



Mashreq Bank Pakistan Limited

Annual Report 2025

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DIRECTORS' REPORT 2025

The Board of Directors is pleased to present its first report, after getting Digital Retail Bank (DRB) license from State Bank of Pakistan to commence commercial operations under Banking Companies Ordinance (BCO) 1962, and Part 'A' of the Licensing and Regulatory Framework for Digital Banks, together with the audited financial statements for the year ended 31 December 2025.

Macroeconomic Review

The Pakistan economy demonstrated stabilization in 2025, reflecting the positive impact of fiscal consolidation measures, calibrated monetary easing and improved external account balances. On the economic front, Pakistan's sovereign credit profile has strengthened with upgrades from major rating agencies. S&P Global Ratings raised Pakistan's long-term sovereign rating from CCC+ to B-, Fitch Ratings upgraded long-term rating from CCC+ to B- and Moody's Investors Service upgraded the long-term ratings from Caa2 to Caa1, all with stable outlooks, reflecting improved macroeconomic stability.

Pakistan's economic outlook has strengthened, with the economy gradually shifting toward a growth trajectory. Real GDP growth improved from 2.6% in FY24 to 3.0% in FY25, driven by a rebound in the industrial sector following two consecutive years of contraction. The recovery has continued into FY26, with Large-Scale Manufacturing exhibiting a growth of 4.8% in first-half FY26. The cumulative 11.50% reduction in the policy rate from June 2024 onwards has led to an ease in financial conditions and increase in credit to the private sector, which is supporting the ongoing economic recovery.

Headline inflation has moderated sharply, averaging 3.5% in 2025, compared with 13.3% in 2024 and 30.9% in 2023. The current account recorded a surplus of \$2.1 billion in FY25, Pakistan's first surplus in 14 years, driven by a sustained rebound in remittances, alongside stronger-than-expected net trade in services, and import demand compression amid fiscal consolidation. Gross reserves stood at \$14.5 billion at end-FY25, up from \$9.4 billion a year earlier, and are projected to continue to buildup over the medium term.

The IMF completed the second review of Pakistan's economic program under the Extended Fund Facility (EFF) and the first review under the Resilience and Sustainability Facility (RSF). Pakistan secured approval for \$1.2 billion tranche after successfully completing all key economic benchmarks. Pakistan's policy efforts under the EFF have delivered significant progress in stabilizing the economy and rebuilding confidence amid a challenging global environment and recent severe floods.

Financial markets responded favourably to the improving macroeconomic environment. The Pakistan Stock Exchange reached an all-time high, closing at 174,054 points by the end of December 2025 – an impressive 51% compared to 115,127 points at the end of 2024. This market rally was driven by a combination of declining interest rates, robust corporate earnings and renewed investor confidence.

On the geopolitical front, Pakistan witnessed positive developments with Strategic Defence Agreement with Saudi Arabia and establishment of UAE-Pakistan Joint Business Council. Pakistan and the UAE are committed to deepening collaboration in trade, investment, energy and regional matters. Pakistan and Saudi Arabia have agreed to launch an Economic Cooperation Framework to strengthen trade and investment ties. China is Pakistan's largest investor with \$1.2 billion FDI investment in FY25. Moving forward, deeper bilateral ties will further enhance the investment landscape in Pakistan.

Pakistan's digital economy has expanded sharply, driven by government-led initiatives aimed at promoting financial inclusion, digitization of payments and enhanced connectivity. Payments through digital channels accounted for 88% of retail transactions in FY25, increase from 85% in FY24. Value of payments through digital channel accounted for 29% of all retail payments, growing from 21% in FY24. Given the shift towards digital solution and the growth in digital infrastructure, Pakistan is positioned to move closer to a secure, convenient and widely accessible digital economy.

Overall, Pakistan's macro environment is showing signs of sustained improvement. Key indicators, such as easing inflation, declining interest rates and strengthening foreign exchange reserve signal a supportive environment for sustained growth. However, downside risks remain

– including external vulnerabilities linked to global commodity prices, geopolitical tensions and shifts in global monetary policy. Sustained progress on structural reforms will remain critical to preserving macroeconomic stability and promoting inclusive, long-term growth.

Financial Performance

Mashreq Bank Pakistan Limited (“the Bank”) is a wholly owned subsidiary of Mashreq Bank PSC (the “Parent Company”), incorporated in the United Arab Emirates. The Bank was incorporated in Pakistan on 5 July 2023 as an Unlisted Public Limited Company. On 13 January 2023, the State Bank of Pakistan (“SBP”) granted a *No Objection Certificate (NOC)*, followed by the issuance of an *in-principle approval (IPA)* on 20 September 2023, under the SBP’s Licensing and Regulatory Framework for Digital Banks.

The Bank’s principal objective is to undertake banking activities with a strategic focus on establishing a Digital Retail Bank in Pakistan in accordance with the framework prescribed by the SBP. In furtherance of this objective, the SBP, in exercise of its powers under Section 27 of the Banking Companies Ordinance, 1962, granted the Bank a banking license to operate as a Digital Retail Bank (DRB) on 15 September 2025. In line with the terms and conditions of the license, the Bank commenced operations on 16 September 2025, marking a significant milestone in its journey.

During the year, the Bank incurred a loss before taxation of Rs. 7,803.32 million (2024: Rs. 3,273.76 million), primarily reflecting the essential start-up and establishment costs associated with building a robust digital banking platform. With the formal commencement of commercial operations under the SBP’s Digital Banking framework, the Bank transitioned from the preparatory phase to full-scale operational readiness.

Throughout the year, the Bank remained focused on validating its digital banking systems, optimizing operational workflows, and strengthening its information technology and cybersecurity infrastructure. These foundational initiatives enabled a seamless launch of operations and positioned the Bank to deliver secure, resilient, and efficient digital financial services. In parallel, substantial progress was made in the development and rollout of

innovative digital products, enhancement of customer onboarding journeys, and streamlining of service delivery channels—reflecting the Bank’s commitment to providing a best-in-class digital banking experience.

As the Bank enters this new phase of commercial operations, it remains steadfast in its commitment to regulatory compliance, operational excellence, and customer-centric innovation, guided by the strong governance standards of the Mashreq Group.

Capital Ratios

The Bank’s Tier 1 and Tier 2 Capital Adequacy Ratios as at 31 December 2025 were 81.52% and 81.76%, respectively, both comfortably above regulatory requirements.

Future Outlook

Mashreq Bank Pakistan Limited (MBPL) is set to reshape digital banking in Pakistan. Backed by Mashreqbank PSC global strength and innovation focus, MBPL is building a secure, inclusive digital platform to include a wider range of retail-focused digital services, reinforcing its commitment to innovation and customer convenience. The bank’s long-term strategic vision continues to center on digital innovation, financial inclusion and the delivery of scalable, customer-centric banking solutions tailored to the evolving needs of Pakistan’s digital economy.

In line with this vision, the Bank will operate under two segments (a) Mashreq NEO and (b) Mashreq NeoBiz. Mashreq NEO caters to individual customers, providing digital accounts, high-yield savings, current accounts and NRP accounts. Mashreq NeoBiz (currently in Pilot phase) is Pakistan’s first fully digital banking solution for entrepreneurs and business owners, delivering secure, seamless financial services through a single integrated platform. These services are designed to simplify access to financial tools for small businesses and entrepreneurs through an entirely digital experience. MBPL has adopted an Islamic-first strategy in response to increasing client demand for Shariah-compliant solutions and the Federal Shariah Court’s directive regarding the transition to an interest-free economy and banking system by the end of 2027.

MBPL employs a sophisticated MIS infrastructure to support its digital-banking operations, anchored by the globally recognised Oracle FLEXCUBE core-banking platform, which enables real-time processing, scalability and seamless integration across retail, SME and Islamic banking segments. The bank's technology architecture is supported by AI-driven risk controls, strong cybersecurity and advanced operational resilience.

MBPL's mobile banking application, offering a user-centric interface with advanced digital onboarding, instant real-time fund transfers, debit-card issuance and bill payments covering more than 4,000 billers. Designed to enhance customer convenience and promote 24/7 self-service banking, the app is backed by AI-driven risk controls, no-fee ATM withdrawals across a network of 19,000+ ATMs and strengthens the bank's digital presence in line with its technology-led growth strategy.

Risk Management Framework

Risk management considerations are embedded in the Bank's strategy, organizational structure, and processes. Mashreq Bank Pakistan ("the Bank"), as a **digital-only retail bank**, has adopted a cohesive and integrated risk management framework covering credit, market, liquidity, operational, information security, business continuity, and fraud risks. The framework is designed to ensure that controls are embedded within processes and systems, as controls are most effective when built into day-to-day operations. Effective risk management is considered essential for safeguarding the Bank's assets and supporting its long-term sustainability and profitability.

OVERALL RISK GOVERNANCE

Mashreq maintains a robust and comprehensive risk management framework commensurate with its complexity, scale, and digital-only business model. Risk management considerations are embedded within the Bank's philosophy, strategy, organizational practices, and governance structure. The Bank has established an integrated and cohesive framework to manage credit, operational, information security, business continuity, liquidity, and market risks, supported by strengthened internal controls.

The framework ensures effective identification, assessment, monitoring, and management of risks across all areas of the Bank. Risk management is embedded at strategic, tactical, and operational levels of decision-making. The framework is designed with sufficient capacity and flexibility to respond to evolving market conditions, regulatory developments, and internal risk requirements.

As a **fully digital retail bank**, the Bank operates without a physical branch network and delivers its services through secure, technology-enabled platforms supported by resilient and scalable infrastructure. Segregation of duties is embedded within system architecture and organizational design as a key internal control. The Internal Audit function conducts independent, risk-based reviews of key processes, systems, and major functions to assess the effectiveness of internal controls. Comprehensive internal reporting and a robust Management Information System further support effective risk oversight. The Risk Management function is staffed with experienced professionals possessing the expertise required to manage the full spectrum of risks faced by the Bank.

Oversight of the Bank's risk management framework, strategy, and processes is exercised by the Board of Directors through the Board Risk Management and Credit Committee, supported by senior management committees including the Executive Committee, the Enterprise Risk Committee and the Compliance Committee.

CREDIT RISK

As a newly established digital retail bank, Mashreq Bank Pakistan Limited currently does not maintain any advances or lending portfolio. Accordingly, traditional credit risk arising from financing activities is not applicable at this stage. However, when launched, Mashreq intends to manage credit risk through prudent diversification across products, geographies, industries, and customer segments. The Bank's credit strategy will primarily focus on Retail financing. The credit portfolio is intended to be largely priced on a floating-rate basis, benchmarked to KIBOR, thereby reducing exposure to interest rate volatility. Credit risk management will be supported by robust credit approval, review, and monitoring processes aimed at ensuring appropriate risk assessment, collateral adequacy, and ongoing exposure oversight. These controls are planned

to be complemented by centralized Retail Operations functions to ensure consistency and strong governance.

MARKET AND LIQUIDITY RISK

Market and liquidity risks are managed by a specialized Market and Liquidity Risk function responsible for identifying, assessing, monitoring, and reporting interest rate, equity, currency, and foreign exchange risks. These risks are managed in accordance with Board-approved Market and Liquidity Risk Management Policies.

The Asset and Liability Management Committee regularly reviews economic and market conditions and recommends appropriate exposure levels and limits. The Bank's investment strategy aims to balance risk, liquidity, and profitability and is governed by a Board-approved investment policy.

STRESS TESTING

The Bank employs stress testing methodologies to assess its resilience under adverse market conditions and to evaluate potential impacts arising from movements in key risk factors, including interest rate, credit, exchange rate, and liquidity risks. Stress testing practices are aligned with regulatory guidance issued by the State Bank of Pakistan.

CAPITAL MANAGEMENT

The Bank maintains its Capital Adequacy Ratio above the regulatory minimum requirements prescribed under Basel regulations and related supervisory guidelines. Mashreq has implemented a Board-approved Internal Capital Adequacy Assessment Process (ICAAP) and Risk Appetite Statement. The ICAAP framework is well defined and subject to regular review and enhancement.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems, people, or from external events. It encompasses a broad range of potential risks that

can disrupt normal operations or lead to financial loss, and it is a critical part of the Bank's overall Enterprise Risk Management Framework ("ERMF"). In line with the ERMF, the Bank has established a dedicated Operational Risk Management Department ("ORMD"), who is the primary owner of the Operational Risk Management Framework ("ORMF").

