,384	36,846,823	1,772,930	2,425,381	3,867,441	6,757,184	1,307,969	2,639,200	6,211,747	12,242,709
Balances with other banks	9,373,123	7,937,724	1,435,399	-	-	-	-	-	-	-
Lendings to financial institutions	30,149,029	3,857,883	11,892,500	14,398,646	-	-	-	-	-	-
Investments	389,092,637	29,567,940	26,624,534	1,365,933	66,439,619	88,541,189	97,689,618	47,972,996	27,484,586	3,406,222
Advances	378,720,349	60,429,570	74,260,351	74,376,411	40,512,742	10,088,682	19,127,442	55,801,997	28,726,245	15,396,909
Operating fixed assets	18,133,267	122,842	245,687	368,530	737,060	1,474,120	1,474,120	2,708,214	2,509,407	8,493,287
Other assets	17,917,264	15,453,573	227,564	341,346	365,238	683,001	211,636	317,453	317,453	-
	917,457,053	154,216,355	116,458,965	93,276,247	111,922,100	107,544,176	119,810,785	109,439,860	65,249,438	39,539,127
<b>Liabilities</b>										
Bills payable	12,886,990	12,886,990	-	-	-	-	-	-	-	-
Borrowings	178,311,035	147,557,104	8,014,324	19,796,157	-	-	-	-	2,943,450	-
Deposits and other accounts	640,944,254	43,065,961	42,459,849	50,339,554	77,053,235	119,366,260	23,555,005	47,285,340	108,170,442	129,648,608
Sub-ordinated loans	8,317,670	-	1,000	1,662,330	1,663,340	2,000	2,000	4,987,000	-	-
Deferred tax liabilities	2,650,428	-	-	-	2,650,428	-	-	-	-	-
Other liabilities	14,221,914	7,323,211	572,313	918,104	2,586,282	705,501	705,501	1,411,002	-	-
	857,332,291	210,833,266	51,047,486	72,716,145	83,953,285	120,073,761	24,262,506	53,683,342	111,113,892	129,648,608
<b>Net assets</b>	60,124,762	(56,616,911)	65,411,479	20,560,102	27,968,815	(12,529,585)	95,548,279	55,756,518	(45,864,454)	(90,109,481)
Share capital	15,952,076									
Reserves	15,895,652									
Unappropriated profit	17,337,458									
Surplus on revaluation of assets - net of tax	10,939,576									
	60,124,762									

In line with SBP BSD Circular Letter No. 03 of 2011 on "Maturity and Interest Rate Sensitivity Gap Reporting" the Bank conducted a behavioural study of non-maturity deposits (non-contractual deposits) and performed regression analysis to determine deposit withdrawal pattern on Current and Savings Accounts (CASA). Regression analysis is used to investigate the relationship between time, the amount of deposits and deposits withdrawals in order to arrive at an estimated deposits withdrawals pattern. This methodology is in line with the industry best practices and regulatory guidance.

