BANK ALFALAH LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

AC/AAR/346/2019
14 February 2019

The Board of Directors
Bank Alfalah Limited ("the Bank")
Karachi

Dear Sirs

DRAFT CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

We are pleased to enclose the draft **consolidated financial statements** of Bank Alfalah Limited (the Bank) and its subsidiary companies namely Alfalah Securities (Private) Limited and Alfalah GHP Investment Management Limited (together referred to as the group), prepared by the management of Holding Company, for the above year, together with our draft **audit report** thereon to the members, initialed by us only for identification purposes. We shall be pleased to sign and issue our audit report, in the present or amended form, after:

a) the Board has approved the consolidated financial statements and these have been signed by the Chief Executive, Chief Financial Officer and three Directors of the Bank authorized in this behalf;

b) we have received a certified true copy of minutes of your meeting approving the consolidated financial statements;

c) we have received the audited unconsolidated financial statements of Bank Alfalah Limited for the year ended 31 December 2018 and audited financial statements of Alfalah Securities (Private) Limited and Alfalah GHP Investment Management Limited for the year ended 31 December 2018; and

d) we have received a representation letter duly signed by the Chief Executive Officer and Chief Financial Officer of the Holding Company on the lines of a draft provided to the management.

2. RESPONSIBILITIES OF THE AUDITORS AND THE MANAGEMENT IN RELATION TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.1. The responsibilities of the independent auditors in an audit of consolidated financial statements are provided under the Companies Act, 2017 and International Standards on Auditing as applicable in Pakistan.

2.2. While the auditors are responsible for forming and expressing their opinion on the financial statements, management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017(XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of these consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Board of directors are responsible for overseeing the Group's financial reporting process.

3. CONTINGENCIES AND COMMITMENTS

We have been informed by the management that there were no contingencies and commitments as of the reporting date that are required to be disclosed in the accompanying consolidated financial statements, other than those disclosed in note 22 to the consolidated financial statements.

4. TRANSACTIONS WITH RELATED PARTIES

We have been informed by the management that there were no transactions with related parties other than those disclosed in note 45 to the accompanying consolidated financial statements.

5. FRAUDS AND ERRORS

We have been informed by the management of the Group that to the best of their knowledge there have been no instances of frauds or irregularities during the year that could have a material effect on the consolidated financial statements of the Group.

We wish to place on record our appreciation for the courtesies and co-operation extended to us by the management and staff of the Group at all levels during the course of our audit.

Yours faithfully

EY Ford Rhodes

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INDEPENDENT AUDITORS' REPORT

To the members of Bank Alfalah Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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Following are the key audit matters:

Key audit matters	How the matter was addressed in our audit
- ***Provision against Non Performing Credit Exposure***	
The Group's credit portfolios include loans and advances, and non-funded credit facilities. The credit portfolio is spread across various domestic branches and overseas operations. As per the Group's accounting policy (refer note 4.5 to the financial statements), the Group periodically assess the adequacy of its provisions against non-performing credit exposures in accordance with the requirements of Prudential Regulations of State Bank of Pakistan. Such regulations require specific provisioning against loan losses on the basis of an age based criteria which should be supplemented by a subjective evaluation of Group's credit portfolio. The determination of loan loss provision against certain vulnerable corporate loans, therefore, involve use of management judgment, on a case to case basis, taking into account factors such as the economic and business conditions, borrowers repayment behaviors and realizability of collateral held by the Group. In view of the significance of this area in terms of its impact on the financial statements and the level of involvement of management's judgment, we identified adequacy and completeness of loan loss provision as a significant area of audit judgment and a key audit matter.	We applied a range of audit procedures including the following: - We reviewed the Group's process for identification and classification of non-performing loans including the quality of underlying data and systems. As part of such review we performed an analysis of the changes within the different categories of classified non-performing accounts from last year to the current reporting date. This analysis was used to gather audit evidence regarding downgrading of impaired loans and declassification of accounts from non-performing to regular, as the case may be. - We performed independent checks for the computations of provisions in line with the requirements of the applicable Prudential Regulations. - In addition, we selected a representative sample of borrowers from the credit portfolios across various branches including individually significant corporate loans and performed tests and procedures such as review of credit documentation, repayment history and past due status, financial condition as depicted by the borrowers' financial statements, nature of collateral held by the Group and status of litigation, if any, with the borrower; - Based on the said credit reviews, we identified and discussed with the management the loan accounts where the credit risk appear to have increased. We reviewed the adequacy of provisions against such accounts on the basis of our independent objective evaluation of the risk mitigating factors that exist in such cases; - We also assessed adequacy of disclosures as included in note 9.4 and 9.5 to the financial statements regarding the non-performing loans and provisions made for the same in the financial statements in accordance with the requirements of the applicable financial reporting framework.

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- **Preparation of Financial Statements under BPRD Circular No.02 OF 2018**	
As referred to in note 4.1.1 to the financial statements, State bank of Pakistan (SBP) vide its BPRD circular no. 02 of 2018, (the circular) revised the statutory forms of the annual financial statements of Groups effective from the year ended 31 December 2018. The revised statutory financial reporting framework as applicable to the Group, prescribes the presentation format, nature and content of disclosures in relation to various elements of the financial statements. The above changes and enhancements in the financial statements are considered important and a key audit matter because of the volume and significance of the changes in the financial statements resulting from the transition to the new reporting requirements.	- We assessed the procedures applied by the management for identification of the changes required in the financial statements due to the application of the revised forms for the preparation of such financial statements. - We also evaluated the sources of information used by the management for the preparation of the financial statements disclosures and the internal consistency of the disclosures with other elements thereof. - We considered the adequacy and appropriateness of the additional disclosures and changes in the presentation of the financial statements based on the requirements of the statutory forms.

Information Other than the Consolidated Financial Statements and Auditors' Report Thereon

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

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

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

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Matters:

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another firm of chartered accountants who expressed an unmodified opinion thereon dated 25 February 2018.

The engagement partner on the audit resulting in this independent auditors' report is Omer Chughtai.

Chartered Accountants ey fr

Place: Karachi

Date:

BANK ALFALAH LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

	Note	2018	2017 Restated	2016 Restated
		(Rupees in '000)		
ASSETS				
Cash and balances with treasury banks	5	**82,407,736**	70,381,480	74,071,394
Balances with other banks	6	**3,911,554**	3,993,054	9,498,787
Lendings to financial institutions	7	**62,172,287**	48,895,828	30,149,029
Investments	8	**279,251,731**	401,742,398	389,666,922
Advances	9	**501,639,727**	400,659,922	378,724,300
Fixed assets	10	**18,317,042**	16,198,902	16,919,627
Intangible assets	11	**1,317,271**	1,508,765	1,297,310
Deferred tax assets		**-**	-	-
Other assets	12	**35,998,315**	30,831,827	31,300,165
Assets held for sale	21	**23,589,489**	26,821,724	-
		1,008,605,152	1,001,033,900	931,627,534
LIABILITIES				
Bills payable	13	**35,988,225**	20,882,970	12,886,990
Borrowings	14	**124,017,735**	207,536,939	178,710,629
Deposits and other accounts	15	**702,847,125**	644,924,984	640,854,225
Liabilities against assets subject to finance lease		**-**	-	-
Subordinated debt	16	**11,989,000**	4,991,000	8,317,670
Deferred tax liabilities	17	**2,500,097**	3,443,012	2,911,531
Other liabilities	18	**33,805,722**	27,665,519	27,021,619
Liabilities directly associated with the assets held for sale	21	**20,435,396**	24,759,096	-
		931,583,300	934,203,520	870,702,664
NET ASSETS		**77,021,852**	66,830,380	60,924,870
REPRESENTED BY				
Share capital	19	**17,743,629**	16,075,720	15,952,076
Reserves		**23,050,754**	18,156,669	15,895,652
Surplus / (deficit) on revaluation of assets	20	**7,389,127**	7,309,372	11,005,315
Unappropriated profit		**28,323,585**	24,865,838	17,747,600
Total equity attributable to the equity holders of the Bank		**76,507,095**	66,407,599	60,600,643
Non-controlling interest		**514,757**	422,781	324,227
		77,021,852	66,830,380	60,924,870

CONTINGENCIES AND COMMITMENTS 22

The annexed notes 1 to 50 and annexures I to III form an integral part of these consolidated financial statements.

President & Chief Executive Officer	Chief Financial Officer	Director	Director	Director

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

	Note	2018	2017 Restated
		--------(Rupees in 000)--------	
Mark-up/Return/Interest Earned	24	59,323,522	56,183,376
Mark-up/Return/Interest Expensed	25	27,732,785	27,199,914
Net Mark-up/ Interest Income		31,590,737	28,983,462
NON MARK-UP/INTEREST INCOME			
Fee and Commission Income	26	6,795,955	6,543,078
Dividend Income		357,296	461,125
Foreign Exchange Income		2,168,533	1,442,886
Income / (loss) from derivatives		(20,542)	(58,908)
Gain / (Loss) on securities	27	992,335	854,425
Share of profit from assocaites		646,093	434,834
Other Income	28	194,143	84,647
Total non-markup/interest Income		11,133,813	9,762,087
Total Income		42,724,550	38,745,549
NON MARK-UP/INTEREST EXPENSES			
Operating expenses	29	24,372,994	24,994,550
Workers Welfare Fund	30	396,390	263,697
Other charges	31	6,430	32,727
Total non-markup/interest expenses		24,775,814	25,290,974
Profit Before Provisions		17,948,736	13,454,575
Provisions and write offs - net	32	545,334	(616,495)
Extra ordinary / unusual items		-	-
PROFIT BEFORE TAXATION FROM CONTINUING OPERATIONS		17,403,402	14,071,070
Taxation	33	6,887,079	5,658,330
PROFIT AFTER TAXATION FROM CONTINUING OPERATIONS		10,516,323	8,412,740
DISCONTINUING OPERATIONS			
Profit after tax for the year from discontinued operations	21	474,952	201,064
Profit for the year		10,991,275	8,613,804
Attributable to:			
Equity holders of the Bank			
Profit for the year from continuing operations		10,423,893	8,313,852
Profit for the year from discontinuing operations		474,952	201,064
		10,898,845	8,514,916
Non-controlling interest			
Profit for the year from continuing operations		92,430	98,888
Profit for the year from discontinuing operations		-	-
		92,430	98,888
		10,991,275	8,613,804
		--------(Rupees)--------	
Basic Earnings per share - Restated	34	6.20	4.88
Diluted Earnings per share - Restated	35	6.19	4.86
Basic Earnings per share from continuing operations- Restated		5.93	4.76
Diluted Earnings per share from continuing operations- Restated		5.92	4.75

The annexed notes 1 to 50 and annexures I to III form an integral part of these consolidated financial statements.

President & Chief Executive Officer	Chief Financial Officer	Director	Director	Director

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

	2018	2017 Restated
	---------(Rupees in 000)---------	
Profit after taxation	**10,991,275**	8,613,804
Other comprehensive income		
Items that may be reclassified to profit and loss account in subsequent periods:		
Effect of translation of net investment in foreign branches	**2,974,642**	492,787
Movement in surplus / (deficit) on revaluation of investments - net of tax	**(2,608,585)**	(3,719,588)
	366,057	(3,226,801)
Items that will not be reclassified to profit and loss account in subsequent periods:		
Remeasurement gain / (loss) on defined benefit obligations - net of tax.	**122,770**	242,895
Movement in surplus on revaluation of operating fixed / intangible assets - net of tax	**2,662,351**	51,232
Movement in surplus on revaluation of non-banking assets - net of tax	**25,606**	5,965
	2,810,727	300,092
Total comprehensive income	**14,168,059**	5,687,095
Total comprehensive income attributable to:		
Equity holders of the Bank	**14,071,943**	5,588,207
Non-controlling interest	**96,116**	98,888
	14,168,059	5,687,095

The annexed notes 1 to 50 and annexures I to III form an integral part of these consolidated financial statements.

President & Chief Executive Officer	Chief Financial Officer	Director	Director	Director

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

	Share capital	Capital Reserves: Reserve for issue of bonus shares	Capital Reserves: Share premium	Capital Reserves: Exchange translation reserve	Capital Reserves: Statutory reserve	Revenue Reserves: Employee share option compensation reserve	Surplus/(Deficit) on revaluation: Investments	Surplus/(Deficit) on revaluation: Fixed / Non Banking Assets	Unappropriated profit	Sub-total	Non Controlling Interest	Total
	-----(Rupees in '000)-----											
Balance as at December 31, 2016 as previously reported	15,952,076	-	4,417,126	1,584,020	9,720,886	173,620	6,377,484	4,597,694	17,777,737	60,600,643	324,227	60,924,870
Effect of change in accounting policy - note 4.1	-	-	-	-	-	-		30,137	(30,137)	-	-	-
Balance as at January 1, 2017 (Restated)	15,952,076	-	4,417,126	1,584,020	9,720,886	173,620	6,377,484	4,627,831	17,747,600	60,600,643	324,227	60,924,870
Profit after taxation	-	-	-	-	-	-	-	-	8,514,918	8,514,918	98,886	8,613,804
Other comprehensive income - net of tax	-	-	-	492,787	-	-	(3,719,343)	57,197	242,984	(2,926,375)	(334)	(2,926,709)
Transfer to statutory reserve	-	-	-	-	1,673,459	-	-	-	(1,673,459)	-	-	-
Transfer from surplus on revaluation of assets to unappropriated profit - net of tax	-	-	-	-	-	-	-	(33,797)	33,797	-	-	-
Transactions with owners, recorded directly in equity												
Shares issued during the year	123,644	-	68,078	-	-	-	-	-	-	191,722	-	191,722
Recognition of fair value charge of share based payments - note 40	-	-	-	-	-	26,693	-	-	-	26,693	-	26,693
Transfer to Share Premium on issuance of shares under Stock Option Scheme	-	-	127,787	-	-	(127,787)	-	-	-	-	-	-
Opening Balance January 1, 2018	16,075,720	-	4,612,991	2,076,807	11,394,345	72,526	2,658,141	4,651,231	24,865,838	66,407,599	422,781	66,830,380
Effect of change in accounting policy - note 4.1	-	-	-	-	-	-	-	-	(81,596)	(81,596)	-	(81,596)
Restated opening balances as at January 01, 2018 under IFRS 9	16,075,720	-	4,612,991	2,076,807	11,394,345	72,526	2,658,141	4,651,231	24,784,242	66,326,003	422,781	66,748,784
Profit after taxation	-	-	-	-	-	-	-	-	10,898,845	10,898,845	92,430	10,991,275
Other comprehensive income - net of tax	-	-	-	2,974,642	-	-	(2,608,234)	2,721,888	122,841	3,211,137	(454)	3,210,683
Transfer to statutory reserve	-	-		-	1,678,770	-	-	-	(1,678,770)	-	-	-
Transfer from surplus on revaluation of assets to unappropriated profit - net of tax	-	-	-	-	-	-	-	(33,899)	33,899	-	-	-
Transactions with owners, recorded directly in equity												
Final cash dividend for the year ended December 31, 2017 @ 10%	-	-	-	-	-	-	-	-	(2,411,358)	(2,411,358)	-	(2,411,358)
Interim cash dividend for the half year ended June 30, 2018 @ 10%		-	-	-	-	-	-	-	(1,613,057)	(1,613,057)	-	(1,613,057)
Shares issued under stock option scheme during the period	54,852	-	27,637	-	-	-	-	-	-	82,489	-	82,489
Transfer to reserve for issue of bonus shares	-	1,613,057	-	-	-	-	-	-	(1,613,057)	-	-	-
Shares issued during the year	1,613,057	(1,613,057)	-	-	-	-	-	-	-	-	-	-
Amortisation of deferred employee compensation expense - note 40	-	-	-	-	-	13,036	-	-	-	13,036	-	13,036
Transfer of Share Premium on issuance of shares under Employee Stock Option Scheme	-	-	54,972	-	-	(54,972)	-	-	-	-	-	-
Balance as at December 31, 2018	17,743,629	-	4,695,600	5,051,449	13,073,115	30,590	49,907	7,339,220	28,523,585	76,507,095	514,757	77,021,852

The annexed notes 1 to 50 and annexures I to III form an integral part of these consolidated financial statements.

President & Chief Executive Officer | Chief Financial Officer | Director | Director | Director

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

	Note	2018	2017 Restated
		---------(Rupees in 000)---------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation from continuing operations		17,403,402	14,071,070
Profit before taxation from discontinuing operations		780,600	339,819
Dividend income		(357,296)	(461,125)
Share of profit from associates		(646,093)	(434,834)
		17,180,513	13,514,930
Adjustments			
Depreciation		1,733,162	1,832,246
Amortisation		489,716	447,802
Provisions and write offs - net		545,334	(616,495)
Unrealised loss / (gain) on revaluation of investments classified as held for trading - net		43,511	7,351
Gain on sale of operating fixed assets - net		(137,915)	(11,571)
Charge for defined benefit plan		185,753	255,138
		2,859,561	1,914,471
		20,040,074	15,429,401
(Increase) / decrease in operating assets			
Lendings to financial institutions		(18,366,107)	(3,797,453)
Held for trading securities		(24,776,244)	(7,376,396)
Advances		(100,849,080)	(22,610,123)
Other assets (excluding advance taxation)		(3,355,879)	(13,699,516)
		(147,347,310)	(47,483,488)
Increase / (decrease) in operating liabilities			
Bills payable		15,105,255	(416,549)
Borrowings		(83,496,637)	26,886,082
Deposits		57,922,141	36,983,041
Other liabilities (excluding current taxation)		748,546	4,573,185
		(9,720,695)	68,025,759
		(137,027,931)	35,971,672
Contribution made to gratuity fund		(185,753)	(255,138)
Income tax paid		(5,295,164)	(5,136,262)
Net cash (used in) / generated from operating activities		(142,508,848)	30,580,272
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		142,536,128	(23,759,964)
Net investments in held-to-maturity securities		1,227,241	1,541,900
Investment in subsidiaries / associated companies		-	(769,230)
Disposal of investment in subsidiaries / associated companies		(126,213)	1,251,417
Dividend received from associated companies		201,051	8,743
Dividends received		368,420	489,536
Investments in operating fixed assets		(1,322,251)	(1,879,602)
Proceed from sale proceeds of fixed assets		447,931	90,279
Net cash generated / (used in) from investing activities		143,332,307	(23,026,921)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance / (redemption) of sub-ordinated debt		6,998,000	(3,326,670)
Issue of share capital		82,489	191,722
Dividend paid		(4,000,915)	(1,931)
Net cash used in financing activities		3,079,574	(3,136,879)
Effect of translation of net investment in foreign branches		2,974,642	492,787
Increase / (decrease) in cash and cash equivalents		6,877,675	4,909,259
Cash and cash equivalents at beginning of the year		99,766,084	90,124,073
Effects of exchange rate changes on cash and cash equivalents		(6,105,728)	(1,372,976)
		93,660,356	88,751,097
Cash and cash equivalents at end of the year	36	100,538,031	93,660,356

The annexed notes 1 to 50 and annexures I to III form an integral part of these consolidated financial statements.

President & Chief Executive Officer | Chief Financial Officer | Director | Director | Director

BANK ALFALAH LIMITED
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

1 STATUS AND NATURE OF BUSINESS

1.1 The "Group" consists of:

Holding Company : Bank Alfalah Limited, Pakistan

Bank Alfalah Limited (the Holding Company / the Bank) is a banking company incorporated in Pakistan on June 21, 1992 as a public limited company. It commenced its banking operations on November 1, 1992. The Holding Company's registered office is located at B. A. Building, I. I. Chundrigar Road, Karachi and is listed on the Pakistan Stock Exchange. The Bank is engaged in banking services as described in the Banking Companies Ordinance, 1962 and is operating through 486 conventional banking branches including 24 sub branches (2017: 475 branches including 22 sub branches), 10 overseas branches (2017: 10 branches), 152 Islamic banking branches including 1 sub branch (2017: 152 branches) and 1 offshore

	Percentage of Holding 2018	2017
Subsidiaries		
Alfalah Securities (Private) Limited, Pakistan	97.91%	97.91%
Alfalah GHP Investment Management Limited, Pakistan	40.22%	40.22%

1.2 In addition the Group maintains investments in the following:

Associates		
Alfalah Insurance Limited	30%	30%
Sapphire Wind Power Company Limited	30%	30%
TriconBoston Consulting Corporation (Private) Limited	9.25%	9.25%
Investment in mutual funds established under trust structure not consolidated as subsidiaries - Note 1.2.1		
Alfalah GHP Islamic Pension Fund	29.76%	34.99%
Alfalah GHP Pension Fund	24.94%	31.77%
Alfalah GHP Money Market Fund	0.80%	7.44%
Alfalah GHP Income Fund	20.51%	0.11%
Alfalah GHP Islamic Stock Fund	0.00%	0.03%
Alfalah GHP Sovereign Fund	3.22%	0.02%
Alfalah GHP Income Multiplier Fund	0.0004%	0.00%
Alfalah GHP Islamic Income Fund	0.05%	0.03%
Alfalah GHP Cash Fund	4.02%	3.62%

1.2.1 These represent the Group's investment in mutual funds established under Trust structure, which are subsidiaries of the Group under IFRS 10, but have not been considered for the purposes of consolidation in accordance with the directives issued by the Securities and Exchange Commission of Pakistan (SECP) through S.R.O 56(I) /2016 dated January 28, 2016. The said SRO states that the requirements of consolidation under the Companies Act 2017 and IFRS 10 'Consolidated Financial Statements' is not applicable in case of investment by companies in mutual funds established under Trust structure. Accordingly, for the purposes of Consolidated Financial Statements of the Group, the investments in these funds have been accounted for as associates as explained in note 2.4 to these consolidated financial statements.

2 BASIS OF PRESENTATION

2.1 These consolidated financial statements represent financial statements of holding company - Bank Alfalah Limited and its subsidiaries. The assets and liabilities of subsidiaries have been consolidated on a line-by-line basis and the investment held by the holding company is eliminated against the corresponding share capital of subsidiaries in these consolidated financial statements.

2.2 STATEMENT OF COMPLIANCE

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

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

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

The SBP 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 SECP 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. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars. 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 ICAP and notified by the SECP, vide their SRO No. 571 of 2013 dated June 12, 2013 for Institutions offering Islamic Financial Services (IIFS). Accordingly, the requirements of these standards have not been considered in the preparation of these consolidated financial statements.

2.3 Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed, or has rights, to variable returns from its investment with investee and has the ability to effect those return through its power over the investee.

These consolidated financial statements incorporate the financial statements of subsidiaries from the date that control commences until the date that control ceases.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating polices. Associates as well as investment in mutual funds established under trust structure (not consolidated as subsidiaries) are accounted for using the equity method.

Non-controlling interests are that part of the net results of operations and of net assets of subsidiaries attributable to interest which are not owned by the holding company. Material intra-group balances and transactions are eliminated.

2.4 Key financial figures of the Islamic Banking branches are disclosed in Annexure II to the unconsolidated financial statements.