To ensure effective implementation of the ORMF, Business Unit Risk Assessors ("BURAs") and Business Unit Risk Managers ("BURMs") have been nominated across more than 15 functions. These individuals are responsible for coordinating with ORMD to embed operational risk practices within their respective functions. The ORMF addresses key components of operational risk, including Risk and Control Self-Assessment (RCSA), Key Risk Indicators (KRIs), operational loss data management, operational risk reporting, and capital calculation. As part of the risk identification, assessment, monitoring and reporting process, the Bank has initiated the development of a risk register in collaboration with various functional units.

SHARIAH NON-COMPLIANCE RISK

MBPL is committed to ensuring that the Islamic Business is conducted in compliance with Shariah guidelines and values, as prescribed by SBP and MBPL's Shariah Board. There is a comprehensive Shariah Non-compliance Risk framework in place to ensure that Islamic business and operations are conducted in line with MBPL's Shariah Board resolutions, fatwas and SBP regulations & guidelines.

FRAUD RISK

The Bank maintains a strong focus on fraud risk prevention and management. A comprehensive fraud risk management policy governs prevention, detection, investigation, and reporting processes. A dedicated Fraud Risk Management function operates under the oversight of the Board Risk and Compliance Committee.

Given the Bank's digital operating model, fraud risk monitoring is conducted on a **24/7 basis**, with continuous monitoring of digital transactions to identify suspicious patterns and emerging threats. The Bank remains committed to protecting its customers by adopting best practices and collaborating with relevant industry stakeholders.

BUSINESS CONTINUITY RISK

The Bank continuously enhances its operational resilience through a comprehensive Business Continuity Management framework. The framework comprises policies and detailed plans that define roles, responsibilities, recovery strategies, and response actions, informed by regular risk and business impact assessments. It is aligned with applicable regulatory requirements and industry best practices and is subject to periodic review and testing.

Mashreq maintains business continuity sites and work-from-home capabilities as part of its contingency arrangements. Staff preparedness is supported through regular training, awareness programmes, and simulation exercises. These measures support the Bank's objective of sustaining critical operations and service delivery during disruptive events.

INFORMATION SECURITY RISK

The Information Security function, operating as part of the Risk Management framework, serves as the second line of defense in safeguarding the Bank's information assets and systems. Its objective is to minimize information security risk while ensuring the confidentiality, integrity, and availability of customer and Bank information.

Information security activities include risk assessments, monitoring, reporting, and control reviews, aligned with the Bank's risk appetite. The function also promotes awareness and understanding of information security risks and mitigation measures across the organization.

COMPLIANCE RISK

Compliance Risk is defined as the risk of legal or regulatory sanctions, loss to reputation or material financial loss a bank may suffer as a result of its failure to comply with laws, regulations, rules related to self-regulatory organization standards, and codes of conduct applicable to its banking activities. The compliance risk is recorded as L1 risk under Enterprise Risk Framework whilst money laundering, sanctions & proliferation financing, bribery and corruption are L2 risks.

The Board of Directors ensures that the Bank operates in full compliance with the regulatory framework prescribed by the State Bank of Pakistan (SBP), the Securities and Exchange Commission of Pakistan (SECP), where applicable, and all other relevant laws. The Board and the Senior Management at the Bank identify the importance of "Tone at the Top" as a primary component of a compliance program and Mashreq Bank Pakistan is firmly committed to preserving the integrity and reputation of the Bank by encouraging and ensuring compliance with all the applicable laws and regulations with a particular focus on **Know Your Customer (KYC)** and **Anti-Money Laundering / Combating Financing of Terrorism / Combating Proliferation Financing (AML/CFT/CPF)** requirements.

Given the Bank's digital operating model, enhanced emphasis has been placed on automated controls and monitoring. Robust customer due diligence processes have been implemented, supported by transaction monitoring capabilities designed to identify unusual or suspicious activity. The Bank reports Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs) to the Financial Monitoring Unit in accordance with regulatory requirements. Mashreq Bank Pakistan is compliant with **FATCA** and **Common Reporting Standard (CRS)** requirements, with appropriate processes in place to identify customer tax residency and meet applicable reporting obligations.

As the Bank continues to build and scale its operations, the Compliance function remains focused on strengthening controls, enhancing staff awareness, and supporting the Bank's commitment to operating with integrity, transparency, and regulatory discipline from the outset.

A Shariah compliance unit is in place which operates under the guidance of the Shariah Board and acts as a conduit between the Shariah Board and the management. The Shariah compliance unit conducts ongoing reviews to maintain vigilant oversight of the Bank's Shariah compliance environment, ensuring that the Shariah governance framework is effectively integrated throughout the organization and consistently adhered to.

Corporate Social Responsibility (CSR)

Mashreq won first brand and ESG Award in Pakistan for Climb2Change initiative. Under the global Climb2Change CSR movement, the Bank continues to translate ambition into action—scaling impact from international platforms to meaningful, on-ground initiatives in Pakistan. As part of the Pakistan expedition, clean-up drives were conducted at K2, Broad Peak, Goro II and Concordia, led by renowned climbers Maria Conceição and Naila Kiani, alongside dedicated Mashreq Pakistan employees.

The team successfully removed 1.7 tons of waste across 26 categories, including a record clean-up at an altitude of 23,800 feet on K2. All collected waste was processed in full compliance with Pakistani environmental regulations. Beyond environmental restoration, the initiative generated shared value by supporting 47 local businesses and positively impacting more than 100 individuals within surrounding communities. Through these efforts, Climb2Change meaningfully contributes to multiple UN Sustainable Development Goals, reinforcing the Bank’s vision to lead by example—driving collaboration worldwide to scale ESG efforts and empowering others to launch their own initiatives for a more sustainable future.

Credit Ratings

Mashreq Bank has been assigned credit ratings of AA for long-term and A1 for short-term by Pakistan Credit Rating Agency Limited (PACRA).

Disclosure of information related to the Directors of the Bank

S.no	Name of director	Year since on the board	Status of director	Member of Board of Committees	Number of Board memberships along with names of Companies
1	Fernando Isidro Morillo Lopez	2023	Chairman / Non-Executive Director	• Digital, IT & Information Security	Synthetic Neural Labs

				Committee • Human Resource & Remuneration Committee	
2	Salman Hadi*	2025	Non-Executive Director	• Risk Management & Credit Committee • Audit Committee	
3	Iqbal Hassan Khanyari	2023	Non-Executive Director	• Risk Management & Credit Committee • Audit Committee	
4	Mohamed Salah AbdelHamid Abdel-Razek	2024	Non-Executive Director	• Digital, IT & Information Security Committee • Audit Committee	Sukoon Insurance UAE
5	Muhammad Hamayun Sajjad	2024	CEO / Executive Director	• Digital, IT & Information Security Committee • Risk Management	1-Link Private Limited

				& Credit Committee	
6	Rania Nerhal Hussein Hamdy	2023	Non-Executive Director	<ul style="list-style-type: none"> • Risk Management & Credit Committee • HR & Remuneration Committee 	
7	Shazad Dada	2023	Independent Director	<ul style="list-style-type: none"> • Digital, IT & Information Security Committee • Risk Management & Credit Committee • HR & Remuneration Committee 	<ul style="list-style-type: none"> - Development in Literacy - Mutual Funds Association of Pakistan - Kashf Foundation, - PIA Holding Company Limited - Dada Partners (Pvt) Limited
8	Rashid Ali Khan	2024	Independent Director	<ul style="list-style-type: none"> • Audit Committee • HR & Remuneration Committee 	<ul style="list-style-type: none"> - Nayatel Limited - Micronet Limited - Sukh Chayn Limited
9	Syed Naseer ul Hasan	2023	Independent Director	<ul style="list-style-type: none"> • Digital, IT & Information Security Committee 	<ul style="list-style-type: none"> - Idenfo Limited UK - Ping Up UK

				•Audit Committee	
10	Hammad Naqvi *	2023	Non-Executive Director	•Risk Management & Credit Committee •Audit Committee	- MASHREQ GLOBAL SERVICES LIMITED - MASHREQ CAPITAL (DIFC) LTD - INVICTUS LIMITED

* During the year, the Board composition changed with the resignation of Mr. Hammad Naqvi in March 2025, Mr. Salman Hadi was appointed as Director to fill the casual vacancy created by the resignation of Mr. Naqvi.

Meetings of the Board

Details of the meetings of the Board of Directors and its Sub-Committees held during the year 2025 and the attendance by each director/ committee member are given as under:

Name of Directors	Board of Directors	Audit Committee (BAC)	Risk Management and Credit Committee (BRMCC)	Human Resource and Remuneration Committee (BHRRC)	Digital, IT and Information Security Committee (BDTIS)
Mr. Fernando Isidro Morillo Lopez	7/7	-	-	2/2	3/3

Ms. Rania Nerhal Hussein Hamdy	6/7	-	3/4	1/2	-
Mr. Iqbal Hassan Khanyari	7/7	4/4	4/4	-	-
Mr. Mohamed Salah Abdel Hamid Abdel-Razek	7/7	4/4	-	-	3/3
Mr. Muhammad Hamayun Sajjad	7/7	-	4/4	-	3/3
Mr. Shazad Dada	7/7	-	4/4	2/2	3/3
Mr. Syed Naseer ul Hasan	7/7	4/4	-	2/2	3/3
Mr. Rashid Ali Khan	6/7	4/4	-	2/2	-
Mr. Hammad Naqvi *	1/7	-	-	-	-
Mr. Salman Hadi*	2/7	¼	1/1	-	-
Meetings Held	7	4	4	2	3

* During the year, the Board composition changed with the resignation of Mr. Hammad Naqvi in March 2025, Mr. Salman Hadi was appointed as Director to fill the casual vacancy created by the resignation of Mr. Naqvi.

Meetings of the Shariah Board

Name of Shariah Board Member	Meetings held during tenure	Attendance
Dr. Ahcene Lahsasna (Chairman Shariah Board)	4	4
Mufti Imtiaz Alam (Member Shariah Board)	4	4
Mufti Muhammad Abdullah (Resident Shariah Board Member)	4	4

Training programmes attended by Directors

All Directors have obtained certification from an SECP approved Directors' Training programme.

Composition of the Board and Board Committees

The composition of the Board and details of Board Committees are given in the Statement of Compliance with the Code of Corporate Governance.

BOARD COMMITTEES

To enhance the effectiveness and efficiency of governance, the Board has constituted the following committees, each operating in accordance with its **Terms of Reference (ToR)** approved by the Board. A summary of the roles and key responsibilities of each committee is outlined below.

1. Board Audit Committee (BAC)

The Board Audit Committee assists the Board in ensuring the accuracy, integrity, and transparency of the Bank's financial reporting and disclosures.

Key responsibilities include:

- Oversight of the financial reporting process, including significant accounting judgments, estimates, and regulatory compliance.
- Monitoring the adequacy and effectiveness of internal controls, including information technology–related controls.
- Ensuring the independence, performance, and appropriate resourcing of the Internal Audit Function (IAF) and Internal Shariah Audit Function (ISAF).
- Supervising the appointment, independence, and performance of external auditors and external Shariah auditors.
- Reviewing fraud cases, whistleblowing matters, compliance breaches, and the effectiveness of corrective actions.
- Ensuring compliance with SBP regulations, International Financial Reporting Standards (IFRS), Corporate Governance requirements, and the Shariah Governance Framework.

2. Board Risk Management and Credit Committee (BRMCC)

The Board Risk Management and Credit Committee supports the Board in overseeing the Bank’s risk governance framework and ensuring alignment with SBP risk management standards.

Key responsibilities include:

- Advising the Board on the Bank’s current and emerging risk profile, risk appetite, and overall risk strategy.
- Reviewing and recommending policies relating to credit, market, liquidity, operational, information security, Shariah non-compliance, fraud, and outsourcing risks.
- Monitoring the effectiveness of the compliance function and ensuring the independence of risk control units.
- Reviewing the Internal Capital Adequacy Assessment Process (ICAAP), stress testing results, IFRS 9 expected credit loss models, and key risk-related reports.

- Assessing risk dashboards, key risk indicators (KRIs), Risk and Control Self-Assessment (RCSA) outcomes, fraud reports, and business continuity preparedness.
- Ensuring appropriate model validation, capital planning, and alignment with regulatory expectations.

3. Board Human Resource and Remuneration Committee (BHRRC)

The Board Human Resource and Remuneration Committee assists the Board in overseeing the Bank's people strategy, leadership development, and remuneration governance.

