

Adoption and Statement of Adherence with the International Integrated Reporting Framework

During the course of its operations, a commercial organisation receives various inputs and converts them into value for itself and its stakeholders. This value creation can be over different time frames; short, medium and long. An integrated report describes this value creation process concisely including the business model, strategies, governance, processes, risks and opportunities.

MCB is one of the largest Commercial Bank operating in Pakistan with significant contribution to the economic development of the country. It also makes its presence felt at the grassroots level with its sprawling network of branches by extensively serving the ever growing financial needs of its customer base. Therefore, on an overall basis, it has an impact far beyond the bottom line. Being the Bank with one of the largest customer base it is imperative; therefore, that the Bank reassures its stakeholders that it is safeguarding the public interest.

Adoption of International Integrated Reporting Framework depends on the individual circumstances of an entity. The Bank has adopted the Integrated Reporting Framework to give an overview of Bank's philosophy to explain connection between its financial and non-financial information, which would enhance the user's understanding as to how the Bank is working to improve its performance keeping in view the stakeholder's interests. The business strategy information is linked directly to business activities and non-financial information, and provides explanations accordingly. Integrated framework is still considered to be a practice in its early stages. We will continue to improve the information produced to make it even easier to understand, while taking into account the opinion of stakeholders reading this report.

Initially, the Bank has included following content elements for the users of this report:

- Organizational overview and external environment
- Strategy and resource allocation
- Risks and opportunities
- Governance
- Performance and position
- Outlook
- Stakeholder's relationship and engagement
- Sustainability and corporate social responsibility
- Excellence in corporate reporting

The Bank's Annual Report 2018 covers the 12-month period from January 01, 2018 to December 31, 2018 and is consistent with our usual annual reporting cycle for financial and integrated reporting. The most recent previous report was dated December 31, 2017.

Profile of Shari'ah Advisor Board



Prof. Mufti Munib-Ur-Rehman
Chairman Shari'ah Board

Prof. Mufti Munib-ur-Rehman, working with MCB Islamic Bank since September 2015, is a renowned Shari'ah scholar with a vast 46 years' teaching and 31 years' Fatawas issuance experience. He is the member Shari'ah Advisory Board of Securities and Exchange Commission of Pakistan (SECP), and the Chairman, Central Moon Sighting Committee Pakistan, prior to this he was a member of Islamic Ideology Council, Pakistan and Director of Islamic Studies, Hong Kong.



Mufti Syed Sabir Hussain
Resident Shari'ah Board Member/ Head-Shari'ah Compliance Department

Mufti Syed Sabir Hussain, working with MCB Islamic Bank Ltd. since September 2015, is a prominent Shari'ah Scholar and experienced Islamic Banker with 17 years of teaching, 13 years of Fatawa and Islamic banking experience. He holds Shahadat-Al-Alimiyah & Takhassus-Fil-Fiqh, M.A Islamic Studies, M.Phil in Islamic Banking & Finance and M.S (I.T) degrees.

He is ex-member of Shari'ah Advisory Board of SECP, Member of the Committee on Accounting and Auditing Standards of ICAP and invitee participant of Shari'ah Board of State Bank of Pakistan and Member of several committees constituted by SBP on AAOIFI Shari'ah standards. Further, he was member of review committee for Urdu translation of AAOIFI Shari'ah standards. He is author of 17 books on Islamic economics & banking and other social issues; He is also delivering lectures in different Dar-ul-Ulooms and Universities.



Mufti Nadeem Iqbal
Shari'ah Board Member

Mufti Nadeem Iqbal is the Shari'ah Board Member. He is senior teacher and Mufti at Dar-ul-Uloom Amjadia, Karachi and currently heading Dar-ul-Ifta. He holds Master's Degree in Islamic Studies from University of Karachi, Takhusus-Fil-Fiqh from Dar-ul-Uloom Amjadia, Karachi, Fazil Dars-e-Nizami, and Fazil Shahada-tul-Almia. He gave his services as Resident Shari'ah Board Member/Shari'ah Advisor at Soneri Bank's Islamic Banking Division for thirteen years. He worked as professor at Sheikh Zayed Islamic Centre, University of Karachi. He is also visiting faculty member at Hamdard University, Karachi. He is writer of several books including Islamic Jurisprudence.

Report of Shari'ah Board (For the year ended December 31, 2018)

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

الْحَمْدُ لِلَّهِ رَبِّ الْعَالَمِينَ وَالصَّلَاةُ وَالسَّلَامُ عَلَى سَيِّدِ الْأَنْبِيَاءِ وَالْمُرْسَلِينَ وَعَلَىٰ آلِهِ وَصَحْبِهِ أَجْمَعِينَ أَمَّا بَعْدُ

The Shari'ah Board of MCB Islamic Bank Ltd. (MIB) was established in September, 2015. Currently Shari'ah Board comprises of respected Professor Mufti Munib-ur-Rehman as Chairman Shari'ah Board, Mufti Syed Sabir Hussain as Resident Shari'ah Board Member (RSBM) and Mufti Nadeem Iqbal as Member Shari'ah Board. In the year 2018 Shari'ah Board meetings were held on the following dates:

First Shari'ah Board Meeting	–	January 10, 2018
Second Shari'ah Board Meeting	–	June 21, 2018
Third Shari'ah Board Meeting	–	September 27, 2018
Fourth Shari'ah Board Meeting	–	December 26, 2018

1. While the Board of Directors and Executive Management are solely responsible to ensure that the operations of MIB are conducted in a manner that comply with Shari'ah principles at all times, we are required to submit a report on the overall Shari'ah compliance environment of MIB.
2. To form our opinion as expressed in this report, the Shari'ah Compliance Department (SCD) of MIB carried out reviews of each types of transactions, products, process flows/modus operandi and concepts. In this regard, all 76 branches have been inspected for Shari'ah as per Shari'ah Compliance program. The new M-90 branches shall be inspected for Shari'ah Compliance in the coming year. Further, Pool Management System (PMS) is being reviewed as per required frequency on montly basis as per guidance of SCD . In order to enhance the Islamic banking knowledge and expertise in general as well as product wise especially in Islamic Micro Finance and SME businesses, were made mandatory for all staff of the Bank with the coordination of Learning & Development Department of HRG.
3. Four (4) Instructions & Guidelines & Two (2) Fatawa which are already issued by the Shari'ah Board of the MIB are still remained same without any changes and they are being implemented in the MIB in true letter and spirit.
4. SCD with the coordination of management has reviewed these product documents namely Corporate Diminishing Musharakah & Corporate Ijarah Financing Product Documents, Commodity Salam Product Document, Structure, & Agreements, Currency Salam Financing / Legal Documents, Amendment in Currency Salam Product Document, Finished Goods Financing (under Musawamah mode) Product Manual, Structure, Process Flow and Salient Features, Istisna Product Manual, legal agreements, Salient Features Products Structure, Process Flow & Sample Istisna Calculation, Master Ijarah Agreement for Equipment and Vehicle Financing, Revised consumer car finance end-to-end process manual and all its appendices, Amendments in Consumer car Finance Product Program, Mortgage Deed Format for Housing Finance, Murabaha Microfinance Product and Process Amendments, Murabaha Product Manual – Amendments, Musharakah Running Finance Product Manual – Amendments, Revised account opening form / terms & conditions booklet / account opening form for MIB Asaan account, Different Takaful Agreement – for Wealth Management Products, Amendments in the features of MIB Atfaal Saving Account, Bank Guarantee Manual V2.0 & Opening of LC without Agency.
5. SCD has also facilitated Islamic Banking training sessions the front and back offices staff of MIB. Further, SCD has taken initiative to establish an effective and comprehensive Islamic Banking training mechanism in compliance with IBD Circular No. 02 of 2018, Dated: Jun 29, 2018, "Enhanced Training & Capacity Building Measures for Islamic Banking Institutions (IBIs)" issued by Islamic Banking Department, State Bank of Pakistan, for MIB front and back offices staff at all levels. Internal trainers were also part of Shari'ah related training initiatives during the year. Human resource group has hired more personnales to enhance the capacity of Learning & Development Department of MIB, that is a good sign; it will help in enhancing capacity building of MIB staff.
6. Shari'ah Board praises and encourages the continuous, comprehensive & profound efforts of MIB Management regarding implementation of all instructions and guidelines issued by Shari'ah Board.

Recommendations:

Based on the observations made through Shari'ah review, report and Shari'ah Compliance checks, it is recommended that:

- i. In future, there shall be more Shari'ah Trainings in compliance with SBP-IBD Circular No. 02 of 2018 for front and back office staff with emphasis on specialize products training sessions;
- ii. Newly inducted staff shall be trained on Islamic Banking and its Products before confirmation;
- iii. As pool management is very sensitive by its nature, therefore, it shall be more automated and live to avoid any human error and Shari'ah Board discourages any manual calculation in pool management system.
- iv. All back offices who are involve on execution of the transactions are advised to use updated standard documents/agreements & process flows approved by Shari'ah Board and should bear intial on each page to avoid delay in transactions.
- v. Trade department is recommended to have standard documents and it is advised to follow them in true sense in all its facilities.

Conclusion:

Shari'ah Board has reviewed & advised corrective measures on the reports of SBP Inspection, Internal Shari'ah Audit and Shari'ah Compliance Inspection reports and is of the view that:

- i. MIB has complied with Shari'ah rules and principles in the light of Fatawa, Instructions and Guidelines issued by Shari'ah Board.
- ii. MIB has complied with SBP Inspection report in true letter and spirit.
- iii. MIB has complied with directives, regulations, instructions and guidelines related to Shari'ah compliance issued by SBP in accordance with the rulings of SBP's Shari'ah Board.
- iv. MIB has a comprehensive mechanism in place to ensure Shari'ah Compliance in their overall operations.
- v. During the course of Shari'ah compliance of the transactions, it was realized that the amount of Charity collection during the year was PKR 27.989 million from different heads which was instructed to transfer to the Charity account. The bank has disbursed the Charity amount to Shari'ah approved charitable organizations as per MIB's charity policy and SBP's guidelines.
- vi. MIB has complied with the SBP instructions on profit and loss distribution and pool management.
- vii. While the Bank is actively pursuing training of its human resources about various aspects of Islamic Banking & Finance through training sessions/seminars, however further improvement is required in the level of awareness of Islamic Banking & Finance of the staff, management and the BOD through enhanced training mechanism for each level. The management and the BOD has made sincere efforts and appreciates the importance of Shari'ah compliance in overall operations of MIB.
- viii. The Shari'ah Board has been provided adequate resources enabling it to discharge its duties effectively.

Shari'ah Board would like to take this opportunity to offer praise to Almighty ALLAH and seek his guidance and Tauwfeeq, and to express its wishes for further progress, development and prosperity of Islamic Banking, Alhamdulillah under the sincere efforts of senior management, and Islamic Banking industry in Pakistan as a whole.