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

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

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2019:

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

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

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

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

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

Standard	IASB Effective date (annual periods beginning on or after)
IFRS 14 – Regulatory Deferral Accounts	January 01, 2016
IFRS 17 – Insurance Contracts	January 01, 2021

2.7 Critical accounting estimates and judgments

The preparation of these consolidated 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 as well as in the disclosure of contingent liabilities. 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 recognized 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 4.4 and 8)
ii) classification and provisioning against non-performing loans and advances (notes 4.5 and 9)
iii) income taxes (notes 4.13 and 33)
iv) accounting for defined benefit plan and compensated absences (notes 4.10 and 38)
v) depreciation of operating fixed assets (notes 4.6 and 10)
vi) amortisation of intangibles (notes 4.6.3 and 11)
vii) revaluation of fixed assets and non banking assets acquired in satisfaction of claim (note 4.6.2, 4.6.5, 10 and 12.1)
viii) impairment of assets (note 4.4.5)
ix) employee stock option scheme (note 40)
x) fair value measurement of financial instruments (note 42)
xi) other provisions and contingent liabilities (notes 22 and 32)
xii) consolidation of subsidiaries

3 BASIS OF MEASUREMENT

3.1 Accounting convention

These consolidated financial statements have been prepared under the historical cost convention except that certain fixed assets and non banking assets acquired in satisfaction of claims are stated at revalued amounts; held for trading, available for sale investments and derivative financial instruments are measured at fair value and defined benefit obligation which are carried at present value.

3.2 Functional and Presentation Currency

These consolidated financial statements are presented in Pakistani Rupees, which is the group's functional and presentation currency.

The amounts are rounded off to the nearest thousand rupees except as stated otherwise.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are consistent with those of previous financial year except as disclosed below in note 4.1.

4.1 Changes in accounting policies

4.1.1 Change in reporting format

The SBP vide BPRD Circular No.2 dated January 25, 2018 specified the new reporting format for the financial statements of banking companies. The new format has revised the disclosure requirements of the Group for the year ended December 31, 2018 which has resulted in certain additional disclosures and reclassifications of the items in these consolidated financial statements.

4.1.2 Surplus / Deficit on Revaluation of Fixed Assets

The Companies Ordinance, 1984 (the repealed Ordinance) was repealed through the enactment of the Companies Act, 2017 on May 30, 2017. However, as directed by the Securities and Exchange Commission of Pakistan vide circular number 23 dated October 4, 2017, the financial reporting requirements of the Companies Act, 2017 were only made applicable for reporting periods starting from January 1, 2018.

The repealed Ordinance specified the accounting treatment for the surplus on revaluation on fixed assets, wherein, a deficit arising on revaluation of a particular property was to be adjusted against the total balance in the surplus account or, if no surplus existed, was to be charged to the profit and loss account as an impairment of the asset. However, the Companies Act, 2017 removed the specific provisions allowing the above treatment and hence, a deficit arising on revaluation of a particular property is now to be accounted for in accordance with IAS 16, which requires that such deficit is to be taken to the profit and loss account as an impairment.

Consequently, the Group has changed its policy for accounting for a deficit arising on revaluation of fixed assets and accordingly, any surplus/deficit arising on revaluation of owned property and non-grouping assets acquired in satisfaction of claims is accounted for at individual assets level.

The effect of this change in accounting policy, which is applied with retrospective effect, is as follows:

	December 31, 2016 (Rupees in '000)
Impact over statement of financial position	
Decrease in unappropriated profit	30,137
Increase in surplus on revaluation of assets – net of tax	30,137

Impact over profit and loss account, statement of comprehensive income and statement of cash flows is immaterial.

4.1.3 Adoption of IFRS 9 - 'Financial Instrument'

During the current year, the Holding Company's Bahrain, Afghanistan and UAE Operations have, in line with their respective locally applicable regulatory frameworks, adopted IFRS 9 'Financial Instruments' as issued by the International Accounting Standards Board (IASB) in July 2014. In order to ensure compliance with the regulatory framework in these countries, the expected credit loss charge arising as a result of adoption of IFRS 9 has been retained as a general provision in these consolidated financial statements.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

The adoption of this standard by the overseas branches have resulted in additional net of tax provisioning requirement of Rs. 81.596 million in respect of prior year which has been incorporated in the opening balance of retained earnings, while net of tax provision reversal of Rs. 63.820 million has been booked in profit and loss statement of overseas operations, in respect of

Had IFRS 9 not been adopted by the overseas branches, unappropriated profit, investments, advances, other assets, other liabilities and deferred tax liabilities as at December 31, 2018 would have been higher by Rs. 17.776 million, Rs. 19.264 million, Rs. 0.568 million, Rs. 4.891 million and Rs. 6.947 million, respectively.

Measurement of Redeemable Participating Certificates - IFRS 9

During the current year, the adoption of IFRS 9 at Holding Company's Bahrain Operations has resulted in investments in Redeemable Participating Certificates held abroad, being mandatorily measured at "Fair Value through Profit and Loss Account". However, based on the clarification received from the State Bank of Pakistan (SBP) vide their letter No. BPRD/RPD/2018-16203 dated July 26, 2018, such investments have been reported and measured under "Available for Sale" investments in these consolidated financial statements.

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4.2 **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.

4.3 **Lendings to / borrowings from financial institutions**

The Group enters into transactions of repurchase agreements (repo) and agreements to resell (reverse repo) at contracted rates for a specified period of time. These are recorded as under:

Sale under repurchase agreements

Securities sold subject to a repurchase agreement (repo) are retained in these consolidated financial statements as investments and the counter party liability is included in borrowings. 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 under resale agreements

Securities purchased under agreement to resell (reverse repo) are not recognised in these consolidated 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.

4.4 **Investments**

4.4.1 **Classification**

The Group 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 group has the positive intent and ability to hold them till maturity.

Available for sale

These are investments which do not fall under the 'held for trading' and 'held to maturity' categories.

Associates

Associates are all entities over which the Group has significant influence but not control. These are accounted for using the equity method of accounting. The investment in associates are initially recognised at cost and the carrying amount of investment is increased or decreased to recognise the investor's share of the post acquisition profits or losses in income and its share of the post acquisition movement in reserves.

4.4.2 **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 Group commits to purchase or sell the investments.

4.4.3 **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

4.4.4 **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 subsidiaries are subsequently remeasured to market value. Surplus and 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.

4.4.5 Impairment

Impairment loss in respect of equity securities classified as available for sale, 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 is transferred from equity 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.

4.5 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 Group 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 Group 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.

Finance Lease Receivables

Leases where the Group 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 Group 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.

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

4.6 Fixed assets and depreciation

4.6.1 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).

4.6.2 Property and Equipment (owned and leased)

Property and equipment are shown at historical cost less accumulated depreciation and accumulated impairment losses, if any, except land and buildings which are carried at revalued amount less accumulated depreciation and impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Depreciation is charged by applying the straight-line method using the rates specified in note 10.2 to these consolidated 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 group and the cost of the item can be measured reliably.

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

A revaluation surplus is recorded in OCI and credited to the surplus on revaluation of fixed asset in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus. A transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

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 property and equipment 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.

4.6.3 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. Intangible assets are assessed for impairment, if any, as described under note 4.14.

4.6.4 Goodwill

Goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is tested for impairment annually or whenever there is an indication of impairment, as per the requirement of IAS 36, Impairment of Assets. An impairment charge in respect of goodwill is recognized through the profit and loss account.

4.6.5 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 non-banking assets in other comprehensive income, 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.

4.7 Non-current assets held for sale and discontinued operations

The Group classifies a non-current asset (or disposal group) as held for sale if it represents a separate major line of business or a geographical area of operations or is a subsidiary acquired exclusively with a view to resale; and 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.

Resultantly, all assets and liabilities of assets held for sale are presented as separate line items on statement of financial position. The post tax results of such operations are presented separately in the profit and loss account.

4.8 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.

4.8.1 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 holding company's discretion and the holding 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.

4.9 Subordinated loans

Subordinated loans are initially recorded at the amount of proceeds received. Mark-up accrued on subordinated loans is recognised separately as part of other liabilities and is charged to the profit and loss account over the period on an accrual basis.

4.10 Staff retirement / Employee benefits

a) Defined benefit plan

The Holding Company operates an approved funded gratuity scheme, administered by the trustees, covering eligible employees whose period of employment with holding company 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.

The subsidiary - Alfalah Securities operates an unfunded gratuity scheme for all its employees who have completed the qualifying period as defined in the scheme. The cost of providing benefits under the defined benefit scheme is determined using the "Projected Unit Credit Method". Actuarial (remeasurement) gains and losses are recognised as income or expense in full in the year in which they occur in other comprehensive income.

b) Defined contribution plan

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

The subsidiary - Alfalah GHP operates an approved funded contributory provident fund for all its permanent employees to which equal monthly contributions are made both by the company and the employees at the rate of ten percent of basic salary.

c) Compensated absences

The Holding Company 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 Holding Company 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.

4.11 Foreign currencies

4.11.1 Functional and presentation currency

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

4.11.2 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.

4.11.3 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.

4.11.4 Translation gains and losses

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.

4.11.5 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.

4.12 Revenue recognition

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

4.12.1 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 Holding Company operates.

Murabaha income is recognised on deferred income basis.

4.12.2 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.

4.12.3 Non Markup / interest income

Fee, commission and brokerage income are accounted for on receipt basis.

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

Other income is recognised on accrual basis.

Remuneration for investment advisory and asset management services are recognised on an accrual basis.

4.13 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.

4.13.1 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.

4.13.2 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.

4.14 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 unconsolidated 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.

4.15 Provision for claims under guarantees

Provision for guarantee claims and other off balance sheet obligations is recognised when intimated and reasonable certainty exists for the group 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.

4.16 Other Provisions

Other provisions are recognised when the Group 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.

4.17 Contingent Liabilities

Contingent liabilities are not recognised in the statement of financial position as they are possible obligations where it has yet to be confirmed whether a liability, which will ultimately result in an outflow of economic benefits, will arise. If the probability of an outflow of economic resources under contingent liability is considered remote, it is not disclosed.

4.18 Off-setting

Financial assets and financial liabilities are off-set and the net amount reported in the consolidated financial statements only when there is a legally enforceable right to set-off the recognised amount and the Group 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.

4.19 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.

4.20 Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be simultaneously settled with the reimbursement from the customers. Acceptances are accounted for as on balance sheet transactions.

4.21 Dividend and appropriation to reserves

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

4.22 Earnings per share

The group 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 group 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.

4.23 Segment reporting

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

4.23.1 Business segments

Retail banking
This includes loans, deposits, trading activity, wealth management and other banking transactions with retail, individual customers, commercial and small and middle sized customers of the Holding Company. Product suite offered to individual customers includes credit cards, auto loans, housing finance and personal loans.

Corporate banking
This comprises of loans, deposits, project financing, trade financing, investment banking and other banking activities with the holding company'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 holding company primarily towards government securities and risk management activities via use of forward contracts & derivatives are reported here.

Digital banking
This segment includes branchless banking accounts, deposits and lending products, digital channels (including ATMs, internet banking, call centre and alfa app), corporate, G2P & SMME portfolio (including EOBI, BISP, payroll solutions), digital payments and digital products.

Islamic banking
This segment pertains to full scale Islamic Banking operations of the holding company.

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 actives in the Kingdom of Bahrain.

Retail Brokerage
It includes asset management activities mainly through the subsidiary Alfalah Securities (Private) Limited.

Asset Management
It includes asset management activities mainly through the subsidiary Alfalah GHP Investment Management Limited.

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

4.23.2 Geographical segments

The Group operates in three geographical regions being:

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

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	Note	2018	2017
		--------(Rupees in 000)---------	
5 CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency	5.1	11,801,739	10,464,315
Foreign currency	5.2	5,711,022	4,031,567
		17,512,761	14,495,882
With State Bank of Pakistan in			
Local currency current account	5.3	31,122,141	28,767,491
Foreign currency current account	5.4	4,413,423	2,927,953
Foreign currency deposit account	5.5	10,931,812	6,998,393
		46,467,376	38,693,837
With other central banks in			
Foreign currency current account	5.6	2,733,265	1,403,720
Foreign currency deposit account	5.6	744,879	555,392
		3,478,144	1,959,112
With National Bank of Pakistan in local currency current account		14,931,225	15,208,850
Prize bonds		18,230	23,799
		82,407,736	70,381,480

5.1 This includes cash in transit amounting to Rs. 77.743 million (2017: Rs. 7.001 million).

5.2 This includes cash in transit amounting to Rs. 478.410 million (2017: Rs. 4.230 million).

5.3 This includes statutory liquidity reserves maintained with the SBP under Section 22 of the Banking Companies Ordinance, 1962.

5.4 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).

5.5 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 0.56% to 1.35% per annum (2017: 0.06% to 0.37%).

5.6 These represent deposits with other central banks to meet their minimum cash reserves and capital requirements pertaining to the overseas operations of the Bank. The deposit accounts carry markup 0.62% to 1.71% (2017: 0.31% to 1.01%).

	Note	2018	2017
		---------(Rupees in 000)---------	
6 BALANCES WITH OTHER BANKS			
In Pakistan			
In current account		457,760	530,401
In deposit account	6.1	11,184	228,601
		468,944	759,002
Outside Pakistan			
In current account	6.2	2,184,134	1,301,341
In deposit account	6.3	1,258,476	1,932,711
		3,442,610	3,234,052
		3,911,554	3,993,054

6.1 This represents funds deposited with various banks at profit rates ranging from 2.98% to 8.05% per annum (2017: 1.73% to 3.75% per annum)

6.2 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.

6.3 This includes placement of funds generated through foreign currency deposits scheme (FE-25) and non-contractual deposits at interest rates ranging from 1.00% to 3.00% per annum (2017: 1.00% to 8.40% per annum).

	Note	2018	2017
7 LENDINGS TO FINANCIAL INSTITUTIONS			
Call / clean money lendings	7.1.1	15,166,288	20,255,936
Repurchase agreement lendings(Reverse Repo)	7.1.2 & 7.3	37,214,313	11,848,536
Bai Muajjal receivable with other financial institutions	7.1.3	9,811,504	16,791,356
		62,192,105	48,895,828
Less: expected credit loss - overseas branches		(19,818)	-
Lending to Financial Institutions - net of provision		62,172,287	48,895,828

7.1.1 These represent lendings to financial institutions at interest rates ranging from 0.50% to 9.90% per annum (2017: 1.5% to 9.75% per annum) having maturities upto June 2019 (2017: March 2018).

7.1.2 These represent short term lending to financial institutions against investment securities. These carry markup rates ranging from 3.00% to 10.45% per annum (2017: 5.8% to 6.2% per annum) with maturities upto January 2019 (2017: June 2018).

7.1.3 These represent Bai Muajjal agreements entered into with State Bank of Pakistan (SBP) / other commercial banks. The rates of return range from 9.90% to 10.05% per annum (2017: 5.71% to 5.80% per annum), and these are due to mature by March 2019 (2017: March 2018).

7.2 Particulars of lending - gross

	2018	2017
In local currency	55,400,871	43,346,538
In foreign currencies	6,791,234	5,549,290
	62,192,105	48,895,828

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7.3 Securities held as collateral against Lending to financial institutions

	2018			2017		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
	---(Rupees in '000')---					
Market Treasury Bills	28,757,067	-	28,757,067	5,593,265	-	5,593,265
Pakistan Investment Bonds	8,457,246	-	8,457,246	1,003,918	5,251,353	6,255,271
Total	37,214,313	-	37,214,313	6,597,183	5,251,353	11,848,536

8 INVESTMENTS

8.1 Investments by type:

	Note	2018				2017			
		Cost / Amortised cost	Provision for diminution	Surplus / (Deficit)	Carrying Value	Cost / Amortised cost	Provision for diminution	Surplus / (Deficit)	Carrying Value
		---(Rupees in '000')---							
Held-for-trading securities									
Federal Government Securities									
Market Treasury Bills		45,898,957	-	(13,261)	45,885,696	22,759,650	-	(11,486)	22,748,164
Pakistan Investment Bonds		1,209,673	-	(13,174)	1,196,499		-	-	-
Shares									
Fully paid up ordinary shares / units - Listed		164,797	-	(23,227)	141,570	28,140	-	(990)	27,150
Foreign Securities									
Overseas Bonds - Sovereign		302,699	-	6,151	308,850	19,443	-	5,125	24,568
		47,576,126	-	(43,511)	47,532,615	22,807,233	-	(7,351)	22,799,882
Available-for-sale securities									
Federal Government Securities									
Market Treasury Bills		114,893,151	-	(40,902)	114,852,249	162,885,001	-	(82,650)	162,802,351
Pakistan Investment Bonds		26,490,800	-	(464,211)	26,026,589	108,088,932	-	3,156,472	111,245,404
Government of Pakistan Sukuks		15,726,083	-	(120,264)	15,605,819	34,284,664	-	315,035	34,599,699
Government of Pakistan Euro Bonds		2,440,076	-	(134,045)	2,306,031	2,281,177	-	105,351	2,386,528
Shares									
Fully paid up ordinary shares - Listed		7,390,808	(22,383)	718,558	8,086,983	5,786,367	(15,000)	396,022	6,167,389
Fully paid up ordinary shares - Unlisted		382,055	(59,661)	-	322,394	350,507	(103,293)	-	247,214
Preference Shares - Listed		108,835	(108,835)	-	-	108,835	(108,835)	-	-
Preference Shares - Unlisted		25,000	(25,000)	-	-	25,000	(25,000)	-	-
Non Government Debt Securities									
Term Finance Certificates		1,504,126	(359,706)	(12,071)	1,132,349	1,297,084	(302,904)	(8,474)	985,706
Sukuks		4,775,082	(96,510)	323,930	5,002,502	3,673,571	(102,142)	43,563	3,614,992
Commercial Papers		-	-	-	-	90,201	-	-	90,201
Foreign Securities									
Overseas Bonds - Sovereign		1,357,353	-	(49,426)	1,307,927	552,041	-	1,959	554,000
Overseas Bonds - Others		9,147,217	-	(223,671)	8,923,546	8,626,230	-	3,621	8,629,851
Redeemable Participating Certificates		2,362,923	-	-	2,362,923	1,133,659	-	-	1,133,659
		186,603,509	(672,095)	(2,102)	185,929,312	329,183,269	(657,174)	3,930,899	332,456,994
Held-to-maturity securities									
Federal Government Securities									
Market Treasury Bills		-	-	-	-	1,470,741	-	-	1,470,741
Pakistan Investment Bonds		26,280,990	-	-	26,280,990	31,637,988	-	-	31,637,988
Government of Pakistan Euro Bonds		243,011	-	-	243,011	193,239	-	-	193,239
Other Federal Government Securities		4,122,215	-	-	4,122,215				
Non Government Debt Securities									
Term Finance Certificates		524,266	(524,266)	-	-	524,266	(524,266)	-	-
Sukuks		2,689,965	(141,399)	-	2,548,566	4,097,810	(167,890)	-	3,929,920
Foreign Securities									
Overseas Bonds - Sovereign		8,185,947	-	-	8,185,947	5,492,169			5,492,169
Overseas Bonds - Others		690,721	-	-	690,721	548,143	-	-	548,143
		42,737,115	(665,665)	-	42,071,450	43,964,356	(692,156)	-	43,272,200
Associates (valued at equity method	8.1.1	3,761,612	-	-	3,761,612	3,213,322	-	-	3,213,322
General provision and expected credit loss-									
Overseas operations		-	(43,258)	-	(43,258)	-	-	-	-
Total Investments		280,678,362	(1,381,018)	(45,613)	279,251,731	399,168,180	(1,349,330)	3,923,548	401,742,398

8.1.1 Movement in values of investments accounted for under equity method of accounting

The details of investments accounted for under equity method of accounting is as follows.

	2018					
	Investment as at January 1	Investment made during the year	Redeemed during the year	Dividend received during the year	Share of profit / (Loss)	Balance as at December 31
	(Rupees in '000)					
Alfalah Insurance Company Limited	319,725	-	-	-	21,196	340,921
Sapphire Wind Power Company Limited	1,557,584	-	-	(219,000)	567,299	1,905,883
TriconBoston Consulting Corporation (Private) Limited	764,575	-	-	-	29,318	793,893
Alfalah GHP Money Market Fund	381,416	137,356	(205,000)	(15,442)	583	298,913
Alfalah GHP Income Multiplier Fund	6	-	-	-	-	6
Alfalah GHP Sovereign Fund	491	75,071	-	(20)	58	75,600
Alfalah GHP Income Fund	1,529	153,906	-	(2,290)	4,292	157,437
Alfalah GHP Islamic Income Fund	5,576	394	-	(197)	54	5,827
Alfalah GHP Pension Fund	86,343	-	-	-	538	86,881
Alfalah GHP Islamic Pension Fund	86,277	-	-	-	(326)	85,951
Alfalah GHP Islamic Stock Fund	-	-	-	-	-	-
Alfalah GHP Cash Fund	9,800	-	384	-	116	10,300
				(236,949)	623,128	3,761,612

	2017					
	Investment as at January 1	Investment made during the year	Redeemed during the year	Dividend received during the year	Share of profit / (Loss)	Balance as at December 31
	(Rupees in '000)					
Alfalah Insurance Company Limited	282,909	-	-	-	36,816	319,725
Sapphire Wind Power Company Limited	1,221,237	-	-	-	336,347	1,557,584
TriconBoston Consulting Corporation (Private) Limited	-	769,230	-	-	(4,655)	764,575
Alfalah GHP Money Market Fund	57,287	379,069	(58,440)	-	3,500	381,416
Alfalah GHP Income Multiplier Fund	298,473	25,968	(330,948)	(1,291)	7,804	6
Alfalah GHP Sovereign Fund	253,490	1,602	(258,911)	(2,136)	6,446	491
Alfalah GHP Income Fund	169,745	180,491	(350,000)	(7,321)	8,614	1,529
Alfalah GHP Islamic Income Fund	6,683	148,981	(150,000)	(307)	219	5,576
Alfalah GHP Pension Fund	-	90,000	-	-	(3,657)	86,343
Alfalah GHP Islamic Pension Fund	-	90,000	-	-	(3,723)	86,277
Alfalah GHP Islamic Stock Fund	439,502	-	(467,178)	-	27,676	-
Alfalah GHP Cash Fund	534,264	9,763	(553,523)	(150)	19,446	9,800
				(11,205)	434,833	3,213,322

8.1.2 Particulars of assets and liabilities of associates and mutual funds established under trust structure not considered for consolidation.