#### 44.5.2 Maturities of assets and liabilities based on contractual maturities

2017										
Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
(Rupees in '000)										
<b>Assets</b>										
Cash and balances with treasury banks	70,381,435	56,931,994	3,092,596	1,428,122	2,069,462	1,762,847	386,300	974,218	1,852,203	1,883,693
Balances with other banks	4,508,835	3,655,395	853,440	-	-	-	-	-	-	-
Lendings to financial institutions	48,895,828	30,693,824	16,031,822	2,170,182	-	-	-	-	-	-
Investments	400,733,286	88,313,361	141,257,265	563,870	50,944,397	42,685,741	27,429,507	35,330,676	9,337,145	4,871,324
Advances	400,655,424	160,356,755	50,841,977	30,346,004	11,198,984	11,268,053	34,538,717	44,691,212	42,384,818	15,028,904
Operating fixed assets	17,627,997	118,320	236,641	354,961	709,923	1,419,846	1,419,846	2,600,222	2,471,713	8,296,525
Other assets	46,026,023	15,070,139	259,023	27,210,258	1,472,547	1,022,980	247,769	371,653	371,654	-
	988,828,828	355,139,788	212,572,764	62,073,397	66,395,313	58,159,467	64,022,139	83,967,981	56,417,533	30,080,446
<b>Liabilities</b>										
Bills payable	12,461,866	12,461,866	-	-	-	-	-	-	-	-
Borrowings	206,223,572	132,052,552	40,275,497	8,922,666	17,764,270	47,439	114,330	903,120	6,143,698	-
Deposits and other accounts	653,406,071	547,523,318	51,402,284	23,900,337	19,889,290	1,700,672	923,569	116,563	45,835	7,904,203
Sub-ordinated loans	4,991,000	-	1,000	-	1,000	2,000	2,000	4,985,000	-	-
Deferred tax liabilities	3,153,750	-	-	-	3,153,750	-	-	-	-	-
Other liabilities	42,792,829	10,129,376	668,876	25,826,174	2,918,653	812,438	812,438	1,624,875	-	-
	923,029,088	702,167,112	92,347,657	58,649,177	43,726,963	2,562,549	1,852,337	7,629,558	6,189,533	7,904,203
<b>Net assets</b>	65,799,740	(347,027,324)	120,225,107	3,424,220	22,668,350	55,596,918	62,169,802	76,338,423	50,228,000	22,176,243
Share capital	16,075,720									
Reserves	18,156,669									
Unappropriated profit	24,312,240									
Surplus on revaluation of investments										
- net of tax	7,255,111									
	65,799,740									
2016										
Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
(Rupees in '000)										
<b>Assets</b>										
Cash and balances with treasury banks	74,071,384	66,265,750	564,904	804,133	919,594	1,515,407	284,447	584,019	1,426,447	1,706,683
Balances with other banks	9,373,123	7,937,724	1,435,399	-	-	-	-	-	-	-
Lendings to financial institutions	30,149,029	3,857,883	11,892,500	14,398,646	-	-	-	-	-	-
Investments	389,092,637	37,473,425	26,624,534	1,365,933	58,534,134	88,541,189	97,689,618	47,972,996	27,484,586	3,406,222
Advances	378,720,349	60,366,612	74,274,799	74,391,313	40,520,383	10,090,379	19,131,335	55,813,309	28,732,123	15,400,096
Operating fixed assets	18,133,267	122,842	245,687	368,530	737,060	1,474,120	1,474,120	2,708,214	2,509,407	8,493,287
Other assets	17,917,264	15,453,573	227,564	341,346	365,238	683,001	211,636	317,453	317,453	-
	917,457,053	191,477,809	115,265,387	91,669,901	101,076,409	102,304,096	118,791,156	107,395,991	60,470,016	29,006,288
<b>Liabilities</b>										
Bills payable	12,886,990	12,886,990	-	-	-	-	-	-	-	-
Borrowings	178,311,035	147,557,104	8,014,324	19,796,157	-	-	-	-	2,943,450	-
Deposits and other accounts	640,944,254	570,522,872	22,893,797	20,990,475	18,355,077	1,969,944	1,951,626	4,078,582	153,547	28,334
Sub-ordinated loans	8,317,670	-	1,000	1,662,330	1,663,340	2,000	2,000	4,987,000	-	-
Deferred tax liabilities	2,650,428	-	-	-	2,650,428	-	-	-	-	-
Other liabilities	14,221,914	7,323,211	572,313	918,104	2,586,282	705,501	705,501	1,411,002	-	-
	857,332,291	738,290,177	31,481,434	43,367,066	25,255,127	2,677,445	2,659,127	10,476,584	3,096,997	28,334
<b>Net assets</b>	60,124,762	(546,812,368)	83,783,953	48,302,835	75,821,282	99,626,651	116,132,029	96,919,407	57,373,019	28,977,954
Share capital	15,952,076									
Reserves	15,895,652									
Unappropriated profit	17,337,458									
Surplus on revaluation of investments										
- net of tax	10,939,576									
	60,124,762									

Current and Saving deposits have been classified under maturity upto one month as these do not have any contractual maturity. Further, the Bank estimates that these deposits are a core part of its liquid resources and will not fall below the current year's level.

#### 44.6 Operational risk

Basel II defines Operational risk as, "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events." In compliance with the Risk Management Guidelines, issued by SBP, an Operational Risk Management (ORM) Unit is established within RMD.

The Operational risk management policy of the Bank is duly approved by the Board and Operational Risk Management Manual covers the processes, structure and functions of Operational risk management and provides guidelines to identify, assess, monitor, control and report operational risk in a consistent and transparent manner across the Bank.

##### 44.6.1 Operational Risk Disclosures - Basel II Specific

Bank was given approval for adoption of Alternative Standardized Approach (ASA) under Basel II for determining capital charge on Operational Risk in December 2013 and Bank started calculating its capital charge for operational risk on ASA in its financials from December 31, 2013. The SBP Approval stipulated a capital floor i.e. operational risk charge under ASA should not fall below as a certain percentage of operational risk capital charge calculated under Basic Indicator Approach for initial 3 years. These floors were 90% for 2013 and 2014, 80% for 2015 and 70% for 2016. However, removal of Capital Floor for calculation of Capital Charge under ASA was extended in line with International developments and consultations of the Basel Committee on Banking Supervision (BCBS), State Bank of Pakistan is in process of reviewing its instructions on Operational risk.

Bank Alfalah is one of the first few banks in Pakistan to achieve this milestone. As per SBP requirements, Bank's operational risk assessment systems have also been reviewed by the external auditors during 2014.