Key responsibilities include:

- Recommending human resource policies aligned with Mashreq Group standards and SBP regulatory requirements.
- Overseeing the appointment, evaluation, compensation, and succession planning of the Chief Executive Officer and senior management.
- Ensuring compliance with SBP Remuneration Regulations, including identification of Material Risk Takers (MRTs) / Material Risk Controllers (MRCs) and risk-aligned compensation practices.
- Reviewing and recommending the Bank's remuneration and benefits framework, including directors' compensation.
- Reviewing significant organizational structure changes and governance reporting lines.
- Overseeing the implementation of the Learning and Development framework.
- Ensuring annual self-assessments and facilitating independent evaluations of the committee.

4. Board Digital, IT and Information Security Committee (BDTIS)

The Board Digital, IT and Information Security Committee supports the Board in overseeing technology governance, cybersecurity, and the Bank's digital transformation agenda.

Key responsibilities include:

- Oversight of the Bank's IT and digital strategy, including major transformation initiatives and technology roadmaps.
- Reviewing information security posture, cyber risk frameworks, and disaster recovery readiness.
- Approving and monitoring cloud outsourcing arrangements, technology procurement, and SBP-related technology compliance.
- Ensuring alignment with the Bank's IT governance framework, including system architecture, data protection, and operational resilience.
- Monitoring the resolution of audit findings, regulatory observations, and material technology risk issues.
- Ensuring adequate resources, skills, and operational capacity within technology teams
- Reviewing the Terms of Reference and outputs of relevant IT steering committees.

Appointment and Composition of the Shariah Board

Shariah scholars are appointed for a term of three years by the Board of Directors (BoD) in accordance with the Fit and Proper Criteria prescribed in the State Bank of Pakistan's Shariah Governance Framework (SGF). After obtaining the BoD's approval, prior clearance from SBP is required before onboarding a Shariah Board Member. Each Shariah Board Member is dedicated to only one commercial bank in Pakistan. MBPL's Shariah Board comprises three members:

Dr. Ahcene Lahsasna is the Chairman of MBPL Shariah Board he is also an Executive Member of the Shari'ah Supervision Committee at Mashreq Al Islami UAE and a registered Shari'ah advisor at Bank Negara Malaysia and the Securities Commission Malaysia. He serves on the Shari'ah boards of Standard Chartered Malaysia and Etiqa General Takaful Berhad Malaysia. Dr. Lahsasna has authored numerous works on Islamic finance and is qualified in Islamic Law, Jurisprudence, and Banking and Finance from institutions in Algeria and Malaysia.

Mufti Imtiaz Alam serves as a Member of the Shariah Board and has extensive Shari'ah advisory experience in Islamic banking, serving on the Shariah board and Shariah compliance function of

UBL Ameen, HBL Islamic and in the Takaful industry since 2009. He currently provides Shariah consultancy to UBL Insurers Window Takaful and HBL Insurance Window Takaful. Mufti Imtiaz holds a dissertation in Islamic jurisprudence and degrees including "Shahadatul Aalamiyyah" and "Al Takhassus Fil Ifta" from Jamia Darul Uloom, Karachi.

Mufti Muhammad Abdullah is Resident Shariah Board Member having over fifteen years of Shari'ah advisory and compliance experience with Faysal Bank Pakistan, Standard Chartered Pakistan, and Al Baraka Bank Pakistan, with core expertise in Islamic bank conversions. He holds "Shahadatul Aalamiyyah" from Jamia-tul-Uloom-ul-Islamia, Allama Binori Town and "At-Takhassus Fil-Fiqh Al-Islami" from Jamia Darul Uloom Rasheedia, along with master's degrees in Economics, Islamic Studies, Arabic and History from reputable and recognized universities. He is a registered Shariah Advisor with the SECP and holds certifications in Corporate Governance and as a Certified Shariah Advisor & Auditor from AAOIFI, Bahrain.

The Terms of Reference of the Shariah Board are in accordance with the Shariah Governance Framework issued by the SBP and include, inter alia, the following:

- The Shariah Board is empowered to consider, decide and supervise all Shariah related matters of MBPL. All decisions, rulings and fatawas issued by the Shariah Board shall be binding on the Bank and the Shariah Board shall be responsible and accountable for all its Shariah-related decisions.
- The Shariah Board shall ensure the development of a comprehensive Shariah compliance framework for all areas of operations of MBPL Islamic banking operations. Any products or services offered by MBPL Islamic Banking must have prior approval of the Shariah Board.
- The Shariah Board shall approve all Islamic banking procedure manuals, product programmes/structures, process flows, related agreements, marketing advertisements, sales illustrations and brochures to ensure that they conform to Shariah principles and rules.

Compensation of Directors

The Board Remuneration policy, as approved by the shareholders of the Bank in 2024, is compliant with the requirements set by SBP's Corporate Governance Regulatory Framework.

The details of the remuneration of the CEO and fees paid to the Directors are disclosed in Notes 39.1 and 39.2 to the financial statements.

Compensation of Shariah Board Members

The BOD fixed the remuneration of the Shariah Board members, based on fair and transparent remuneration mechanism.

As per their contracts of engagement, Shariah Board members are entitled to travel allowances and financing facilities in accordance with the Bank's approved Policies. The details of remuneration paid to Shariah Board Members are disclosed in Note 39.3 to the unconsolidated financial statements.

External Auditors

The current auditors, Messrs. A. F. Ferguson & Co., Chartered Accountants, retire and, being eligible, offer themselves for reappointment at the Annual General Meeting. Accordingly, the Board of Directors, on the recommendation of the Board Audit Committee, recommends the appointment of Messrs. A. F. Ferguson & Co., Chartered Accountants, as the auditors of the Bank for the financial year 2026.

CORPORATE AND FINANCIAL REPORTING FRAMEWORK

1. The financial statements prepared by the Bank, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of accounts have been maintained by the Bank.
3. Appropriate accounting policies and estimates have been consistently applied in preparation of financial statements.

4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and departure therefrom, if any, has been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Bank's ability to continue as a going concern.
7. There has been no departure from the best practices of the code of corporate governance, as detailed in the Listed Companies (Code of Corporate Governance) Regulations, 2019.
8. Since the Bank has started its operations from the current year all key financial and operating data is available in the annual report.

The value of investments of the Provident Fund and Gratuity Scheme as at 31 December 2025 is as under:

- Provident Fund: Rs. 156 million
- Gratuity Fund: Nil

Pattern of Shareholding

Categories of Shareholders	Number of Shareholders	Number of Shares held	(%)
Parent Company			
Mashreq Bank PSC	1	1,539,397,260	100
Directors			
Shazad Dada	1	1	-
Syed Naseer Ul Hasan	1	1	-
Rashid Ali Khan	1	1	-
Iqbal Hassan Khanyari	1	1	-

Individual			
Hammad Naqvi	1	1	-
Total	6	1,539,397,265	100

Parent Company

As disclosed in Note 1.3 of the financial statements, Mashreq is a wholly owned subsidiary of Mashreq Bank P.S.C. incorporated in the United Arab Emirates. Its registered head office is situated in Dubai, United Arab Emirates.

Appreciation and Acknowledgement

In conclusion, we express our sincere appreciation to the Ministry of Finance, the State Bank of Pakistan, and the Securities and Exchange Commission of Pakistan for their continued guidance and support. We also thank our valued shareholders and customers for their trust, the Board of Directors, for its strategic oversight, and the employees of Mashreq Bank for their unwavering commitment, which continues to drive the Bank's progress and strength.

On behalf of the Board

Muhammad Hamayun Sajjad

CEO

Fernando Isidro Morillo Lopez

Chairman

Date: February 26, 2026

Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019

For the year ended 31 December 2025

The Bank has complied with the requirements of the Listed Companies (Code of Corporate Governance) Regulations, 2019 ("the Regulations" or "the Code") in the following manner:

1. The total number of directors are **nine** as per the following:

Gender	Number
Male	8
Female	1

2. The composition of the Board is as follows:

Category	Name of Directors
Independent Directors	<ul style="list-style-type: none"> • Shazad Dada • Rashid Ali Khan • Syed Naseer ul Hasan
Female Director	<ul style="list-style-type: none"> • Rania Nerhal Hussein Hamdy
Non-Executive Directors	<ul style="list-style-type: none"> • Fernando Isidro Morillo Lopez • Salman Hadi • Iqbal Hassan Khanyari • Mohamed Salah Abdel Hamid Abdel-Razek • Rania Nerhal Hussein Hamdy
Executive Director	<ul style="list-style-type: none"> • Muhammad Hamayun Sajjad

3. The Board comprises 8 elected directors. Since the CEO is a deemed director, the total number of directors becomes 9. The Bank has appointed 3 Independent Directors. The independent directors provided their consent to act as independent directors. However, the Bank is in the process of obtaining declarations from the independent directors that they are independent to the Bank.

4. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Bank;
5. The Bank has prepared a 'Code of Conduct' and has ensured that appropriate steps have been taken to disseminate it throughout the Bank along with its supporting policies and procedures;
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Bank. The Board has ensured that complete record of particulars of the significant policies along with their date of approval or updating is maintained by the Bank. The Bank is in the process of disclosing the policies on their website.
7. All the powers of the Board have been duly exercised and decisions on relevant matters have been taken by the Board/ shareholders as empowered by the relevant provisions of the Act and these Regulations;
8. The meetings of the Board were presided over by the Chairman and the Board has complied with the requirements of the Act and the Regulations with respect to frequency, recording and circulating minutes of the meeting of the Board;
9. The Board has a formal policy and transparent procedures for remuneration of directors in accordance with the Act and these Regulations;
10. The Bank is compliant with the Directors training requirement of the Listed Companies (Code of Corporate Governance Regulations, 2019);
11. The Board has approved appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment and complied with relevant requirements of the Regulations;
12. Chief Financial Officer and Chief Executive Officer duly endorsed the financial statements before approval of the Board;

13. The Board has formed / reconstituted committees comprising of the members given below:

S. NO	Name of committee	Current membership	Role
1	Audit Committee	<ul style="list-style-type: none"> • Syed Naseer Ul Hasan • Iqbal Hasan Khanyari • Rashid Ali Khan • Mohamed Salah Abdel Hamid Abdel-Razek • Salman Hadi 	<ul style="list-style-type: none"> • Chair • Member • Member • Member • Member
2	Human Resource & Remuneration Committee	<ul style="list-style-type: none"> • Shazad Dada • Fernando Morillo • Rashid Ali Khan • Rania Nerhal Hussein Hamdy • Syed Naseer Ul Hasan 	<ul style="list-style-type: none"> • Chair • Member • Member • Member • Member
3	Digital, IT and Information Security Committee	<ul style="list-style-type: none"> • Mohamed Salah Abdel Hamid Abdel-Razek • Fernando Morillo • Muhammad Hamayun Sajjad • Shazad Dada • Syed Naseer Ul Hasan 	<ul style="list-style-type: none"> • Chair • Member • Member • Member • Member
4	Risk Management & Credit Committee	<ul style="list-style-type: none"> • Salman Hadi • Rania Nerhal Hussein Hamdy • Muhammad Hamayun Sajjad • Iqbal Hasan Khanyari • Shazad Dada 	<ul style="list-style-type: none"> • Chair • Member • Member • Member • Member

14. The terms of reference of the aforesaid committees have been formed, documented and advised to the committee for compliance.

15. The number of meetings held during the year is as follows. The meetings of the Audit Committee were held at least once in every quarter prior to approval of interim and final results of the Bank:

Committee	No. of meetings held during the year 2025
Audit Committee	4
Human Resource & Remuneration Committee	2
Digital, IT and Information Security Committee	3
Risk Management & Credit Committee	4

16. The Board has established an effective internal audit function, the staff at which considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Bank;

17. 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 and are registered with the Audit Oversight Board of Pakistan; and that they and all their partners are in compliance with the International Federation of Accountants (IFAC) guidelines on the code of ethics as adopted by the Institute of Chartered Accountants of Pakistan. Further, none of them and other partners of the firm involved in the audit are close relatives (spouse, parent, dependent and non-dependent children) of the Chief Executive Officer, Chief Financial Officer, Head of Internal Audit, Company Secretary or Director(s) of the Bank;

18. The statutory auditors or the persons associated with them have not been appointed to provide any 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; and

19. We confirm that all requirements of regulations 3, 7, 8, 27, 32, 33 and 36 of the Regulations have been complied with.

20. Explanations for non-compliance with requirements, other than regulations 3, 7, 8, 27, 32, 33 and 36 are below:

- The Bank acknowledges the requirements of Regulation 10 of the Listed Companies (Code of Corporate Governance) Regulations, 2019 regarding the issuance of letters outlining roles and responsibilities to directors at the commencement of their terms. This requirement is being currently addressed through the Bank's Board Charter, which sets out the roles and responsibilities for Directors.
- The Bank given its current size and status, as a digital bank, has opted to consider and deliberate Environmental Social and Governance (ESG) related matters in the Board Risk Committee, which are subsequently presented in the Board.
- The Bank acknowledges that a Nomination Committee has not been constituted. While certain nomination related activities are addressed at the Board level. However, these responsibilities have not been formally delegated to any committee. Subsequently, the Bank is taking actions to comply with the Regulations.