	Financial statements Date	2018			
		Assets	Liabilities	Revenue	Profit for the year / period
		(Rupees in '000)			
Alfalah Insurance Company Limited	December 31, 2018	3,187,385	2,115,633	112,924	70,653
Sapphire Wind Power Company Limited	December 31, 2018	15,866,719	10,038,327	1,570,653	837,917
TriconBoston Consulting Corporation (Private) Limited	December 31, 2018	46,805,961	38,350,514	2,085,328	365,622
Alfalah GHP Money Market Fund	December 31, 2018	13,804,942	56,736	421,847	378,539
Alfalah GHP Income Multiplier Fund	December 31, 2018	470,770	23,886	13,455	7,575
Alfalah GHP Sovereign Fund	December 31, 2018	1,762,416	826,233	37,082	27,665
Alfalah GHP Income Fund	December 31, 2018	325,279	15,491	14,384	10,341
Alfalah GHP Islamic Income Fund	December 31, 2018	4,612,301	19,943	175,274	134,527
Alfalah GHP Pension Fund	December 31, 2018	139,752	594	(1,413)	(2,919)
Alfalah GHP Islamic Pension Fund	December 31, 2018	114,890	497	(1,424)	2,811
Alfalah GHP Cash Fund	December 31, 2018	116,582	14,493	5,355	3,704

	Financial statements Date	2017			
		Assets	Liabilities	Revenue	Profit for the year / period
		(Rupees in '000)			
Alfalah Insurance Company Limited	December 31, 2017	3,169,013	2,118,909	99,598	122,720
Sapphire Wind Power Company Limited	December 31, 2017	13,782,492	8,685,366	1,184,593	468,632
TriconBoston Consulting Corporation (Private) Limited	December 31, 2017	24,253,943	16,107,748	-	(35,196)
Alfalah GHP Money Market Fund	December 31, 2017	5,176,888	25,707	57,420	47,467
Alfalah GHP Income Multiplier Fund	December 31, 2017	689,548	33,949	67,014	46,705
Alfalah GHP Sovereign Fund	December 31, 2017	1,500,627	663,108	38,952	28,087
Alfalah GHP Income Fund	December 31, 2017	560,723	15,608	29,641	19,995
Alfalah GHP Islamic Income Fund	December 31, 2017	7,250,318	19,943	177,155	129,968
Alfalah GHP Pension Fund	December 31, 2017	109,766	985	(3,202)	(4,535)
Alfalah GHP Islamic Pension Fund	December 31, 2017	99,901	955	(4,071)	(5,357)
Alfalah GHP Cash Fund	December 31, 2017	119,408	14,336	5,431	3,415

8.2 Investments by segments:

	2018				2017			
	Cost/ Amortised cost	Provision for diminution	Surplus / (Deficit)	Carrying Value	Cost /Amortised cost	Provision for diminution	Surplus / (Deficit)	Carrying Value
	(Rupees in '000')							
Federal Government Securities:								
Market Treasury Bills	160,792,108	-	(54,163)	160,737,945	187,115,392	-	(94,136)	187,021,256
Pakistan Investment Bonds	53,981,463	-	(477,385)	53,504,078	139,726,920	-	3,156,472	142,883,392
Pakistan Euro Bonds	2,683,087	-	(134,045)	2,549,042	2.474.416	-	105.351	2,579.767
Other Federal Government Securities	4,122,215	-	-	4,122,215	-	-	-	-
Government of Pakistan Sukuks	15,726,083	-	(120,264)	15,605,819	34,284,664	-	315,035	34,599,699
	237,304,956	-	(785,857)	236,519,099	383,601,382	-	3,482,722	387,084,114
Shares:								
Listed Companies	7,664,440	(131,218)	695,331	8,228,553	5,923,342	(123,835)	395,032	6,194,539
Unlisted Companies	407,055	(84,661)	-	322,394	375,507	(128,293)	-	247,214
	8,071,495	(215,879)	695,331	8,550,947	6,298,849	(252,128)	395,032	6,441,753
Non Government Debt Securities								
Listed	651,765	1,785	12,091	665,641	301.925	2,185	1,553	305,663
Unlisted	8,841,674	(1,123,666)	299,768	8,017,776	9,381,007	(1,099,387)	33,538	8,315,156
	9,493,439	(1,121,881)	311,859	8,683,417	9,682,932	(1,097,202)	35,089	8,620,819
Foreign Securities								
Government securities	9,845,999	-	(43,275)	9,802,724	6,063,653	-	7,084	6,070,737
Non Government Debt securities	12,200,861	-	(223,671)	11,977,190	10,308,032	-	3,621	10,311,653
	22,046,860	-	(266,946)	21,779,914	16,371,685	-	10,705	16,382,390
Associates (valued at equity method)								
Alfalah Insurance Limited	340,921	-	-	340,921	319,725	-	-	319,725
Sapphire Wind Power Company Limited	1,905,883	-	-	1,905,883	1,557,584	-	-	1,557,584
TriconBoston Consulting Corporation (Private) Limited	793,893	-	-	793,893	764,575	-	-	764,575
Alfalah GHP Money Market Fund	298,913	-	-	298,913	381,416	-	-	381,416
Alfalah GHP Income Multiplier Fund	6	-	-	6	6	-	-	6
Alfalah GHP Sovereign Fund	75,600	-	-	75,600	491	-	-	491
Alfalah GHP Income Fund	157,437	-	-	157,437	1,529	-	-	1,529
Alfalah GHP Islamic Income Fund	5,827	-	-	5,827	5,576	-	-	5,576
Alfalah GHP Pension Fund	86,881	-	-	86,881	86,343	-	-	86,343
Alfalah GHP Islamic Pension Fund	85,951	-	-	85,951	86,277	-	-	86,277
Alfalah GHP Cash Fund	10,300	-	-	10,300	9,800	-	-	9,800
	3,761,612	-	-	3,761,612	3,213,322	-	-	3,213,322
General provision and expected credit loss- Overseas operations		(43,258)		(43,258)	-	-	-	-
Total Investments	280,678,362	(1,381,018)	(45,613)	279,251,731	399,168,180	(1,349,330)	3,923,548	401,742,398

8.2.1 Investments given as collateral

	2018	2017
	(Rupees in 000)	
Market Treasury Bills	39,445,702	85,274,643
Pakistan Investment Bonds	15,854,600	64,920,622
Pakistan Euro Bonds	-	845,802
Overseas Bonds	4,818,676	3,621,444
Sukuk Bonds	3,885,659	6,939,721
	64,004,637	161,602,232

The market value of securities given as collateral is Rs. 63,858.995 million (2017: Rs. 163,429.313 million).

8.3 Provision for diminution in value of investments

	2018	2017
8.3.1 Opening balance	1,349,330	1,253,781
Impact of adoption of IFRS 09 - overseas branches	77,698	-
	1,427,028	1,253,781
Exchange adjustments	13,876	-
Charge / reversals		
Charge for the year	86,766	111,134
Reversals for the year	(98,073)	(15,539)
Reversal on disposals	-	-
	(12,307)	95,595
Transfers - net	(3,947)	(46)
Provision adjusted during the year	(43,632)	-
Closing Balance	1,381,018	1,349,330

8.3.2 Particulars of provision against debt securities

Category of classification	2018		2017	
	NPI	Provision	NPI	Provision
	(Rupees in 000)			
Domestic				
Other assets especially mentioned	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	1,121,881	1,121,881	1,097,202	1,097,202
	1,121,881	1,121,881	1,097,202	1,097,202
Overseas				
Not past due but impaired	-	-	-	-
Overdue by:				
Upto 90 days	-	-	-	-
91 to 180 days	-	-	-	-
181 to 365 days	-	-	-	-
> 365 days	-	-	-	-
	-	-	-	-
Total	1,121,881	1,121,881	1,097,202	1,097,202

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8.4 Quality of Available for Sale Securities

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

	2018	2017
	Cost	
	-------(Rupees in 000)-------	
Federal Government Securities - Government guaranteed		
Market Treasury Bills	114,893,151	162,885,001
Pakistan Investment Bonds	26,490,800	108,088,932
Government of Pakistan Sukuks	15,726,083	34,284,664
Government of Pakistan Euro Bonds	2,440,076	2,281,177
	159,550,110	307,539,774
Shares		
Listed Companies		
Ordinary Shares		
Automobile Parts & Accessories	169,581	123,882
Cement	1,224,060	1,752,247
Chemicals	17,909	17,909
Commercial Banks	1,596,590	812,564
Engineering	333,633	167,071
Fertilizer	308,635	444,315
Insurance	92,708	-
Investment Banks	15,000	15,000
Oil and Gas Exploration Companies	1,754,619	835,627
Oil and Gas Marketing Companies	534,549	290,839
Pharmaceuticals	202,738	-
Power Generation & Distribution	749,175	855,961
Real Estate Investment Trust	372,093	457,843
Miscellaneous	19,518	13,109
	7,390,808	5,786,367
Preference Shares		
Fertilizer	108,835	108,835
	7,499,643	5,895,202

Unlisted Companies	Break up value as at	2018 Cost	2018 Breakup value	2017 Cost	2017 Breakup value
		-----(Rupees in '000)-----			
Ordinary Shares					
AGP Pharma Limited **		-	-	256,212	212,544
Al-Hamra Avenue (Private) Limited	June 30, 2010	50,000	47,600	50,000	47,600
Pakistan Export Finance Guarantee Agency Limited	June 30, 2010	5,725	286	5,725	286
Pakistan Mobile Communication Limited	Dec 31, 2017	22,235	53,150	22,235	33,752
Pakistan Mortgage Refinance Company Limited	Dec 31, 2017	300,000	300,686	12,240	12,299
Society for worldwide Interbank Financial Telecommunication	Dec 31, 2016	4,095	11,754	4,095	11,754
		382,055	413,476	350,507	318,235
Preference Shares					
Trust Investment Bank Limited	Dec 31, 2017	25,000	27,784	25,000	27,700
		407,055	441,260	375,507	345,935

** Represent securities listed during the year and hence reclassified to 'listed companies'.

Non Government Debt Securities	2018	2017
	Cost	
	-------(Rupees in 000)-------	
Listed		
Categorised based on long term rating by Credit Rating Agency :		
- AAA	-	99,860
- AA+, AA, AA-	-	-
- A+, A, A-	550,000	100,000
- BBB+, BBB, BBB-	99,980	99,880
- BB+, BB, BB-	-	-
- B+, B, B-	-	-
- CCC and below	-	-
- Unrated	1,785	2,185
	651,765	301,925
Unlisted		
Categorised based on long term rating by Credit Rating Agency:		
- AAA	4,444,440	2,600,000
- AA+, AA, AA-	-	-
- A+, A, A-	-	-
- BBB+, BBB, BBB-	-	-
- BB+, BB, BB-	-	-
- B+, B, B-	-	-
- CCC and below	-	-
- Unrated	1,183,003	2,158,931
	5,627,443	4,758,931

Foreign Securities	2018		2017	
	Cost	Rating	Cost	Rating
Government Securities	(Rupees in '000)		(Rupees in '000)	
Abu Dhabi Government Inl Bond 2027	685,183	AA	-	-
Saudi International Bond 2026	672,170	A1	-	-
Kingdom of Bahrain Sukuk	-	-	552,040	B+
	1,357,353		552,040	

Non Government Debt Securities

Unlisted

	2018	2017
Categorised based on long term rating by Credit Rating Agency	-------(Rupees in 000)-------	
- AAA	-	-
- AA+, AA, AA-	-	977,192
- A+, A, A-	8,040,314	5,396,168
- BBB+, BBB, BBB-	1,106,903	1,209,742
- BB+, BB, BB-	-	1,043,129
- B+, B, B-	-	-
- CCC and below	-	-
- Unrated	2,362,923	1,133,659
	11,510,140	9,759,890

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

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

Federal Government Securities - Government guaranteed

	2018	2017
Market Treasury Bills	-	1,470,741
Pakistan Investment Bonds	**26,280,990**	31,637,988
Pakistan Euro Bonds	**243,011**	193,239
Other Federal Government Securities	**4,122,215**	-
	30,646,216	33,301,968

Non Government Debt Securities

Unlisted

Categorised based on long term rating by Credit Rating Agency

	2018	2017
- AAA	1,041,670	1,041,670
- AA+, AA, AA-	566,667	1,133,333
- A+, A, A-	190,230	254,918
- Unrated	1,415,664	2,192,155
	3,214,231	4,622,076

Foreign Securities

Government Securities	2018 Cost (Rupees In '000)	2018 Rating	2017 Cost (Rupees In '000)	2017 Rating
Bangladesh Government Bonds	**7,497,232**	**Unrated**	4,945,043	Unrated
State of Qatar	**688,715**	**AA-**	547,126	AA-
	8,185,947		5,492,169	

Non Government Debt Securities

Unlisted

	2018	2017
	-----------Cost-----------	
	-------(Rupees in 000)-------	
- BBB+, BBB, BBB-	**690,721**	548,143
	690,721	548,143

8.5.1 The market value of securities classified as held-to-maturity as at December 31, 2018 amounted to Rs. 40,750 million (December 31, 2017 : Rs. 43,844 million).

9 ADVANCES

	Note	Performing 2018	Performing 2017	Non Performing 2018	Non Performing 2017	Total 2018	Total 2017
		(Rupees in '000')					
Loans, cash credits, running finances, etc.	9.1	**402,388,697**	333,599,195	**17,286,103**	15,906,224	**419,674,800**	349,505,419
Islamic financing and related assets	9.2	**85,660,964**	55,284,996	**1,393,959**	1,595,173	**87,054,923**	56,880,169
Bills discounted and purchased		**11,524,510**	10,723,399	**143,478**	78,714	**11,667,988**	10,802,113
Advances - gross		**499,574,171**	399,607,590	**18,823,540**	17,580,111	**518,397,711**	417,187,701
Provision against advances							
- Specific	9.5	-	-	**(15,884,669)**	(15,685,041)	**(15,884,669)**	(15,685,041)
- General	9.5	**(873,315)**	(842,738)	-	-	**(873,315)**	(842,738)
		(873,315)	(842,738)	**(15,884,669)**	(15,685,041)	**(16,757,984)**	(16,527,779)
Advances - net of provision		**498,700,856**	398,764,852	**2,938,871**	1,895,070	**501,639,727**	400,659,922

9.1 Includes Net Investment in Finance Lease as disclosed below:

	2018				2017			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	(Rupees in '000')							
Lease rentals receivable	**1,403,651**	**2,030,833**	**41,335**	**3,475,819**	925,485	2,089,153	70,316	3,084,954
Residual value	**594,353**	**998,435**	**13,347**	**1,606,135**	370,194	911,824	40,100	1,322,118
Minimum lease payments	**1,998,004**	**3,029,268**	**54,682**	**5,081,954**	1,295,679	3,000,977	110,416	4,407,072
Financial charges for future periods	**(220,675)**	**(258,985)**	-	**(479,660)**	(94,838)	(220,262)	(1,027)	(316,127)
Present value of minimum lease payments	**1,777,329**	**2,770,283**	**54,682**	**4,602,294**	1,200,841	2,780,715	109,389	4,090,945

9.1.2 Advances include an amount of Rs.82.95 million (2017: Rs. 25.11 million). being Employee Loan facilities allowed to Citibank, N.A, Pakistan's employees, which were either taken over by the Bank, or were granted afresh, under a specific arrangement executed between the Bank and Citibank, N.A, Pakistan. The said arrangement is subject to certain relaxations as specified vide SBP Letter BPRD/BRD/Citi/2017/21089 dated September 11, 2017.

The said arrangement covers only existing employees of Citibank, N.A, Pakistan, and the relaxations allowed by the SBP are on continual basis, but subject to review by SBP's BID and OSED departments. These loans carry markup at the rates ranging from 9.46% to 20.30% (2017: 9.46% to 16.48%) with maturities up to December 2038 (2017: December 2022).

9.2 These represents financing and related assets placed under shariah permissible modes and presented in note Annexure-II.

9.3 Particulars of advances (Gross)

	2018	2017
	(Rupees in 000)	
In local currency	**493,638,878**	392,303,907
In foreign currencies	**24,758,833**	24,883,794
	518,397,711	417,187,701

9.4 Advances include Rs. 18,824 million (2017: Rs. 17,580 million) which have been placed under non-performing status as detailed below:

Category of Classification	2018 Non- Performing Loans	2018 Provision	2017 Non- Performing Loans	2017 Provision
	(Rupees in '000')			
Domestic				
Other Assets Especially Mentioned	**104,121**	**3,330**	84,960	4,979
Substandard	**3,077,658**	**762,678**	1,359,006	338,582
Doubtful	**552,920**	**235,663**	1,854,513	1,245,152
Loss	**14,591,887**	**14,518,782**	13,978,614	13,837,989
	18,326,586	**15,520,453**	17,277,093	15,426,702
Overseas				
Not past due but impaired	-	-	-	-
Overdue by:				
Upto 90 days			-	-
91 to 180 days	**42,787**	**3,536**	-	-
181 to 365 days	**104,384**	**46,637**	-	-
> 365 days	**349,783**	**314,043**	303,018	258,339
	496,954	**364,216**	303,018	258,339
Total	**18,823,540**	**15,884,669**	17,580,111	15,685,041

9.5 Particulars of provision against advances

	Note	2018 Specific	2018 General	2018 Total	2017 Specific	2017 General	2017 Total
		---(Rupees in '000')---					
Opening balance		15,685,041	842,738	16,527,779	16,368,263	775,968	17,144,231
Impact of adoption of IFRS 9		-	25,297	25,297	-	-	-
Exchange adjustments		62,512	2,944	65,456	2,221	1,599	3,820
Charge for the year		3,007,907	269,364	3,277,271	2,230,902	156,384	2,387,286
Reversals		(2,631,522)	(267,028)	(2,898,550)	(2,741,259)	(91,213)	(2,832,472)
		376,385	2,336	378,721	(510,357)	65,171	(445,186)
Amounts written off		(179,305)	-	(179,305)	(72,056)	-	(72,056)
Amounts charged off - agriculture financing		(59,964)	-	(59,964)	(103,030)	-	(103,030)
	9.6	(239,269)	-	(239,269)	(175,086)	-	(175,086)
Closing balance		15,884,669	873,315	16,757,984	15,685,041	842,738	16,527,779

9.5.1 Particulars of provision against advances

	2018 Specific	2018 General	2018 Total	2017 Specific	2017 General	2017 Total
	---(Rupees in '000')---					
In local currency	14,708,296	698,706	15,407,002	14,802,261	701,036	15,503,297
In foreign currencies	1,176,373	174,609	1,350,982	882,780	141,702	1,024,482
	15,884,669	873,315	16,757,984	15,685,041	842,738	16,527,779

9.5.2 The additional profit arising from availing the forced sales value (FSV) benefit - net of tax at December 31, 2018 which is not available for distribution as either cash or stock dividend to shareholders/ bonus to employees amounted to Rs. 30.106 million (2017: Rs. 29.899 million).

9.5.3 General provision includes provision against consumer loans being maintained at an amount equal to 1% of the fully secured performing portfolio and 4% of the unsecured performing portfolio. Provision against SE portfolio is being maintained at an amount equal to 1% against unsecured performing SE portfolio as required by the Prudential Regulations issued by the State Bank of Pakistan. General provision also includes provision held at overseas branches to meet the requirements of regulatory authorities of the respective countries in which overseas branches operates.

9.5.4 Exposure amounting to Rs. Nil (2017 : Rs. 8.421 billion) relating to certain non performing facilities of Power Holding (Private) Limited, which is guaranteed by the Government of Pakistan, had not been classified as non-performing, pursuant to a relaxation given by SBP in this respect.

9.5.5 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.

9.6 PARTICULARS OF WRITE OFFs:

	Note	2018	2017
		---(Rupees in 000)---	
9.6.1 Against Provisions	9.5	239,269	175,086
Directly charged to Profit & Loss account		-	-
		239,269	175,086
9.6.2 Write Offs of Rs. 500,000 and above			
- Domestic	9.7	130,566	113,741
- Overseas		-	-
Write Offs of Below Rs. 500,000		108,703	61,345
		239,269	175,086

9.7 DETAILS OF LOAN WRITE OFF OF Rs. 500,000/- AND ABOVE

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 the Statement in respect of written-off loans or any other financial relief of rupees five hundred thousand or above allowed to a person(s) during the year ended December 31, 2018 is given in Annexure-1 to unconsolidated Financial Statements.

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		Note	2018	2017
			(Rupees in 000)	
10	**FIXED ASSETS**			
	Capital work-in-progress	10.1	175,339	79,639
	Property and equipment	10.2	18,141,703	16,119,263
			18,317,042	16,198,902
10.1	**Capital work-in-progress**			
	Civil works		115,840	14,816
	Equipment		55,670	43,868
	Advances to suppliers		1,075	12,968
	Others		2,754	7,987
			175,339	79,639

10.2 **Property and Equipment**

2018	Freehold land	Leasehold land	Building on Freehold land	Building on Leasehold land	Lease hold improvement	Furniture and fixture	Office equipment	Vehicles	Total
	(Rupees in '000')								
At January 1, 2018									
Cost / Revalued amount	4,376,934	2,959,930	1,243,306	2,744,105	5,110,322	1,998,763	11,221,513	439,860	30,094,733
Accumulated depreciation	-	(33,745)	(71,991)	(156,504)	(3,375,387)	(1,547,643)	(8,555,315)	(234,885)	(13,975,470)
Net book value	4,376,934	2,926,185	1,171,315	2,587,601	1,734,935	451,120	2,666,198	204,975	16,119,263
Year ended December 2018									
Opening net book value	4,376,934	2,926,185	1,171,315	2,587,601	1,734,935	451,120	2,666,198	204,975	16,119,263
Additions	11,000	-	9,114	76,031	193,907	32,671	657,449	19,885	999,057
Movement in surplus on assets revalued during the year	1,773,512	624,804	321,619	473,718	-	-	-	-	3,193,653
Deficit on revaluation recognised in the profit and loss account - net	(11,000)	(12,273)	(24,027)	(19,569)	-	-	-	-	(66,869)
Disposals	-	(242,490)	-	-	(12,367)	(3,643)	(8,155)	(43,361)	(310,016)
Depreciation charge	-	(17,525)	(37,992)	(78,698)	(326,593)	(118,662)	(1,082,756)	(70,936)	(1,733,162)
Exchange rate adjustments	-	-	-	-	988	1,559	4,779	3,179	10,505
Other adjustments / transfers	-	-	-	-	(14,009)	(319)	(56,389)	(11)	(70,728)
Closing net book value	6,150,446	3,278,701	1,440,029	3,038,083	1,576,861	362,726	2,181,126	113,731	18,141,703
At December 31, 2018									
Cost / Revalued amount	6,150,446	3,278,701	1,440,029	3,038,083	5,272,656	2,025,376	11,598,377	358,827	33,162,496
Accumulated depreciation	-	-	-	-	(3,695,795)	(1,662,649)	(9,417,252)	(245,096)	(15,020,792)
Net book value	6,150,446	3,278,701	1,440,029	3,038,083	1,576,861	362,727	2,181,125	113,731	18,141,703
Rate of depreciation (percentage)	-	1% - 3%	2.5%	2.5%	10% - 20%	10% - 25%	12.5% - 50%	25%	

2017	Freehold land	Leasehold land	Building on Freehold land	Building on Leasehold land	Lease hold Improvement	Furniture and fixture	Office equipment	Vehicles	Total
	(Rupees in '000')								
At January 1, 2017									
Cost / Revalued amount	4,358,934	3,007,930	1,171,324	2,629,975	4,802,297	1,996,343	10,431,361	424,701	28,822,865
Accumulated depreciation	-	(17,025)	(35,060)	(80,504)	(3,200,899)	(1,427,287)	(7,675,107)	(242,763)	(12,678,645)
Net book value	4,358,934	2,990,905	1,136,264	2,549,471	1,601,398	569,056	2,756,254	181,938	16,144,220
Year ended December 2017									
Opening net book value	4,358,934	2,990,905	1,136,264	2,549,471	1,601,398	569,056	2,756,254	181,938	16,144,220
Additions	18,000	-	71,820	116,453	518,612	30,537	1,064,856	123,620	1,943,898
Movement in surplus on assets revalued during the year	-	-	-	-	-	-	-	-	-
Deficit on revaluation recognised in the profit and loss account - net	-	-	-	-	-	-	-	-	-
Disposals	-	(47,834)	-	(2,100)	(37,919)	(1,258)	(7,299)	(19,897)	(116,307)
Depreciation charge	-	(16,886)	(36,932)	(76,060)	(329,292)	(142,693)	(1,143,969)	(80,659)	(1,826,491)
Exchange rate adjustments	-	-	-	-	(443)	(526)	(4,155)	189	(4,935)
Other adjustment / transfer	-	-	163	(163)	(17,421)	(3,996)	511	(216)	(21,122)
Closing net book value	4,376,934	2,926,185	1,171,315	2,587,601	1,734,935	451,120	2,666,198	204,975	16,119,263
At December 31, 2017									
Cost / Revalued amount	4,376,934	2,959,930	1,243,306	2,744,105	5,110,322	1,998,763	11,221,513	439,860	30,094,733
Accumulated depreciation	-	(33,745)	(71,991)	(156,504)	(3,375,387)	(1,547,643)	(8,555,315)	(234,885)	(13,975,470)
Net book value	4,376,934	2,926,185	1,171,315	2,587,601	1,734,935	451,120	2,666,198	204,975	16,119,263
Rate of depreciation (percentage)	-	1% - 3%	2.5%	2.5%	10% - 20%	10% - 25%	12.5% - 50%	25%	

10.2.1 The properties of the Bank have been revalued by independent professional valuers as at December 31, 2018. The revaluation was carried out by M/s. Akbani & Javed Associates, M/s. Harvester Services (Private) Limited and M/s.Hamid Mukhtar & Co. (Private) Limited on the basis of professional assessment of present market values which resulted in an increase in surplus by Rs. 3,194 million and a deficit of Rs.66.8 million. Accordingly, the surplus has been transferred to the equity and the deficit has been charged to the profit and loss account.