The Bank's ORM framework and practices address all the significant areas of ORM within the Bank including Risk Control Self Assessment (RCSA), Key Risk Indicators (KRIs), Operational Loss Data Management, and Operational Risk Reporting. The ORM Unit engages with Bank's business / support units and regularly collaborates in determining and reviewing the risks, and suggests controls on need basis. Additionally, all the policies and procedures of the Bank are reviewed from the operational risk perspective, and the recommendations of RMD are taken into consideration before their approval. A Process Improvement Committee (PIC) in this regard has been formed to evaluate and consider the recommendations of all the reviewers. Further, the unit also reviews functional specification documents (FSDs) and reviews / test the functionalities and systems prepared on premise of the FSD. The Operational Loss Database and KRIs systems introduced in 2010 have been further enhanced and the reports are submitted to Central Management Committee and Board Risk Management Committee. State Bank has further extended the timeline for collection of loss data base reports till further notice.

As required by Basel, Bank has categorized all its operational loss/near miss incidents into following loss event categories:

- Internal Fraud
- External Fraud
- Employment Practice & Workplace Safety
- Client, Product & Business Practice
- Damage to Physical Assets
- Business Disruption & System Failure
- Execution, Delivery & Process Management

And also mapped the incidents into following Business Lines:

- Retail Banking
- Commercial Banking
- Corporate Finance
- Trading & Sales
- Payment & Settlement
- Agency Services
- Cost centers/Centralized functions

#### 44.6.2 IT Security Risk

The Bank has in place an IT Security Risk Management Policy and an IT Management Policy, duly approved by the Board of Directors, which derive from the regulatory mandates and the ISO 27001:2013 international standards framework. A dedicated IT Security Risk Management unit, functioning within RMD manages IT and information security risks to bank's technology assets by developing IT security baselines for IT solutions that support products and services, monitoring of threats and vulnerabilities, investigation of reported information security incidents, reinforcement of IT security risk awareness to employees via periodic communications, following up on due dates with stakeholders responsible for remediation of open issues, and reporting the status of IT security risk to the management and BRMC/Board.

#### 44.7 Environmental & Social Risk Management Unit

Initiative to integrate sustainable finance approach in credit evaluation and approval process.

Being a responsible corporate citizen wherever BAFL operates, the Bank has integrated sustainable finance approach in its lending activities. In this regard, an Environmental & Social Management System (ESMS), duly approved by the Board of Directors, has been put in place in close coordination with IFC. The ESMS Framework essentially requires that any relevant lending opportunity is to be reviewed and evaluated against;

- IFC Exclusion List
- Applicable national laws on environment, health, safety and social issues
- IFC Performance Standards.

This Framework is an integral part of the credit approval process and all relevant credit proposals require clearance of E&S Officer prior to approval of the competent authority. The Environmental & Social Risk Management Unit, part of RMD and headed by a senior risk officer with environmental and social risk management qualifications, is responsible for identifying, vetting and approving projects from an ESRM perspective. This role also entails coordination with provincial Environmental Protection Agencies (EPA) to remove ambiguities related to the EPA approval requirements and to educate the clients. Recently SBP has announced Green Banking Guidelines with one year implementation period for the banks. The objective of these Guidelines is to promote green banking practices across the banking industry.

### 45 GENERAL

Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements, wherever necessary to facilitate comparison.

The effect of re-classification in comparative information presented for the year ended December 31, 2016 as part of the Profit and Loss Statement is as follows:

Head	(Rupees in '000)	From	To
Various service charges and commission income	370,208	Other income	Fee, commission and brokerage income
Staff commission and incentive expenses	(83,618)	Fee, commission and brokerage income	Administrative expenses - Salaries, allowances, etc.
Interest income on Interest Rate Swaps	100,658	Mark-up / return / interest earned	Mark-up / return / interest expensed
Brokerage and commission expense	(211,705)	Mark-up / return / interest expensed	Administrative expenses - Brokerage and commission
Brokerage and commission expense	(9,371)	Mark-up / return / interest expensed	Administrative expenses - Other expense
Courier expense - recoveries	22,298	Other income	Administrative expenses - Communication
Swift / telex charges	22,005	Other income	Administrative expenses - Communication
Foreign exchange expense	(117,161)	Fee, commission and brokerage income	Income from dealing in foreign currencies

**46 NON-ADJUSTING EVENT AFTER THE YEAR END REPORTING DATE**

The Board of Directors in its meeting held on February 25, 2018 has announced cash dividend of 15 percent (2016: Nil). This appropriation will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2017 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending December 31, 2018.

**47 DATE OF AUTHORISATION**

These unconsolidated financial statements were authorised for issue on February 25, 2018 by the Board of Directors of the Bank.