For and on behalf of the Board of Directors

Fernando Isidro Morillo

Lopez

Chairman

Muhammad Hamayun Sajjad

CEO

Date: February 26, 2026

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Mashreq Bank Pakistan Limited

Review Report on the Statement of Compliance contained in Listed Companies (Code of Corporate Governance) Regulations, 2019.

We have reviewed the enclosed Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019 (the Regulations) prepared by the Board of Directors of Mashreq Bank Pakistan Limited (the Bank) for the year ended December 31, 2025 in accordance with the requirements of regulation 36 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 noncompliance 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. 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.

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 compliance, in all material respects, with the requirements contained in the Regulations as applicable to the Bank for the year ended December 31, 2025.

A. F. Ferguson & Co.

Chartered Accountants

Karachi

Date: March 05, 2026

UDIN: CR202510061IDjx4mZ2F

ANNUAL STATEMENT ON INTERNAL CONTROLS 2025

This statement is presented in accordance with the requirements of **State Bank of Pakistan (SBP) OSED Circular No. 01 of 2014**.

Mashreq Bank Pakistan Limited (“the Bank”) commenced its operations on September 16, 2026 and is in the process of establishing and strengthening its internal control environment in line with regulatory requirements and the scale and complexity of its current operations.

The Board of Directors (BoD) has overall responsibility for overseeing the Bank’s system of risk management and internal controls. The effectiveness and progress of implementation of these controls are reviewed by the Board Risk Management Committee (BRMC) and the Board Audit Committee (BAC).

The Bank’s management is responsible for designing, implementing and maintaining an effective system of internal controls to support orderly and efficient operations, safeguard the Bank’s assets, ensure compliance with applicable laws and regulations, and enable reliable financial reporting. Accordingly, management has initiated the implementation of a comprehensive internal control framework, approved by the BoD, which is being progressively rolled out across the Bank.

The system of internal controls is designed to provide **reasonable, but not absolute, assurance** against the risk of errors, losses or misstatements, given inherent limitations of any control framework. As the Bank’s operations continue to expand, the internal control framework is being continuously reviewed and enhanced to address emerging risks and evolving regulatory expectations. The Bank also leverages technology-enabled controls, where appropriate, to improve efficiency and strengthen the control environment.

The Bank follows the **three lines of defense model**:

- The **first line** (business and support functions) is responsible for identifying and managing risks and operating effective controls.
- The **second line** (Risk Management, Compliance and other control functions) provides oversight, develops policies, monitors risks and tracks remediation of identified gaps.
- The **third line**, Internal Audit, provides independent assurance on the adequacy and effectiveness of the internal control framework.

The Compliance function supports adherence to applicable regulatory requirements and internal policies, and monitors compliance risks through structured reviews and governance forums. Risk Management has established a foundational risk management framework to identify, assess and monitor key risks relevant to the Bank's current stage of operations.

The Internal Audit function conducts risk-based reviews aligned with the Bank's operating maturity and provides independent assurance to the BAC. Audit observations and management action plans are monitored until resolution.

The Bank has **initiated the implementation of an Internal Controls over Financial Reporting (ICFR) framework**, which is currently in progress. Any control gaps identified during this phase are being addressed through defined remediation plans. Given the early stage of operations, the identified gaps are not considered material to the financial statements.

Based on the work performed during the year and the current stage of implementation, management believes that the internal controls implemented to date are **appropriate for the Bank's size, complexity and stage of operations**, and that a structured roadmap is in place to further strengthen the internal control and ICFR frameworks.

The Board of Directors has reviewed and endorsed management's assessment of the Bank's internal control environment, including the status of ICFR implementation, as disclosed in the Directors' Report.

Muhammad Hamayun Sajjad

Chief Executive Officer

Date: February 26, 2025

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ
الحمد لله رب العالمين والصلاة والسلام على سيدنا محمد وعلى آله وصحبه أجمعين، وبعد

REPORT OF THE SHARIAH BOARD FOR THE YEAR ENDED 31 DECEMBER 2025

By the grace of Allah Almighty, Mashreq Bank Pakistan Limited successfully launched Islamic banking operations in September 2025 as part of the overall commercial launch of the Bank under the guidance of the Shariah Board (SB). As per the requirement of the Shariah Governance Framework (SGF) of State Bank of Pakistan (SBP), this report is to provide opinion of the Shariah Board on the overall Shariah compliance environment of the Bank's Islamic banking business and operations.

During the year under review, four SB meetings were conducted, and SB members have reviewed, discussed, advised, and approved Islamic Banking products and structures, policies, process notes, transactions, Shariah compliance review reports and Shariah audit reports. The SB and BoD also met twice this year, in which SB has provided detailed briefing on Shariah compliance environment of MBPL Islamic Banking operations.

Key developments for the year 2025:

The bank has adopted an Islamic first strategy in its digital journeys, product selection and offering. Under the guidance of SB, MBPL has launched a comprehensive deposit product proposition having Mudaraba based Saving and Current remunerative account and Qard based current account with differentiated and client centric value propositions.

As part of Islamic banking launch readiness, the Shariah Compliance Department conducted a comprehensive review of operational readiness, and the SB issued a comprehensive Shariah compliance certificate on the operational readiness of the Islamic banking operations including reviews of all products, policies and processes. Additionally, a comprehensive Shariah Non-compliance Risk Management Framework is in place as per the regulatory requirement. Various matters of strategic nature were discussed, and Shariah guidance was provided thereon.

Internal Shariah Audit Function carried out a comprehensive Shariah Audit on the implementation of Islamic Banking and Shariah Governance. In line with SBP guidelines a Pool Management audit was also completed for quarter 3 payouts. External auditors have also been engaged and have initiated an audit.

In addition to mandatory E-learning on Islamic banking principles, concepts and products, interactive Islamic banking awareness sessions were conducted by the Shariah board members for all staff including executive management covering Islamic banking products, governance, risk management, market trends and regulatory updates. Interactive sessions were also conducted with the Board of Directors on Shariah governance.

Shariah Board Opinion

1. While the Board of Directors and Executive Management are solely responsible to ensure that the operations of The Bank are conducted in a manner that comply with Shariah principles at all times, we are required to submit a report on the overall Shariah compliance environment of MBPL.
2. To form our opinion as expressed in this report, the Shariah Board has reviewed the Shariah Compliance review reports, internal Shariah audit reports. Based on above, we are of the view that:
 - i. The Bank has overall complied with Shariah rules and principles in the light of Fatawa, rulings and guidelines issued by its SB.
 - ii. During reviews, matters requiring corrective measures have been noted and were resolved by the Management. To the best of our knowledge, the affairs of the Bank have been carried out in accordance with the directives, regulations, instructions and guidelines related to Shariah compliance issued by SBP in accordance with the rulings of SBP's SB.
 - iii. The bank has a comprehensive mechanism in place to ensure Shariah compliance in their overall operations.
 - iv. The bank has a well-defined system in place which is sound enough to ensure that any earnings realized from sources or by means prohibited by Shariah will be credited to

charity account and will be properly utilized. Nothing has come to our attention regarding any Shariah non-compliance resulting in charity during the year.

- v. The bank has complied with the SBP instructions on profit and loss distribution and pool management.
- vi. While multiple training engagements were completed, efforts are underway to enhance the level of awareness, capacity and sensitization of the staff, management and the BOD in appreciating the importance of Shariah compliance in the products and processes of the bank.
- vii. The Shariah Board notes that the current Shariah Compliance arrangements are adequate for present operations and understand that with the future business growth, management will consider the enhancement of Shariah Compliance resources to enable the function to remain compliant with Shariah governance framework requirements.

3. Recommendation

Continue to provide specialised trainings on Islamic banking for relevant staff, particularly the executive management.

Mufti Muhammad Abdullah

Resident Shariah Board
Member

Dr. Ahcene Lahsasna

Chairman Shariah Board

Mufti Imtiaz Alam

Member Shariah Board

Date: February 20, 2026

INDEPENDENT AUDITOR'S REPORT

To the members of Mashreq Bank Pakistan Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of Mashreq Bank Pakistan Limited (the Bank), which comprise the statement of financial position as at December 31, 2025, and the statement of profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including material accounting policy information and other explanatory information and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, statement of profit and loss account, the statement of comprehensive income, statement of changes in equity and cash flow statement together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan, and, give the information required by the Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2025 and of the loss and other comprehensive loss, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

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

responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

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

Report on Other Legal and Regulatory Requirements

1. Based on our audit, we further report that in our opinion:
 - a) proper books of account have been kept by the Bank as required by the Companies Act, 2017 (XIX of 2017);
 - b) the statement of financial position, the statement of profit and loss account, the statement of comprehensive income, statement of changes in equity and cash flow statement together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
 - c) investments made, expenditure incurred and guarantees extended during the year were in accordance with the objects and powers of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank; and
 - d) no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

2. We confirm that for the purpose of our audit, there were no outstanding loans and advances as at December 31, 2025.

The engagement partner on the audit resulting in this independent auditor's report is **Noman Abbas Sheikh**.

A. F. Ferguson & Co.

Chartered Accountants

Karachi

Dated: March 05, 2026

UDIN: AR202510061zIDepWvtb

MASHREQ BANK PAKISTAN LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2025

	Note	2025	2024
------(Rupees in '000)-----			
ASSETS			
Cash and balances with treasury banks	8	97,263	375,000
Balances with other banks	9	85,576	765,192
Lendings to financial institutions	10	1,179,998	-
Investments	11	11,366,912	3,601,245
Advances	12	-	11,424
Property and equipment	13	263,599	249,826
Right-of-use assets	14	356,353	-
Intangible assets	15	439,875	267,294
Deferred tax assets	16	-	-
Other assets	17	189,198	89,710
Total assets		13,978,774	5,359,691
LIABILITIES			
Bills payable		-	-
Borrowings	18	1,960,862	1,949,850
Deposits and other accounts	19	1,319,331	-
Lease liabilities	20	386,077	-
Subordinated debt		-	-
Deferred tax liabilities		-	-
Other liabilities	21	6,479,574	1,709,982
Total liabilities		10,145,844	3,659,832
NET ASSETS		3,832,930	1,699,859
REPRESENTED BY			
Share capital	22	12,418,806	5,454,417
Advance against issue of shares	23	2,975,167	-
Reserves		-	-
Surplus on revaluation of assets	24	9,878	17,975
Accumulated losses		(11,570,921)	(3,772,533)
		3,832,930	1,699,859
CONTINGENCIES AND COMMITMENTS	25		

The annexed notes 1 to 46 and Annexure I form an integral part of these financial statements.

Atif Saeed Dar
Chief Financial Officer

Muhammad Hamayun Sajjad
Chief Executive Officer

Fernando Morillo
Director

Naseer ul Hasan
Director

Mohamad Abdel Razek
Director

MASHREQ BANK PAKISTAN LIMITED
STATEMENT OF PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2025

	Note	2025	2024
		----- (Rupees in '000) -----	
Mark-up / return / interest earned	26	757,542	199,232
Mark-up / return / interest expensed	27	(58,116)	-
Net mark-up / return / interest income		<u>699,426</u>	<u>199,232</u>
NON MARK-UP / INTEREST INCOME			
Fee and commission income	28	439	-
Dividend income		-	-
Foreign exchange (loss) / income		(11,012)	7,921
Income from derivatives		-	-
Gain on securities	29	2,417	-
Net gain / (loss) on derecognition of financial assets measured at amortised cost		-	-
Other income	30	-	342
Total non mark-up / interest (expense) / income		<u>(8,156)</u>	<u>8,263</u>
Total income		<u>691,270</u>	<u>207,495</u>
NON MARK-UP / INTEREST EXPENSES			
Operating expenses	31	8,494,686	3,481,258
Workers' welfare fund		-	-
Other charges		-	-
Total non-mark-up / interest expenses		<u>(8,494,686)</u>	<u>(3,481,258)</u>
Loss before credit loss allowance		<u>(7,803,416)</u>	<u>(3,273,763)</u>
Credit loss allowance - net	32	95	-
LOSS BEFORE TAXATION		<u>(7,803,321)</u>	<u>(3,273,763)</u>
Taxation	33	753	(2,591)
LOSS AFTER TAXATION		<u>(7,802,568)</u>	<u>(3,276,354)</u>
----- (Rupees) -----			
Basic and diluted loss per share	34	<u>(9.13)</u>	<u>(20.54)</u>

The annexed notes 1 to 46 and Annexure I form an integral part of these financial statements.