وَاللَّهُ سُبْحَانَهُ وَتَعَالَىٰ أَعْلَمُ

Munib ur Rehman

Professor Mufti Munib-ur-Rehman
Chairman Shari'ah Board



Mufti Syed Sabir Hussain
Resident Shari'ah Board Member

Mufti Nadeem Iqbal

Mufti Nadeem Iqbal
Member Shari'ah Board

Date of Report: January 24, 2019

بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ
الْحَمْدُ لِلّٰهِ رَبِّ الْعَالَمِیْنَ وَالصَّلَاةُ وَالسَّلَامُ عَلٰی سَیِّدِ الْاَنْبِیَاءِ وَالْمُرْسَلِیْنَ وَعَلٰی اٰلِهِ وَصَحْبِهِ اَجْمَعِیْنَ اَمَّا بَعْدُ

شرعیہ بورڈ رپورٹ

(مالی سال اختتام پذیر ۳۱ دسمبر ۲۰۱۸ء)

ایم سی بی اسلامک بینک لمیٹڈ (ایم آئی بی) کا شرعیہ بورڈ ستمبر ۲۰۱۵ء کو تشکیل پایا، موجودہ شرعیہ بورڈ پروفیسر مفتی نبیب الرحمن چیئرمین شرعیہ بورڈ، مفتی سید صابر حسین ریزیڈنٹ شرعیہ بورڈ ممبر اور مفتی ندیم اقبال، ممبر شرعیہ بورڈ پر مشتمل ہے۔ ۲۰۱۸ء میں شرعیہ بورڈ کے اجلاس درج ذیل تواریخ پر منعقد ہوئے:

- شرعیہ بورڈ کا پہلا اجلاس، ۱۰ جنوری ۲۰۱۸ء
- شرعیہ بورڈ کا دوسرا اجلاس، ۲۱ جون ۲۰۱۸ء
- شرعیہ بورڈ کا تیسرا اجلاس، ۲۷ ستمبر ۲۰۱۸ء
- شرعیہ بورڈ کا چوتھا اجلاس، ۲۶ دسمبر ۲۰۱۸ء

(۱) بورڈ آف ڈائریکٹرز اور ایگزیکٹو منٹینینس اس امر کے ذمہ دار ہیں کہ ایم آئی بی کے جملہ معاملات شریعت کے اصولوں کے عین مطابق ہوں، لہذا ہم (شرعیہ بورڈ) ایم آئی بی کی شرعیہ کمپلائنس کی مجموعی صورت حال کے بارے میں ایک رپورٹ جمع کرانے کے ذمہ دار ہیں۔

(۲) اس رپورٹ میں اظہار کے طور پر عرض یہ ہے کہ ایم آئی بی کی شرعیہ کمپلائنس ڈیپارٹمنٹ نے تمام قسم کے مالی معاملات، پروڈکٹس، معاملات کے مراحل اور نظریات کا جائزہ لیا ہے۔ امسال ایم آئی بی کی تمام ۷۶ برانچوں کا شرعی اعتبار سے شرعیہ کمپلائنس پروگرام کے تحت جائزہ لیا گیا ہے۔ آئندہ سال ایم ۹۰ برانچز کا شرعی اعتبار سے جائزہ لیا جائے گا۔ مزید برآں، پول بینچمنٹ سسٹم کا شرعی جائزہ ماہانہ بنیادوں پر لیا جا رہا ہے۔ اسلامی بینکاری کے بارے میں معلومات اور مہارت کو بڑھانے کی غرض سے بالعموم اسلامی بینکاری اور بالخصوص پروڈکٹس کی تربیت ہیومن ریسورس ڈیپارٹمنٹ کے تعاون سے تمام اسٹاف کے لئے لازم قرار دی گئی ہے۔

(۳) ایم آئی بی کی شرعیہ بورڈ کی جاری کردہ چار ہدایات و لائحہ عمل اور فتاویٰ جات میں کوئی تبدیلی نہیں کی گئی ہے۔ ایم آئی بی میں ان پر عملدرآمد کو ان کی اصل روح کے مطابق یقینی بنایا گیا ہے۔

(۴) بینک کے منتظمین کے تعاون سے شرعیہ کمپلائنس ڈیپارٹمنٹ نے ان تمام پراڈکٹس کی دستاویزات کا جائزہ لیا: کارپوریٹ، شرکت متناقصہ، اجارہ، کموڈٹی سلم، کرنسی سلم، مساومہ، استصناع، انفرادی صارفین کے لئے کارڈ ریشیزری کا اجارہ، مراہجہ و مائیکروفنانس مراہجہ، جاری مشارکہ، مضاربہ پراڈکٹس، ٹرانزیکشن پراڈکٹس، کفالہ اور وکالہ پراڈکٹس۔

(۵) شرعیہ کمپلائنس ڈیپارٹمنٹ نے بینک کے فرنٹ آفس اور بیک آفس اسٹاف کے لئے اسلامی بینکاری کی ٹریننگ کے متعدد پروگرام منعقد کئے ہیں۔ مزید برآں اسٹیٹ بینک آف پاکستان کے اسلامی بینکاری ڈیپارٹمنٹ کی جانب سے جاری کردہ سرکلر (نمبر ۲۰۱۸/۲ بتاریخ ۲۹ جون ۲۰۱۸ء) پر عملدرآمد کو یقینی بنانے کے لئے اقدامات کئے گئے ہیں۔ لہذا ایک پراثر اور جامع پروگرام ترتیب دیا جا رہا ہے جس کے تحت بینک کے ہر درجہ کے فرنٹ آفس اور بیک آفس اسٹاف کو اسلامی بینکاری کی ٹریننگ دی جائے گی۔ شرعیہ ٹریننگ پروگرامز کے لئے بینک کے ملازمین کی خدمات حاصل کی گئی ہیں۔ ہیومن ریسورس گروپ نے لرننگ اینڈ ڈیولپمنٹ ڈیپارٹمنٹ کے لئے نئے افراد کی خدمات حاصل کی ہیں جو کہ قابل ستائش عمل ہے، جس سے ایم آئی بی اسٹاف کی پیشہ ورانہ خدمات کو بہتر بنانے میں مدد ملے گی۔

(۶) شرعیہ بورڈ، جاری کردہ ہدایات و لائحہ عمل پر عملدرآمد کے اعتبار سے بینک کے منتظمین کی مسلسل اور جامع کاوشوں کی تعریف اور حوصلہ افزائی کرتا ہے۔

سفارشات:

شرعیہ بورڈ شرعی اعتبار سے کئے گئے جائزوں کی جانچ پڑتال کے بعد درج ذیل سفارشات پیش کرتا ہے:

الف۔ مستقبل میں فرنٹ آفس اور بیک آفس اسٹاف کی پراڈکٹ کی شرعیہ ٹریننگ پر بھرپور توجہ دیتے ہوئے مزید شرعیہ ٹریننگ پروگرام منعقد کئے جائیں، جو اسٹیٹ بینک آف پاکستان کے اسلامی بینکاری ڈیپارٹمنٹ کی جانب سے جاری کردہ سرکلر (نمبر ۲۰۱۸/۲ بتاریخ ۲۹ جون ۲۰۱۸ء) کی ہدایات کے مطابق ہوں۔

ب۔ اسلامی بینکاری اور پراڈکٹ کی ٹریننگ نئے آنے والے اسٹاف کی بھرتی کی تصدیق سے پہلے لازمی کی جائے۔

ج۔ پول بینچمنٹ اپنی نوعیت کا ایک انتہائی حساس معاملہ ہے، اس لئے اسے خود کار طریقہ کار کے ذریعے اپ ڈیٹ رکھا جائے تاکہ کسی بھی قسم کی غلطی سے بچا جاسکے۔ شرعیہ بورڈ کسی بھی قسم کے ذقی حساب و کتاب کی حوصلہ افزائی نہیں کرتا۔

د۔ شریعہ بورڈ رومز ہ کے معاملات میں کسی بھی تاخیر سے بچنے کے لئے تمام بیک آفس اسٹاف کو سفارش کرتا ہے کہ شریعہ بورڈ سے منظور شدہ حالیہ ماڈل دستاویزات معاملات اور معاملات کے لائحہ عمل کو استعمال کیا جائے۔

ھ۔ شریعہ بورڈ ٹریڈ پھارمنٹ کو سفارش کرتا ہے کہ کسٹمر کو دی جانے والی تمام سہولیات میں ماڈل دستاویزات کو استعمال کیا جائے اور حقیقی بنیادوں پر ان پر عملدرآمد کیا جائے۔

خلاصہ کلام:

شریعیہ بورڈ نے ایس بی پی انسپکشن، انٹرنل شریعیہ آڈٹ اور شریعیہ کمپلائنس کی رپورٹس کو دیکھنے کے بعد اصلاحی اقدامات کے لئے ہدایات دیں، لہذا شریعیہ بورڈ کے مطابق:

الف۔ ایم آئی بی نے شریعیہ بورڈ کے جاری کردہ فتاویٰ جات اور ہدایات و لائحہ عمل کے مطابق شرعی اصول و ضوابط کو پورا کیا ہے۔

ب۔ ایم آئی بی نے حقیقی معنوں میں اصل روح کو مدنظر رکھتے ہوئے ایس بی پی انسپکشن رپورٹ پر عملدرآمد کیا ہے۔

ج۔ ایم آئی بی، اسٹیٹ بینک آف پاکستان کے احکامات، قوانین و ہدایات اور لائحہ عمل (جو اسٹیٹ بینک آف پاکستان کے شریعیہ بورڈ کے احکام کے مطابق ہیں) سے ہم آہنگ ہے۔

د۔ شریعیہ کمپلائنس کو یقینی بنانے کے لئے ایم آئی بی کے پاس ایک جامع طریقہ کار موجود ہے۔

ھ۔ مالی معاملات کی شریعیہ کمپلائنس کے دوران یہ معلوم ہوا کہ ایم آئی بی نے مختلف مدت سے ۲۷،۹۸۹ ملین کی غیر شرعی آمدنی حاصل کی، جسے چیریٹی اکاؤنٹ میں ڈال دیا گیا ہے۔ علاوہ ازیں ایم آئی بی نے اپنی چیریٹی پالیسی اور اسٹیٹ بینک آف پاکستان کے اصولوں کے مطابق شریعیہ بورڈ سے منظور شدہ مختلف خیراتی اداروں کو چیریٹی اکاؤنٹ سے رقم ادا کر دی ہے۔

و۔ ایم آئی بی کے نفع و نقصان کی تقسیم اور پول کی انتظام کاری اسٹیٹ بینک آف پاکستان کی ہدایات کے عین مطابق ہیں۔