Had there been no revaluation, the carrying amount of the revalued assets at December 31, 2018 would have been Rs. 5,443.968 million (2017: Rs. 5,742.060 million).

	2018		2017	
	Net book value at Cost	Net book value at Revalued amount	Net book value at Cost	Net book value at Revalued amount
	(Rupees in '000')			
Freehold land	1,536,928	6,150,446	1,536,928	4,376,934
Leasehold land	1,441,656	3,278,701	1,896,418	2,926,185
Buildings on freehold land	1,043,992	1,440,029	1,094,877	1,171,315
Buildings on leasehold land	1,421,392	3,038,083	1,413,837	2,587,601
	5,443,968	13,907,259	5,742,060	11,062,035

10.2.2 Included in cost of property and equipment are fully depreciated items still in use having cost of Rs. 9,773.91 million (2017: Rs. 8,644.77 million).

		2018	2017
		(Rupees in 000)	
10.2.3	Carrying amount of idle and held for sale properties.	299,150	186,410

10.2.4 Sale of fixed assets to related parties are disclosed in Annexure III to the unconsolidated financial statements.

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

11 INTANGIBLE ASSETS

	Note	2018	2017
Capital work-in-progress / Advance payment to suppliers		180,901	129,689
Software / membership card	11.1	1,136,370	1,379,076
		1,317,271	1,508,765

11.1 At January 1

	2018	2017
Cost	3,562,816	3,035,017
Accumulated amortisation and impairment	(2,183,740)	(1,737,707)
Net book value	1,379,076	1,297,310
Year ended December 31		
Opening net book value	1,379,076	1,297,310
Additions - directly purchased	250,671	529,449
Disposals	-	-
Amortisation charge	(489,716)	(447,802)
Exchange rate adjustments	1,170	-
Other adjustments	(4,831)	119
Closing net book value	1,136,370	1,379,076
At December 31		
Cost	3,822,430	3,562,816
Accumulated amortisation and impairment	(2,686,060)	(2,183,740)
Net book value	1,136,370	1,379,076
Rate of amortisation (percentage)	20% - 33%	20% - 33%
Useful life	3 - 5 years	3 - 5 years

11.2 Included in cost of intangible assets are fully amortized items still in use having cost of Rs. 1,349.493 million (2017: Rs. 1,010.07 million).

12 OTHER ASSETS

	Note	2018	2017
Income/ Mark-up accrued in local currency - net of provision		11,880,512	11,333,672
Income/ Mark-up accrued in foreign currency - net of provision		538,855	462,647
Advances, deposits, advance rent and other prepayments		2,663,485	2,472,218
Advance taxation (payments less provisions)		90,885	1,141,536
Non-banking assets acquired in satisfaction of claims	12.1.1	615,517	647,286
Dividend receivable		2,768	13,892
Mark to market gain on forward foreign exchange contracts		4,519,604	1,978,336
Mark to market gain on derivatives		68,224	14,174
Stationery and stamps on hand		37,631	67,522
Defined benefit plan	38.1.7	923,633	729,546
Branch adjustment account		311,104	-
Account receivable		1,393,630	1,135,017
Receivable against fraud and forgeries	12.2	206,651	145,583
Acceptances		13,319,265	10,701,434
Others		195,906	547,480
		36,767,670	31,390,343
Less: Provision held against other assets	12.3	(928,885)	(686,441)
Other Assets (Net of Provision)		35,838,785	30,703,902
Surplus on revaluation of non-banking assets acquired in satisfaction of claims	12.1.1	159,530	127,925
		35,998,315	30,831,827

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

12.1 Market value of Non-banking assets acquired in satisfaction of claims - properties only	748,865	782,636

The properties of the Bank have been revalued by independent professional valuers as at December 31, 2018. The revaluation was carried out by M/s. Akbani & Javed Associates and M/s. Harvester Services (Private) Limited on the basis of professional assessment of present market values which resulted in an increase in surplus by Rs. 33.421 million.

12.1.1 Non-banking assets acquired in satisfaction of claims

	2018	2017
Opening Balance	775,211	471,365
Additions	-	234,191
Revaluation	33,421	78,906
Disposals	(24,775)	(3,893)
Depreciation	(8,810)	(5,358)
Impairment	-	-
Closing Balance	775,047	775,211

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

	2018	2017
Disposal Proceeds	24,775	8,241
less		
- Cost	24,775	(3,893)
- Impairment / Depreciation	(24,775)	-
	-	(3,893)
Gain/Loss	24,775	4,348

12.2 This represents fraud and forgery amount receivable from the insurance company and other sources. Provision has been created against non-recoverable amount.

12.3 Provision held against other assets

	2018	2017
Advances, deposits, advance rent & other prepayments	910,930	643,711
Non banking assets acquired in satisfaction of claims	17,955	42,730
	928,885	686,441

12.4 Movement in provision held against other assets

	2018	2017
Opening balance	686,441	1,163,130
Impact of adoption of IFRS 9 - overseas branches	5,795	-
Balance as at 01 on adoption of IFRS 9	692,236	1,163,130
Charge for the year	421,760	-
Reversals	(10,416)	(37,788)
Amount Written off	(144,945)	(1,229)
Exchange and other adjustments	(29,750)	(5,047)
Classified as held for sale	-	(432,625)
Closing balance	928,885	686,441

13 BILLS PAYABLE

	2018	2017
In Pakistan	35,825,039	20,792,002
Outside Pakistan	163,186	90,968
	35,988,225	20,882,970

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	Note	2018	2017
		-------(Rupees in 000)-------	
14 BORROWINGS			
Secured			
Borrowings from State Bank of Pakistan			
Under export refinance scheme	14.1	26,344,557	20,568,840
Long-term finance facility	14.2	11,199,254	7,173,372
Financing facility for storage of agriculture produce	14.3	263,033	56,536
Repurchase agreement borrowings	14.4	35,962,700	107,982,494
		73,769,544	135,781,242
Repurchase agreement borrowings	14.5	11,163,509	17,237,602
Bai Muajjal	14.6	22,268,894	37,650,637
Other short term borrowings	14.7	279,494	343,253
Total secured		107,481,441	191,012,734
Unsecured			
Call borrowings	14.8	14,951,967	10,332,574
Overdrawn nostro accounts	14.9	947,547	970,114
Trading liabilities	14.10	-	5,221,517
Others	14.11	636,780	-
Total unsecured		16,536,294	16,524,205
		124,017,735	207,536,939

14.1 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 3.75% per annum (2017: 1.00% to 3.00% per annum) payable on a quarterly basis.

14.2 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 (2017: 2.00% to 5.00% per annum) payable on a quarterly basis.

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 is 6.00% per annum (2017: 2.50% to 10.00% per annum) payable on a quarterly basis.

14.4 This represents repurchase agreement borrowing from SBP at the rate ranging from 5.78% to 10.16% per annum (2017: 5.80% to 5.82% per annum) having maturities upto January 2019 (2017: January 2018).

14.5 This represents repurchase agreement borrowing from other banks at the rate of 2.78% to 10.25% per annum (2017: 1.55%% to 5.82% per annum) having maturities upto January 2019 (2017: February 2018).

14.6 This represents borrowings from financial institutions at mark-up rates ranging from 6.10% to 9.70% per annum (2017: 5.73% to 5.83%) having maturities upto March 2019 (2017: October 2018).

14.7 This represents short term running finance to meet the working capital requirements. This facility carries quarterly mark-up at the rate of three month KIBOR plus 3% (2017: KIBOR plus 3%) and valid upto 31 January 2021.

14.8 This represents borrowings from financial institutions at mark-up rates ranging from 0.50% to 10.25% per annum (2017: 0.60% to 5.75%) having maturities upto June 2019 (2017: March 2018).

14.9 This represents book overdrawn balances appearing under certain nostro accounts which are due for settlement and the balance exist only due to timing differences. These do not carry any mark-up rates.

14.10 This represents liability in respect of short selling of Pakistan Investment Bonds held as collateral against repurchase agreement lendings.

14.11 This includes borrowing from Pakistan Mortgage Refinance Company Limited (PMRC) to extend housing finance facilities to the Bank's customers on the agreed terms and conditions. This borrowing carries mark-up rate of 3 years PKRV less 50bps.

This also includes borrowing from Karandaaz Pakistan Limited in lieu of Risk Participation Agreement to support Bank's venture into SME segments. The participation carries a spread of 315 bps over the KIBOR rate.

	2018	2017
	------(Rupees in 000)------	
14.12 Particulars of borrowings with respect to Currencies		
In local currency	**102,260,223**	187,309,819
In foreign currencies	**21,757,512**	20,227,120
	124,017,735	207,536,939

15 DEPOSITS AND OTHER ACCOUNTS

	2018			2017		
	In Local Currency	In Foreign currencies	Total	In Local Currency	In Foreign currencies	Total
	--------(Rupees in '000')--------					
Customers						
Current deposits	**253,826,090**	**31,077,261**	**284,903,351**	236,043,620	21,553,885	257,597,505
Savings deposits	**182,286,764**	**29,222,301**	**211,509,065**	188,792,625	26,277,335	215,069,960
Term deposits	**103,144,924**	**42,383,783**	**145,528,707**	110,563,894	20,446,144	131,010,038
Others	**10,007,520**	**1,920,061**	**11,927,581**	5,573,888	931,961	6,505,849
	549,265,298	**104,603,406**	**653,868,704**	540,974,027	69,209,325	610,183,352
Financial Institutions						
Current deposits	**2,130,211**	**533,400**	**2,663,611**	1,147,240	165,696	1,312,936
Savings deposits	**30,581,127**	**53,409**	**30,634,536**	20,319,241	34,698	20,353,939
Term deposits	**14,220,573**	**1,401,959**	**15,622,532**	8,043,869	1,150,279	9,194,148
Others	**47,926**	**9,816**	**57,742**	3,880,609	-	3,880,609
	46,979,837	**1,998,584**	**48,978,421**	33,390,959	1,350,673	34,741,632
	596,245,135	**106,601,990**	**702,847,125**	574,364,986	70,559,998	644,924,984

	2018	2017
	------(Rupees in 000)-------	
15.1 Composition of deposits		
- Individuals	**347,909,428**	342,182,573
- Government (Federal and Provincial)	**45,416,762**	32,446,285
- Public Sector Entities	**46,524,311**	28,802,279
- Banking Companies	**528,326**	1,994,835
- Non-Banking Financial Institutions	**48,450,095**	32,746,797
- Private Sector	**214,018,203**	206,752,215
	702,847,125	644,924,984

15.2 This includes deposits eligible to be covered under insurance arrangements amounting to Rs 400,654.623 million (2017: Nil).

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		2018	2017
		-----(Rupees in 000)-----	
16	**SUBORDINATED DEBT**		
16.1	**Term Finance Certificates V - Quoted, Unsecured**	**4,989,000**	4,991,000

Issue amount	Rs. 5,000,000,000
Issue date	February 2013
Maturity date	February 2021
Rating	"AA-" (Double A Minus) by Pakistan Credit Rating Company Limited ("PACRA").
Security	Unsecured
Ranking	Subordinated to all other indebtedness of the Bank including deposits but superior to equity and ADT-1 instruments.
Profit payment frequency	Payable semi-annually in arrears.
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.
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.
Lock-in-clause	Mark-up will only be paid from the Bank's current year's earning and if the Bank is in compliance of regulatory MCR and CAR requirements set by SBP from time to time.
Call option	There is no call option available to the Bank.

		2018	2017
16.2	**Term Finance Certificates - Additional Tier-I - Quoted, Unsecured**		
	Issue amount: Rs. 7,000,000,000	**7,000,000**	-

Issue date	March 2018
Maturity date	Perpetual
Rating	"AA-" (double A minus) by JCR-VIS Credit Rating Company Limited.
Security	Unsecured
Ranking	Subordinated to all other indebtedness of the Bank including deposits but superior to equity.
Profit payment frequency	Payable semi-annually in arrears.
Redemption	Perpetual
Mark-up	For the period at end of which the Bank is in compliance with Minimum Capital Requirement (MCR) and Capital Adequacy Ratio (CAR) requirements of SBP, mark-up rate will be Base Rate + 1.50% with no step up feature. (Base Rate is defined as the six months KIBOR (Ask side) prevailing on one (1) business day prior to previous profit payment date
Lock-in-clause	Mark-up will only be paid from the Bank's current year's earning and if the Bank is in compliance of regulatory MCR and CAR requirements set by SBP from time to time.
Loss absorbency clause	In conformity with SBP Basel III Guidelines, the TFCs shall, if directed by the SBP, be permanently converted into ordinary shares upon: (i) the CET 1 Trigger Event ; (ii) the point of non-viability Trigger Event ; or (iii) failure by the Bank to comply with the Lock-In Clause. The SBP will have full discretion in declaring the point of non-viability Trigger Event.
Call Option	The Bank may, at its sole discretion, exercise call option any time after five years from the Issue Date, subject to prior approval of SBP.

	2018	2017
	11,989,000	4,991,000

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17 DEFERRED TAX LIABILITIES

	2018			
	At January 1, 2018	Recognised in P&L A/C	Recognised in OCI	At December 31 2018
	(Rupees in 000)			
Deductible Temporary Differences on				
- Provision against investments	(174,218)	32,844	(27,194)	(168,568)
- Provision against advances	(118,504)	(148,434)	-	(266,938)
- Provision against off balance sheet obligations	-	-	-	-
- Provision against other assets	(245,594)	20,621	-	(224,973)
- Provision against lending to financial institutions	-	(5,720)	-	(5,720)
- Ijarah depreciation taxed	-	(16,690)	-	(16,690)
- Unrealised loss on revaluation of HFT investments	(2,263)	(12,269)	-	(14,532)
	(540,579)	(129,648)	(27,194)	(697,421)
Taxable Temporary Differences on				
- Surplus on revaluation of fixed assets	828,306	(2,807)	503,685	1,329,184
- Surplus on revaluation of investments	1,411,085	-	(1,413,967)	(2,882)
- Share of profit from associates	288,939	139,585	-	428,524
- Accelerated tax depreciation	1,455,261	(169,471)	670	1,286,460
- Exchange translation reserve	-	-	156,232	156,232
	3,983,591	(32,693)	(753,380)	3,197,518
	3,443,012	(162,341)	(780,574)	2,500,097

	2017			
	At January 1, 2017	Recognised in P&L A/C	Recognised in OCI	At December 31 2017
	(Rupees in 000)			
Deductible Temporary Differences on				
- Provision against investments	(2,264,329)	2,090,111	-	(174,218)
- Provision against advances	(392,066)	273,562	-	(118,504)
- Provision against off balance sheet obligations	(13,078)	13,078	-	-
- Gain on revaluation of HFT investments	38	(2,301)	-	(2,263)
- Provision against other assets	(309,218)	63,624	-	(245,594)
	(2,978,653)	2,438,074	-	(540,579)
Taxable Temporary Differences on				
- Surplus on revaluation of fixed assets	840,539	(18,198)	5,965	828,306
- Surplus on revaluation of investments	3,399,873	-	(1,988,788)	1,411,085
- Share of profit from associates	252,053	36,886	-	288,939
- Accelerated tax depreciation	1,388,669	85,348	(18,756)	1,455,261
	5,881,134	104,036	(2,001,579)	3,983,591
	2,902,481	2,542,110	(2,001,579)	3,443,012

18 OTHER LIABILITIES

	Note	2018	2017
		(Rupees in 000)	
Mark-up/ Return/ Interest payable in local currency		2,108,495	1,389,374
Mark-up/ Return/ Interest payable in foreign currency		610,511	202,738
Unearned commission and income on bills discounted and guarantees		220,584	230,353
Accrued expenses		4,206,509	3,493,081
Current taxation		926,956	-
Acceptances		13,319,265	10,701,434
Dividends payable		84,229	60,729
Mark to market loss on forward foreign exchange contracts		970,502	968,982
Mark to market loss on derivatives		1,169	-
Branch adjustment account		-	220,523
Provision for Compensated absences		498,010	393,496
Payable against redemption of customer loyalty / reward points		274,076	200,433
Charity fund balance		20	833
Provision against off-balance sheet obligations	18.1	78,450	65,463
Security deposits against leases, lockers and others		6,808,459	6,210,193
Worker's Welfare Fund		979,662	590,621
Payable to vendors and suppliers		606,480	504,868
Indirect Taxes Payable		563,970	326,769
Others		1,548,375	2,105,629
		33,805,722	27,665,519

18.1 Provision against off-balance sheet obligations

	2018	2017
	------(Rupees in 000)------	
Opening balance	65,463	69,708
Exchange adjustment and other adjustments	13,759	(2,907)
Charge for the year	33,994	37,875
Reversals	(34,766)	(39,213)
	(772)	(1,338)
Closing balance	78,450	65,463

The provision against off balance sheet obligations include general provision of Rs. 66.50 million (2017: Rs. 53.50 million) held in Bangladesh book as required under the local regulation and specific provision of Rs. 11.95 million held against defaulted Letter of Guarantees. The Bank is making efforts for recovery of the defaulted amount.

19 SHARE CAPITAL

19.1 Authorized Capital

2018	2017		2018	2017
---(Number of shares)---			---(Rupees in 000)---	
2,300,000,000	2,300,000,000	Ordinary shares of Rs. 10 each	23,000,000	23,000,000

19.2 Issued, subscribed and paid up Capital

2018	2017		2018	2017
---(Number of shares)---			---(Rupees in 000)---	
		Ordinary shares		
888,650,908	883,165,724	Fully paid in cash	8,886,509	8,831,657
885,711,966	724,406,250	Issued as bonus shares	8,857,120	7,244,063
1,774,362,874	1,607,571,974		17,743,629	16,075,720
1,774,362,874	1,607,571,974		17,743,629	16,075,720

During the year the Bank has issued 5,485,184 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 39). The paid-up capital of the Bank before issuance of shares to employees was Rs. 16,075,719,740 (divided into 1,607,571,974 shares of Rs. 10 each) and after issuance of shares to the employees has increased to Rs. 16,130,571,580 (divided into 1,613,057,158 shares of Rs. 10 each). Subsequent to this, the Bank issued 161,305,716 number of shares as a 10% bonus issue. The share capital after such issue increased to Rs. 17,743,628,740 (representing 1,774,362,874 shares of Rs. 10 each).

19.3 Material non-controlling interests

19.3.1 Below are details of subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Proportion of ownership interests and voting rights held by the non-controlling interests		Non Controlling Interest for the year		Accumulated non-controlling interests	
	2018	2017	2018	2017	2018	2017
			---(Rupees in 000)---			
Alfalah GHP Investment Management Limited	59.78%	59.78%	92,430	98,888	510,778	418,348

Summarised financial information of material non-controlling interests before intragroup elimination is as follows:

Alfalah GHP Investment Management Limited	2018	2017
	---(Rupees in 000)---	
Statement of financial position		
Total assets	1,063,569	947,545
Total liabilities	206,309	254,687
Equity	857,260	692,858
Statement of comprehensive income		
Total income	472,004	539,217
Total expenses	261,240	302,936
Net profit after tax	164,221	164,739
Other comprehensive income	181	(6,274)
Statement of cash flows		
Net cash flows generated from / (used in) operating activities	151,112	166,401
Net cash flows generated from investing activities	(153,539)	(186,878)
Net cash flows during the year	(2,427)	(20,477)

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

20 SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS

	Note	2018	2017
Surplus / (deficit) on revaluation of			
- Available for sale securities	8.1	(2,102)	3,930,899
- Fixed Assets	20.1	8,508,874	5,365,558
- Pakistan Stock Exchange Membership Card		-	1,533
- Non-banking assets acquired in satisfaction of claims	20.2	159,530	127,925
- Surplus on revaluation of investment held for sale in Afghanistan		303	130,288
		8,666,605	9,556,203
Deferred tax on surplus / (deficit) on revaluation of:			
- Available for sale securities		(2,943)	1,371,893
- Fixed Assets	20.1	1,298,531	819,099
- Non-banking assets acquired in satisfaction of claims	20.2	30,653	24,654
- Surplus on revaluation of investment held for sale in Afghanistan		61	45,601
		1,326,302	2,261,247
Derivatives		48,952	14,933
Surplus on revaluation of available for sale securities attributable to non-controlling interest		(128)	(517)
		7,389,127	7,309,372

20.1 Surplus on revaluation of fixed assets

	2018	2017
Surplus on revaluation of fixed assets as at January 1	5,365,558	5,385,843
Effect of change in accounting policy for surplus / (deficit) on operating fixed assets - note 4.1.2	-	45,583
Surplus on revaluation of fixed assets as at January 1 - restated	5,365,558	5,431,426
Recognised during the year	3,193,653	-
Realised on disposal during the year - net of deferred tax	-	(15,744)
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax	(32,719)	(32,370)
Related deferred tax liability on incremental depreciation charged during the year	(17,618)	(17,754)
Surplus on revaluation of fixed assets as at December 31	8,508,874	5,365,558
Less: related deferred tax liability on:		
Revaluation as at January 1	819,099	826,917
Effect of change in accounting policy for surplus / (deficit) on operating fixed assets - note 4.1.2	-	15,446
Revaluation as at January 1 - Restated	819,099	842,363
- revaluation recognised during the year	497,050	
- surplus realised on disposal during the year	-	(5,510)
- incremental depreciation charged during the year	(17,618)	(17,754)
	1,298,531	819,099
	7,210,343	4,546,459

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

	2018	2017
Surplus on revaluation as at January 1	127,925	50,890
Recognised during the year	33,421	78,906
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax	(1,180)	(1,427)
Related deferred tax liability on incremental depreciation charged during the year	(636)	(444)
Surplus on revaluation as at December 31	159,530	127,925
Less: related deferred tax liability on:		
- revaluation as at January 1	24,654	13,623
- revaluation recognised during the year	6,635	11,475
- incremental depreciation charged during the year	(636)	(444)
	30,653	24,654
	128,877	103,271

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21 ASSETS HELD FOR SALE

21.1 During 2017, the Board of Directors of the Holding Company accorded its in-principle approval and authorised the management of the Bank to explore the possibility to sell the Afghanistan Operations of the Bank to a potential buyer, subject to obtaining all regulatory approvals, compliance with applicable laws and regulations in the matter.