Atif Saeed Dar
Chief Financial Officer

Muhammad Hamayun Sajjad
Chief Executive Officer

Fernando Morillo
Director

Naseer ul Hasan
Director

Mohamad Abdel Razek
Director

MASHREQ BANK PAKISTAN LIMITED
 STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED DECEMBER 31, 2025

	2025	2024
	----- (Rupees in '000) -----	
Loss after taxation for the year	(7,802,568)	(3,276,354)
Other comprehensive (loss) / income		
Items that may be reclassified to the statement of profit and loss account in subsequent periods:		
Movement in surplus on revaluation of debt securities classified at FVOCI - net of tax	(8,097)	17,975
Items that will not be reclassified to profit and loss account in subsequent periods:		
Remeasurement gain on defined benefit obligations - net of tax	4,287	-
Total comprehensive loss for the year	<u>(7,806,378)</u>	<u>(3,258,379)</u>

The annexed notes 1 to 46 and Annexure I form an integral part of these financial statements.

_____ Atif Saeed Dar Chief Financial Officer	_____ Muhammad Hamayun Sajjad Chief Executive Officer	_____ Fernando Morillo Director	_____ Naseer ul Hasan Director	_____ Mohamad Abdel Razek Director
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MASHREQ BANK PAKISTAN LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2025

	Share capital	Advance against issue of shares	Surplus on revaluation of investments	Accumulated losses	Total
	(Rupees in '000)				
Balance as at January 1, 2024	1,000	-	-	(496,179)	(495,179)
Loss after taxation for the year ended December 31, 2024	-	-	-	(3,276,354)	(3,276,354)
Other comprehensive income / (loss) - net of tax					
Movement in surplus on revaluation of investments - net of tax	-	-	17,975	-	17,975
Total comprehensive income / (loss) - net of tax	-	-	17,975	(3,276,354)	(3,258,379)
<i>Transactions with owners, recorded directly in equity</i>					
Issuance of ordinary shares	5,453,417	-	-	-	5,453,417
Balance as at December 31, 2024	5,454,417	-	17,975	(3,772,533)	1,699,859
Impact of transition to IFRS - net of tax (refer note 7.1.2)	-	-	-	(107)	(107)
Balance as at January 1, 2025	5,454,417	-	17,975	(3,772,640)	1,699,752
Loss after taxation for the year	-	-	-	(7,802,568)	(7,802,568)
Other comprehensive income / (loss) - net of tax					
Movement in surplus on revaluation of investments - net of tax	-	-	(8,097)	-	(8,097)
Remeasurement gain on defined benefit obligations - net of tax	-	-	-	4,287	4,287
Total comprehensive loss - net of tax	-	-	(8,097)	(7,798,281)	(7,806,378)
<i>Transactions with owners, recorded directly in equity</i>					
Issuance of ordinary shares	6,964,389	-	-	-	6,964,389
Advance against issue of shares	-	2,975,167	-	-	2,975,167
Balance as at December 31, 2025	12,418,806	2,975,167	9,878	(11,570,921)	3,832,930

The annexed notes 1 to 46 and Annexure I form an integral part of these financial statements.

Atif Saeed Dar Chief Financial Officer	Muhammad Hamayun Sajjad Chief Executive Officer	Fernando Morillo Director	Naseer ul Hasan Director	Mohamad Abdel Razek Director
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MASHREQ BANK PAKISTAN LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2025

	Note	2025	2024
		----- (Rupees in '000) -----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation for the period		(7,803,321)	(3,273,763)
Less: Dividend income		-	-
		<u>(7,803,321)</u>	<u>(3,273,763)</u>
Adjustments			
Net mark-up / return / interest income		(699,426)	(199,232)
Depreciation on property and equipment	31	72,242	36,192
Depreciation on right-of-use assets	31	76,865	-
Amortisation	31	44,132	-
Amortisation of prepaid staff cost		654	963
Loss / (gain) on revaluation of foreign currency borrowings		11,012	(7,921)
Gain on sale of fixed assets		-	(342)
Credit loss allowance and write offs - net	32	(95)	-
Leased assets	27	44,645	-
Charge for defined contribution plan		84,575	42,054
Charge for defined benefit plan		64,103	60,008
		<u>(301,293)</u>	<u>(68,278)</u>
		<u>(8,104,614)</u>	<u>(3,342,041)</u>
(Increase) / decrease in operating assets			
Advances		11,424	151
Other assets (excluding advance taxation)		(110,716)	46,743
		<u>(99,292)</u>	<u>46,894</u>
Increase in operating liabilities			
Borrowings		-	1,394,050
Deposits and other accounts		1,319,331	-
Other liabilities (excluding current taxation)		4,780,458	1,359,827
		<u>6,099,789</u>	<u>2,753,877</u>
		<u>(2,104,117)</u>	<u>(541,270)</u>
Mark-up / return / interest received		756,445	198,270
Mark-up / return / interest paid		(53,769)	-
Contribution to defined contribution plan		(100,627)	-
Payments of final settlements to employees		(55,870)	-
Income tax paid		(3,056)	(18,670)
Net cash used in operating activities		<u>(1,560,994)</u>	<u>(361,670)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Investments in securities classified as FVOCI		(7,739,046)	(2,202,281)
Net investments in amortised cost securities		(27,565)	(1,380,989)
Investments in property and equipment		(86,465)	(260,834)
Investments in intangible assets		(216,713)	(263,918)
Proceeds from sale of fixed assets		450	1,368
Net cash used in investing activities		<u>(8,069,339)</u>	<u>(4,106,654)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of ordinary shares		6,964,389	5,453,417
Advance against issue of shares		2,975,167	-
Payments of lease obligations against right-of-use assets		(81,177)	-
Payments of initial direct cost against right-of-use assets		(5,397)	-
Net cash generated from financing activities		<u>9,852,982</u>	<u>5,453,417</u>
Increase in cash and cash equivalents		222,649	985,093
Cash and cash equivalents at the beginning of the year		1,140,192	155,099
Impact of expected credit loss allowance on cash and cash equivalents during the year		(2)	-
Cash and cash equivalents at the end of the year	35	<u><u>1,362,839</u></u>	<u><u>1,140,192</u></u>

The annexed notes 1 to 46 and Annexure I form an integral part of these financial statements.

Atif Saeed Dar
Chief Financial Officer

Muhammad Hamayun Sajjad
Chief Executive Officer

Fernando Morillo
Director

Naseer ul Hasan
Director

Mohamad Abdel Razek
Director

MASHREQ BANK PAKISTAN LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

1 STATUS AND NATURE OF BUSINESS

1.1 Mashreq Bank Pakistan Limited (the Bank) was incorporated in Pakistan on July 5, 2023 as an unlisted public limited company under the Companies Act, 2017. The principal line of business of the Bank is to carry on the business of banking as a Digital Bank and undertake financial transactions as permitted under the applicable laws of Pakistan including, but not limited to the Banking Companies Ordinance, 1962, the Companies Act 2017, Licensing and Regulatory Framework for Digital Banks issued by the State Bank of Pakistan (SBP), all other applicable laws, rules and regulations, directions and circulars of the SBP as in force from time to time.

On January 13, 2023, the SBP granted the Bank a 'No Objection Certificate' (NOC), followed by the issuance of an In-principle approval (IPA) on September 20, 2023 under the Licensing and Regulatory Framework for Digital Banks. The Bank successfully met all stipulated terms and conditions outlined in the IPA, including the requisite **Minimum Capital Requirement, and submitted its application to obtain a restricted license within the IPA's validity**

On December 19, 2024, the State Bank of Pakistan (SBP), in exercise of its powers under Section 27 of the Banking Companies Ordinance, 1962, granted the Bank a restricted banking license to operate as a Digital Retail Bank (DRB). In accordance with the terms and conditions of the restricted license. The Bank commenced pilot operations on January 31, 2025.

The SBP, vide its letter dated August 29, 2025, granted approval to the Bank to commence Islamic banking operations, subject to compliance with specified terms and conditions and the issuance of a commercial banking license to operate as a digital bank. The Bank has commenced Islamic Banking window operations on September

Subsequently, on September 15, 2025, the SBP, in exercise of its powers under Section 27 of the Banking Companies Ordinance, 1962 and the Licensing and Regulatory Framework for Digital Banks, granted the Bank a banking license to operate as a Digital Retail Bank (DRB). In accordance with the terms and conditions of the license, the Bank commenced its commercial operations on September 16, 2025.

1.2 The Bank is operating through the head office and its three other offices in Karachi, Islamabad, and Lahore. The registered office of the Bank is situated at 22-C, Ittehad Lane - 8, Ittehad Commercial, Phase VI, DHA, Karachi,

1.3 The Bank is a wholly-owned subsidiary of Mashreq Bank P.S.C. (the Parent Company) incorporated in the United Arab Emirates. Its registered head office is situated at P.O. Box 1250, Dubai, United Arab Emirates.

2 BASIS OF PRESENTATION

2.1 These financial statements have been prepared in accordance with the format for preparation of the annual financial statements of banks issued by the State Bank of Pakistan (SBP), vide its BPRD Circular No. 13 dated July

2.2 Statement of compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards as applicable in Pakistan for financial reporting

MASHREQ BANK PAKISTAN LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

comprise of:

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

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

The SBP has deferred the applicability of International Accounting Standard (IAS) 40, 'Investment Property' for banking companies through BSD Circular Letter No. 10 dated August 26, 2002 till further instructions. Further, the SECP has deferred the applicability of International Financial Reporting Standard (IFRS) 7, 'Financial Instruments: Disclosures' on banks through its notification SRO 411(I)/2008 dated April 28, 2008. The SBP through BPRD Circular No. 04 of 2015 dated February 25, 2015 has deferred the applicability of Islamic Financial Accounting Standard-3 for Profit and Loss Sharing on Deposits (IFAS-3) issued by the Institute of Chartered Accountants of Pakistan (ICAP) and notified by the SECP, vide their SRO No. 571 of 2013 dated June 12, 2013 for Institutions offering Islamic Financial Services (IFS). Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements.

3 TRANSITION TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS AS APPLICABLE IN PAKISTAN

3.1 Basis of the transition

3.1.1 Application

As per the criteria given in the Third schedule to the Companies Act, 2017, the applicable financial reporting framework for the Bank for the current year is IFRS Accounting Standards as applicable in Pakistan. Previously, the Bank's applicable financial reporting framework was IFRS for Small and Medium-sized Entities (IFRS for SMEs). During the current year, the Bank has transitioned to IFRS Accounting Standards as applicable in Pakistan in accordance with the criteria given in the third schedule to the Companies Act, 2017.

Upon transition to IFRS Accounting Standards as applicable in Pakistan, since IFRS 1 'First time adoption of International Financial Reporting Standards' is not applicable in Pakistan, the Bank has adopted a modified retrospective approach for adoption of IFRS 9 and IFRS 16, as allowed under transition provisions of these

MASHREQ BANK PAKISTAN LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2025

- IFRS 9 'Financial Instruments' (IFRS 9)

The standard addresses recognition, classification, measurement and derecognition of financial assets and financial liabilities. The standard has also introduced a new impairment model for financial assets which requires recognition of impairment charge based on 'expected credit losses' (ECL) approach. The accounting policies and adjustments to the amounts recognised in the financial statements on adoption of IFRS 9 'Financial Instruments' from January 01, 2025 are set out in note 7.1.1.1 to these financial statements.

- IFRS 16 'Leases' (IFRS 16)

The standard introduces a single, on balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right-of-use of the underlying asset and a lease liability representing its obligations to make lease payments. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The accounting policies and adjustments to the amount recognised in the financial statements on adoption of IFRS 16 'Leases' from January 1, 2025 are set out in note 7.1.1.2.

3.1.2 Comparison

The following amounts show the effect on the Bank's accumulated losses as a result of transition from the revised International and Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) to the International Financial Reporting Standards (IFRS Standards) as applicable to banks in Pakistan.

	January 1, 2025 Rupees in '000
Accumulated losses under revised International and Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs)	(3,772,533)
Impact of transition to IFRS Accounting Standards as applicable in Pakistan - note 7.1.2	(107)
Revised accumulated losses under International Financial Reporting Standards (IFRS Standards) as applicable in Pakistan	<u><u>(3,772,640)</u></u>

3.2 Upon transition to IFRS Accounting Standards as applicable in Pakistan, there are no impacts on measurement, classification and recognition on the assets and liabilities and income and expenses other than those disclosed in notes 7.1.1.1 and 7.1.1.2 to these financial statements.