ز۔ اگرچہ بینک فعال طریقے سے اپنے افراد کو اسلامی بینکاری اور مالیاتی نظام کے بارے میں تربیت دے رہا ہے، تاہم افراد کا، انتظامیہ اور بورڈ آف ڈائریکٹرز میں آگہی پیدا کرنے کی غرض سے اسلامی

بینکاری کی تربیت میں مزید اضافے کی ضرورت ہے۔ انتظامیہ اور بورڈ آف ڈائریکٹرز نے اخلاص پر مبنی کاوشیں کی ہیں اور انہوں نے ایم آئی بی میں شریعیہ کمپلائنس کی اہمیت کو تسلیم کیا ہے۔

ح۔ شریعیہ بورڈ کو اپنی ذمہ داریوں سے عہدہ برآ ہونے کے لئے خاطر خواہ وسائل فراہم کئے گئے ہیں۔

شریعیہ بورڈ اللہ سبحانہ و تعالیٰ کی بارگاہ میں اُس کی تعریف پیش کرنے اور اُس سے ہدایت اور توفیق کا خواہاں ہے۔ مزید برآں سینئر منتظمین اور اسلامی بینکاری انڈسٹری کی مخلصانہ کاوشوں سے ان شاء اللہ اسلامی بینکاری نظام کی مزید پیشرفت، ترقی اور خوشحالی کا متنتی ہے۔

وَاللّٰهُ سُبْحٰنَهُ وَتَعَالٰى اَعْلَمُ

Munib ur Rahman

پروفیسر مفتی منیب الرحمن

چیرمین شریعیہ بورڈ

Munib ur Rahman

مفتی منیب اقبال

شریعیہ بورڈ ممبر



مفتی سید صابر حسین

ریزیڈینٹ شریعیہ بورڈ ممبر

تاریخ اجراء: ۲۳ جنوری، ۲۰۱۹ء

Sustainability and Corporate Social Responsibility

MCB Bank, as one of the largest Banks in Pakistan, has a rich legacy of service and innovation spanning over 71 years. The Bank continuously strives to adopt the best practices and encourages a culture of discipline and values for its stakeholders. By initiating projects and services that function in a socially responsible way, MCB Bank ensures environmental sustainability and the social well-being of its employees and the society at large.

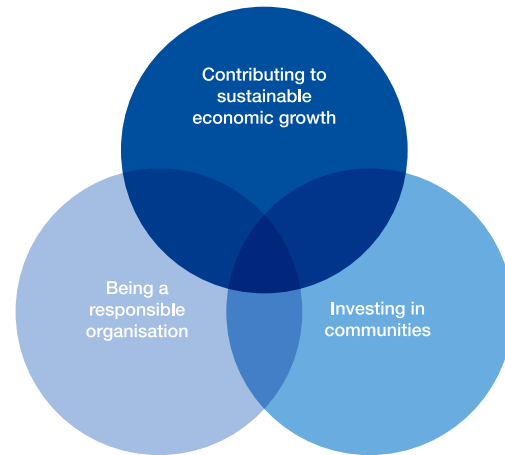
Our policy

MCB Bank undertakes CSR initiatives with a vision to contribute towards harmonious and sustainable development of communities. Following will be the framework and broad parameters for CSR activities by the Bank to:

1. Comply with applicable laws and regulations as well as the spirit thereof and conducts business operations with honesty integrity.
2. Promote and engage in social welfare activities that help strengthen communities and contribute towards the uplift of society.
3. Support and promote Financial Inclusion.
4. Endeavor to build and maintain sound relationships with customers and other stakeholders through open and fair communication in order to contribute towards sustainable image building.
5. Honor the culture, customs, history and laws as the Bank constantly searches for safer, cleaner and superior practices that satisfy the evolving needs of the society.
6. Strive to develop, establish and promote practices enabling the environment and economy to coexist harmoniously whilst encouraging minimum wastage of resources.

Our approach to sustainability

The Bank adheres to several key principles as an institution and is committed to creating a better work place and cleaner environment through its multifaceted initiatives. By committing to a culture of excellence, good governance, transparency and integrity, it ensures that all activities are conducted in a manner that is ethically responsible and beneficial for all. MCB Bank has a well-defined Code of Ethics and Conduct policy that acts as a guideline for employees.



Contributing to sustainable economic growth:

We use our core business of banking to promote sustainable development in our markets.

Contribution to Economy & National Exchequer:

MCB Bank has the highest market capitalization in the banking industry. In 2018 the Bank paid approx. PKR 3.299 billion in lieu of income taxes to Government Treasury and contributed over PKR 11 billion to the national exchequer as withholding tax agent under different provisions of Income Tax Ordinance 2001.

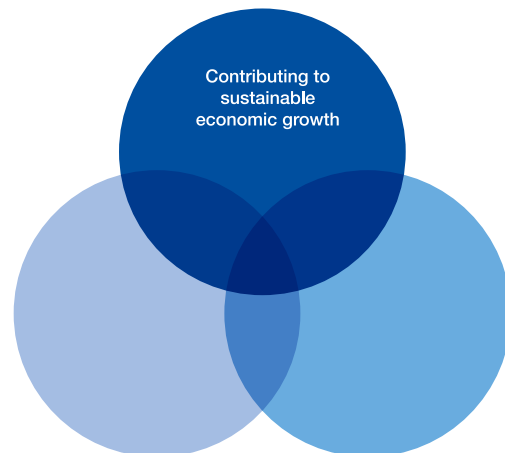
The contribution by the Bank to the national economy by way of value addition was PKR 49.044 billion, out of which around PKR 14.053 Billion were, distributed to employees and PKR 18.961 billion to shareholders.

The Bank is making a significant contribution to the development and growth of the country.

An analysis of the Bank's value creation and allocation of value among key stakeholder groups is represented in statement of Value Added.

Key financial highlights:

Key financial figures and related ratios are discussed in financial performance section.



Being a responsible organisation

We manage the Bank responsibly by promoting the right values and behaviors, investing in people, managing our environmental impact and supporting the fight against anticorruption measures.

Following steps have been taken by the Bank:

- Business Ethics and Anti-Corruption Measures
- Occupational Safety and Health
- Quality Checks and Mystery Shopping
- Service Council
- Customer Experience Management
- Turnaround Time (TAT) Monitoring
- Consumer Protection Measures



Business Ethics and Anti-Corruption Measures

The Bank actively identifies and addresses possible risk factors through the implementation of policies and procedures designed to reduce the possibility of such incidents.

In this regard, it has fielded, alongside its Human Resource Policies and Procedures, a comprehensive "Code of Conduct and Business Ethics" which is disseminated to staff for information and sign off. This document is also freely available to all staff on MCB Intranet Portal.

The Bank continues to maintain a strong compliance culture across the board. MCB Employees are expected to perform all tasks with diligence and honesty at all times. The Code of Conduct of the Bank has comprehensively defined the values and minimum standards for ethical business conduct. We ensure that all our interactions with clients, competitors, business partners, government and regulatory authorities, shareholders, or with one another following a vigorous ethical standard. Our foremost efforts are to ensure that the conduct of the employees is impeccable. This is done with the help of guidelines that ensures compliance with all applicable laws and regulations.

MCB Bank strives to ensure that it provides a friendly and harassment free environment for all employees. The Policy for protection of women harassment has been revisited and is circulated Bank wide every year. Zero tolerance for any form of harassment or discrimination is also covered in the Bank's existing code of conduct. Like previous years, MCB Bank also celebrated "Women's Day" in 2018. As part of our desire to spread awareness on women harassment, 'the Protection against women harassment bill' implemented in April 2018 was prominently displayed on notice boards.

The Disciplinary Action Committee (DAC) takes vigorous action to address any violation of policies & procedures, acts of fraud & forgery, breach of discipline and code of conduct, ethics & business practices, law of land and statutory regulations by an employee.

Enhanced compliance and adherence to ethical standards are at the heart of how we work as a team. MCB Bank has a robust compliance policy to ensure that as an organization it is not

exposed to operational and reputational risks while ensuring that the rights and interests of our customers are not compromised upon.

Occupational Safety and Health

As per the Bank's Policy, health and safety aspects are being given top priority. At the recommendation of a leading consultant firm (Health & Safety) at MCB Building, all possible measures have been incorporated to circulate fresh air inside the building as well as adding a variety of fire extinguishers on trollies and manual carriage. Requisite safety equipment such as gas masks and other tools have also been arranged for all 10 floors of its principal building in Lahore. The fire alarm system installed has been upgraded and regular staff evacuation drills are held under the Security Department. First Aid Kit Boxes filled with emergency medicines and burn kits are maintained on each floor of major MCB Buildings countrywide and Bank branches to counter any emergencies.

MCB Bank has always provided congenial Health & Safety working environment to its employees. All permanent employees are provided coverage under a comprehensive staff group life & medical insurance policy. The Bank's buildings including branches are equipped with alarm systems and CCTV cameras. Trained security personnel are deployed to ensure the safety of our employees, customers, record and equipment. The Bank has developed a comprehensive "Health, Safety & Environment Policy" which is periodically reviewed and updated by Bank Management.

Developing a comprehensive health and safety culture within the Bank is everyone's responsibility. To further this, MCB Bank has always taken initiatives such as on-site health checkups, seminars on health & safety aspects and practical drills imparting emergency preparedness to ensure that its staff is up to date on procedures for safeguarding life and the Bank's assets. Emergency Lights, Fire Proof Cabinets, Fire Detection System, Fire & Burglary Alarm System, Portable Fire Extinguishers, Safety-Anti Shatter Films, First Aid Kits, Regular Evacuation Drills, Emergency Exit Doors, Sprinkler System and Medical Health Insurance are some of the measures through which Bank assures safety and security of its Employees and Assets.

During 2018, the Bank also organized a Health Awareness Seminar on Hepatitis to create knowledge and understanding about Hepatitis B & C. The Seminar was conducted by experts from Pakistan Kidney and Liver Institute and Research Center (PKLI&RC).

Quality Checks and Mystery Shopping:

During 2018, 98% of total branches were monitored with respect to service parameters and protocols. The remaining branches were not visited owing to security concerns/remote locations. Moreover, 940 branches were 'Mystery Shopped' by independent external agencies and results of this activity were shared with management for further improvement.

Service Council:

Service Council is a monthly forum, chaired by the President, which brings together key stakeholders from across the bank with a view to place service on the forefront through thought leadership, collaborative discussions and creation of a clear service roadmap.

Customer Experience Management:

Feedback is solicited from customers for all contact points via surveys and remedial actions are taken for identified areas. The end goal of these measures is to be the most preferred bank in Pakistan.