During the current year, the Holding Company signed a Business Transfer Agreement with a potential buyer for the sale of the Afghanistan operations and subsequently an application for approval of the transaction was made to the DA Afghanistan Bank (DAB), the Central Bank in Afghanistan. The DAB has raised some queries on the application which the Holding Company and the potential buyers are in the process of responding.

Resultantly, all assets and liabilities and income and expenses for the Group's Afghanistan Operations are being presented as separate line items on the balance sheet as Non-Current Assets and Liabilities Held for Sale and profit after tax from discontinuing operations respectively, rather than as part of actual line items under which they were being reported historically.

21.2 The financial position and results of assets classified as held for sale are as follows:

STATEMENT OF FINANCIAL POSITION

	Note	2018	2017
		-------(Rupees in 000)-------	
Assets held for sale			
Cash and balances with treasury banks		4,764,918	7,594,852
Balances with other banks		3,431,895	1,025,996
Lendings to financial institutions		10,470,354	5,288,982
Investments - net		4,596,965	11,592,895
Advances - net		224,090	1,108,663
Fixed assets		9,370	11,918
Other assets		91,897	198,418
		23,589,489	26,821,724
Liabilities directly associated with the assets held for sale			
Bills payable		4,549	8,575
Deposits and other accounts		20,287,651	24,491,178
Deferred tax liabilities		223	45,601
Other liabilities		142,973	213,742
		20,435,396	24,759,096

PROFIT AND LOSS ACCOUNT

	Note	2018	2017
Mark-up/Return/Interest Earned		353,937	743,588
Mark-up/Return/Interest Expensed		18,929	154,769
Net Mark-up/ Interest Income		335,008	588,819
Non mark-up/interest income			
Fee and Commission Income		188,049	153,492
Foreign Exchange Income		14,653	18,947
Income / (loss) from derivatives		48,637	-
Gain / (Loss) on securities		(42,586)	132,593
Other Income		-	(14)
Total non-markup/interest Income		208,753	305,018
Total Income		543,761	893,837
Non mark-up/interest expenses			
Operating expenses		323,774	458,803
Other charges		1,263	1,923
Total non-markup/interest expenses		325,037	460,726
Profit Before Provisions		218,724	433,111
Provisions and write offs - net	21.2.1	(561,776)	93,292
Profit before taxation from discontinuing operations		780,500	339,819
Taxation		305,548	138,755
Profit after taxation from discontinuing operations		474,952	201,064

21.2.1 This includes reversal of provision amounting to Rs. 443.898 million (USD 3.949 million), previously held against amount blocked in the Holding Company's Nostro account following settlement of dispute, and release of funds in favour of the Bank.

		Note	2018	2017
			-------(Rupees in 000)-------	
22	**CONTINGENCIES AND COMMITMENTS**			
	-Guarantees	22.1	57,086,398	64,176,351
	-Commitments	22.2	437,956,428	349,143,016
	-Other contingent liabilities	22.3.1	13,222,064	9,787,372
			508,264,890	423,106,739
22.1	**Guarantees:**			
	Financial guarantees		731,536	176,943
	Performance guarantees		32,153,833	34,549,521
	Other guarantees		24,201,029	29,449,887
			57,086,398	64,176,351
22.2	**Commitments:**			
	Documentary credits and short-term trade-related transactions			
	- Letters of credit		68,026,025	73,773,817
	Commitments in respect of:			
	- forward foreign exchange contracts	22.2.1	228,265,364	92,108,750
	- forward government securities transactions	22.2.2	76,821,957	128,052,456
	- derivatives	22.2.3	12,051,091	8,865,756
	- forward lending	22.2.4	34,773,260	30,207,372
	- operating leases		16,906,848	15,791,935
	Commitments for acquisition of:			
	- operating fixed assets		604,674	99,373
	- intangible assets		507,209	219,605
	Other commitments	22.2.5	-	23,952
			437,956,428	349,143,016

			2018	2017
			-------(Rupees in 000)-------	
22.2.1	**Commitments in respect of forward foreign exchange contracts**			
	Purchase		**140,128,603**	60,285,544
	Sale		**88,136,761**	31,823,206
			228,265,364	92,108,750
22.2.2	**Commitments in respect of forward government securities transactions**			
	Purchase		**39,518,422**	116,034,680
	Sale		**37,303,535**	12,017,776
			76,821,957	128,052,456
22.2.3	**Commitments in respect of derivatives**			
22.2.3.1	**Interest Rate Swaps**			
	Purchase		**10,650,708**	8,865,756
	Sale		**-**	-
			10,650,708	8,865,756
22.2.3.2	**Futures**			
	Purchase		**-**	-
	Sale		**1,400,383**	-
			1,400,383	-
22.2.4	**Commitments in respect of forward lending**			
	Undrawn formal standby facilities, credit lines and other commitments to lend	22.2.4.1	**29,428,567**	22,628,329
	Commitments in respect of investments		**5,344,693**	7,579,043
			34,773,260	30,207,372

22.2.4.1 These represent commitments that are irrevocable because they cannot be withdrawn at the discretion of the Bank without the risk of incurring significant penalty or expense.

22.2.5	**Other commitments**			
	Donations		**-**	23,952
22.3	**Other contingent liabilities**			
22.3.1	Claims against the Bank not acknowledged as debts		**13,222,064**	9,787,372

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.

22.4 Contingency for tax payable

22.4.1 There were no tax related contingencies other than as disclosed in note 33.2.

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 futures, swaps and options. Derivatives also include structured financial products that have one or more characteristics of forwards, futures, swaps and options.

23.1 Product Analysis

Counterparties	2018					
	Interest Rate Swaps			Futures		
	No. of contracts	Notional Principal	Mark to market gain / loss	No. of contracts	Notional Principal	Mark to market gain / loss
	-(Rupees in 000)-					
With Banks for						
Hedging	22	10,650,708	88,487	-	-	-
With FIs other than banks						
Hedging	-	-	-	88	1,400,383	(21,432)
Total						
Hedging	22	10,650,708	88,487	88	1,400,383	(21,432)

Counterparties	2017					
	Interest Rate Swaps			Futures		
	No. of contracts	Notional Principal	Mark to market gain / loss	No. of contracts	Notional Principal	Mark to market gain / loss
	-(Rupees in 000)-					
With Banks for						
Hedging	23	8,865,756	13,241	-	-	-
Total						
Hedging	23	8,865,756	-	-	-	-

23.2 Maturity Analysis

2018

-(Rupees in 000)-

Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market Negative	Mark to Market Positive	Net
Upto 1 month	-	-	-	-	-
1 to 3 months	88	1,400,383	21,432	-	(21,432)
3 to 6 months	6	3,540,979	-	16,651	16,651
6 month to 1 Year	4	1,624,684	-	13,821	13,821
1 to 2 Year	2	1,388,619	-	17,286	17,286
2 to 3 Years	4	1,596,912	-	20,548	20,548
3 to 5 Years	2	1,110,895	-	12,432	12,432
5 to 10 years	4	1,388,619	-	7,749	7,749
Above 10 Years	0	-	-	-	-
Total	110	12,051,091	21,432	88,487	67,055

2017

-(Rupees in 000)-

Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market Negative	Mark to Market Positive	Net
Upto 1 month	-	-	-	-	-
1 to 3 months	-	-	-	-	-
3 to 6 months	-	-	-	-	-
6 month to 1 Year	-	-	-	-	-
1 to 2 Year	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)
Above 10 Years	-	-	-	-	-
Total	23	8,865,756	19,476	33,650	14,174

23.3 Risk management related to derivatives is discussed in note 47.7 eyt

		Note	2018	2017
			-------(Rupees in 000)------	
24	**MARK-UP/RETURN/INTEREST EARNED**			
	On:			
a)	Loans and advances		37,196,513	28,274,015
b)	Investments		19,005,495	25,297,579
c)	Lendings to financial institutions		1,332,729	2,064,996
d)	Balances with banks / financial institutions		91,202	52,039
e)	On securities purchased under resale agreements		1,697,583	494,747
			59,323,522	56,183,376
25	**MARK-UP/RETURN/INTEREST EXPENSED**			
	On:			
a)	Deposits		19,694,356	15,815,168
b)	Borrowings		1,308,422	1,034,967
c)	Securities sold under repurchase agreements		4,355,706	8,802,388
d)	Sub ordinated debt and ADT-1 instrument		989,221	626,498
e)	Cost of foreign currency swaps against foreign currency deposits / borrowings		1,282,525	852,503
f)	Reward points		102,555	68,390
			27,732,785	27,199,914
26	**FEE & COMMISSION INCOME**			
	Branch banking customer fees		1,462,606	1,335,569
	Consumer finance related fees		224,228	190,589
	Card related fees (debit and credit cards)		848,104	907,652
	Credit related fees		148,340	217,400
	Investment banking fees		210,029	313,592
	Commission on trade		1,242,681	1,037,828
	Commission on guarantees		370,779	372,561
	Commission on cash management		20,948	23,330
	Commission on remittances including home remittances		165,419	77,770
	Commission on bancassurance		394,931	391,316
	Card acquiring business		296,297	96,497
	Wealth Management Fee		7,633	83,561
	Commission on EOBI		114,130	99,435
	Commission on BISP		282,920	384,736
	Alternate delivery channels (ADC)		330,650	286,517
	Brokerage/Commission income		122,918	126,286
	Management fee		424,992	500,394
	Others		128,350	98,045
			6,795,955	6,543,078
27	**GAIN / (LOSS) ON SECURITIES**			
	Realised	27.1	1,035,846	861,776
	Unrealised - held for trading	8.1	(43,511)	(7,351)
			992,335	854,425
27.1	**Realised gain/(loss) on:**			
	Federal Government Securities		1,243,684	637,871
	Shares		(241,675)	232,780
	Non Government Debt Securities		2,811	(9,876)
	Foreign Securities		31,026	1,001
			1,035,846	861,776
28	**OTHER INCOME**			
	Gain on sale of fixed assets-net		137,915	11,584
	Gain on sale of non banking assets - net	12.1.2	24,775	4,348
	Income from short sell of securities		-	29,783
	Profit from sale of leased assets		31,204	38,932
	Others		249	-
			194,143	84,647

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		Note	2018	2017
			-------(Rupees in 000)-------	
29	**OPERATING EXPENSES**			
	Total compensation expense	29.1	9,873,206	10,246,130
	Property expense			
	Rent and taxes		2,078,144	2,044,081
	Insurance		-	-
	Utilities cost		889,173	899,329
	Security (including guards)		599,961	636,976
	Repair and maintenance (including janitorial charges)		778,795	538,435
	Depreciation		460,809	459,340
	Others		-	-
			4,806,882	4,578,161
	Information technology expenses			
	Software maintenance		876,760	662,726
	Hardware maintenance		200,168	227,341
	Depreciation		388,436	431,541
	Amortisation		489,716	447,802
	Network charges		329,082	389,332
	Others		-	-
			2,284,162	2,158,742
	Other operating expenses			
	Directors' fees and allowances		153,981	126,018
	Fees and allowances to Shariah Board		6,990	6,720
	Legal and professional charges		308,075	1,213,176
	Outsourced services costs	37.1	1,278,434	1,302,518
	Travelling and conveyance		533,403	453,633
	NIFT clearing charges		71,180	80,423
	Depreciation		883,917	935,610
	Training and development		61,194	159,473
	Postage and courier charges		238,107	176,327
	Communication		290,174	219,918
	Stationery and printing		460,907	443,214
	Marketing, advertisement and publicity		614,565	724,087
	Donations	29.3	36,594	9,948
	Auditors Remuneration	29.4	40,601	32,122
	Brokerage and Commission		141,008	166,306
	Entertainment		207,542	181,569
	Repairs and maintenance		296,417	355,103
	Insurance		866,630	620,269
	Cash Handling Charges		369,228	413,743
	CNIC Verification		92,465	91,077
	Others		457,333	300,263
			7,408,745	8,011,517
			24,372,994	24,994,550
29.1	**Total compensation expense**			
	Fees and Allowances etc		-	-
	Managerial Remuneration			
	i) Fixed		7,829,579	7,585,805
	ii) Variable			
	of which;			
	a) Cash Bonus / Awards etc.	29.1.1	1,202,259	1,171,339
	b) Bonus and Awards in Shares etc.		13,036	26,693
	Charge for defined benefit plan	38.1.8	185,753	250,153
	Contribution to defined contribution plan	39	324,410	320,476
	Medical		12,996	9,934
	Conveyance		181,747	177,008
	Staff compensated absences		104,514	(8,148)
	Others		(43,132)	9,758
	Sub-total		9,811,162	9,543,018
	Sign-on Bonus		37,850	8,638
	Severance Allowance	29.1.2	24,193	694,474
	Grand Total		9,873,205	10,246,130

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29.1.1 The Holding Company 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 Holding Company'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 Holding Company and for Other Executives amounted to Rs. 239.49 million (2017: Rs. 260.190 million) and Rs. 482.278 million (2017: Rs. 369.285 million)

29.1.2 This includes exgratia payment made to the outgoing CEO of the Holding Company in 2017.

29.2 Total cost for the year included in Other Operating Expenses relating to outsourced activities is Rs 636.858 million (2017: Rs 653.673 million) pertaining to the payment to companies incorporated in Pakistan. This includes payments other than outsourced services costs, which are disclosed above.

29.3 Donations

	Note	2018	2017
		(Rupees in 000)	
Child Aid Association		1,700	-
Family Educational Services Foundation		3,250	-
IBA Karachi		22,000	-
Manabik Shahajya Sangstha		994	-
Supreme Court Diamer Bhasha And Mohmand Dam Fund		8,650	-
Aman Foundation		-	6,300
Karachi Lions Pediatric Nephrology Project (NICH)		-	1,000
Shabab Murshid Development Foundation - Bangladesh		-	648
The Aga Khan University Hospital Medical College Foundation		-	2,000
		36,594	9,948

29.3.1 None of the Directors, Sponsor shareholders, Key management personnel or their spouses have any direct interest in the Donees.

29.4 Auditors' remuneration

	2018	2017
Audit fee	15,335	13,472
Fee for other statutory certifications	6,588	6,372
Fee for audit of foreign branches	7,969	7,966
Special certifications and sundry advisory services	8,536	2,297
Out-of-pocket expenses	2,173	2,015
	40,601	32,122

30 WORKERS WELFARE FUND

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 OTHER CHARGES

	2018	2017
Penalties imposed by State Bank of Pakistan	6,430	32,727

32 PROVISIONS & WRITE OFFS - NET

	Note	2018	2017
Provisions against lending to financial institutions		16,344	-
Provisions for diminution in value of investments	8.3.1	(12,307)	95,595
Provisions against loans & advances	9.5	378,721	(445,186)
Provision against other assets	12.4	411,344	(37,788)
Provision against off-balance sheet obligations	18.1	(772)	(1,338)
Recovery of written off / charged off bad debts		(247,996)	(227,778)
		545,334	(616,495)

33 TAXATION

	2018	2017
Current	7,287,561	4,999,426
Prior years	(238,141)	(1,883,206)
Deferred	(162,341)	2,542,110
	6,887,079	5,658,330

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		2018	2017
		-------(Rupees in 000)-------	
33.1	**Relationship between tax expense and accounting profit**		
	Accounting Profit before taxation	17,403,402	14,071,070
	Tax at the applicable rate of 35% (2017: 35%)	6,091,191	4,924,875
	Effect of:		
	- income tax chargeable to tax at different rates	14,206	(10,515)
	- permanent differences	7,010	42,844
	- tax charge pertaining to overseas branches	33,512	110,039
	- adjustment of prior years	1,666	517,925
	- Super tax	737,015	-
	- others	2,479	73,162
	Tax expense for the year	6,887,079	5,658,330

33.2 a) The income tax assessments of the Bank have been finalized upto and including tax year 2018. 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, 2014, 2017 and 2018, 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 and provision against other assets resulting in additional demand of Rs.789.862 million (December 31, 2017 : Rs.1,033.519 million). As a result of appeal filed before Commissioner Appeals against these issues, relief has been provided for tax amount of Rs.116.351 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.

b) 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 (December 31, 2017 : 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.

		2018	Restated 2017
34	**BASIC EARNINGS PER SHARE**	------(Rupees in 000)------	
	Profit for the year	10,991,275	8,613,804
		------(Number of shares in '000)------	
	Weighted average number of ordinary shares	1,773,672	1,766,588
		Rupees	
	Basic earnings per share	6.20	4.88
35	**DILUTED EARNINGS PER SHARE**		
		------(Rupees in 000)------	
	Profit for the year	10,991,275	8,613,804
		------(Number of shares in '000)------	
	Weighted average number of ordinary shares (adjusted for the effects of all dilutive potential ordinary shares)	1,775,732	1,772,196
		Rupees	
	Diluted earnings per share	6.19	4.86
35.1	**Reconciliation of basic and diluted earning per share**	------(Number of shares in '000)------	
	Weighted average number of ordinary shares	1,773,672	1,766,588
	Plus: Employee stock option scheme	2,060	5,608
	Dilutive potential ordinary shares	1,775,732	1,772,196

		Note	2018	2017
			------(Rupees in 000)------	
36	**CASH AND CASH EQUIVALENTS**			
	Cash and Balance with Treasury Banks	5	82,407,736	70,381,480
	Balance with other banks	6	3,911,554	3,993,054
	Call money lendings	7	15,166,288	20,255,936
	Overdrawn nostro accounts	14	(947,547)	(970,114)
			100,538,031	93,660,356

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37 **STAFF STRENGTH**

	2018			2017		
	-----(Number of employees)-----					
	Domestic	Overseas	Total	Domestic	Overseas	Total
Permanent	8,390	198	8,588	7,674	195	7,869
On Bank contract	29	82	111	66	85	151
Bank's own staff strength at the end of the year	8,419	280	8,699	7,740	280	8,020

37.1 In addition to the above, 2,106 (2017: 3,776) employees of outsourcing services companies were assigned to the Bank as at the end of the year to perform services other than guarding and janitorial services.

38 **DEFINED BENEFIT PLAN**

38.1 **Holding Company**

38.1.1 **General description**

The Bank operates an approved funded gratuity scheme which cover all regular permanent employees. The liability of the Bank in respect of the plan is determined based on actuarial valuation carried out using the Projected Unit Credit Method. Actuarial valuation of the defined benefit plan is carried out every year and the latest valuation was carried out as at December 31, 2018. The significant assumptions are detailed below

38.1.2 **Number of Employees under the scheme**

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

	2018	2017
	-----(Number)-----	
- Gratuity fund	8,185	7,506

38.1.3 **Principal actuarial assumptions**

The disclosures made below are based on the information included in the actuarial valuation report of the Bank as of December 31, 2018

	2018	2017
	-----(Per annum)-----	
Withdrawal rates	Moderate	High
Mortality rates	SLIC 2001 - 2005	Adjusted SLIC 2001 - 2005
Valuation Discount rate (p.a)	13.25%	9.50%
Salary increase rate (p.a) - Short term (3 years)	8.25%	5.75%
Salary increase rate (p.a) - Long term	11.25%	9.00%
Expected rate of return on plan assets (p.a)	13.25%	9.50%
Normal retirement age	60 Years	60 Years
Duration	09 Years 6 months	10 Years

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

	Note	2018	2017
		-----(Rupees in 000)-----	
Present value of obligations	38.1.5	1,474,598	1,657,387
Fair value of plan assets	38.1.6	(2,398,231)	(2,386,933)
(Receivable) / payable		-	-
		(923,633)	(729,546)

38.1.5 **Movement in defined benefit obligations**

	2018	2017
Obligations at the beginning of the year	1,657,387	1,920,065
Current service cost	270,272	306,923
Interest cost	149,967	167,766
Benefits paid by the Bank	(304,841)	(304,133)
Re-measurement loss / (gain)	(298,187)	(433,234)
Obligations at the end of the year	1,474,598	1,657,387

38.1.6 **Movement in fair value of plan assets**

	Note	2018	2017
Fair value at the beginning of the year		2,386,933	2,269,382
Interest income on plan assets		234,486	224,536
Contribution by the Bank - net		185,753	250,153
Benefits paid		(304,841)	(304,133)
Re-measurements: Net return on plan assets over interest income gain / (loss)	38.1.8.2	(104,100)	(53,005)
Fair value at the end of the year		2,398,231	2,386,933

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		Note	2018	2017
38.1.7	**Movement in (receivable) / payable under defined benefit plan**		-------(Rupees in 000)-------	
	Opening balance		(729,546)	(349,317)
	Charge / (reversal) for the year		185,753	250,153
	Contribution by the Bank - net		(185,753)	(250,153)
	Re-measurement loss / (gain) recognised in OCI during the year	38.1.8.2	(194,087)	(380,229)
	Benefits paid by the Bank			
	Closing balance		(923,633)	(729,546)

38.1.8 Charge for defined benefit plans

38.1.8.1 Cost recognised in profit and loss

	2018	2017
Current service cost	270,272	306,923
Net interest on defined benefit asset / liability	(84,519)	(56,770)
	185,753	250,153

38.1.8.2 Re-measurements recognised in OCI during the year

	2018	2017
Loss / (gain) on obligation		
- Demographic assumptions	(992)	-
- Financial assumptions	(310,891)	(149,752)
- Experience adjustment	13,696	(283,482)
Return on plan assets over interest income	104,100	53,005
Total re-measurements recognised in OCI	(194,087)	(380,229)

38.1.9 Components of plan assets

	2018	2017
Cash and cash equivalents - net	372,963	258,914
Government Securities	-	659,789
Ordinary shares/TFCs	375,000	1,172,369
Units of mutual funds	1,650,268	295,861
	2,398,231	2,386,933

38.1.10 Sensitivity analysis

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

Particulars	**2018** PV of Defined Benefit Obligation	Change
	------(Rupees in 000)------	
1% increase in discount rate	1,332,323	142,275
1% decrease in discount rate	1,612,385	(137,787)
1 % increase in expected rate of salary increase	1,622,818	(148,220)
1 % decrease in expected rate of salary increase	1,321,666	152,932
10% increase in withdrawal rate	1,468,848	5,750
10% decrease in withdrawal rate	1,454,266	20,332
1 year Mortality age set back	1,460,734	13,864
1 year Mortality age set forward	1,462,760	11,838

		2018 (Rupees. in '000)
38.1.11	**Expected contributions to be paid to the funds in the next financial year**	106,243
38.1.12	**Expected charge / (reversal) for the next financial year**	106,243

38.1.13 Maturity profile

The undiscounted expected payments maturity is tabulated below:

Particulars	**Undiscounted Payments (Rs. in '000)**
Year 1	148,556
Year 2	108,648
Year 3	115,755
Year 4	105,011
Year 5	121,440
Year 6 to Year 10	746,583
Year 11 and above	7,610,572

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38.1.14 Funding Policy

The bank's policy for funding the staff retirement benefit schemes, is given in note 4.10 (a).