MASHREQ BANK PAKISTAN LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

4 STANDARDS, INTERPRETATIONS OF AND AMENDMENTS TO PUBLISHED ACCOUNTING AND REPORTING STANDARDS

4.1 Standards, interpretations of and amendments to published accounting and reporting standards that are effective in the current year

There are certain new and amended standards, interpretations and amendments that have become applicable for the Bank's accounting periods beginning on January 1, 2025 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements except for the effects of transition to IFRS Accounting Standards as applicable in Pakistan as disclosed in note 3 and 7.1 to these financial statements.

4.2 Standards, interpretations of and amendments to published accounting and reporting standards that are not yet effective:

There are certain new and amended standards, issued by International Accounting Standards Board (IASB), interpretations and amendments that are mandatory for the Bank's accounting periods beginning on or after January 01, 2026 but are considered not to be relevant or will not have any material effect on the Bank's financial statements except for:

- the new standard - IFRS 18 'Presentation and Disclosure in Financial Statements' (published in April 2024) with an applicability date of January 01, 2027 by IASB. IFRS 18 is yet to be adopted in Pakistan. IFRS 18 when adopted and applicable shall impact the presentation of the 'Statement of Profit and Loss Account' with certain additional disclosures in the financial statements.
- Amendments to IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures' clarify the timing of recognition and derecognition of certain financial instruments including settlement of liabilities through banking instruments and channels including electronic transfers. Further, guidance on the SPPI assessment, and disclosure requirements for instruments with cash flow modifying features and equity instruments designated at FVOCI has also been amended. These amendments are effective from January 01, 2026. The amendment when applied may impact the accounting and

The management is in the process of assessing the impact of the new standard and amendments on the financial statements of the Bank.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

MASHREQ BANK PAKISTAN LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Material accounting estimates and areas where judgments were made by the management in the application of material accounting policies are as follows:

- i) classification of investments & initial measurement and subsequent measurement (notes 7.2.1, 7.2.2, 7.2.3, 7.2.4, 7.2.5 and 11);
- ii) valuation and depreciation of property and equipment (notes 7.8.1, 7.19 and 13.1);
- iii) valuation and depreciation of right-of-use assets and related lease liabilities (notes 7.9, 7.9.1, 14 and 20)
- iv) valuation and amortization of intangible assets (notes 7.8.3, 7.8.4, 7.8.5 and 15.1);
- v) credit loss allowance (note 7.3 and 32);
- vi) fair value measurement of financial instruments (notes 7.2, 7.7, and 40); and
- vii) impairment of non financial assets (note 7.19).

6 BASIS OF MEASUREMENT

6.1 Accounting convention

These financial statements have been prepared under the historical cost convention, except as otherwise mentioned in the relevant accounting policies.

6.2 Functional and presentation currency

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

7 MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policies that have been applied in the preparation of these financial statements are set out below. These are consistent with those applied to all years presented except for the changes mentioned in notes 7.1.1 and 7.1.2 to the financial statements.

7.1 Changes in accounting policies and transition disclosures

7.1.1 As stated in note 3, IFRS 9 and IFRS 16 became effective on the Bank during the current year as part of its transition to IFRS Accounting Standards. The Bank has used the modified retrospective approach and has not restated comparatives for the 2024 reporting period, as permitted under the specific transitional provisions of

The disclosures relating to the impacts arising as a result of application of IFRS 9 and IFRS 16 on the Bank are set out below. Further details of the specific IFRS 9 and IFRS 16 accounting policies applied in the current year are described in notes 7.1.1.1 and 7.1.1.2.

MASHREQ BANK PAKISTAN LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2025

7.1.1.1 Impact of IFRS 9

The measurement categories and the carrying amounts of financial assets and liabilities in accordance with IFRS for SMEs and IFRS 9 at January 1, 2025 are compared as follows:

Financial assets	Before adoption of IFRS 9		After adoption of IFRS 9	
	Measurement category	Carrying amount as at December 31, 2024	Measurement category	Carrying amount as at January 01, 2025
		Rupees in '000		Rupees in '000
Cash and balances with treasury banks	Loans and receivable:	375,000	Amortised cost	375,000
Balances with other banks	Loans and receivable:	765,192	Amortised cost	765,089
Lendings to financial institutions	Loans and receivable:	-	Amortised cost	-
Investments -net	Available for sale	2,220,256	Fair value through other comprehensive income	2,220,256
	Held to maturity	1,380,989	Amortised cost	1,380,989
Advances - net	Loans and receivable:	11,424	Amortised cost	11,420
Other assets	Loans and receivable:	31,273	Amortised cost	31,273
		<u>4,784,134</u>		<u>4,784,027</u>

The difference in the carrying amount above has arisen due to the implementation of expected credit loss model over the financial assets. The impact of adoption of IFRS 9 on the financial statement line items are disclosed in the note 7.1.2 to these financial statements.

7.1.1.2 Impact of IFRS 16

As stated in note 3.1.2, IFRS 16 as issued by the IASB in January 2016 became effective on the Bank during the current year as part of its transition to IFRS Accounting Standards. In accordance with transition provisions as applicable in Pakistan, the Bank has recognised liabilities in respect of leases except for certain short term leases in accordance with IFRS 16. These liabilities were initially measured at the present value of the remaining lease payments, discounted using the appropriate discount rates at inception of respective leases. The lease liability is subsequently measured at amortised cost using the effective interest rate method.

The right-of-use assets recognised subsequent to the transition is measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is depreciated on a straight line basis over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits. The right-of-use assets is reduced by impairment losses, if any, and adjusted for certain remeasurements of lease liability.

The impacts of adoption of IFRS 16 on the financial statement line items are disclosed in note 7.1.2 to the financial statements.

MASHREQ BANK PAKISTAN LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

7.1.2 The Bank has adopted IFRS 9 and IFRS 16 with modified retrospective approach for restatements as permitted under IFRS 9 and IFRS 16. The cumulative impact of initial application has been recorded as an adjustment to equity at the beginning of the current accounting period. The details of the impacts of initial application are tabulated below:

Balances as at December 31, 2024	Impact due to:		Total impact - gross of tax	Balances as at January 01, 2025	Measurement category as per IFRS 9 / IFRS 16
	Recognition of expected credit losses (ECL) / remeasurement	Adoption of IFRS 16			
------(Rupees in '000)-----					
ASSETS					
Cash and balances with treasury banks	375,000	-	-	375,000	Amortised cost
Balances with other banks	765,192	(103)	(103)	765,089	Amortised cost
Lendings to financial institutions	-	-	-	-	Amortised cost
Investments	3,601,245	-	-	3,601,245	Amortised cost
Advances	11,424	(4)	(4)	11,420	Amortised cost
Property and equipment	249,826	-	-	249,826	Outside the scope of IFRS 9
Right-of-use assets	-	-	254,777	254,777	Right-of-use asset
Intangible assets	267,294	-	-	267,294	Outside the scope of IFRS 9
Deferred tax assets	-	-	-	-	Outside the scope of IFRS 9
Other assets - financial assets	31,273	-	-	31,273	Amortised cost
Other assets - non financial assets	58,437	-	(5,212)	53,225	Outside the scope of IFRS 9
	5,359,691	(107)	249,565	249,458	5,609,149
LIABILITIES					
Bills payable	-	-	-	-	Amortised cost
Borrowings	1,949,850	-	-	1,949,850	Amortised cost
Deposits and other accounts	-	-	-	-	Amortised cost
Lease liabilities	-	-	249,565	249,565	Lease liability
Subordinated debt	-	-	-	-	Amortised cost
Deferred tax liabilities	-	-	-	-	Outside the scope of IFRS 9
Other liabilities	1,709,982	-	-	1,709,982	Amortised cost
	3,659,832	-	249,565	249,565	3,909,397
NET ASSETS	1,699,859	(107)	-	(107)	1,699,752
REPRESENTED BY					
Share capital	5,454,417	-	-	-	5,454,417
Surplus / (deficit) on revaluation of assets - net of tax	17,975	-	-	-	17,975
Accumulated losses	(3,772,533)	(107)	-	(107)	(3,772,640)
	1,699,859	(107)	-	(107)	1,699,752

As disclosed in note 16, since the Bank has restricted the recognition of the deferred tax asset, there is no tax impact

7.2 IFRS 9 - 'Financial Instruments'

IFRS 9 introduces fundamental changes to the accounting for financial assets and certain aspects of accounting for financial liabilities. To determine the appropriate classification and measurement category, IFRS 9 requires all financial assets, except equity instruments, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The adoption of IFRS 9 has also fundamentally changed the impairment method of financial assets to a forward-looking Expected Credit Losses (ECL) approach.

MASHREQ BANK PAKISTAN LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

7.2.1 Classification

Financial assets

Under IFRS 9, the Bank classifies its financial assets under the following categories:

- Financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVOCI); and
- financial assets at fair value through profit or loss account (FVTPL).

Financial liabilities

Under IFRS 9, the accounting for financial liabilities remains largely the same as under the previous standard and thus all financial liabilities are continued to be carried at amortised cost. Financial liabilities may also be designated at FVTPL where gains or losses arising from entity's own credit rating risk are required to be presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss account. The Bank does not have any financial liability measured at FVTPL.

7.2.2 Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- The objectives for the portfolio, in particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular yield profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

MASHREQ BANK PAKISTAN LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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Securities held for trading are held principally for sale in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term interest-taking. These securities are classified in the 'other' business model and measured at FVTPL.

Eventually, the financial assets fall under either of the following three business models:

- i) Hold to Collect (HTC) Business Model: Holding assets in order to collect contractual cash flows.
- ii) Hold to Collect and Sell (HTC&S) Business Model: Collecting contractual cash flows and selling financial assets.
- iii) Other Business Models: Resulting in classification of financial assets as FVTPL.

7.2.3 Assessments whether contractual cash flows are solely payments of principal and interest (SPPI)

As a second step of its classification process the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium / discount). The most significant elements of interest within a financing arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with basic financing arrangement, the related financial asset is classified and measured at FVTPL.

7.2.4 Application to the Bank's financial assets

Debt based financial assets

Debt based financial assets held by the Bank includes: cash and balances with treasury banks, balances with other banks, lending to financial institutions, investment in federal government securities, advances and other financial assets.

- a) These are measured at amortised cost if they meet both of the following conditions and are not designated as at FVTPL:
 - the assets are held within a business model whose objective is to hold assets to collect contractual cash flows; and
 - the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Bank's business model for these financial assets can still be HTC even when sales of these financial assets occur. However, if more than an infrequent number of sale of significant value are made, the Bank assess whether and how the sales are consistent with the HTC objective. This assessment includes the reasons for the sales, the expected frequency of sales, and whether the assets that are sold are held for an extended period of time relative to their contractual maturities.

MASHREQ BANK PAKISTAN LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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- b) Aforementioned financial assets are measured at FVOCI only if these meet both of the following conditions and are not designated as FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
 - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- c) Aforementioned financial assets if these are held for trading purposes are measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

7.2.5 Initial recognition and subsequent measurement

Financial assets and financial liabilities are recognised when the entity becomes party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date, the date on which the Bank purchase or sell the asset. Other financial assets and liabilities like advances, lending to financial institutions, deposits etc. are recognised when funds are transferred to the **customers'** account or financial institutions. However, for cases, where funds are transferred on deferred payment basis, recognition is done when the underlying asset is purchased.

a) Amortised Cost (AC)

Financial assets and financial liabilities under amortised cost category are initially recognised at fair value adjusted for directly attributable transaction cost. These are subsequently measured at amortised cost. An expected credit loss allowance (ECL) is recognised for financial assets in the the statement of profit and loss account. Interest income / return / expense on these assets / liabilities is recognised in the statement of profit and loss account. On derecognition of these financial assets and liabilities, capital gain / loss is recognised in the the statement of profit and loss account.

b) Fair Value through Other Comprehensive Income (FVOCI)

Financial assets under the FVOCI category are initially recognised at fair value adjusted for directly attributable transaction cost. These assets are subsequently measured at fair value with changes recorded in Other Comprehensive Income (OCI). An expected credit loss allowance (ECL) is recognised for these financial assets in the statement of profit and loss account. Interest / return / dividend income on these assets are recognised in the statement of profit and loss account. On derecognition of these financial assets, capital gain / loss is recognised in the statement of profit and loss account only in case of debt instruments. For equity based financial assets classified as FVOCI, capital gain / loss is transferred from surplus / deficit on revaluation of assets to unappropriated profit.