Turnaround Time (TAT) Monitoring:

Monitoring and evaluation of service indicators is part of the belief in increasing and retaining one's customer base. In order to maintain a strong hold on processes within the Bank, the Service Quality Division has devised several controllable measures at par with prevailing market practices. Against each measure, a tolerance level along with a timeline is set. Similar to Branch Banking, indicators for Consumer Assets, Credit Cards, Bancassurance, Call Centre, Mobile Banking, Internet Banking and ATM Uptime are monitored on a monthly basis.

Consumer Protection Measures

The Bank is committed to provide quality products and services to its customers. It maintains a privacy statement for the usage of its products i.e. Credit Cards, ATM pins etc.

To ensure a culture of 'Quality Customer Service' the Bank has a dedicated Service Quality Division with the objective of strengthening the Bank's service culture. Regular training sessions are conducted in all Circles, Call Centers and other front-end staff offices regarding 'Service Excellence' & 'Customer Satisfaction'.

Complaint Management & Handling

A centralized complaint resolution team manages all customer complaints through a complaint management system. All complaint handling staff & Call Centre have access to this system so as to ensure that all complaints, whether verbal or written, are immediately captured in the system. In addition, complaint forms and drop boxes are also available at branches to facilitate customers in registering their complaints.

The resolution of complaints is comprehensive, appropriate and quick. The customer is kept informed on the status of their complaint, starting from complaint acknowledgement till its resolution. Turnaround times for escalations and resolutions are followed as per regulatory requirement.

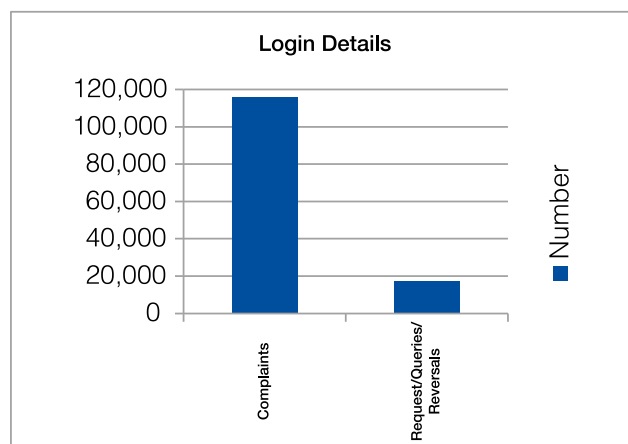
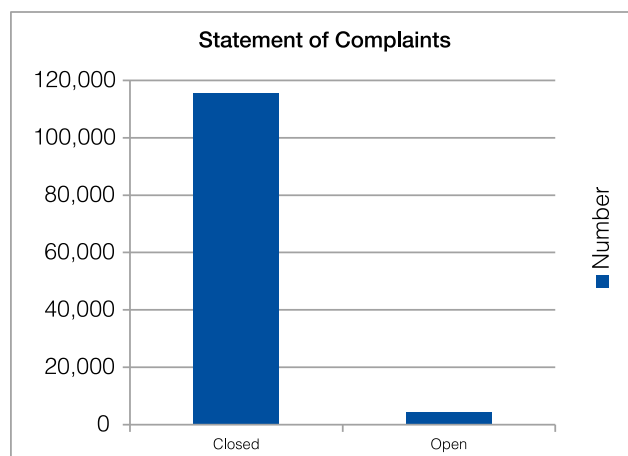
Customer Satisfaction

A satisfied customer is the key driver/core element to the success of any organization. MCB Bank truly respects its business partners and ensures that it exceeds the expectations of its customers. The Bank has 24/7 Call Centers and a website to help address customer queries/complaints.

During 2018, a total of 116,136 complaints were logged in the system out of which 115,673 complaints were resolved. Resolution percentage stands at 99.60 %.

There was a 59% increase in logged complaints in 2018 compared to the previous year. Total complaints received during 2017 were 73,056.

Descriptions	Number	Percentage
Closed	115,673	99.60 %
Open	463	0.40 %
Total Login – Statement of Complaints	116,136	100 %
Complaints	116,136	87 %
Request/Queries/Reversals	17,116	13 %
Total Login Details	132,014	100 %

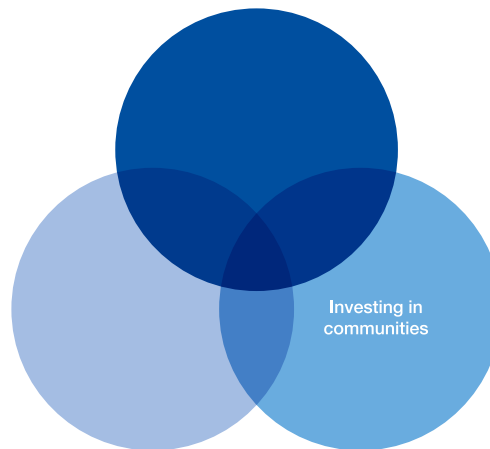


Investing in communities

We seek to promote sustainable economic and social development in our communities.

Following steps have been taken by the Bank:

- Community Investment & Contribution to National Causes
- Equal Opportunity for All Employees
- Environmental Protection Measures
- Energy Conservation and Energy saving measures
- Youth Education and Training
- Sports
- Women's Economic Empowerment
- Industrial relations
- Employee Engagement through Celebration of National Events
- Green banking activities and initiatives



Community Investment & Contribution to National Causes

MCB Bank seeks to demonstrate firm commitment towards the community by actively promoting the uplift of the society. The primary focus of the Bank remains extending support towards meeting the needs of communities and underprivileged in any way possible especially in the field of health and education.

During 2018, the Bank supported Shaukat Khanum Memorial Cancer Hospital and Research Centre, Pink Ribbon and Edhi Welfare Organization by helping them create awareness through Bank's platforms and providing donation channels through mediums such as MCB Mobile Banking and MCB Internet Banking. Moreover, the Bank organized two blood donation camps in coordination with Shaukat Khanam Memorial Cancer Hospital and Research Centre during the year at its main head offices in Lahore where MCB Staff enthusiastically donated blood.

MCB Bank also engaged keenly with causes related to the banking sector by sponsoring the activities of the Bankers Club in Karachi and holding an awareness session on Housing Finance at the Bankers Club, Bahawalpur.

MCB Bank understands the importance of education in Pakistan and in support of TCF Rahbar, employees volunteered in an 11-week teaching program for underprivileged children without any monetary benefit.

The Bank also acknowledged the sacrifices of military personnel and their role in promoting peace and security by sponsoring the Annual Shuhada Function of Frontier Corps (South), D.I. Khan.

MCB Bank has moved proactively in the field of poverty alleviation in Sri Lanka and providing funding for a Livelihood Development program under the project name Colombo North – Urban program has been a critical aspect to this strategy. The project aims at strengthening the household economy of 100 families by

providing livelihood kits and creating job opportunities through provision of vocational training and financial management. Its Community Welfare program also provided assistance in organizing Iftar programs in 8 different mosques during the month of Ramadan.

Equal Opportunity for All Employees

The Bank ensures through its approved Code of Conduct that the rights of all staff members are highlighted and each employee abides by the ethical standards of the Bank. MCB Bank is an equal opportunity employer and encourages employment of special persons. It does not discriminate on the basis of race, gender, age or disability. The Bank has also extended employment opportunities to special persons who are contributing towards the growth of the Bank.

The Bank provides employment to more than 20,000 staff in Pakistan itself. Of this, slightly more than a third is composed of contractual staff. Outside Pakistan, the Bank employs nearly 200 staff.

Environmental Protection Measures

A clean, congenial work environment is a major goal for the Bank. Major buildings have a professional third party arrangement to maintain external/internal plantation replaced on regular basis which maintain a good working environment.

In 2018, the Bank devoted considerable resources to maintain Landscaping alongside the VIP route on Airport Road Lahore in coordination with the Lahore Cantonment Board. The landscape project was conceived and executed by a professional third party horticulture specialist.

The Bank has also sought that protection of the environment be promoted through MCB Bank products.

All MCB Fun Club account holders have the option of planting a tree in their name and watching it grow on Google Earth. This enables them to contribute towards the betterment of society and make the world a greener place to live in.

As a responsible Bank, MCB Bank has endeavored to promote a paperless environment by introducing an array of Digital Banking services which will help to reduce our dependence on paper. The Bank has adopted green practices such as paperless services which include eco-friendly digital initiatives like Internet Banking, Mobile Banking and Digital Branch Noticeboards. All these initiatives are part of a larger shift towards the use of digital banking instead of branch banking aimed to help reduce the overall carbon footprint of the Bank.

MCB Bank has also introduced web based dispute claim filing utility for all ADC channels as another step towards paperless environment to facilitate customer convenience and resolution within defined turnaround time as well as increasing workplace automation. Certain regulatory processes have also been revised by digitalizing documents and placement on internal servers to reduce paper usage by MCB Staff.

Activities and initiatives taken by the Bank under SBP IH&SMEFD Circular # 08 dated October 09, 2017 are discussed in green banking initiative section.

Energy Conservation and Energy saving measures

Promoting energy conservation is a top priority for the Bank. With the energy crisis looming as a grave national concern, MCB Bank wants to lead by example. The management is keen towards reducing energy consumption by promoting practices that aim to use energy smartly and economically.

In line with the National Policy on Energy Conservation, the Bank emphasizes on strict controls to save Energy by exercising regular monitoring and controls. The updates are reported at higher levels on regular basis. In line with these efforts, MCB Bank has deployed solar power systems in selected branches as a pilot project.

To conserve energy, the Bank has already installed Business Management System (BMS) at two principal buildings of MCB Bank which deploy centralized control to optimize energy consumption. The BMS System is currently being upgraded to further enhance power conservation and reduce carbon footprint. A waste heat cogeneration system is also installed at MCB Center in Lahore and MCB Tower Karachi to further promote sustainability. Besides the above measures, MCB Bank emphasizes on the usage of glass panels on outer walls of buildings so as to utilize maximum sunlight during day time.

A team of competent engineers is also a part of MCB Bank to monitor energy resource utilization to:

1. Manage environmental impact
2. Implement technically and financially feasible measures to improve water consumption

Youth Education and Training

As one of the largest employers in Pakistan, the Bank provides employment opportunities to thousands of deserving candidates.

The Bank has a well-established and systematic approach towards identification of talent and has fair policies in place to promote and recognize shining workforce.

The Bank also encourages internal and external trainings throughout the year and has an in-house dedicated training center where monthly trainings are conducted for the Bank staff. In addition, an annual President level interactive session for the field and operational staff is held to boost employee morale and future performance.

The Bank aims to promote and encourage education beyond its walls by sponsoring the efforts of reputable Institutions. MCB Bank collaborated with the Women University for the construction of their Library in Swabi. It also sponsored the Diamond Jubilee Celebration for Burn Hall College, Abbottabad and Art & Culture Festival organized by The City Schools. The Bank also sponsored potable water coolers to Pir Syed Abdul Qadir Shah Jeelani Institute of Medical Sciences, Khairpur.