38.1.15 Risks Associated with Defined Benefit Plans

Asset Volatility
The risk arises due to the inclusion of the risky assets in the pension/gratuity fund portfolio, inflation and interest rate volatility.

Changes in Bond yields
The risk arises when bond yield is lower than the expected return on the plan assets (duration based PIB discount rate).

Inflation Risks
The risk arises if pension/gratuity benefits are linked to inflation and the inflation is higher or higher than expected, which results in higher liabilities

Life expectancy / 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.

Longevity Risks:
The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

Salary increase Risk:
The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than expectation and impacts the liability accordingly.

38.2 Alfalah Securities (Pvt) ltd

The Company operates an unfunded gratuity scheme for all its employees who have completed the qualifying period as defined in the scheme. The Company has carried out an actuarial valuation on 31 December 2018 using Projected Unit Credit Method and results of the valuation are as given below:

38.2.1 Actuarial assumptions

	31 December 2018	31 December 2017
	(Per annum)	
The principal actuarial assumptions used are as follows:		
Financial assumptions		
Valuation discount rate	13.75%	9.50%
Salary increase rate	13.75%	9.50%
Demographic assumptions		
Mortality rates (for death in service)	SLIC 2001-05	
Rates of employee turnover	Moderate	High

38.2.2 Amount recognised in the balance sheet

	Note	31 December 2018	31 December 2017
		(Rupees in 000)	
Defined benefit obligation	38.2.3	22,636	12,487
Fair value of plan assets		-	-
Net liability		22,636	12,487

38.2.3 Reconciliation of payable to defined benefit plan

	Note	31 December 2018	31 December 2017
		(Rupees in 000)	
Opening net liability		12,487	3,998
Charge for the year	38.2.4	6,762	4,985
Other comprehensive income	38.2.5	3,387	4,254
Benefits paid during the period / year		-	(750)
Closing net liability		22,636	12,487

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		31 December 2018	31 December 2017
		------(Rupees in 000)-------	
38.2.4	**Charge for the defined benefit plan**		
	Current service cost	**5,576**	4,641
	Net interest	**1,186**	344
		6,762	4,985
38.2.5	**Actuarial gain / (loss) on obligation**		
	Unrecognized actuarial (loss) / gain as at 1 January	**(4,473)**	(219)
	Actuarial loss on obligations - recognized in OCI	**(3,387)**	(4,254)
	Unrecognized actuarial loss at 31 December	**(7,860)**	(4,473)
38.2.6	**Sensitivity analysis on significant actuarial assumptions: actuarial liability**		
	Discount rate +1%	**20,224**	1,150
	Discount rate -1%	**25,612**	1,350
	Salary increases +1%	**25,597**	1,400
	Salary increases -1%	**20,116**	1,212

		31 December 2018	31 December 2017
		-------(Years)------	
38.2.7	Weighted average duration of the present value of defined benefit obligation	**11.68**	10.01

28.2.8 **Maturity profile of the defined benefit obligation**

	31 December 2018	31 December 2017
Distribution of timing of benefit payments (time in years)	-------(Rupees in 000)-------	
Year 1	**1,369**	**1,251**
Year 2	**1,444**	**281**
Year 3	**1,096**	**1,302**
Year 4	**1,212**	**876**
Year 5	**1,204**	**821**
Year 6 to Year 10	**15,038**	**3,803**
Year 11 and above	**218,556**	**36,095**

38.2.9 The expected gratuity expense for the next one year works out to be Rs. 10.680 million.

38.2.10 **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.

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(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 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.

39 DEFINED CONTRIBUTION PLAN

39.1 Holding Company

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

During the year, the Holding Company contributed Rs. 309.371 million (2017: Rs. 307.135 million) in respect of this fund.

39.2 Alfalah GHP Investment Management Limited

The subsidiary - Alfalah GHP Investment Management Limited operates an approved funded contributory provident fund for all its permanent employees to which equal monthly contributions are made both by the Company and the employees at the rate of 10% of basic salary.

During the year, the subsidiary company contributed Rs. 5.534 million (2017: Rs. 4.603 million) in respect of this fund.

40 EMPLOYEES STOCK OPTION SCHEME

The Holding Company has granted share options to certain critical employees, (the "employees") under the Employee Stock Options Scheme (ESOS) as approved by the shareholders and Securities and Exchange Commission of Pakistan (SECP) vide its letter no. SMD/CIW/ESOS/02/2013 dated December 27, 2013.

Under the Scheme, the Holding Company has granted options to these employees (as selected by the Board Compensation Committee, specifically formulated as required under the Public Companies (Employees Stock Option Scheme) Rules, 2001) to subscribe for fresh ordinary shares of the Bank (being issuance of further capital without issue of rights) in the years 2014, 2015 and 2016. No fresh grants were made after the year 2016. However, due to a bonus issue of 10% in October 2018, all employees having exercisable options outstanding were entitled to additional Shares worked out in accordance with the provisions of the scheme. The revised option entitlement and the revised option price have been disclosed below.

Under the scheme, the options entitle the selected employees to purchase shares at 40% discount (the Option Discount), of the market price prevailing at the date of the grant. As per the Scheme, the entitlements 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.

Details of share options granted under the scheme together with the status as at December 31, 2018 are as follows:

		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		4,199	3,294	1,732
Options vested		3,113	2,407	N/A
Options exercised		3,058	2,428	N/A
Options available for exercise		2,405	-	-
Exercise price per share	Rs.	14.95	15.15	16.32
Adjusted exercise per share for final tranche of year 2016	Rs.	13.59	N/A	N/A
Option discount per share	Rs.	9.96	10.10	10.88

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41 COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2018	2017	2018	2017	2018	2017
	(Rupees in '000)					
Fee	-	-	153,981	126,018	-	-
Managerial remuneration	99,467	107,186	-	-	2,075,968	3,415,580
Post employment benefits	5,887	7,676	-	-	97,002	382,642
Rent and house maintenance	-	-	-	-	530,401	1,007,964
Utilities	3,533	4,607	-	-	127,083	255,935
	108,887	119,469	153,981	126,018	2,830,454	5,062,121
Number of persons	1	2	9	6	579	2,003

41.1 The Chief Executive and certain Executives have been provided with the free use of cars and household equipment as per Holding Company's policy.

41.2 All executives, including the CEO are entitled to certain short term employee benefits which are disclosed in note 29.1.1 to these financial statements. In addition, the Holding Company also granted share options to certain key employees of the Holding Company in the year 2014, 2015 and 2016, which shall vest till the year 2019 - refer note 40 and Annexure on Employee Stock Option Scheme.

41.3 The count for Executives has been reduced from 2,003 in 2017 to 579 in 2018 due to a change in definition of the Executives. Earlier, any employee having an annual basic salary of Rs. 0.5 million or above was defined as an Executive. This threshold has now been increased to Rs. 1.2 million.

42 FAIR VALUE MEASUREMENTS

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

42.1 Fair value of financial assets

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

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

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

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

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

	2018			
On balance sheet financial instruments	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
Financial assets - measured at fair value				
Investments				
Federal Government Securities	-	205,872,883	-	205,872,883
Shares	8,228,553	-	-	8,228,553
Non-Government Debt Securities	-	8,497,774	-	8,497,774
Foreign Securities	-	10,540,323	-	10,540,323
Others	-	-	-	-
Off-balance sheet financial instruments - measured at fair value				
Forward purchase of foreign exchange	-	4,519,604	-	4,519,604
Forward sale of foreign exchange	-	(970,502)	-	(970,502)
Forward purchase government securities transactions	-	-	-	-
Forward sale government securities transactions	-	-	-	-
Derivatives purchases	-	68,224	-	68,224
Derivatives sales	-	(1,169)	-	(1,169)

	2017			
On balance sheet financial instruments	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
Financial assets - measured at fair value				
- Investments				
Federal Government Securities	-	333,782,146	-	333,782,146
Shares	6,194,539	-	-	6,194,539
Non-Government Debt Securities	-	5,824,558	-	5,824,558
Foreign Securities	-	9,208,419	-	9,208,419
Others	-	-	-	-
Off-balance sheet financial instruments - measured at fair value				
Forward purchase of foreign exchange	-	1,978,336	-	1,978,336
Forward sale of foreign exchange	-	(968,982)	-	(968,982)
Forward agreements for lending	-	-	-	-
Forward agreements for borrowing	-	-	-	-
Derivatives purchases	-	14,174	-	14,174
Derivatives sales	-	-	-	-

42.2 Certain categories of fixed assets (land and buildings) and non banking assets acquired in satisfaction of claims are carried at revalued amounts (level 3 measurement) determined by professional valuers based on their assessment of the market values as disclosed in notes 10 and 12. The valuations are conducted by the valuation experts appointed by the Holding Company which are also on the panel of State Bank of Pakistan.

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

42.4 Valuation techniques used in determination of fair values:

(a) Financial instruments in level 1

Financial instruments included in level 1 comprise of investments in ordinary shares of listed companies.

(b) Financial instruments in level 2

Financial instruments included in level 2 comprise of Market Treasury Bills, Pakistan Investment Bonds, GoP Sukuks, Overseas Government Sukuks, Overseas and Euro Bonds, Term Finance Certificates, and other than Government Sukuks, forward foreign exchange contracts, and interest rate swaps.

(c) Financial instruments in level 3

Currently, no financial instruments are classified in level 3.

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

Item	Valuation approach and input used
Forward foreign exchange contracts	The valuation has been determined by interpolating the FX revaluation rates announced by State Bank of Pakistan.
Interest rate swaps	The fair value of interest rate swaps and futures is determined using prices and curves through Bloomberg.
Market Treasury Bills(MTB) / Pakistan Investment Bonds(PIB), and GoP Sukuks (GIS)	The fair value of MTBs and PIBs are derived using PKRV rates. GIS are revalued using PKISRV rates. Floating rate PIBs are revalued using PKFRV rates
Overseas Government Sukuks, Overseas and Euro Bonds	The fair value of Overseas Government Sukuks, and Overseas Bonds are valued on the basis of price available on Bloomberg.
Debt Securities (TFCs) and Sukuk other than Government	Investment in WAPDA Sukuks, debt securities (comprising term finance certificates, bonds and any other security issued by a company or a body corporate for the purpose of raising funds in the form of redeemable capital are valued on the basis of the rates announced by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the methodology prescribed by the Securities and Exchange Commission of Pakistan.
Ordinary shares - listed	The fair value of investments in listed equity securities are valued on the basis of closing quoted market price available at the Pakistan Stock Exchange.
Operating fixed assets and non banking assets acquired in satisfaction of claims	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 can not be determined with certainty accordingly a qualitative disclosure of sensitivity has not been presented in these financial statements.

43 SEGMENT INFORMATION

43.1 Segment Details with respect to Business Activities

2018

	Retail	CIBG	IBG	Treasury	Digital	Overseas	Brokerage	Asset Management	Others	Total
	(Rupees in '000)									
Profit & Loss										
Net mark-up/return/profit	(197,079)	13,611,402	5,633,022	11,781,327	-	1,773,556	(2,584)	2,266	(1,011,173)	31,590,737
Inter segment revenue - net	19,386,608	(9,028,965)	(637,417)	(10,397,516)	227,663	(164,375)	-	-	614,002	-
Non mark-up / return / interest income	4,024,840	742,075	1,019,851	3,365,155	399,326	252,940	126,438	469,881	735,307	11,133,813
Total Income	23,214,369	5,324,512	6,014,456	4,748,966	626,989	1,862,121	122,854	472,147	338,136	42,724,550
Segment direct expenses	10,468,834	682,250	3,030,761	407,791	777,182	966,713	210,044	261,171	7,971,068	24,775,814
Inter segment expense allocation	5,666,518	623,276	1,304,054	273,987	45,570	118,339	-	-	(8,031,744)	-
Total expenses	16,135,352	1,305,526	4,334,815	681,778	822,752	1,085,052	210,044	261,171	(60,676)	24,775,814
Reversal / (Provisions)	29,808	(212,267)	(299,265)	(72,649)	(54)	(33,766)	69	-	42,880	(545,334)
Profit before tax - continued operations	7,108,825	3,806,719	1,380,386	3,994,539	(195,817)	743,303	(87,121)	210,976	441,792	17,403,402
Profit before tax - discontinued operations										780,500

	Retail	CIBG	IBG	Treasury	Digital	Overseas	Brokerage	Asset Management	Others	Total
	(Rupees in '000)									
Balance Sheet										
Cash & Bank balances	54,448,024	11,605,738	12,358,256	2,438,440	334,892	5,099,305	82,792	4,693	(50,850)	86,319,280
Investments	840,704	694,426	22,896,107	221,983,048	-	29,434,619	33,571	720,915	2,626,341	279,251,731
Net inter segment lending	288,412,271	-	-	-	4,241,251	-	-	-	43,856,982	336,510,604
Lendings to financial institutions	-	-	17,986,558	33,315,352	-	10,870,377	-	-	-	62,172,267
Advances - performing	153,750,402	235,172,283	85,573,849	-	-	19,233,298	2,167	1,111	4,968,046	498,700,856
Advances - non-performing	366,716	1,453,002	262,226	-	-	132,738	-	-	724,189	2,938,871
Others	16,456,975	10,628,391	6,508,382	8,256,899	407,786	11,612,080	448,267	336,849	26,566,488	79,222,117
Total Assets	514,296,092	259,553,840	145,583,078	263,995,739	4,983,929	76,382,417	564,797	1,063,568	78,693,196	1,345,115,656
Borrowings	10,460,314	22,698,781	5,909,819	62,173,164	-	22,092,452	279,494	-	403,711	124,017,735
Subordinated debt	-	-	-	-	-	-	-	-	11,989,000	11,989,000
Deposits & other accounts	464,559,440	92,224,318	113,641,482	-	4,899,848	27,670,192	-	-	(48,168)	702,847,125
Net inter segment borrowing	-	135,169,568	-	201,340,936	-	-	-	-	-	336,510,604
Others	38,622,551	9,554,126	10,975,954	1,186,034	84,081	23,234,243	175,901	206,308	8,690,242	92,729,440
Total liabilities	513,642,305	259,646,793	130,427,255	264,700,134	4,983,929	72,996,887	455,395	206,308	21,034,798	1,268,093,804
Net Assets	652,787	(92,953)	15,155,823	(704,395)	-	3,385,530	109,402	857,260	57,658,396	77,021,852
Equity										77,021,852
Contingencies & Commitments	58,274,791	76,420,934	31,777,895	296,162,272	47,934	30,646,372	9,467	-	14,925,225	508,264,890

2017

	Retail	CIBG	IBG	Treasury	Digital	Overseas	Brokerage	Asset Management	Others	Total
	(Rupees in '000)									
Profit & Loss										
Net mark-up/return/profit	(216,573)	10,920,980	4,577,481	12,742,488	(188)	1,558,327	3,007	3,079	(605,129)	28,983,462
Inter segment revenue - net	14,343,074	(7,113,901)	(344,887)	(7,613,699)	169,124	(21,497)	-	-	581,786	-
Non mark-up / return / interest income	3,667,144	753,620	1,028,042	2,600,666	786,746	215,327	182,299	536,095	(7,852)	9,762,007
Total Income	17,793,645	4,560,699	5,260,636	7,729,455	955,672	1,752,157	185,306	539,174	(31,195)	38,745,549
Segment direct expenses	10,626,062	738,826	3,032,484	550,115	522,610	894,604	154,326	302,895	8,469,052	25,290,974
Inter segment expense allocation	5,532,064	731,403	1,482,405	641,985	67,292	143,679	-	-	(8,598,828)	-
Total expenses	16,158,126	1,470,229	4,514,889	1,192,100	589,902	1,038,283	154,326	302,895	(129,776)	25,290,974
Provisions	482,056	268,283	(89,234)	-	-	(44,675)	65	-	-	616,495
Profit before tax - continued operations	2,117,575	3,358,753	856,513	6,537,355	365,770	669,199	31,045	236,279	98,581	14,071,070
Profit before tax - discontinued operations										339,819

	Retail	CIBG	IBG	Treasury	Digital	Overseas	Brokerage	Asset Management	Others	Total
	(Rupees in '000)									
Balance Sheet										
Cash & Bank balances	43,181,802	7,712,857	10,392,888	7,251,880	466,248	5,107,704	244,665	7,119	(12,639)	74,374,534
Investments	1,195,021	713,213	37,914,192	333,926,476	-	24,598,438	42,626	571,438	2,780,994	401,742,398
Net inter segment lending	263,161,028	-	-	-	6,245,726	-	-	-	29,366,960	298,773,714
Lendings to financial institutions	-	-	30,891,460	11,846,536	-	6,155,832	-	-	-	48,895,828
Advances - performing	130,728,918	193,641,955	55,209,459	-	-	14,801,488	1,631	2,867	4,578,534	398,764,852
Advances - non-performing	987,923	342,551	395,716	-	-	44,679	-	-	124,201	1,895,070
Others	16,823,933	8,482,472	4,403,704	5,720,313	386,162	17,539,195	627,715	366,121	21,011,603	75,361,218
Total Assets	456,078,625	210,893,048	139,207,429	358,747,205	7,120,136	68,047,336	916,637	947,545	57,849,653	1,299,807,614
Borrowings	8,178,745	15,870,996	3,648,712	159,167,819	-	19,809,092	343,253	-	518,321	207,536,939
Subordinated debt	-	-	-	-	-	-	-	-	4,991,000	4,991,000
Deposits & other accounts	428,713,427	76,990,726	113,414,363	-	7,046,650	18,928,920	-	-	(167,002)	644,924,984
Net inter segment borrowing	-	103,588,014	-	195,185,700	-	-	-	-	-	298,773,714
Others	12,957,986	8,970,164	8,781,718	3,093,270	73,566	26,197,366	341,707	254,689	16,080,111	76,750,597
Total liabilities	449,850,159	205,419,900	125,844,793	357,446,789	7,120,136	64,933,378	684,960	254,689	21,422,430	1,232,977,234
Net Assets	6,228,466	5,473,148	13,362,636	1,300,416	-	3,113,958	231,677	692,856	36,427,223	66,830,380
Equity										66,830,380
Contingencies & Commitments	59,258,274	85,721,796	27,986,102	220,265,858	40,565	18,913,337	9,112	-	10,901,695	423,106,739

During the year, the Bank has classified Digital Banking as a separate reportable segment in a manner consistent with the internal reporting structure of the Bank. Segmented results are reported to the senior management of the Bank for the purpose of strategic decision making, resources, systems and infrastructure to be allocated to this segment and assess its performance.

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43.2 Segment details with respect to geographical locations

GEOGRAPHICAL SEGMENT ANALYSIS

2018

	Pakistan	Middle East	Bangladesh	Afghanistan - Held for Sale	Total
	(Rupees in '000)				
Profit & Loss					
Net mark-up/return/profit	29,617,180	1,174,718	598,839	-	31,390,737
Inter segment revenue - net	164,375	(133,243)	(31,132)	-	-
Non mark-up / return / interest income	10,880,873	247,111	5,829	-	11,133,813
Total Income	40,662,428	1,288,586	573,536	-	42,724,550
Segment direct expenses	23,809,101	887,639	278,874		24,775,614
Inter segment expense allocation	(118,339)	55,508	62,631	-	-
Total expenses	23,690,762	743,347	341,705	-	24,775,614
Provisions	(511,569)	(30,550)	(3,215)	-	(545,334)
Profit before tax - continued operations	16,660,097	514,689	228,616	-	17,403,402
Profit before tax - discontinued operations	-	-	-	780,500	780,500

	Pakistan	Middle East	Bangladesh	Afghanistan - Held for Sale	Total
	(Rupees in '000)				
Balance Sheet					
Cash and Bank balances	81,219,985	1,318,443	3,780,862	-	86,319,290
Investments	249,817,112	21,628,793	7,805,826	-	279,251,731
Net inter segment lendings	338,619,074	-	-	-	338,619,074
Lendings to financial institutions	51,301,911	5,477,860	5,392,528	-	62,172,287
Advances - performing	479,467,556	3,001,998	16,231,301	-	498,700,855
Advances - non-performing	2,806,134	-	132,738	-	2,938,872
Others	67,610,038	(4,589,655)	(5,423,764)	21,625,498	79,222,117
Total Assets	1,270,841,810	26,837,429	27,919,469	21,625,498	1,347,224,228
Borrowings	101,925,284	21,496,018	596,433	-	124,017,736
Subordinated debt	11,989,000	-	-	-	11,989,000
Deposits & other accounts	675,176,933	4,633,530	23,036,662	-	702,847,125
Net inter segment borrowing	338,619,074	-	-	-	338,619,074
Others	88,331,856	312,035	2,460,051	21,625,498	92,728,440
Total liabilities	1,196,042,147	26,441,583	26,093,146	21,625,498	1,270,202,374
Net Assets	74,799,663	395,846	1,826,343	-	77,021,852
Equity					77,021,852
Contingencies & Commitments	477,618,518	25,773,028	4,412,416	460,928	508,264,890

2017

	Pakistan	Middle East	Bangladesh	Afghanistan - Held for Sale	Total
	(Rupees in '000)				
Profit & Loss					
Net mark-up/return/profit	27,425,136	997,173	561,153	-	28,983,462
Inter segment revenue - net	21,497	(77,719)	56,222	-	-
Non mark-up / return / interest income	9,546,760	189,586	25,741	-	9,762,087
Total Income	36,993,393	1,109,040	643,116	-	38,745,549
Segment direct expenses	24,396,370	705,022	169,582	-	25,290,974
Inter segment expense allocation	(143,678)	116,846	26,832	-	-
Total expenses	24,252,692	821,868	216,414	-	25,290,974
Provisions	(661,141)	44,646	-	-	(616,495)
Profit before tax - continued operations	13,258,164	359,372	453,534	-	14,071,070
Profit before tax - discontinued operations				339,819	339,819

	Pakistan	Middle East	Bangladesh	Afghanistan - Held for Sale	Total
	(Rupees in '000)				
Balance Sheet					
Cash & Bank balances	69,266,830	4,025,789	1,081,915	-	74,374,534
Investments	377,143,960	6,440,353	18,158,085	-	401,742,398
Net inter segment lendings	298,773,714	-	-	-	298,773,714
Lendings to financial institutions	42,739,996	3,953,627	2,202,205	-	48,895,828
Advances - performing	384,362,262	12,810,576	1,790,912	-	398,963,750
Advances - non-performing	1,651,493	44,679	-	-	1,696,172
Others	57,822,023	(4,641,022)	(3,178,873)	25,356,090	75,361,218
Total Assets	1,231,760,278	22,634,002	20,057,244	25,356,090	1,299,807,614
Borrowings	187,727,847	1,720,215	18,088,877	-	207,536,939
Subordinated debt	4,991,000	-	-	-	4,991,000
Deposits & other accounts	625,998,064	17,821,761	1,105,159	-	644,924,984
Net inter segment borrowing	298,773,714	-	-	-	298,773,714
Others	50,551,642	1,478,839	41,774	24,678,342	76,750,597
Total liabilities	1,168,042,267	21,020,815	19,235,810	24,678,342	1,232,977,234
Net Assets	63,718,011	1,613,187	821,434	677,748	66,830,380
Equity					66,830,380
Contingencies & Commitments	404,193,402	13,331,876	4,479,300	1,102,161	423,106,739

44 TRUST ACTIVITIES

The Group 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.