MASHREQ BANK PAKISTAN LIMITED
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c) Fair Value Through Profit or Loss (FVTPL)

Financial assets under FVTPL category are initially recognised at fair value. Transaction costs are directly recorded in the statement of profit and loss account. These assets are subsequently measured at fair value with changes recorded in the statement of profit and loss account. Interest / return / dividend income on these assets is recognised in the statement of profit and loss account. On derecognition of these financial assets, capital gain / loss is recognised in the statement of profit and loss account. An expected credit loss allowance (ECL) is not recognised for these financial assets.

7.2.6 Derecognition

Financial assets

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

- (i) has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) is prohibited from selling or pledging the assets; and
- (iii) has an obligation to remit any cash it collects from the assets without material delay.

Financial liabilities

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Bank and its original participants of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and changes in covenants are also taken into consideration.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred are added to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

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7.2.7 Modification

The Bank may renegotiate or otherwise modify the contractual cash flows of financing provided to its customers. When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with IFRS 9, the Bank recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss in the statement of profit and loss account.

The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows, discounted at the financial **asset's** original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). Any costs or fees incurred are to be adjusted by the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

7.3 Overview of the expected credit loss (ECL) principles

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') associated with advances and other debt financial assets not held at FVTPL, hereinafter referred to as "Financial Instruments". The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the **allowance is based on the 12 months' expected credit loss (12mECL) as outlined below.**

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated at the facility level.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial **instrument's** credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The Bank considers an exposure to have significantly increased in credit risk when there is considerable deterioration in the internal rating grade for subject customer. Regardless of the change in credit grades, generally, the Bank considers that there has been a significant increase in credit risk when contractual payments are more than 60 days past due. When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the similar principles for assessing whether there has been a significant increase in credit risk since initial recognition.

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IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

Stage 1: When financial instruments are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 financial instruments also include facilities where the credit risk has improved and they have been reclassified from Stage 2. The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast Exposure at default (EAD) and multiplied by the expected Loss given default (LGD) and discounted by an approximation to the original effective interest rate (EIR). This calculation is made for all the scenarios.

Stage 2: When a financial instrument has shown a significant increase in credit risk (SICR) since origination, the Bank records an allowance for the LTECLs. Stage 2 also includes facilities, for which the credit risk has improved and the instrument has been reclassified from Stage 3. The mechanics are similar to those explained above, including the use of multiple scenarios, but probability of default (PD) is applied over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation of the original EIR.

Stage 3: For financial instruments considered credit-impaired, the Bank recognises the lifetime expected credit losses for these instruments. The Bank uses a PD of 100% and LGD as computed for each portfolio or as prescribed by the SBP under the prudential regulations whichever is higher.

The calculation of ECLs

The Bank calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD The Probability of Default (PD) represents the estimated likelihood that a retail obligor will default over a specified time horizon, provided the account remains active and has not been derecognized. For the retail portfolio, in future, PD estimation will be based on methodologies appropriate for mass market consumer lending, including collective and segmented roll rate analyses, behavioral and application scorecards, and point in time (PIT) calibration, in line with the Group IFRS 9 Framework. PDs will be adjusted for IFRS 9 Expected Credit Loss calculations by incorporating forward looking macroeconomic information using scenario weighted PIT PD term structures. Where multiple indicators of credit risk exist for a given retail exposure, the Bank will apply a conservative assessment consistent with IFRS 9 requirements.

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EAD The Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The maximum period for which the credit losses are measured is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

LGD The Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including amounts recoverable from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Due to the unavailability of historical information for the modelling of PD, EAD and Loss Given Default LGD, the Bank is using an alternative approach for the calculation of ECL. The Bank is using proxy PDs from external sources based on external credit rating matrices. BPRD Circular No. 03 of 2022 allows the use of a standard LGD as prescribed under Basel Foundation – Internal Rating Based (F-IRB) approach to determine ECL which is 45%.

Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liabilities to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

When estimating the ECLs, the Bank considers three scenarios (base case, best case and worst case). Each of these is associated with different PDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted financing are expected to be recovered, including the probability that the financing will cure and the value of collateral or the amount that might be received for selling the asset.

The Bank considers only those collateral as eligible collaterals in the EAD calculation which has the following characteristics:

- History of legal certainty and enforceability; and
- History of enforceability and recovery.

The credit exposure (in local currency) that has been guaranteed by the Government and Government Securities are exempted from the application of ECL calculation.

The SBP has issued FAQs in its BPRD Circular Letter No. 16 dated July 29, 2024 with regard to certain interpretation of the SBP application instructions. In respect of Stage 3 provision, the SBP has clarified that banks, while assessing the higher of IFRS 9 ECL and provision under the SBP Prudential Regulations, shall take into account the ECL against corporate / commercial / SME loan portfolios at the borrower / facility level, and for the retail borrowers at segment / product basis.

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Definition of default

The Bank defines a financial instrument as being in default, which is fully aligned with the definition of credit impaired, when it meets one or more of the following criteria:

The customer is more than 90 days past due on its contractual payments, except in case of housing financing. This implies that if one facility of a counterparty is in defaulted as per this definition; all other facilities are to be classified as stage 3.

Write-offs

The **Bank's** accounting policy under IFRS 9 remains the same as it was under the SBP regulations / existing reporting framework.

7.4 Regular way contracts

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date on which the Bank commits to purchase or sell the asset. Regular way purchases / sales of equity securities require delivery of securities within two days from the transaction date as per the stock exchange regulations.

7.5 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury banks and balances with other banks in current and deposit accounts and investments having original maturities of three months or less.

7.6 Lending to / borrowing from financial institutions

Lending to financial institutions includes call lending and reverse repurchase (reverse repo) transactions entered into with financial institutions at agreed mark up rates for specified tenors.

Reverse repurchase (reverse repo)

Purchases under resale agreements (reverse repos), the securities purchased are not recognised in the statement of financial position, as the Bank does not obtain the risks and rewards of ownership. The amounts advanced under such arrangements are recorded as lending to financial institutions. The difference between the purchase and resale price is recognised as mark up income on an accrual basis over the term of the agreement.

Musharaka

In Musharaka, the Bank (or the counterparty financial institution / SBP) invests in shariah compliant business pools of the counterparty financial institutions / SBP (or Bank) at an agreed profit and loss sharing ratio.

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7.7 Investments

Investments include Federal Government securities. Classification and measurement of investments are disclosed in note 7.2.5 to the financial statements.

7.8 Property and equipment and intangible assets

7.8.1 Property and equipment are stated at cost less accumulated depreciation and any identified impairment loss. Items of property and equipment costing Rs. 15,000 or less are not capitalised and are charged off in the month of purchase. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Profit or loss on disposal of property and equipment is included in the statement of profit and loss account.

7.8.2 Capital work-in-progress

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

7.8.3 Intangible assets

Intangible assets comprise of computer software including implementation cost and advance for purchase of computer software. Intangible assets with definite useful lives are stated at cost less accumulated amortisation and impairment losses if any.

7.8.4 Depreciation / amortization related to property and equipment and intangible assets

Depreciation / amortisation is charged to the statement of profit or loss account by applying the straight line method, in accordance with the rates specified in notes 13.1 and 15.1 whereby the depreciable value of an asset is written off over its estimated useful life. The Bank charges depreciation / amortisation from the month of acquisition and up to the month preceding disposal. Right-of use assets are depreciated on a straight line basis over the lease term specified in note 14. The useful lives, residual values and depreciation method are reviewed on a regular basis. The effect of any changes in estimate is accounted for on a prospective basis.

7.8.5 Subsequent costs related to property and equipment and intangible assets

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

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7.9 Right-of-use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment loss and adjusted for any reassessment of lease liabilities. The right-of-use assets are depreciated on straight line basis over the lease term. The right-of-use assets are subject to impairment in line with the Bank's policy as described in note 7.19.

7.9.1 Lease liability

At the inception of the contract, the Bank assesses whether the contract contains a lease. The Bank applies a single recognition and measurement approach for all leases except for short term lease and leases of low value assets. The Bank recognises a lease liability to make lease payments and right-of-use assets representing the right-of-use of underlying assets.

At the commencement date of a lease, the Bank recognises lease liabilities measured at the present value of the lease payment to be made over the lease term together with any period covered by an option to extend the lease if it is reasonably certain to be exercised or any period covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

7.10 Taxation

7.10.1 Current

The provision for current taxation is based on taxable income for the year at current rates of taxation, after taking into consideration available tax credits, rebates and tax losses as allowed under the seventh schedule to the Income Tax Ordinance, 2001. The charge for current tax also includes adjustments, where considered necessary relating to prior years, which arise from assessments / developments made during the year.

7.10.2 Deferred taxation

Deferred taxation is recognised using the balance sheet liability method on all major temporary differences arising between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilised. Deferred tax asset is reduced to extent that it is no longer probable that the related tax benefits will be realised. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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7.11 Staff retirement benefits

7.11.1 Defined benefit plan

The Bank operates an unfunded gratuity plan for its permanent employees. The benefits under the gratuity plan are payable on death, resignation or at retirement. The liability recognised in respect of gratuity plan is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated periodically by an independent actuary using the projected unit credit method. The last valuation was conducted as at December 31, 2025.

7.11.2 Defined contribution plan

The Bank operates an funded provident fund for its permanent employees. Equal monthly contributions are made to the Fund by the Bank and the employees in accordance with the rules of the Fund. The Bank has no further payment obligation once the contributions have been paid. The contributions made by the Bank are recognised as employee benefit expense when they fall due.

7.12 Revenue recognition

Revenue is recognised in accordance with the requirements of IFRS 15. The amount is recognised when the Bank satisfies its performance obligation, either over time or at a specific point of time unless mentioned otherwise.

- Interest on bank deposits are recognised on an accrual basis;
- Gain or loss on disposal of fixed assets, if any, is taken to the statement of profit and loss account in the period in which arises;
- Income on financing is recognised on a time proportionate basis using the effective interest rate method taking into account the principal outstanding and applicable interest rates thereon;
- Profit on sukuks and markup on market treasury bills is recognised on an accrual basis. Where sukuks (excluding FVTPL securities) are purchased at a premium or discount, the premiums / discounts are amortised through the statement of profit and loss account over the remaining life of the Sukuk, using the effective interest method; and
- The Bank earns fee and commission income from certain banking services. The related fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

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7.13 Financial instruments

7.13.1 Financial assets and financial liabilities

Financial assets and financial liabilities are recognised at the time when the Bank becomes a party to the contractual provision of the instrument. Financial assets are derecognised when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of ownership of the asset. Financial liabilities are derecognised when the obligation is discharged, cancelled or expired. Any gain or loss on derecognition of the financial asset or liability is recognised in the statement of profit and loss account of the current period.

7.13.2 Off-setting of financial instruments

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

7.14 Deposits

Deposits are recognised initially at the amount of proceeds received. The related interest expense and other costs are recognised on an accrual basis in the periods to which they relate.

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

Deposits taken on Qard basis are classified as 'current non-remunerative accounts' and Deposits generated on Mudarabah basis are classified as 'saving deposits'. No profit or loss is passed on to current non-remunerative account depositors, however the funds of current accounts are treated as equity for the purpose of profit calculation and any profit earned / loss incurred on those funds are allocated to the equity of the Bank. While the product features of each product differ, there is usually no restriction on withdrawals or number of transactions in current and saving accounts. In case of fixed deposits, pre-mature withdrawals can be made as per approved terms only.

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

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

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

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7.15 Pool Management

The Bank operates general pools for deposits under Mudaraba modes.

Under the general deposit pools, the Bank accepts funds on a Mudaraba basis from depositors (Rab-ul-Maal) where the Bank acts as the Manager (Mudarib) and invests the funds in the Shariah compliant modes of financings, investments and placements. When utilising the funds for investment, the Bank prioritises the funds received from depositors over the funds generated from its own sources after meeting the regulatory requirement relating to such deposits.

The profit of each deposit pool is calculated on all the remunerative assets booked by utilising the funds from the pool after deductions of expenses directly incurred in earning the income of such pool. No general or administrative nature of expense are charged to the pools. No provisions against any non-performing asset of the pool is passed on to the pool except for the actual loss / write-off of such non-performing assets. The profit of the pool is shared between equity and other members of the pool on the basis of Musharaka at a gross level (before charging of mudarib share) as per the investment ratio of the equity. The profit of the pool is shared among the members of the pool on a pre-defined mechanism based on the weightages announced before the profit calculation period after charging of mudarib share.

The risk characteristics of each pool mainly depends on the asset and liability profile of the pool. As per the Bank's policy, relatively low risk / secured assets are allocated to general depositors' pool. The general pools are exposed to general credit risk, asset ownership risk and profit rate risk of the underlying assets involved.