During 2018, the Bank also fostered education initiatives by sponsoring extra classes for students of underprivileged backgrounds appearing for Ordinary Level (O'Levels) Examinations at T B Jayah Maha Vidyalaya School through its presence in Sri Lanka.

Sports

The Bank is cognizant of the importance of sports in the development of the nation. During 2018, the Bank has sponsored the Corporate Silver League tournament and the Governor SBP Cup. It also provided sponsorship to All Pakistan Multan Open Golf Championship and the Chairman WAPDA Golf Tournament during 2018.

Women's Economic Empowerment

The Bank has also prioritized the empowerment of women through involvement in the economic cycle. In 2018, the Bank sponsored the 14th Women Chamber of Commerce and Industry – 'She in Trade exhibition' and advised women regarding the different financing facilities available for female entrepreneurs and how to effectively utilize these facilities to set up businesses, thus assisting them in integrating and diversifying in the business community in Pakistan. These entrepreneurs were also advised by our team of SME Bankers on managing their financial needs and providing them with the necessary business related services required to run a successful entrepreneurial venture.

The Bank's product portfolio has also been deployed to foster this goal by actively promoting the MCB Ladies Account Portfolio with 16,000 (approx.) relevant customers. Moreover, free Health Insurance Coverage by Adamjee Insurance Company Limited to all customers complying with the eligibility criteria was also provided accordingly.

Industrial relations

MCB Bank is fully responsible for maintaining a healthy relationship between individual workers and the employer. It places special emphasis upon the social contract that exists between staff and the organization as a whole. Clerical/non clerical staff is represented by a staff union that periodically engages with management to arrive at an equitable and mutually agreed wage award for the unionized staff (clerical/non clerical).

Scholarships are being offered to help meet the educational needs of staff children. During the year the Bank through its platform of "Staff Welfare Fund" spent more than PKR 5 million to assist clerical and non-clerical staff members by providing support to them for purposes such as the marriage of their children or to meet the burial expenses of their departed loved ones. Keeping in view the religious sentiments of our employees, the Bank also sponsored 12 staff to perform Hajj through balloting in 2018.

Employee Engagement through Celebration of National Events

MCB Bank has a legacy of giving back to its country through establishment of a patriotic culture within the Bank. On the auspicious occasion of Independence Day 2018, Marketing Division organized a grand Flag Hoisting ceremony on Pakistan's 71st Anniversary at its Head Office and at its regional office, MCB Tower in Karachi. The events showcased the true sentiment and spirit of this national day as a great number of staff along with families, participated enthusiastically in the events.

The cake cutting ceremony was performed by the President while being surrounded by children of Bank employees. Amongst engaging activities were specially designed Photo Booths with props, Popcorn and Cotton Candy, Face Painting, Goody Bags, Signing Wall and special giveaways. Enthusiastic participation from the children made the event vibrant, colorful and festive. The Head Office of MCB Bank was beautifully illuminated for the celebrations on the nights of Aug 13th and Aug 14th which turned out to be a show stopper.

Green Banking Initiative

MCB Bank is proud of its commitment to promoting environmentally sustainable business practices that help preserve our planet and its precious natural resources. We do this in a multifaceted, holistic manner that simultaneously leverages our strengths and enhances our operational efficiency.



Innovative Product Design

All MCB Fun Club account holders have the option of planting a tree in their name and watch it grow on Google Earth. This enables them to make a direct contribution towards the betterment of society and make the world a greener place to live in.



Paperless Operations

MCB Bank has also introduced web based dispute claim filing utility for all ADC channels as another step towards paperless environment to facilitate customer convenience and resolution within defined turnaround time as well as increasing workplace automation. Certain regulatory processes have also been revised and documents digitalized and stored on internal servers to reduce paper usage by Bank Staff.



Investments in Renewable Energy

As part of a pilot project, MCB Bank has deployed solar power systems in selected branches.



Building Design and Operations

Business Management System:

To conserve energy, the Bank has already installed Business Management System (BMS) at two principal buildings of MCB Bank which deploys centralized control to optimize energy consumption. The BMS System is currently being upgraded to further enhance power conservation and reduce carbon footprint.

Waste Heat Management:

A waste heat cogeneration system is also installed at MCB Center in Lahore and MCB Tower Karachi to further promote sustainability.

Glass Construction:

MCB Bank emphasizes using glass panels on outer walls of buildings so as to utilize maximum sunlight during day time.



Strategic Shift towards Branchless Banking

As a responsible bank, MCB Bank has endeavored to promote a paperless environment by introducing an array of Digital Banking services which will help to reduce our dependence on paper. MCB Bank has adopted green practices such as paperless services which include eco-friendly digital initiatives like Internet Banking, Mobile Banking and Digital Branch Noticeboards at Branches.

Stakeholders Relationship and Engagement

The development of sustained stakeholder relationships is paramount to the performance of any institution. From short term assessments to long-term strategic relationship building, 'Stakeholders' Engagement' lies at the core of our business practices to promote improved risk management, compliance with regulatory and lender requirements while ensuring growth of the Bank.

In achieving and entrenching its integrated approach to sustainability, MCB Bank takes a highly collaborative approach towards ensuring maximum interaction with, and input by all its stakeholders.

At MCB, stakeholder engagement involves far more than merely communicating with its various stakeholder groups. The Bank regards its stakeholders as partners and makes every effort to use all possible mediums to ensure that they are abreast with disclosures, aware of forums to provide valuable input and feedback that can help the Bank to grow, strengthen relations and meet expectations to serve better

The following tables provide an overview of stakeholder engagements at MCB Bank

Stakeholders	Stakeholder worthiness and reasons of engagement	Engagement frequency	Mode of consultation / interaction
Institutional Investors / Shareholders / Analysts	<ul style="list-style-type: none"> To deliver relevant and timely information to existing and potential shareholders To keep shareholders posted to ensure that our shares are traded at a fair value To ensure that the image of the bank and the trust placed in by our valuable shareholders, continues to improve, thereby minimizing the potential for reputational risks. 	Quarterly, semi-annually and annually When the need arises	<ul style="list-style-type: none"> Quarter, semi-annual and annual financial statements Annual General Meeting Participation in local and international road shows Press releases / Media announcements Result release call followed by Q & A session.
Employees	<ul style="list-style-type: none"> Integral to deliver strategic objectives Our most important and valued ambassador To ensure that we remain an employer of choice by providing a safe, positive and inspiring working environment To understand and respond the needs and concerns of our staff members To educate our staff regarding strategic direction and to communicate the pertinent information relating to bank activities 	Annual When the need arises	In addition to the regular communication that takes place with direct managers and teams through a range of interactive channels, specific employees engagement include: <ul style="list-style-type: none"> Regular electronic and printed newsletters Compliance letters Annual conference Strategy sessions Grievance reporting procedure
Customers	<ul style="list-style-type: none"> To win and maintain customers by developing and providing products and services to improve the brand. To understand the growing financial services needs of our customers. To provide better solution and advice to our customers' financial requirements To ensure accuracy of our customers respective information. Integral to achieve strategic objectives 	Regular interaction of customers through branch staff Dependent on customers' specific requirements	<ul style="list-style-type: none"> Interaction through our branches, relationship managers, call centers, social media, surveys and various advertising activities

Stakeholders Relationship and Engagement

Stakeholders	Stakeholder worthiness and reasons of engagement	Engagement frequency	Mode of consultation / interaction
Suppliers/Service Providers	<ul style="list-style-type: none"> Adhere to proper procurement regulations while maintaining a good business relationship with a service providers 	Routine basis/when the need arises	<ul style="list-style-type: none"> Rigorously following internal procurement policy and upgrading the policy regularly to ensure strong control and fair treatment of suppliers
Regulator	<ul style="list-style-type: none"> To maintain open, honest and transparent relationships with regulator To ensure meticulous compliance with legal and regulatory requirements Develop legislation and policies that impact the environment in which we operate 	Daily, weekly, quarterly When the need arises	<ul style="list-style-type: none"> Active engagement with regulator improves level of compliance. These include meetings with representative of regulator and written communications on need basis One-on-one Meeting Submission of applicable statutory returns Responding / enquiring various queries / information
Communities	<ul style="list-style-type: none"> To have best collaboration with our community for delivering our social responsibilities To obtain input from communities regarding key focus areas To create awareness of our integrated sustainability commitments and initiatives 	When the need arises	<p>The Bank actively participates in various social work initiatives as part of its corporate social responsibility.</p> <p>Being a conscientious member of the corporate community, the bank contributes to various social and charitable causes including health, education and social sectors.</p> <p>The Bank is consistent in support for community development projects and interaction with a wide range of non-profit organizations.</p>
Government	<ul style="list-style-type: none"> To build strong and constructive relationship with government, both as a partner in the development of our country and as a current / potential client To contribute in legislative development for evolution in our activities and operations To endorse our commitments for public sector business development 	When the need arises or on request by either side	<ul style="list-style-type: none"> Understanding and ensuring all legal and regulatory requirements are complied with Engaging with the government to address matters impacting business
Media	<ul style="list-style-type: none"> To acknowledge the role of media as a channel to communicate with relevant stakeholders and public at large 	When the need arises	<ul style="list-style-type: none"> Advertisements through print, electronic, social media, website, interviews and capacity building seminars

Investors' Relations section on Corporate Website

The management of the Bank provides equal and fair treatment to all investors/shareholders through transparent investor relations, increased awareness, effective communication, and prompt resolution of investors'/ shareholders' complaints.

The Bank disseminates information to its investors and shareholders through a mix of information exchange platforms, including its corporate website, maintained in both English and Urdu Languages under the applicable regulatory framework. The website is updated regularly to provide detailed and latest Bank information including but not limited to financial highlights, investor information, dividend and other requisite information besides the link to SECP's investor education portal, the 'Jamapunji'.

Stakeholders Relationship and Engagement

Steps to Encourage Minority Shareholders' Participation In AGMs

Apart from being an event for decision making on important matters, Annual General Meeting also provides a forum for two-way engagement with the shareholders, particularly the minority shareholders. Therefore, the Bank takes the following measures to ensure meaningful participation of minority shareholders in AGM:

- Notice of AGM is sent to every member of the Bank at least 21 days before the meeting. The notice was also published in newspapers (both English & Urdu) having nationwide circulation. Moreover, the notice is also circulated from the forum of Pakistan Stock Exchange.
- Annual Report of the Bank is sent to each member of the Bank before AGM in electronic (CD, email) or hard form (on request).
- The shareholders are facilitated to appoint a proxy if they are unable to attend the AGM in person.
- During AGM, a detailed briefing on the Bank's performance and future plans is given to the shareholders both Urdu and English.
- The shareholders are encouraged to raise queries and give suggestions relating to the Bank's operations.