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45 RELATED PARTY TRANSACTIONS

The Group has related party transactions with its parent, subsidiaries, associates, joint ventures, employee benefit plans and its directors and Key Management Personnel.

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

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

	As at Dec 31, 2018				As at Dec 31, 2017			
	Directors/ CEO	Key management personnel	Associates	Other related parties	Directors/ CEO	Key management personnel	Associates	Other related parties
	(Rupees in '000)				(Rupees in '000)			
Balances with other banks								
In current accounts	-	-	-	-	-	-	-	-
In deposit accounts	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Lendings to financial institutions								
Opening balance	-	-	-	1,500,000	-	-	-	-
Addition during the year	-	-	-	134,478,646	-	-	-	89,750,000
Repaid during the year	-	-	-	(135,978,646)	-	-	-	(88,250,000)
Closing balance	-	-	-	-	-	-	-	1,500,000
Investments								
Opening balance	-	-	3,213,322	1,317,808	-	-	3,263,590	2,579,489
Investment made during the year			330,829	464,122	-	-	2,134,593	1,819,585
Investment redeemed / disposed off during the year			(205,000)	(739,269)	-	-	(2,184,861)	(3,081,266)
Transfer in / (out) - net			422,461		-	-	-	-
Closing balance	-	-	3,761,612	1,042,661	-	-	3,213,322	1,317,808
Provision for diminution in value of investments	-	-	-	53,936	-	-	-	53,936
Advances								
Opening balance	-	460,291	-	7,591,327	79,130	351,335	-	8,040,236
Addition during the year	-	206,246	-	6,738,397	21,130	304,461	-	15,620,727
Repaid during the year	(6,068)	(98,964)	-	(8,301,259)		(155,958)	-	(14,149,786)
Transfer in / (out) - net	111,718	(116,198)	-	(2,673,956)	(100,260)	(39,547)	-	(1,919,850)
Closing balance	105,650	451,375	-	3,354,509	-	460,291	-	7,591,327
Provision held against advances	-	-	-	-	-	-	-	1,540,029
Other Assets								
Interest / mark-up accrued	5,507	42,368	-	47,013	-	43,725	-	577,813
Receivable from staff retirement fund	-	-	-	923,633	-	-	-	729,546
Prepayment / rent receivable	-	-	832	5,973	-	-	2,496	-
Profit Receivable on Sukuk	-	-	-	1,858	-	-	-	1,819
Advance against shares	-	-	-	50,000	-	-	-	-
Others	-	1,216	194,013	-	-	132	224,748	923
Borrowings								
Opening balance	-	-	-	502,800	-	-	-	-
Borrowings during the year	-	-	-	35,346,898	-	-	-	34,192,883
Settled during the year	-	-	-	(35,849,698)	-	-	-	(33,690,083)
Closing balance	-	-	-	-	-	-	-	502,800
Subordinated debt								
Opening balance	-	19,964	45,044	-	-	132,348	79,003	332,467
Redemption / Sold during the year	-	(19,964)	(45,044)	-	-	(112,384)	(33,959)	(332,467)
Closing balance	-	-	-	-	-	19,964	45,044	-
Deposits and other accounts								
Opening balance	6,275	161,264	1,509,741	4,178,991	10,201	164,506	1,031,657	8,663,180
Received during the year	206,294	1,444,556	33,685,682	82,662,966	302,823	1,695,068	56,650,035	111,897,086
Withdrawn during the year	(205,130)	(1,422,088)	(34,138,684)	(87,189,777)	(197,410)	(1,348,180)	(56,171,951)	(115,305,412)
Transfer in / (out) - net	-	10,459	-	3,565,601	(109,339)	(350,130)	-	(1,075,872)
Closing balance	7,439	194,191	1,056,739	3,217,781	6,275	161,264	1,509,741	4,178,991
Other Liabilities								
Interest / mark-up payable	11	1,960	7,446	11,918	-	1,448	7,945	40,025
Unearned rent		-	-	-	-	-	8,936	-
Others	-	2,085	9,656	3,961	-	8,070	844	-
Contingencies and Commitments								
Other contingencies	-	-	162,468	-	-	-	129,188	2,589,842

	For the year ended Dec 31, 2018				For the year ended Dec 31, 2017			
	(Rupees in '000)				(Rupees in '000)			
Income								
Mark-up / return / interest earned	5,507	16,963	-	478,686	2,319	22,197	-	452,954
Fee and commission income	-	-	-	-	-	-	-	-
Dividend income	-	-	219,000	2,109	-	-	-	9,481
Net gain on sale of securities	-	-	-	5,676	-	-	323,375	-
Other income	-	3,180	429,357	21,231	-	2,027	508,862	18,608
Expense								
Mark-up / return / interest paid	20	4,536	55,367	192,261	119	19,668	79,015	274,682
Other operating expenses	108,887	994,463	-	666,599	494,135	1,356,377	-	983,646
Provision / (Reversal) against non-performing advances and investments	-	-	-	-	-	-	-	-
Others	-	-	89,216	-	-	-	86,776	(3,025)
Dividend paid	640,921	11,584	5,454	1,538,460	-	-	-	-
Insurance premium paid	-	-	497,497	-	-	-	505,826	-
Insurance claims settled	-	-	310,344	-	-	-	321,392	-

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46 CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

	2018	2017
	-------(Rupees in 000)-------	
Minimum Capital Requirement (MCR):		
Paid-up capital (net of losses)	17,743,629	16,075,720
Capital Adequacy Ratio (CAR):		
Eligible Common Equity Tier 1 (CET 1) Capital	60,698,276	54,227,146
Eligible Additional Tier 1 (ADT 1) Capital	6,833,728	-
Total Eligible Tier 1 Capital	67,532,004	54,227,146
Eligible Tier 2 Capital	15,263,399	12,140,824
Total Eligible Capital (Tier 1 + Tier 2)	82,795,402	66,367,970
Risk Weighted Assets (RWAs):		
Credit Risk	493,307,386	431,830,731
Market Risk	2,783,950	3,703,163
Operational Risk	61,403,300	62,020,163
Total	557,494,636	497,554,057
Common Equity Tier 1 Capital Adequacy ratio	10.89%	10.90%
Tier 1 Capital Adequacy Ratio	12.11%	10.90%
Total Capital Adequacy Ratio	14.85%	13.34%

In line with Basel III Capital Adequacy guidelines, following capital requirements are applicable to the Bank:

	2018	2017
Common Equity Tier 1 Capital Adequacy ratio	6.00%	6.00%
Tier 1 Capital Adequacy Ratio	7.50%	7.50%
Total Capital Adequacy Ratio	11.90%	11.28%

For Capital adequacy calculation, Bank has adopted Standardized Approach for Credit & Market Risk related exposures and Alternate Standardized Approach (ASA) for operational risk.

	2018	2017
Leverage Ratio (LR):		
Eligible Tier-1 Capital	67,532,004	54,227,146
Total Exposures	1,187,539,074	1,322,273,942
Leverage Ratio	5.69%	4.10%
Liquidity Coverage Ratio (LCR):		
Total High Quality Liquid Assets	252,703,051	234,488,065
Total Net Cash Outflow	162,363,261	165,803,247
Liquidity Coverage Ratio	156%	141%
Net Stable Funding Ratio (NSFR):		
Total Available Stable Funding	630,592,999	555,280,073
Total Required Stable Funding	472,759,179	405,154,261
Net Stable Funding Ratio	133%	137%

46.1 The full disclosures on the Capital Adequacy, Leverage Ratio & Liquidity Requirements as per SBP instructions has been placed on the website. The link to the full disclosure is available at https://www.bankalfalah.com/financial-reports/.

47 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 supervise risk management activities within their respective scopes. CMC has further established sub-committees such as Assets & Liabilities Committee (ALCO), Investment Committee, Information Technology Steering Committee (ITSC), Internal Control & Compliance Committee (ICCC) and Process Improvement Committee (PIC).

The risk management framework endeavors 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, Credit Risk Systems and Environment and Social Risk.

47.1 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 &

For Domestic operations, Bank determines the amount for Specific & General provisions are held as per the Prudential Regulations issued by the State Bank of Pakistan (SBP). Provisions at overseas branches are held to meet the requirements of regulatory authorities of the respective countries in which overseas branches operates.

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 expected 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 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

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' behavior, 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.

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47.1.1 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.

47.1.2 Disclosures for portfolio subject to the Standardised Approach & Supervisory risk weights

47.1.2.1 External ratings

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

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.

47.1.3 Disclosures with respect to Credit Risk Mitigation for Standardised Approach

47.1.3.1 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.

47.1.3.2 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.

47.1.3.3 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.

47.1.3.4 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 also 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.

47.1.3.5 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). Concentration in customers that are rated in high risk category is also monitored against the approved appetite set by the management.

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

47.1.4 ***Lendings to financial institutions***

Credit risk by public / private sector

	Gross lendings		Non-performing lendings		Provision held	
	2018	2017	2018	2017	2018	2017
	(Rupees in '000)					
Public/ Government	-	-	-	-	-	-
Private	62,172,287	48,895,828	-	-	-	-
	62,172,287	48,895,828	-	-	-	-

47.1.5 ***Investment in debt securities***

Credit risk by industry sector

	Gross investments		Non-performing investments		Provision held	
	2018	2017	2018	2017	2018	2017
	(Rupees in '000)					
Textile	167,888	173,520	167,888	173,520	167,888	173,520
Chemical and Pharmaceuticals	606,732	617,638	606,732	617,638	606,732	617,638
Electronics and electrical appliances	1,785	2,185	1,785	2,185	1,785	2,185
Power (electricity), Gas, Water, Sanitary	7,154,912	7,062,456	-	-	-	-
Transport, Storage and Communication	848,367	1,357,832	281,700	224,498	281,700	224,498
Financial	613,756	469,302	63,776	79,361	63,776	79,361
	9,393,440	9,682,933	1,121,881	1,097,202	1,121,881	1,097,202

Credit risk by public / private sector

	Gross investments		Non-performing investments		Provision held	
	2018	2017	2018	2017	2018	2017
	(Rupees in '000)					
Public/ Government	6,964,682	6,807,539	-	-	-	-
Private	2,428,758	2,875,394	-	1,097,202	-	1,097,202
	9,393,440	9,682,933	-	1,097,202	-	1,097,202

47.1.6 ***Advances***

Credit risk by industry sector

	Gross advances		Non-performing advances		Provision held	
	2018	2017	2018	2017	2018	2017
	(Rupees in '000)					
Agriculture, Forestry, Hunting and Fishing	52,389,474	32,080,952	236,973	235,231	124,732	150,350
Automobile and transportation equipment	10,413,594	7,856,545	1,000,864	996,428	376,148	367,279
Cement	13,051,710	8,187,225	-	-	-	-
Chemical and Pharmaceuticals	21,724,564	17,746,542	822,917	845,938	822,917	830,271
Construction	7,857,587	1,995,896	511,397	118,291	511,397	117,291
Electronics and electrical appliances	10,718,745	9,876,062	130,474	146,684	130,474	146,684
Exports / Imports	8,423,173	6,337,714	715,315	733,558	647,563	682,557
Financial	9,628,594	6,611,404	926,031	951,150	926,031	951,150
Food & Allied Products	47,322,246	31,504,922	2,367,089	687,555	2,145,133	669,842
Footwear and Leather garments	2,050,714	2,271,226	203,343	180,212	183,840	171,187
Individuals	48,262,008	42,018,970	788,404	870,257	640,429	703,030
Insurance	9,505	14,575	-	-	-	-
Metal & Allied industries	16,961,641	10,717,131	635,651	754,329	635,360	744,349
Mining and Quarrying	2,319,851	1,558,348	-	-	-	-
Oil and Allied	15,091,286	6,477,959	-	635,574	-	635,574
Others	35,544,447	26,114,688	1,094,676	1,100,531	864,097	836,627
Power (electricity), Gas, Water, Sanitary	79,868,350	66,719,696	1,157,905	-	289,476	-
Services	6,824,348	14,523,265	94,578	477,503	82,733	477,503
Sugar	11,627,623	9,961,647	841,130	3,608	372,009	3,166
Textile	93,676,552	71,480,957	3,630,707	3,834,443	3,617,203	3,554,234
Transport, Storage and Communication	6,587,342	8,592,228	1,788,981	1,788,981	1,788,981	1,788,981
Wholesale & Retail Trade	18,044,357	34,533,980	1,877,105	3,219,838	1,826,156	2,854,966
	518,397,711	417,181,932	18,823,540	17,580,111	15,684,669	15,685,041

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Credit risk by public / private sector

	Gross advances		Non-performing advances		Provision held	
	2018	2017	2018	2017	2018	2017
	---(Rupees in '000)---					
Public/ Government	98,240,545	67,044,059	-	-	-	-
Private	420,157,166	350,137,873	18,823,540	17,580,111	15,884,669	15,685,041
	518,397,711	417,181,932	18,823,540	17,580,111	15,884,669	15,685,041

47.1.7 ***Contingencies and Commitments***

Credit risk by industry sector

	2018	2017
	---(Rupees in 000)---	
Agriculture, Forestry, Hunting and Fishing	544,423	271,048
Automobile and transportation equipment	3,199,346	4,625,145
Cement	475,659	2,509,863
Chemical and Pharmaceuticals	3,802,147	3,992,081
Construction	4,333,141	6,243,762
Electronics and electrical appliances	1,816,994	1,867,320
Exports / Imports	5,048,665	4,530,444
Financial	17,923,587	22,038,188
Food & Allied Products	7,599,602	5,260,610
Footwear and Leather garments	176,289	401,764
Individual	219,896	323,676
Insurance	66,831	97,548
Metal & Allied industries	343,183	9,845,722
Mining and Quarrying	3,922,471	74,011
Oil and Allied	586,390	9,636,992
Others	30,749,298	20,739,714
Power (electricity), Gas, Water, Sanitary	7,283,152	5,648,391
Services	882,925	11,079,370
Sugar	431,895	707,252
Textile	22,378,081	16,964,787
Transport, Storage and Communication	3,354,176	3,860,401
Wholesale and Retail Trade	9,874,261	7,011,479
	125,112,423	137,950,168

Credit risk by public / private sector

	2018	2017
Public/ Government	14,722,902	27,669,599
Private	110,389,521	110,280,569
	125,112,423	137,950,168

47.1.8 **Concentration of Advances**

The bank top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs 136.994 million (2017 : 100.748 million) are as following:

	2018	2017
Funded	119,953,989	68,344,569
Non Funded	17,039,556	32,403,343
Total Exposure	136,993,545	100,747,912

The sanctioned limits against these top 10 exposures aggregated to Rs 191.245 Million (prior year: 153.992 Million)

Total funded classified therein

	2018		2017	
	Amount	Provision held	Amount	Provision held
	---(Rupees in '000)---			
OAEM	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	5,358	5,358
Total	Nil	Nil	5,358	5,358

For the purpose of this note, exposure means outstanding funded facilities and utilised non-funded facilities as at the reporting date.

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47.1.9 **Advances - Province/Region-wise Disbursement & Utilization**

Province/Region	2018							
		Utilization						
	Disbursements	Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan
Punjab	1,011,452	998,920	5,379	65	1	7,048	39
Sindh	728,309	3,368	724,768	0	19	135	-
KPK including FATA	17,504	-	-	17,149	-	355	-
Balochistan	3,594	-	-	-	3,594	-	-
Islamabad	75,964	9,032	-	188	116	66,628	-
AJK including Gilgit-Baltistan	574	-	-	-	-	-	574
Total	1,837,397	1,011,320	730,167	17,402	3,730	74,167	613

Province/Region	2017						
		Utilization					
	Disbursements	Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan
Punjab	785,870	785,870	-	-	-	-	-
Sindh	695,396	-	695,396	-	-	-	-
KPK including FATA	15,813	-	-	15,813	-	-	-
Balochistan	2,372	-	-	-	2,372	-	-
Islamabad	50,006	-	-	-	-	50,006	-
AJK including Gilgit-Baltistan	872	-	-	-	-	-	872
Total	1,550,329	785,870	695,396	15,813	2,372	50,006	872

47.2 **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 comprehensive Board approved Market & Liquidity Risk Management Policy, is in place. The policy outlines a well-defined risk control structure, responsibilities of relevant stakeholders with respect to market risk management and methods to measure and control market risk 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.

Under the BoD approved policy, 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. Furthermore, the Bank carries out risk assessment via diversified tools including Value at Risk (VaR), PV01 (price value per basis point) and Duration on a regular basis. The Bank also ascertains the impact of market risk on relevant factors through stress testing and Internal Capital Adequacy Assessment processes.

47.3 **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. FX risk is mainly managed through matched positions. Unmatched positions are covered substantially through derivative instruments such as forwards and swaps.

The Bank also manages FX risk by setting and monitoring dealer and currency-wise limits. 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. Risk Assessment with respect to FX risk is also conducted on a regular basis through VaR analysis .

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

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

	2018				2017			
	Foreign Currency Assets	Foreign Currency Liabilities	Off-balance sheet items	Net foreign currency exposure	Foreign Currency Assets	Foreign Currency Liabilities	Off-balance sheet items	Net foreign currency exposure
	----(Rupees in '000)----				----(Rupees in '000)----			
United States Dollar	72,109,056	117,349,741	45,325,354	84,669	61,529,055	80,687,137	20,318,024	1,159,942
Great Britain Pound Ster	2,339,753	5,093,350	2,760,223	6,626	1,659,845	5,457,565	3,808,651	10,931
Euro	2,332,247	4,132,522	1,813,236	12,961	189,571	198,056	12,024	3,539
Japanese Yen	315	1,400	3,908	2,823	2,409,902	5,286,262	2,881,809	5,449
Other currencies	30,918,270	30,990,150	75,877	3,997	27,848,884	27,844,252	3,531	8,163
	107,699,641	157,567,163	49,978,598	111,076	93,637,257	119,473,272	27,024,039	1,188,024

	2018		2017	
	Banking book	Trading book	Banking book	Trading book
	----(Rupees in '000)----			
Impact of 1% change in foreign exchange rates on				
- Profit and loss account	-	1,111	-	11,880
- Other comprehensive income	-	-	-	-

47.3.1 Balance sheet split by trading and banking books

	2018			2017		
	Banking book	Trading book	Total	Banking book	Trading book	Total
	----(Rupees in '000)----					
Cash and balances with treasury banks	82,407,736	-	82,407,736	70,381,480	-	70,381,480
Balances with other banks	3,911,554	-	3,911,554	3,993,054	-	3,993,054
Lendings to financial institutions	62,172,287	-	62,172,287	48,895,828	-	48,895,828
Investments	231,719,116	47,532,615	279,251,731	378,942,516	22,799,882	401,742,398
Advances	501,639,727	-	501,639,727	400,659,922	-	400,659,922
Fixed assets	18,317,042	-	18,317,042	16,198,902	-	16,198,902
Intangible assets	1,317,271	-	1,317,271	1,508,765	-	1,508,765
Deferred tax assets	-	-	-	-	-	-
Non current assets held for sale	23,589,489	-	23,589,489	26,821,724	-	26,821,724
Other assets	35,998,315	-	35,998,315	30,831,827	-	30,831,827
	961,072,537	47,532,615	1,008,605,152	978,234,018	22,799,882	1,001,033,900

47.3.2 Equity position Risk

Equity position risk arises due to adverse movements in the prices of equities and instruments exhibiting behavior similar to equities 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.

	2018		2017	
	Banking book	Trading book	Banking book	Trading book
	----(Rupees in '000)----			
Impact of 5% change in equity prices on				
- Profit and loss account	-	(6,691)	-	(1,357)
- Other comprehensive income	(520,838)	-	(290,281)	-

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47.4 Yield / Interest Rate Risk in the Banking Book (IRRBB)-Basel II Specific

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, liabilities and off-balance sheet interest sensitive instruments within a certain range of maturity or 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 1bp) limits to manage interest rate risk within the Board approved risk appetite. Treasury and Capital Markets 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 Department 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.