Summary of the Analyst Briefings

Analyst briefings are interactive sessions between the management of the Bank and the investor community whereby the Bank takes the opportunity to apprise the local and foreign investors about the business environment and economic indicators of the country, explain its financial performance, competitive environment in which the Bank operates, investment decisions, challenges faced as well as business outlook.

The idea behind the Bank's investor engagement through these briefings is to give the right perspective of the business affairs of the Bank to the investors (both existing and potential) which help them in making their investment decisions.

The Bank conducts quarterly analyst briefings in order to share details pertaining to results announced and to respond to any queries of analysts relating to results and future prospects.

Other than the quarterly analysts briefing, business analysts are provided with information and briefings as and when they require without compromising on the confidentiality aspect. Face to face sessions are also arranged with local and foreign fund managers as and when required. The briefing further envisages our transparent and continuously evolving stakeholders' engagement approach.

Briefing is being held as teleconferencing and during the year four analysts briefing were held on following dates;

Results	Date
Annual Results 2017	February 28, 2018
1st Quarter Results 2018	May 7, 2018
2nd Quarter Results 2018	August 13, 2018
3rd Quarter Results 2018	November 7, 2018

Issues Raised In The Last Annual General Meeting (AGM)

No significant issue was raised in the last AGM. However, shareholders sought below general clarification during the 70th Annual General Meeting of the Bank held on March 27, 2018:

On an enquiry of the shareholder, Chief Financial Officer mentioned that after the amalgamation of NIB Bank with and into MCB Bank, the Non-Performing Loans ("NPLs"), base for the merged entity was reported at PKR 48.753 billion registered an increase of PKR 27.064 billion when compared with December 2016 numbers.

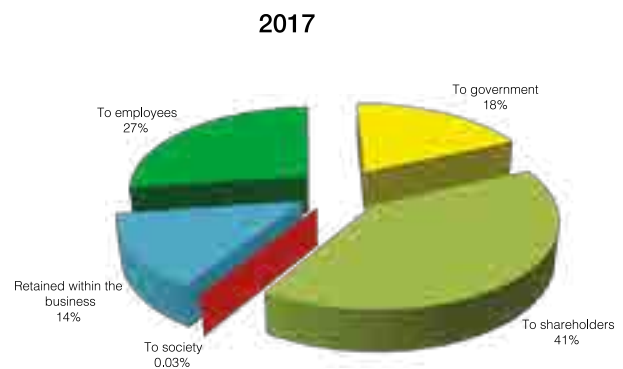
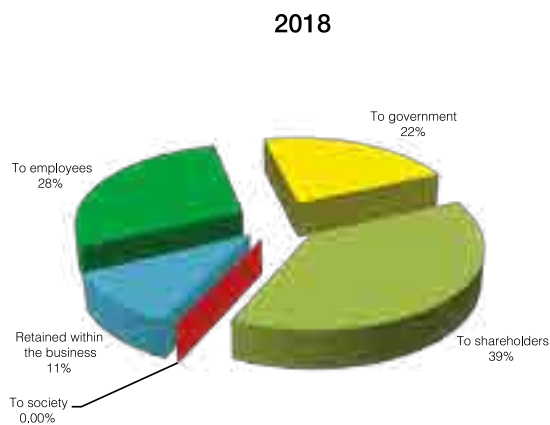
On another query, he further stated that net provision on equity investments amounting to PKR 3.6 billion was booked on account of significant volatility observed on the capital market side. CFO stated that due to declining interest rate, overall banking industry was experiencing compression in net interest margins. He mentioned that profit before tax reported at PKR 31.014 billion with a decrease of 14% over last year and profit after tax was reported at PKR 22.46 billion with an increase of 2.6% over last year on account of prior year's tax reversal..

During question/answer session, shareholders raised few queries regarding Bank's financial and operational matters which were satisfactorily responded by the President of the Bank. While responding to different queries of the shareholders, the President of the Bank stated that at the bottom line, the Bank posted healthy financial results despite a continuous fall in the discount rate and regulatory revisions resulting in low margins. The Bank remained a well-capitalized institution with a capital base well above the regulatory limits and Basel capital requirements. He added that the Bank had the highest cash dividend per share in the Banking industry.

Stakeholders Relationship and Engagement

Statement of Value Added

	2018		2017	
	PKR Mln	%	PKR Mln	%
Value Added				
Net interest income	46,014		42,662	
Non interest income	17,198		18,118	
Operating expenses excluding staff costs, depreciation, amortization and WWF	(15,921)		(13,785)	
Provision against advances, investments & others	1,753		(1,045)	
Value added available for distribution	49,044		45,950	
Distribution of value added:				
To employees				
Remuneration, provident fund and other benefits	14,053	28.65%	12,301	26.77%
To government				
Income tax	10,704	21.83%	8,555	18.62%
To shareholders				
Cash dividends to shareholders	18,961	38.66%	18,673	40.64%
To society				
Donations	1	0.00%	12	0.03%
Retained within the business				
Depreciation, amortization, retained profits and reserves	5,325	10.86%	6,409	13.95%
	49,044	100%	45,950	100%



Code of Conduct

- The Code of Conduct spells out the behaviour expected from employees of MCB Bank Limited (MCB), reflecting fairness, transparency and accountability. The Code of Conduct gives a quick reference check for acceptable business practices.
- However, the Code of Conduct does not replace defined and comprehensive HR Policies of MCB Bank Limited.
- MCB Bank is committed to conduct its business in accordance with the applicable laws, rules and regulations as defined by the State Bank of Pakistan by adhering to high standards of business ethics which reflect our corporate values.
- Adherence to the Code of conduct is mandatory for all employees of MCB Bank Ltd-Pakistan.

In line with code of conduct the employees of the bank shall

Abidance of Laws / Rules

- Conform to and abide by the Bank rules and policies, wherever we operate and obey all lawful orders and directives which may from time to time be given by any person or persons under whose jurisdiction, superintendence or control, the persona will, for the time being, be placed. To undertake at all times compliance with and observation of all applicable laws, regulations and Bank policies, wherever the Bank operates.

Integrity

- Conduct the highest standards of ethics, professional integrity and dignity in all dealings with the public, customers, investors, employees, and government officials, State Bank of Pakistan and fellow Bankers and non-engagement in acts discreditable to the Bank, profession and nation
- In case of awareness of any breaches of laws and regulations, frauds and other criminal activities or other similar serious incidents that might affect the interests of the Bank, the same shall be informed to the senior management immediately, including any issue, which may pose a reputational risk.
- Not use this policy to raise grievances or act in bad faith against colleagues.

Professionalism

- Serve the Bank honestly and faithfully and strictly serve the Bank affairs and the affairs of its constituents, use utmost endeavor to promote the interest and goodwill of the Bank and show courtesy and attention in all transactions/ correspondence with officers of Government, State Bank of Pakistan, other Banks & Financial Institutions, other establishments dealing with the Bank, the Bank constituents and the public.
- In case the employment is terminated for any reason, all rights to property and information generated or obtained as part of employment relationship will remain the exclusive property of MCB.
- Comply with the laws and regulations on money laundering and fraud prevention and immediate

reporting of all suspicions of money laundering as per the guidelines provided in CDD & AML/ CFT Handbook and Anti-fraud Framework Policy for the Management and the staff.

- Not to engage in any act of violation of CDD & AML / CFT Handbook's guidelines given by the State Bank of Pakistan and be extremely vigilant in protecting MCB Bank from being misused by anyone to launder money by violating these guidelines.
- Ensure that all customer complaints are resolved quickly, fairly and recorded appropriately.

Conflict of Interest

- Avoid all such circumstances in which there is personal conflict of interest, or may appear to be in conflict, with the interest of the Bank or its customers.
- In case of potential conflict of interest, the same should be declared immediately to senior management, action is taken to resolve and manage it in open manner and resolving the conflict of interest on their own would be avoided.
- Report to the Company Secretary within three (3) days about any sale and purchase of MCB shares (own or spouse) in case the annual basic salary exceeds Rs. 500,000/-.
- Not buy, sell or take position in any manner regarding MCB Bank shares during Closed Period, as announced by Company Secretary.

Relatives and close friends

- Avoid conflict of interest arising, where an employee makes or participates in a decision which affects another person with whom one has a personal relationship (such as a relative, parent, spouse, cousin, close friend or personal associate). In cases where a conflict may arise, employees must advise their immediate line manager. Wherever possible, employees should disqualify themselves from dealing with those persons in such situations.

Political Participation

- Not obtain membership of any political party, or take part in, subscribing in aid of, or assist in any way, any political movement in or outside of Pakistan or relating to the affairs of Pakistan.
- Not express views detrimental to the ideology, sovereignty or integrity of Pakistan.
- Not canvass or otherwise interfere or use influence in connection with or take part in any election as a candidate to a legislative/local body or issue an address to the electorate whether in Pakistan or elsewhere. However, the right to vote can be exercised.
- Not bring or attempt to bring political or other pressure/influence directly or indirectly to bear on the authorities/ superior officers or indulge in derogatory pamphleteering, contribute, or write letters to the newspapers, anonymously or in own name contribute or

appear in media, with an intent to induce the authority/superior officers to act in a manner inconsistent with rules, in respect of any matter relating to appointment, promotion, transfer, punishment, retirement or for any other conditions of service of employment.

Financial Interest

- Not indulge in any of the following activities without prior permission of competent authority (GH - HRM for VP & below and President for SVP & Above):
- Borrow money from or in any way place myself under pecuniary obligation to a broker or moneylender or anyone, including but not limited to any firm, company or person having dealings with the Bank.
- Buy or sell stock, shares or securities of any description without funds to meet the full cost in the case of purchase or scripts for delivery in the case of sale. However, a bona-fide investment of own funds in such stocks, shares and securities as wished can be made.
- Lend money in private capacity to a constituent of the Bank or have personal dealings with a constituent in the purchase or sale of bills of exchange, Government paper or any other securities.
- Act as agent for an insurance company otherwise than as agent for or on behalf of the Bank.
- Be connected with the formation or management of a joint stock company or hold office of a director.
- Engage in any other commercial business or pursuit, either on own account or as agent for another or others.
- Engage in any outside employment or office whether stipendiary or honorary during my employment with MCB Bank.
- Undertake part-time work for a private or public body or private person, or accept fee thereof.
- Any kind of trading advice concerning the securities of MCB Bank or to third parties even when such director, officer or employee does not possess material nonpublic information about MCB Bank.
- In reviewing or approving a loan application from a corporation wherein holding office as director, partner or guarantor.

Gift, Favors Etc.

- Not use the employment status to seek personal gain from those doing business or seeking to do business with MCB, nor accept such gain if offered.
- Not accept any gift, favors, entertainment or other benefit the size or frequency of which exceeds normal business contacts from clients, stakeholders, colleagues of the Bank or from persons likely to have dealings with the Bank including candidates for employment in the Bank.
- Reporting in writing to immediate supervisor within three working days in case any sizeable gift / favor is received from any third parties.

Confidentiality

- Maintain the privacy and confidentiality (during the course of employment and after its termination for whatever reason), of all the information acquired during the course of professional activities and refrain from disclosing the same unless otherwise required by statutory authorities / law. Inside information about Bank's customers/affairs including customer data, product manuals, confidential financial and business information of the Bank etc., shall not be used for own gain or for that of others either directly or indirectly.
- Not trade in relevant investments or indulge in giving tips to another person or dealing on behalf of relatives, friends or any other third parties, whilst in possession of non-public price sensitive information.
- Not disclose to a customer or customers or to any irrelevant quarter(s) that a suspicious transaction or related information is being reported for investigation unless any law enforcement agency requires any lawful information. (Only authorized representatives can pass on information to Law enforcing agencies after obtaining clearance on information content from relevant GH / BH(for RBG) and LAG representative).

Data Security

- Only access or update the system and data according to the authority given by the Bank. Any unauthorized access or updation will hold the person liable for a penal action by the Bank in accordance with HR policies.
- Not compromise access to system by communicating identification and /or passwords to others.
- Ensure that material non-public information is secure. Not discuss such information in public places where it can be overheard, such as elevators, restaurants, taxis and airplanes.

Communication / Contact with Media

- Be truthful in all advertisements and promotional efforts and to publish only accurate information about the Bank operations under valid authority as prescribed in the Bank policy.
- Not give any kind of confidential information or interview on behalf of the Bank or in my official capacity in the print/electronic media or road / talk shows or participate or act in television/stage plays or in any media or cinema without having permission from the Head of Corporate Communication & GH - HRM.

Speak Up

- To inform line management & HR of any perceived wrong doing / malpractice at any level, as an obligation to report it under the Bank whistle blowing program / policy.

Business / Work Ethics

- Respect fellow colleagues and work as a team. To be, at all times, courteous and not to let any personal differences affect work.

Customer Centricity

- Treat every customer of the Bank with respect and courtesy.
- Be responsive to customer complaints, and to feedback on products and services.
- Provide relevant, complete and clear information to customers to the best of one's knowledge.
- Sell products or services to customers that are within the legitimate scope of one's job.
- Remain update with the latest products of the Bank, and provide all relevant information to the customers.

Personal Responsibility

- Safeguard as a personal responsibility, both the tangible and intangible assets of MCB and its customer(s) that are under personal control and not to use Bank assets for personal benefits except where permitted by MCB.
- Not use any Bank facilities including a car or telephone to promote trade union activities, or carry weapons into Bank premises unless so authorized by the management, or to carry on trade union activities during office hours, or in banking premises, or subject Bank officials to physical harassment or abuse.

Punctuality

- Ensure attendance and punctuality as per HR policies, departmental requirements & job standards and for any absence during working hours obtain written permission of the immediate supervisor.

Dress Code

- Maintain a standard of personal hygiene / neatness and follow MCB Bank dress code policy in true spirit to promote a professional work environment during office hours.

International Travel

- Be culturally sensitive to the socio-cultural norms of the host country.
- Represent Country and organization by conforming to high standards of personal and professional ethics at all times.

Work Environment

- Cooperate in maintaining a healthy and productive work environment and not get engaged in the selling, manufacturing and distributing using any illegal substance or being under the influence of illegal drugs or alcohol while on the job.
- Ensure strict adherence to all policies of the Bank, as announced by the management from time to time and contribute utmost effort in maintaining a conducive work environment.

Usage of Communication Tools

- Ensure strict adherence to the use of internet, emails and telephone provided by the Bank for official use only.

- Never use the Bank system to transmit or receive electronic images or text containing ethnic slurs, social epithets or anything that might be construed as harassing, offensive or insulting to others.
- Never utilize Bank system to disseminate any material detrimental to the ideology, sovereignty or integrity of Pakistan.
- Never indulge and /or utilize the Bank system for supporting any terrorist activity within and / or outside Pakistan.

Reporting and Accountability

- Maintain all books, data, information and records with scrupulous integrity, reflecting in an accurate and timely manner and to ensure that all business transactions are reported and documented correctly according to the business practices. Ensure facts are not misinterpreted / misused /tampered pertaining to:
- Issuing an incorrect account statement / any other information for any customer or fellow employees / management.
- Placing a fake claim for reimbursement of any expenses (including medical insurance).
- Unrecorded or recorded funds / assets or any other Bank's documents.
- Posting of false, artificial or misleading entries in the books or record of the Bank.
- Intimate line management and HRM of any changes in the personal circumstances relating to service tenure and other related benefits, provided by the Bank.

Ethics for working with Female Employees

Gender Discrimination In Employment Training / Promotion

- Ensure adherence to the guidelines of MCB Bank's non-discrimination on the basis of gender which limits the individual's right of recruitment, future training, promotion and any other related benefits.

Zero Tolerance for Favoritism or Discrimination

- Not be a part of any undue favor / discriminatory advantage to any colleague / subordinate staff.

Personal Space

- No right to intrude on the personal space / close proximity of any staff particularly females.

Female Staff/Employee Privacy

- Recognize that female staff have more privacy and sensitivity needs in keeping with our cultural norms. Therefore, behaviour towards them must reflect that sensitivity, respect and consideration.

Harassment Against Women

- Any type of harassment is not acceptable at MCB Bank. Harassment occurs when someone's actions or words, based on gender, race, sexuality, caste, creed, and color

are unwelcome, violate another person's dignity and creates a hostile environment. (Reference to HR Policy Manual section 6, 6.2.5, Protection against harassment of women at the workplace Act, 2010)

- Accordingly, not engage in harassment in any form. It may include objectionable epithets, threatened or actual physical harm and intimidating conduct directed against the individual that negatively affects the performance and well-being of an individual.

Sexual Harassment

- Keeping in mind the Bank's policy with reference to the Protection against harassment of Women at the Workplace Act, 2010, adherence to all guidelines given by the Bank.

Communication

- Not send sexually explicit or offensive communications and respect the privacy of fellow employee especially female employees. Following factors should be adhered to in order to maintain effective communication and ethical standards:
 1. Not send any electronic mail that is abusive or threatens the safety of an Individual(s).
 2. Always use a professional tone in all official communications.
 3. Be careful when using sarcasm and humor

Workplace bullying

Refrain from any form of Workplace bullying:

- Shouting or swearing at an employee or otherwise verbally abusing him / her.
- Singling out an employee for excessive criticism/public humiliation.
- Excluding an employee from company activities and undermining his / her work contributions.
- Language or actions that embarrass or humiliate an employee.
- Inappropriate practical jokes, especially if they are targeted.

Insider Trading

Comply with insider trading policy and to abide by all guidelines provided in the policy.

Statement on Internal Controls

The internal control structure of MCB Bank Limited (Bank) comprises the Board of Directors, Senior Management, Risk Management Group, Financial Control Group, Operations Group, Compliance & Controls Group, Audit & Risk Assets Review (Audit & RAR) Group, Internal Control Units (ICUs) within all Groups and the controls & self-assessment procedures implemented at other functions within the Bank. The Bank's management is responsible to establish and maintain an adequate and effective system of internal controls and procedures under the policies approved by the Board. The management is also responsible for evaluating effectiveness of the Bank's internal control system that covers material matters through identification of control objectives as well as review of significant policies and procedures.

Bank's internal control system has been designed to identify and mitigate the risk of failure to achieve overall business objectives of the Bank. Internal controls and policies are designed to provide reasonable assurance regarding the effectiveness and efficiency of the Bank's operations, reliability of financial information and compliance with applicable laws & regulations. However, it needs to be stated that systems are designed to manage, rather than eliminate the risk of failure to achieve the business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The management of the Bank has adopted the Integrated Framework on Internal Controls issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and has completed all the stages as set out in the roadmap provided by the State Bank of Pakistan (SBP) through the Guidelines on Internal Controls. Bank's assessment included documenting, evaluating and testing of the design and operating effectiveness of its Internal Controls over Financial Reporting (ICFR). Bank has developed a management testing and reporting framework for monitoring ongoing operating effectiveness of key controls.

Concerted efforts are made by every Group to improve the control environment at grass root level by regularly reviewing and streamlining procedures to prevent and rectify control lapses as well as imparting training for improvement at various levels. Compliance & Controls Group (CCG), through its Regional Compliance Officers (RCOs) and centralized automated AML monitoring solution, also oversees adherence to the regulatory requirements, with specific emphasis on Anti-Money Laundering (AML) / Combatting the Financing of Terrorism (CFT). In addition, CCG also leads the Management's Committee on AML/CFT for oversight of AML/CFT compliance with respect to relevant laws, regulations, policies and procedures.

The scope of Audit & RAR Group, independent from the management, inter alia includes, review and assessment of the adequacy and effectiveness of the control activities across the Bank as well as evaluation of compliance with the Bank's prescribed policies and procedures. All significant / material findings of the internal audit activities are reported to the Board's Audit Committee. The Audit Committee actively monitors implementation of internal controls to ensure that identified risks are mitigated to safeguard interest of the Bank.

All significant and material findings of the internal and external auditors as well as observations of the regulators are addressed

on priority by the management and their status is reported periodically to the Board's Audit Committee and the Board's Compliance Review & Monitoring Committee respectively, which ensured that the management took appropriate corrective actions and put in place a system to minimize repetition for strengthening of the control environment.

A separate Issues Tracking & Monitoring (ITAM) structure with membership comprising of senior management is also in place. Periodic meetings of management sub-committees formed for this purpose are held with the goal to expedite the resolution/compliance of issues identified by the Regulators, Statutory Auditors as well as Audit & RAR Group. The Management Committee chaired by the Bank's President / Chief Executive Officer monitors the performance of sub-committees on annual basis.

In accordance with SBP's directives and as stated earlier, the Bank has completed all stages of ICFR roadmap and a Long Form Report (LFR) on the assessment of Bank's ICFR for the year 2017 issued by the statutory auditors has been submitted to SBP in compliance with its directives stated in OSED Circular No. 1 of 2014 dated February 07, 2014. None of the deficiencies identified had a material impact on Financial Reporting.

Based upon the results derived through ongoing testing of financial reporting controls and internal audits carried out during the year, the management considers that the Bank's existing internal control system is adequate and has been effectively implemented and monitored. The management will continue enhancing its coverage and compliance with the SBP Guidelines on Internal Controls and further strengthening its control environment on an ongoing basis.

Based on the above, the Board of Directors has duly endorsed management's evaluation of internal controls including ICFR in the Directors' report.