- The increase (decline) in earnings or economic value (or any other relevant measures used by management) for upward and downward shocks according to management's method for measuring IRRBB, broken down by currencies (if any, and than translated into Rupees)

	2018 Banking book	2018 Trading book	2017 Banking book	2017 Trading book
	(Rupees in '000)			
Impact of 1% change in interest rates on				
- Profit and loss account	(1,100)	(450)	(576)	(206)
- Other comprehensive income	-	-	-	-

47.4.1 Mismatch of Interest Rate Sensitive Assets and Liabilities

2018

	Effective Yield/ Interest rate	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	Non-interest bearing financial instruments
			Exposed to Yield/ Interest risk (Rupees in '000)									
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.10%	82,407,736	11,676,690	-	-	-	-	-	-	-	-	70,731,046
Balances with other banks	1.84%	3,911,554	1,258,476	-	-	-	-	-	-	-	-	2,653,078
Lending to financial institutions	7.14%	62,172,287	52,042,895	10,029,428	99,964	-	-	-	-	-	-	-
Investments	6.71%	279,251,731	128,906,851	63,267,090	15,772,057	9,143,014	12,359,429	17,690,441	11,207,473	8,800,389	15,227	12,312,560
Advances	7.87%	501,639,727	207,222,868	125,400,759	103,271,140	39,060,743	1,164,652	1,837,447	4,615,934	12,008,747	3,903,249	2,934,970
Assets held for sale		23,589,489	-	-	-	-	-	-	-	-	-	23,589,489
Other assets		31,623,161	-	-	-	-	-	-	-	-	-	31,623,161
		984,595,705	401,106,195	198,697,277	119,143,161	48,203,757	13,524,081	19,527,888	16,823,407	20,809,136	3,918,476	143,844,324
Liabilities												
Bills payable		35,988,225	-	-	-	-	-	-	-	-	-	35,988,225
Borrowings	4.51%	124,017,735	87,993,062	33,283,177	10,646,801	252,736	39,040	327,020	2,104,452	9,171,447	200,000	-
Deposits and other accounts	2.96%	702,847,125	296,478,074	58,002,036	28,514,531	16,937,603	703,523	1,760,408	113,074	4,130	425,800	299,507,896
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Subordinated debt	8.39%	11,989,000	-	11,989,000	-	-	-	-	-	-	-	-
Liabilities directly associated with the assets held for sale		20,436,396	-	-	-	-	-	-	-	-	-	20,436,396
Other liabilities		31,417,410	-	-	-	-	-	-	-	-	-	31,417,410
		926,694,891	384,471,136	103,274,213	39,161,332	17,190,339	742,563	2,087,428	2,217,506	9,175,577	625,800	387,349,927
On-balance sheet gap		57,900,814	16,635,059	95,423,064	79,981,829	31,013,418	12,781,518	17,440,460	13,605,901	11,633,559	3,292,676	(243,504,603)
Off-balance sheet financial instruments												
Documentary credits and short-term trade-related transactions		126,112,423	14,336,517	36,167,697	34,051,382	21,663,429	6,242,240	1,234,234	8,820,083	475,761	1,066,969	-
Commitments in respect of												
- Forward exchange contracts - purchase		140,128,603	68,918,857	58,046,790	12,782,828	340,128	-	-	-	-	-	-
- Forward exchange contracts - sale		88,136,761	48,295,780	26,788,586	12,632,879	419,516	-	-	-	-	-	-
- Interest Rate Swaps - receipts		10,650,708	1,944,067	8,359,484	347,155	-	-	-	-	-	-	-
- Interest Rate Swaps - payments		10,650,708	-	-	3,640,976	1,624,684	1,388,619	1,595,812	1,110,895	1,388,620	-	-
- Futures - sale		1,400,383	-	1,400,383	-	-	-	-	-	-	-	-
Off-balance sheet gap		179,703,482	36,952,781	74,424,904	31,067,586	18,959,448	4,853,621	(362,678)	8,709,188	(908,859)	1,066,969	-
Total Yield/Interest Risk Sensitivity Gap			73,187,803	170,047,918	110,989,337	50,972,866	17,635,139	17,077,782	22,315,089	10,523,700	4,359,665	(243,504,603)
Cumulative Yield/Interest Risk Sensitivity Gap			73,187,803	243,235,721	354,225,058	405,197,924	422,833,063	439,910,845	462,225,934	472,749,634	477,109,299	233,604,696

2017

	Effective Yield/ Interest rate	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	Non-interest bearing financial instruments
			Exposed to Yield/ Interest risk (Rupees in '000)									
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.02%	70,381,480	7,553,785	-	-	-	-	-	-	-	-	62,827,695
Balances with other banks	1.53%	3,993,054	324,390	853,440	-	-	-	-	-	-	-	2,815,224
Lending to financial institutions	5.78%	48,895,628	30,693,824	16,031,622	2,170,182	-	-	-	-	-	-	-
Investments	6.83%	401,742,398	88,286,210	142,701,377	26,814,457	24,753,061	43,882,519	25,299,396	33,859,355	6,300,078	290,689	9,655,078
Advances	7.26%	400,659,922	174,725,255	85,137,877	80,788,187	26,482,451	1,890,872	1,810,295	8,019,137	17,836,363	3,747,465	442,040
Assets held for sale		26,621,724	-	-	-	-	-	-	-	-	-	26,621,724
Other assets		28,921,966	-	-	-	-	-	-	-	-	-	28,921,966
		981,416,372	301,583,464	244,724,516	109,752,806	51,235,512	45,373,391	27,109,691	41,878,492	24,136,441	4,038,334	131,483,725
Liabilities												
Bills payable		20,882,970	-	-	-	-	-	-	-	-	-	20,882,970
Borrowings	4.92%	207,538,939	133,022,868	40,275,497	9,265,919	17,784,270	47,439	114,330	903,120	6,143,698	-	-
Deposits and other accounts	2.60%	644,924,984	240,600,347	51,264,080	67,373,239	16,091,928	610,096	306,949	82,329	-	-	268,396,016
Subordinated debt	8.77%	4,991,000	-	4,991,000	-	-	-	-	-	-	-	-
Liabilities directly associated with the assets held for sale		24,759,096	-	-	-	-	-	-	-	-	-	24,759,096
Other liabilities		26,790,871	-	-	-	-	-	-	-	-	-	26,790,871
		929,885,860	373,823,013	96,530,577	76,639,158	33,856,198	657,535	421,279	985,449	6,143,698	-	340,828,953
On-balance sheet gap		51,530,512	(72,239,549)	148,193,939	33,113,648	17,379,314	44,715,856	26,688,412	40,893,043	17,992,743	4,038,334	(209,345,228)
Off-balance sheet financial instruments												
Documentary credits and short-term trade-related transactions		137,950,168	22,967,038	38,820,408	41,789,096	20,807,234	5,465,941	721,083	488,565	6,640,502	270,301	-
- 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	8,200,858	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		166,412,508	43,996,114	56,523,941	39,485,137	21,686,678	961,665	(383,089)	(1,664,570)	5,536,329	270,301	-
Total Yield/Interest Risk Sensitivity Gap			(28,243,435)	204,717,880	72,598,785	39,065,992	45,677,521	26,305,323	39,328,473	23,529,072	4,308,635	(209,345,228)
Cumulative Yield/Interest Risk Sensitivity Gap			(28,243,435)	176,474,445	249,073,230	288,139,222	333,816,743	360,122,066	399,450,538	422,979,611	427,288,246	217,943,018

47.4.2 Reconciliation of Assets and Liabilities exposed to yield / interest rate risk with Total Assets and Liabilities

	2018	2017
	(Rupees in 000)	
Total financial assets as per note 47.4.1	984,595,705	981,416,372
Add: Non financial assets		
Operating fixed assets	18,317,042	16,198,902
Intangibles	1,317,271	1,508,765
Other assets	4,375,134	1,909,861
Total assets as per statement of financial position	1,008,605,152	1,001,033,900
Total financial liabilities as per note 47.4.1	926,694,891	929,885,860
Add: Non financial liabilities		
Deferred tax liabilities	2,500,097	3,443,012
Other liabilities	2,388,312	874,648
Total liabilities as per statement of financial position	931,583,300	934,203,520

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47.5 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.

47.5.1 Operational Risk Disclosures - Basel II Specific

Bank Alfalah Limited is among the first few banks to secure SBP 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.

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, procedures and systems 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 are in place which 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

47.5.2 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, Security solutions selection, and acquisition including vendor and/or service provider selection managed by IT Security in close coordination with ITG and procurement/central administration, monitoring of threats and vulnerabilities though Security Operations Centre(24/7), 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 Board IT Committee(BITC) /ITSC/Board.

47.5.3 Environmental & Social Risk Management Unit

Initiative to integrate sustainable finance approach in credit evaluation and approval process. Being a responsible corporate citizen wherever the Holding company operates, it has an integrated sustainable finance approach in its lending activities. In this regard, Green Banking Policy and 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 under 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 E&S Unit is responsible for identifying, vetting and approving projects from an Environmental & Social Management Risk (ESRM) perspective.

47.5.4 Credit Risk

This unit is primarily responsible for development and management of Credit Risk Systems including Credit Initiation & Internal Rating System (CIIRS) and its related modules like Bank Alfalah CAR Calculator (BACK). It also supports other credit related automation & optimization initiatives like eCIB automation and Credit Decision engine for Consumer Finance Group as desired by Management from time to time.

47.5.5 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 country's willingness to honour its 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.

47.6 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, 2018 numbers Bank's LCR is 1.42 or 142% against SBP minimum requirement of 100%, with Total Stock of High Quality Liquid Assets (HQLA) of PKR 281,732.849 million and Net Cash Outflows of PKR 198,337.514 million.

Moreover, under the same circular the Banks are expected to calculate Net Stable Funding Ratio (NSFR) on quarterly basis. Based on December 31, 2018 numbers Bank Alfalah's NSFR is 133% against SBP minimum requirement of 100%, with Total Available Stable Funding of PKR 630,592.999 million and Total Required Stable Funding of PKR 472,759.178 million.

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 day 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, Sub-ordinated loans, 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 showcases the composition of HQLA as of December 31, 2018.

HQLA*	Market Value	Weighted Amount
	-------(Rupees in 000)-------	
Level 1 Assets	279,406,840	279,406,840
Level 2A Assets	-	-
Level 2B Assets	4,652,019	2,326,009
	284,058,859	**281,732,849**

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

47.6.1 Maturities of Assets and Liabilities - based on contractual maturity of the assets and liabilities of the Bank

2018

	Total	Upto 1 Day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 Month	Over 1 to 2 Months	Over 2 to 3 Months	Over 3 to 6 Months	Over 6 to 9 Months	Over 9 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 Years	Over 5 Years
	(Rupees in '000)													
Assets														
Cash and balances with treasury banks	82,407,736	67,094,237	190,428	222,166	507,807	2,166,994	2,166,994	1,200,626	563,513	563,513	1,723,748	427,240	854,480	4,726,991
Balances with other banks	3,911,554	2,201,026	-	830,642	879,886	-	-	-	-	-	-	-	-	-
Lending to financial institutions	62,172,287	926,456	42,799,027	3,504,659	5,328,416	5,917,382	3,596,347	100,000	-	-	-	-	-	-
Investments	279,251,731	4,347,586	28,085,500	30,433,084	69,561,334	26,707,504	26,715,251	4,488,037	4,665,257	4,665,257	13,093,596	18,629,274	11,557,473	38,302,679
Advances	501,639,727	6,644,077	50,692,438	59,693,789	140,916,128	21,431,194	23,470,214	30,990,352	11,769,670	3,732,037	20,361,623	21,672,036	45,062,867	63,203,302
Fixed assets	18,317,042	2,882	17,291	20,173	46,109	86,457	86,457	558,516	259,369	259,369	1,037,475	1,037,475	1,926,969	12,978,600
Intangible assets	1,317,271	714	4,278	4,991	11,409	21,392	21,392	64,176	64,176	64,176	256,703	266,703	547,161	-
Assets held for sale	23,589,489	-	-	-	-	-	-	23,589,489	-	-	-	-	-	-
Other assets	35,998,316	13,918,129	3,720,170	4,193,452	9,581,862	309,548	309,548	600,767	420,954	970,083	1,014,798	239,751	359,627	359,626
	1,008,605,152	97,135,107	123,509,132	98,902,955	226,832,951	56,640,471	56,366,203	61,591,963	17,742,939	10,254,435	37,487,942	42,262,479	60,308,577	119,569,998
Liabilities														
Bills payable	35,988,225	26,153,488	2,053,343	2,436,363	5,345,031	-	-	-	-	-	-	-	-	-
Borrowings	124,017,736	596,433	45,403,464	14,370,099	8,120,622	10,297,866	22,519,512	11,177,036	4,671	11,384	28,077	109,373	1,896,403	9,482,795
Deposits and other accounts	702,847,126	531,919,722	16,037,857	10,650,377	29,669,741	31,404,200	28,000,754	20,286,145	10,556,873	6,913,238	1,036,000	2,010,619	8,649,385	6,712,317
Subordinated debt	11,989,000	-	-	-	-	-	-	1,000	-	1,000	2,000	4,986,000	-	7,000,000
Deferred tax liabilities	2,500,097	-	-	-	-	-	-	-	2,500,097	-	-	-	-	-
Liabilities directly associated with the assets held for sale	20,435,396	-	-	-	-	-	-	20,435,396	-	-	-	-	-	-
Other liabilities	33,805,722	13,657,386	2,028,720	2,366,839	5,409,919	367,792	367,792	1,077,234	2,014,723	2,390,677	1,146,389	1,009,361	1,968,900	-
	931,583,300	572,327,029	64,523,384	29,823,678	48,545,313	42,069,858	50,888,058	52,976,811	15,076,364	9,316,296	2,212,466	8,114,243	12,514,688	23,195,112
Net assets	77,021,852	(475,191,922)	58,985,748	69,079,277	178,287,638	14,570,613	5,478,146	8,615,152	2,666,575	938,139	35,275,476	34,148,236	47,793,889	96,374,886
Share capital/ Head office capital account	17,743,629													
Reserves	23,050,754													
Unappropriated/ Unremitted profit	28,323,585													
Surplus/(Deficit) on revaluation of assets	7,389,127													
Non-controlling interest	514,757													
	77,021,852													

2017

	Total	Upto 1 Day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 Month	Over 1 to 2 Months	Over 2 to 3 Months	Over 3 to 6 Months	Over 6 to 9 Months	Over 9 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 Years	Over 5 Years
	(Rupees in '000)													
Assets														
Cash and balances with treasury banks	70,381,480	15,015,440	2,974,556	6,444,871	5,453,352	1,643,989	1,643,989	2,132,155	1,757,579	1,757,579	5,066,636	1,321,047	9,350,709	15,819,578
Balances with other banks	3,993,054	3,635,937	-	-	-	161,819	195,298	-	-	-	-	-	-	-
Lending to financial institutions	48,895,828	-	11,058,477	5,895,996	13,510,902	12,283,337	3,946,136	2,200,980	-	-	-	-	-	-
Investments	401,742,398	38	38,519,444	-	53,326,714	40,433,881	98,207,048	539,302	30,393,233	20,226,275	40,923,108	26,401,220	36,194,308	18,577,827
Advances	400,659,922	5,331,515	31,989,092	37,320,607	85,304,245	25,345,513	25,345,513	31,359,658	5,668,236	5,668,236	11,217,483	34,402,200	44,510,242	57,197,382
Fixed assets	16,198,902	3,125	18,756	21,883	50,017	93,783	93,783	281,348	281,348	281,348	1,125,392	1,125,392	2,054,489	10,768,238
Intangible assets	1,508,765	819	4,908	5,725	13,087	24,538	24,538	73,613	73,613	73,613	294,454	294,454	625,403	-
Assets held for sale	26,821,724	-	-	-	-	26,821,724	-	-	-	-	-	-	-	-
Other assets	30,831,827	709,028	2,903,724	3,390,772	7,743,264	11,368,263	113,828	341,485	882,162	1,527,440	986,731	216,260	324,390	324,480
	1,001,033,900	24,695,902	85,468,957	53,079,854	165,401,581	118,176,847	129,570,133	36,928,541	39,056,171	29,534,491	59,613,804	63,760,573	93,059,541	102,687,505
Liabilities														
Bills payable	20,882,970	8,836,500	2,492,373	2,907,769	6,646,328	-	-	-	-	-	-	-	-	-
Borrowings	207,536,939	1,725,125	116,535,423	3,892,107	9,968,554	30,586,521	10,680,357	9,125,464	15,734,378	2,039,273	47,465	106,831	897,902	6,197,539
Deposits and other accounts	644,924,984	504,807,179	3,849,853	7,457,507	23,105,009	16,679,234	35,021,395	24,292,864	11,207,869	8,668,434	1,572,028	885,774	12,476	7,365,342
Subordinated debt	4,991,000	-	-	-	-	1,000	-	-	1,000	-	2,000	2,000	4,985,000	-
Deferred tax liabilities	3,443,012	-	-	-	-	-	-	-	3,443,012	-	-	-	-	-
Liabilities directly associated with the assets held for sale	24,759,096	-	-	-	-	24,759,096	-	-	-	-	-	-	-	-
Other liabilities	27,665,519	338,786	2,032,722	2,371,510	5,420,593	9,303,613	335,568	1,070,684	1,464,259	2,067,049	815,184	815,184	1,630,367	-
	934,203,520	515,707,590	124,910,371	16,628,893	45,140,484	81,329,464	46,037,320	34,489,012	31,850,538	12,774,756	2,436,677	1,809,789	7,525,745	13,562,881
Net assets	66,830,380	(491,011,688)	(39,441,414)	36,450,961	120,261,097	36,847,383	83,532,813	2,439,529	7,205,633	16,759,735	57,177,127	61,950,784	85,533,796	89,124,624
Share capital/ Head office capital account	16,075,720													
Reserves	18,156,669													
Unappropriated/ Unremitted profit	24,865,838													
Surplus/(Deficit) on revaluation of assets	7,309,372													
Non-controlling interest	422,781													
	66,830,380													

Current and Saving deposits have been classified under maturity upto one day 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.

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

	2018									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	82,407,736	39,877,495	6,575,778	2,943,841	2,010,558	2,010,558	6,507,610	1,691,025	3,253,846	17,537,025
Balances with other banks	3,911,554	3,911,554	-	-	-	-	-	-	-	-
Lending to financial institutions	62,172,287	52,558,559	9,513,728	100,000	-	-	-	-	-	-
Investments	279,251,731	56,109,673	118,413,884	4,299,773	17,969,856	2,402,243	15,610,239	22,022,560	3,459,577	38,963,926
Advances	501,639,727	259,946,433	44,901,407	30,990,352	11,769,670	3,732,037	20,361,623	21,672,036	45,066,142	63,200,027
Fixed assets	18,317,042	86,455	172,913	558,516	518,738	1,037,476	1,037,475	1,926,969	2,846,929	10,131,572
Intangible assets	1,317,271	21,392	42,784	64,176	128,352	256,703	256,703	547,161	-	-
Non current assets held for sale	23,589,489	-	-	23,589,489	-	-	-	-	-	-
Other assets	35,998,315	24,935,207	4,211,193	865,673	1,247,478	698,349	1,797,670	560,687	841,030	841,028
	1,008,605,152	437,446,768	183,831,687	63,411,820	33,644,652	10,137,365	45,571,320	48,420,438	55,467,524	130,673,578
Liabilities										
Bills payable	35,988,225	35,988,225	-	-	-	-	-	-	-	-
Borrowings	124,017,735	68,490,619	32,817,377	11,177,036	16,055	28,077	109,373	1,896,403	9,482,795	-
Deposits and other accounts	702,647,125	43,617,102	79,698,684	50,726,741	78,351,300	122,734,667	24,092,426	52,813,199	117,089,994	133,723,012
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Subordinated debt	11,989,000	-	1,000	-	1,000	2,000	4,985,000	-	-	7,000,000
Deferred tax liabilities	2,500,097	-	-	-	2,500,097	-	-	-	-	-
Non current liabilities held for sale	20,435,396	-	-	20,435,396	-	-	-	-	-	-
Other liabilities	33,805,722	15,482,770	1,719,964	2,708,331	7,112,464	1,695,548	1,695,548	3,391,097	-	-
	931,583,300	163,578,716	114,237,025	85,047,504	87,980,916	124,460,292	30,882,347	58,100,899	126,572,789	140,723,012
Net assets	77,021,852	273,868,052	69,594,662	(21,635,684)	(54,336,264)	(114,322,927)	14,688,973	(9,680,261)	(71,105,265)	(10,049,434)
Share capital/ Head office capital account	17,743,629									
Reserves	23,050,754									
Unappropriated/ Unremitted profit	28,323,565									
Surplus/(Deficit) on revaluation of assets	7,389,127									
Non-controlling interest	514,757									
	77,021,852									

	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)									
Assets										
Cash and balances with treasury banks	70,381,480	32,115,505	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	3,993,054	3,139,614	853,440	-	-	-	-	-	-	-
Lending to financial institutions	48,895,828	30,693,824	16,031,822	2,170,182	-	-	-	-	-	-
Investments	401,742,398	88,313,361	141,257,265	563,870	51,349,936	42,685,741	27,602,126	35,330,676	9,768,099	4,871,324
Advances	400,659,922	160,356,755	50,841,977	30,346,004	11,198,984	11,268,053	34,538,717	44,691,212	42,389,316	15,028,904
Fixed assets	16,198,902	95,943	191,888	287,832	575,665	1,151,330	1,151,330	1,976,676	2,471,713	8,296,525
Intangible assets	1,508,765	22,377	44,753	67,129	134,258	268,516	268,516	703,216	-	-
Assets held for sale	26,821,724	-	26,821,724	-	-	-	-	-	-	-
Other assets	30,831,827	26,052,299	259,023	388,534	2,117,825	1,022,980	247,769	371,653	371,744	-
	1,001,033,900	340,789,678	240,016,928	36,232,640	71,221,438	62,121,332	65,301,089	86,259,380	62,380,144	36,711,271
Liabilities										
Bills payable	20,882,970	20,882,970	-	-	-	-	-	-	-	-
Borrowings	207,536,939	133,022,666	40,275,497	9,265,919	17,764,270	47,439	114,330	903,120	6,143,698	-
Deposits and other accounts	644,924,984	33,496,043	66,589,225	46,680,748	65,450,111	95,285,044	24,395,193	47,059,811	117,376,183	148,682,626
Subordinated debt	4,991,000	-	1,000	-	1,000	2,000	2,000	4,985,000	-	-
Deferred tax liabilities	3,443,012	-	-	-	3,443,012	-	-	-	-	-
Liabilities directly associated with the assets held for sale	24,759,096	-	24,759,096	-	-	-	-	-	-	-
Other liabilities	27,665,519	8,404,380	668,876	11,821,069	3,521,443	812,438	812,438	1,624,875	-	-
	934,203,520	195,716,059	132,293,694	67,767,736	90,179,836	96,146,921	25,323,961	54,572,806	123,519,881	148,682,626
Net assets	66,830,380	145,073,619	107,723,234	(31,535,096)	(18,958,398)	(34,025,589)	39,977,128	31,686,574	(61,139,737)	(111,971,355)
Share capital/ Head office capital account	16,075,720									
Reserves	18,156,669									
Unappropriated/ Unremitted profit	24,865,838									
Surplus/(Deficit) on revaluation of assets	7,309,372									
Non-controlling interest	422,781									
	66,830,380									

In line with SBP BSD Circular Letter No. 03 of 2011 on "Maturity and Interest Rate Sensitivity Gap Reporting" the Bank conducted a behavioral 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.

47.7 Derivative Risk

The Bank currently deals in derivative instruments namely forward exchange contracts, Interest rate swaps and futures with the principle view to hedge risks associated with interest rates and foreign exchange risk.

Interest rate swaps and futures are conducted to hedge interest rate risk present in the Bank's foreign currency bond portfolio. With respect to forward exchange contracts, the bank offers such products to protect customers from adverse movements in foreign currencies. On a best effort basis, the respective positions are then hedged/matched in the inter-bank market. Open positions, if any, are managed through regulatory and other internal limits that includes Foreign Exchange Exposure Limits and Currency wise NOP Limits.

Market Risk Department under the Risk Management Division performs hedge effectiveness testing of foreign currency bond portfolio against interest rate swaps and futures on a periodic basis. The results are then shared with the concerned stakeholders and strategies are devised/revisited in coordination with Treasury to align the outcomes with established risk parameters.

48 NON-ADJUSTING EVENTS AFTER THE REPORTING DATE

The Board of Directors in its meeting held on February 21, 2019 has announced cash dividend of 15% percent (2017: 10%). This appropriation will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2018 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending December 31, 2019.

49 DATE OF AUTHORISATION

These consolidated financial statements were authorised for issue on February 21, 2019 by the Board of Directors of the Holding Company.

50 GENERAL

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

President/Chief Executive	Chief Financial Officer	Director	Director	Director