Farid Ahmad
Chief Compliance Officer
Compliance & Controls



Kamran Zaffar Muggo
Group Head
Operations



Hammad Khalid
Chief Financial Officer



Muhammad Farooq Wasi
Group Head
Audit & Risk Assets Review

Statement of Compliance with Listed Companies (Code of Corporate Governance) Regulations, 2017

MCB Bank Limited For the year ended December 31, 2018

MCB Bank Limited ("MCB" or the "Bank") has complied with the requirements of the Listed Companies (Code of Corporate Governance) Regulations, 2017 (the "Regulations") in the following manner:

1. The total number of Directors are 12 as per the following:

- a. Male: 11
- b. Female: 01

2. The composition of the Board is as follows:

Category	Name
*Independent Directors	Mr. Yahya Saleem Mr. Salman Khalid Butt
Non-Executive Directors	Mian Mohammad Mansha Mr. S. M. Muneer Mr. Muhammad Tariq Rafi Mian Umer Mansha Mrs. Iqraa Hassan Mansha Mr. Muhammad Ali Zeb Mr. Mohd Suhail Amar Suresh Bin Abdullah Mr. Nor Hizam Bin Hashim
Executive Director (President & CEO)	Mr. Imran Maqbool

*The State Bank of Pakistan ("SBP") and the Securities & Exchange Commission of Pakistan ("SECP") have granted relaxation to MCB Bank Limited from the requirement of minimum number of four (4) Independent Directors as required under BPRD Circular No. 15 of 2016 dated December 28, 2016 and the Regulation 6(1) of the Regulations, respectively, till March 31, 2019.

3. The directors have confirmed that none of them is serving as a director on more than five listed companies, including the Bank.
4. The Bank has prepared 'Code of Conduct' for employees and 'Code of Conduct & Ethical Standards' for directors and has ensured that appropriate steps have been taken to disseminate it throughout the Bank along with its supporting policies and procedures.
5. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
6. All the powers of the Board have been duly exercised and decisions on relevant matters have been taken by Board/Shareholders as empowered by the relevant provisions of the Companies Act, 2017 (the "Act") and the Regulations.
7. The meetings of the Board were presided over by the Chairman and, in his absence, by the Vice Chairman or a director elected by the Board for this purpose. The Board has complied with the requirements of Act and the Regulations with respect to frequency, recording and circulating minutes of meeting of the Board.
8. The Board of Directors has a formal policy and transparent procedures for remuneration of directors in accordance with the Act and these Regulations.
9. The majority of the Board Members either has minimum education and experience as required under regulation 20 (2) for exemption from Directors Training Program, or has already completed Directors Training Program pursuant to the requirements of the Regulations. During the year, the Board has arranged Directors' Training program for Mrs. Iqraa Hassan Mansha.
10. During the year, the Board has approved appointment of Chief Financial Officer ("CFO") including his remuneration and terms & conditions of employment and complied with relevant requirements of the Regulations.
11. The CFO and the President & Chief Executive Officer ("CEO") duly endorsed the financial statements before approval of the Board.

12. The Board has formed Eight (8) Committees. The names and composition of Committees along with the details of Committee(s) Members have been given in the Section on Corporate Governance.
13. The Terms of Reference ("TORs") of the aforesaid Committees have been formed, documented and advised to the respective Committee for compliance.
14. The frequency of the Committee meetings has been given in the Section on Corporate Governance.
15. The Board has set up an effective internal audit function which is considered suitably qualified and experienced for the purpose and conversant with the policies and procedures of the Bank.
16. The Statutory Auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan ("ICAP") and registered with Audit Oversight Board of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants ("IFAC") guidelines on code of ethics as adopted by the ICAP.
17. The Statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Act, these regulations or any other regulatory requirement and the auditors have confirmed that they have observed IFAC guidelines in this regard.
18. We confirm that all other requirements of the Regulations have been complied with.

For and on behalf of the Board of Directors

Imran Maqbool

Imran Maqbool
President & CEO
MCB Bank Limited

Iqraa Hassan Mansha

Iqraa Hassan Mansha
Director

February 20, 2019

Lahore

Independent Auditor's Review Report To the members of MCB Bank Limited

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

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

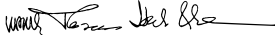
The responsibility for compliance with the Regulations is that of the Board of Directors of the Bank. Our responsibility is to review whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Regulations and report if it does not and to highlight any non-compliance with the requirements of the Regulations. A review is limited primarily to inquiries of the Bank's personnel and review of various documents prepared by the Bank to comply with the Regulations.

As a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Bank's corporate governance procedures and risks.

The Regulations require the Bank to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval, its related party transactions and also ensure compliance with the requirements of section 208 of the Companies Act, 2017. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out procedures to assess and determine the Bank's process for identification of related parties and that whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the requirements contained in the Regulations as applicable to the Bank for the year ended 31 December 2018.

March 04, 2019
Lahore



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

Report of the Audit Committee

Composition of Audit Committee

The Audit Committee comprises four (4) non-executive directors including one Independent Director, who is also the Chairman of the Committee. The members of the Audit Committee are qualified professionals and possess enriched experience of working at the Boards & Senior Management levels of entities operating in both banking and non-banking sectors. Further, two members are qualified chartered accountants.

Role of audit committee to discharge its responsibilities towards financial statements and committee overall approach to risk management:

- The Head of Internal Audit has direct access to the Chairman of the Board Audit Committee and in line with the requirements of Listed Companies (Code of Corporate Governance) Regulations – 2017, the Group Head Audit & RAR functionally reports to the Board's Audit Committee and administratively to Bank's President / CEO. The Committee ensures staffing of the internal audit function with personnel of sufficient internal audit knowledge and experience, as well as equipping of the function with necessary resources and authority to execute their responsibilities independently and objectively.
- The committee approves and oversees the risk assessment, annual audit plan and related enablers/budget along with resource requirements of Audit & Risk Assets Review (Audit & RAR) Group.
- All significant and material findings of the internal audit activities are reported to the Audit Committee. The Audit Committee actively monitors implementation of internal controls to ensure that identified risks are mitigated to safeguard the interest of the Bank.
- Audit Committee actively engages in the review of the Bank's quarterly, half yearly and annual financial statements as well as oversight of internal audit activities in accordance with the requirements of Listed Companies (Code of Corporate Governance) Regulations – 2017 and the Charter of the Board Audit Committee, duly approved by the Board of Directors.
- The Committee understands its responsibility to ensure that the significant issues in relation to financial statements are addressed properly by debating and challenging the critical judgements and estimates made by the management. Furthermore, Audit & RAR group also reviews the Bank's quarterly, half yearly and annual financial statements and discusses the significant matters with management.
- The committee ensures the independence of external auditors, effectiveness of external audit process and appointment/reappointment of external auditors by performing the followings:
 - Review the terms of engagement and ensure that external auditors are independent to the Bank in terms of regulatory requirements.
 - Ensure that external auditors have resources and professional qualification to conduct the audit.
 - The Auditors have been allowed direct access to the Audit Committee.
 - Discuss external auditors' feedback on the Banks' critical accounting estimates and judgements.
 - Discuss the significant control issues and significant audit matters identified by external auditors

Audit Committee held five (5) meetings, during the year 2018, and following matters (including significant matters) were discussed:

- Reviewed the quarterly, half yearly and annual financial statements of the Bank, and recommended them for approval of the Board of Directors. The committee concluded that the annual report was fair, balanced and understandable and also provided the necessary information for shareholders to assess the Bank's position and performance, business model and strategy.
- Reviewed the disclosure of related party transactions prior to their approval by the Board of Directors (BOD).
- Reviewed the status of compliance against observations highlighted by internal and external auditors, including regular updates on the rectification actions taken by the management in response to the audit findings.
- Reviewed the status of implementation of decisions of BOD and its Sub-Committees.
- Reviewed significant issues highlighted by internal auditors during audits/reviews of branches and other functions of the Bank.
- Reviewed analysis related to significant frauds and forgery incidents in the Bank, with specific focus on nature and reasons along with Management action(s) thereof. Review of annual fraud risk assessment along with action plan for strengthening of internal controls.
- Approval and oversight of risk assessment, annual audit plan and related enablers/budget along with resource requirements of Audit & Risk Assets Review (Audit & RAR) Group.
- Reviewed the status of trainings imparted to internal audit staff, along with status of activities under Quality Assurance & Improvement Program of Internal Audit.

- Reviewed the resolution status of complaints lodged under the Bank's Whistle Blowing Program.
- Reviewed the performance of Audit & RAR Group against its Key Performance Indicators (KPIs).
- Approval of Audit Group's increments, bonuses, promotions and performance appraisal of Group Head Audit & RAR in line with the requirements of Listed Companies (Code of Corporate Governance) Regulations - 2017
- Reviewed the progress on Audit Group's Strategic Initiatives and Milestones.
- Being eligible for reappointment as Auditors of the Bank, the committee had recommended the appointment of KPMG Taseer Hadi & Co., Chartered Accountants as external auditors of the Bank for the year ending December 31, 2019 as it is one of the big four audit firm and has thorough knowledge of the Bank's business and industry.
- In addition to the above, the Committee also reviewed and recommended the following to the Board:
 - Internal Audit Policy (version 8.0);
 - Internal Audit Policy for Wholesale Banking Operations – UAE (version 4.0);
 - Addendum to Internal Audit Manual (version 6.0);
 - Internal Audit Manual Sri Lanka Operations (version 3.0)
 - Statement on Internal Control by the Management prior to endorsement by the Board.

Committee performance

Performance of the Audit Committee is annually reviewed by the Board of Directors and Board appreciated the Committee's role in thoroughly reviewing the financial statements and Bank's internal audit function and other financial matters of critical importance.

Internal Control Framework and role of Internal Audit

The Bank's internal control structure comprises the Board of Directors, Senior Management, Risk Management Group, Compliance & Controls Group, Financial Control Group, the controls and self-assessment procedures implemented at other functions within the Bank; and Audit & RAR Group. Audit & RAR Group functionally reports to the Board's Audit Committee and administratively to Bank's President / CEO. The Management is responsible for establishing and maintaining a system of adequate and effective internal controls and procedures for implementing strategy and policies, as approved by the Board of Directors. The Bank has adopted integrated framework on Internal Controls issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and has completed all the stages, as set out in the roadmap provided by the State Bank of Pakistan (SBP) through the Guidelines on Internal Controls.

Audit & RAR Group has performed its role effectively on both assurance and consultative fronts. The Group played pivotal role in evaluating the efficacy of Bank's control systems and contributing towards their ongoing effectiveness by enhancing visibility of the Board and the management on the risk management and internal control matters of the Bank.

The Audit Committee will continue to provide guidance to the Audit & RAR Group and the management for further strengthening of Bank's risk management practices and internal control environment.



Yahya Saleem
Chairman Audit Committee
MCB Bank Limited