7.16 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's primary format of reporting is based on business segments. The Bank has defined its segments in line with the requirements of IFRS 8 'Operating Segments'.

IFRS 8 requires the entity to define operating segments based on various factors including the basis on which operating results are regularly reviewed by the **entity's** chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information

7.16.1 Business segments

Treasury

This segment includes equity, foreign exchange, commodities, money market placements, and Shariah compliant debt investments.

Retail banking

This segment includes retail conventional and islamic financing and related assets, deposits and banking services offered to the Bank's retail customers.

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Head office

This segment includes the assets and liabilities relating to support functions at Head Office and their related income and expenses.

7.16.2 Geographical segment

The Bank operates only in Pakistan.

7.17 Loss per share

The Bank presents basic and diluted loss per share for its shareholders. Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

7.18 Share capital

Ordinary shares are classified as equity and recognised at their face value. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

7.19 Impairment of non-financial assets

The carrying amounts of the assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the relevant asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit and loss. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

	Note	2025	2024
8 CASH AND BALANCES WITH TREASURY BANKS		------(Rupees in '000)-----	
With State Bank of Pakistan in local currency current accounts	8.1	<u>97,263</u>	<u>375,000</u>
8.1 These represent local currency accounts maintained under the Cash Reserve Requirement of the SBP.			
9 BALANCES WITH OTHER BANKS	Note	2025	2024
		------(Rupees in '000)-----	
In Pakistan			
In current accounts		1,914	3,244
In deposit accounts	9.1	<u>83,662</u>	<u>761,948</u>
		<u>85,576</u>	<u>765,192</u>
Less: credit loss allowance	9.2	-	-
Balances with other banks - net of credit loss allowance		<u>85,576</u>	<u>765,192</u>

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9.1 These carry interest ranging from 2.56% to 9.49% (December 31, 2024: 11.5% per annum).

9.2 Nil due to rounding off.

	2025	2024
	Specific provision - Stage1	Specific provision - Stage1
	------(Rupees in '000)-----	
9.3 Particulars of credit loss allowance against balances with banks		
Opening balance	-	-
Impact of adoption of IFRS 9	(103)	-
Charge for the year	-	-
Reversals for the year	103	-
Net charge for the year	103	-
Closing balance	-	-

	Note	2025	2024
		------(Rupees in '000)-----	
10 LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings - local currency	10.1	1,180,000	-
Less: Credit loss allowance	10.4	(2)	-
Lendings to financial institutions - net of credit loss allowance		1,179,998	-

10.1 These represent lendings to financial institutions at mark-up rates ranging from 10.0% to 10.50% per annum having maturities upto January 2026.

	2025	2024
	------(Rupees in '000)-----	
10.2 Particulars of lendings - gross		
In local currency	1,180,000	-

	2025		2024	
	Lendings to financial institution	Credit loss allowance held	Lendings to financial institutions	Credit loss allowance held
	------(Rupees in '000)-----			
10.3 Lendings to financial institutions - particulars of credit loss allowance / provision held				
Domestic				
Stage1/ Performing	1,180,000	2	-	-

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10.4 Due from financial institutions - Credit loss allowance

	2025			
	Stage 1	Stage 2	Stage 3	Total
	-----Rupees in '000-----			
Opening balance	-	-	-	-
Impact of adoption of IFRS 9	-	-	-	-
Balance as at January 1 after adoption of IFRS 9	-	-	-	-
New financial assets originated or purchased	2	-	-	2
Financial assets that have been derecognised	-	-	-	-
Balance at the end of the year	<u>2</u>	<u>-</u>	<u>-</u>	<u>2</u>
	2024			
	Stage 1	Stage 2	Stage 3	Total
	-----Rupees in '000-----			
Opening balance	-	-	-	-
New financial assets originated or purchased	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Balance at the end of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

11 INVESTMENTS

11.1 Investments by types

Note	2025				2024				
	Amortised cost	Credit loss allowance	Surplus	Carrying value	Amortised cost	Credit loss allowance	Surplus	Carrying value	
	----- (Rupees in '000) -----								
Fair value through other comprehensive income									
Federal government securities	11.4	9,941,327	-	17,031	9,958,358	2,202,281	-	17,975	2,220,256
Amortised cost									
Federal government securities		1,408,554	-	-	1,408,554	1,380,989	-	-	1,380,989
Total Investments		<u>11,349,881</u>	<u>-</u>	<u>17,031</u>	<u>11,366,912</u>	<u>3,583,270</u>	<u>-</u>	<u>17,975</u>	<u>3,601,245</u>

11.2 The market value of federal government securities carried at amortised cost is Rs. 1,412.609 million (December 31, 2024: 1,361.422 million).

11.3 Investments by segments

	2025				2024			
	Amortised cost	Credit loss allowance	Surplus	Carrying value	Amortised cost	Credit loss allowance	Surplus	Carrying value
	----- (Rupees in '000) -----							
Federal government securities								
Market treasury bills	10,320,932	-	12,716	10,333,648	3,583,270	-	17,975	3,601,245
Ijarah sukus	1,028,949	-	4,315	1,033,264	-	-	-	-
Total investments	<u>11,349,881</u>	<u>-</u>	<u>17,031</u>	<u>11,366,912</u>	<u>3,583,270</u>	<u>-</u>	<u>17,975</u>	<u>3,601,245</u>

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11.4 Quality of securities

Details regarding quality of securities held under fair value through other comprehensive income (FVOCI) are as follows:

	2025	2024
	----- (Rupees in '000) -----	
Federal government securities - government guaranteed		
Market treasury bills	8,912,378	2,202,281
Ijara sukuk	1,028,949	-
	<u>9,941,327</u>	<u>2,202,281</u>

11.5 Particulars relating to securities classified under amortised cost model are as follows:

Federal Government Securities - government guaranteed		
Market treasury bills	<u>1,408,554</u>	<u>1,380,989</u>

12 ADVANCES

	Performing		Non-Performing		Total	
	December 31, 2025	December 31, 2024	December 31, 2025	December 31, 2024	December 31, 2025	December 31, 2024
	----- (Rupees in '000) -----					
Loans, cash credits, running finances, etc.	-	11,424	-	-	-	11,424
Advances	<u>-</u>	<u>11,424</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,424</u>

12.1 Particulars of advances (gross)

	2025	2024
	----- (Rupees in '000) -----	
In local currency	-	11,424
In foreign currencies	-	-
	<u>-</u>	<u>11,424</u>

12.2 Particulars of credit loss allowance against advances

	2025	2024
	----- (Rupees in '000) -----	
Opening balance	-	-
Impact of adoption of IFRS 9	(4)	-
Charge for the year	-	-
Reversals for the year	4	-
Net charge for the year	4	-
Closing balance	<u>-</u>	<u>-</u>

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12.3 Category of Classification

2025		2024	
Outstanding amount	Credit loss allowance held	Outstanding amount	Credit loss allowance held

------(Rupees in '000)-----

Performing	Stage 1	-	-	11,424	-
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13 PROPERTY AND EQUIPMENT

Property and equipment	Note 13.1	263,599	249,826
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13.1 Property and equipment

Leasehold improvements	Furniture and fixture	Electrical, office and computer equipment	Total
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------(Rupees in '000)-----

At January 1, 2025

Cost	-	20,416	266,400	286,816
Accumulated depreciation	-	(5,370)	(31,620)	(36,990)
Net book value	-	15,046	234,780	249,826

Year ended December 31, 2025

Opening net book value	-	15,046	234,780	249,826
Additions	8,790	1,064	76,611	86,465
Disposals	-	-	(450)	(450)
Depreciation charge	(1,273)	(7,176)	(63,793)	(72,242)
Closing net book value	7,517	8,934	247,148	263,599

At December 31, 2025

Cost	8,790	21,480	342,761	373,031
Accumulated depreciation	(1,273)	(12,546)	(95,613)	(109,432)
Net book value	7,517	8,934	247,148	263,599

Rate of depreciation (percentage)

20%	14% - 33%	16% - 50%
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	Leasehold improvements	Furniture and fixture	Electrical, office and computer equipment	Total
	------(Rupees in '000)-----			
At January 1, 2024				
Cost	-	-	27,350	27,350
Accumulated depreciation	-	-	(1,140)	(1,140)
Net book value	-	-	26,210	26,210
Year ended December 31, 2024				
Opening net book value	-	-	26,210	26,210
Additions	-	20,416	240,418	260,834
Disposals	-	-	(1,026)	(1,026)
Depreciation charge	-	(5,370)	(30,822)	(36,192)
Closing net book value	-	15,046	234,780	249,826
At December 31, 2024				
Cost	-	20,416	266,400	286,816
Accumulated depreciation	-	(5,370)	(31,620)	(36,990)
Net book value	-	15,046	234,780	249,826
Rate of depreciation (percentage)	-	33%	14% - 25%	
14 RIGHT-OF-USE ASSETS				
	Note	2025	2024	
		------(Rupees in '000)-----		
At January 1				
Cost		-	-	
Accumulated Depreciation		-	-	
Impact of adoption of IFRS 16 (including prepaid rent)		254,777	-	
Net carrying amount at January 1		254,777	-	
Additions during the year		175,934	-	
Modification during the year		2,507	-	
Depreciation charge for the year		(76,865)	-	
Closing net book value		356,353	-	

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15	INTANGIBLE ASSETS			
	Computer software	15.1	435,649	-
	Advance payment to suppliers		4,226	267,294
			<u>439,875</u>	<u>267,294</u>
15.1	Computer software			
	At January 1			
	Cost		-	-
	Accumulated amortisation		-	-
	Net book value		<u>-</u>	<u>-</u>
	Year ended 31 December			
	Opening net book value		-	-
	Additions		479,781	
	Amortisation charge		(44,132)	-
	Closing net book value		<u>435,649</u>	<u>-</u>
	At December 31			
	Cost		479,781	-
	Accumulated amortisation		(44,132)	-
	Net book value		<u>435,649</u>	<u>-</u>
	Rate of amortisation (%)		<u>14% - 20%</u>	<u>-</u>
	Useful life (years)		<u>5-7 years</u>	<u>-</u>
16	DEFERRED TAX ASSETS		2025	2024
			----- (Rupees in '000) -----	
16.1	Deductible temporary differences on			
	- Business losses		(20,425)	(20,177)
	Taxable temporary differences on			
	- Accelerated tax depreciation		10,167	20,177
	- Surplus on revaluation of FVOCI investments		7,153	-
	- Remeasurement gain on defined benefit obligations		3,105	-
			<u>20,425</u>	<u>20,177</u>
			<u>-</u>	<u>-</u>

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2025				
January 1, 2025	Charge / reversal in profit & loss	Charge / reversal in OCI	December 31, 2025	
----- (Rupees in '000) -----				
Deductible Temporary differences on				
- Tax losses carried forward	20,177	248	-	20,425
Taxable temporary differences on				
- Remeasurement gain on defined benefit plan	-	-	(3,105)	(3,105)
- Surplus on revaluation of investments	-	-	(7,153)	(7,153)
- Accelerated tax depreciation	(20,177)	10,010	-	(10,167)
	(20,177)	10,010	(10,258)	(20,425)
	-	10,258	(10,258)	-
	-	10,258	(10,258)	-
2024				
January 1, 2024	Charge / reversal in profit & loss	Charge / reversal in OCI	December 31, 2024	
----- (Rupees in '000) -----				
Deductible Temporary Differences on				
- Tax losses carried forward	2,882	17,295	-	20,177
Taxable temporary differences on				
- Surplus on revaluation of investments	-	-	-	-
- Accelerated tax depreciation	(2,882)	(17,295)	-	(20,177)
	(2,882)	(17,295)	-	(20,177)
	-	-	-	-
	-	-	-	-

16.2 As at December 31, 2025, the Bank has an aggregate deferred tax asset amounting to Rs. 4,803.807 million (2024: Rs. 1,439.131 million) in respect of unused business losses and Rs. 12.106 million (2024: Rs. 2.591 million) in respect of minimum tax credits. The Bank has opted for recognising deferred tax asset on deductible temporary differences only to the extent of taxable temporary differences.

MASHREQ BANK PAKISTAN LIMITED
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		2025	2024
		----- (Rupees in '000) -----	
17	OTHER ASSETS		
	Income / mark-up / return accrued in local currency - net of provision	443	-
	Advances, deposits and other prepayments	156,714	73,630
	Advance taxation (payments less provision)	9,631	16,080
	Alternate Delivery Channels (ADC) settlement account	20,937	-
	Others	1,483	-
		<u>189,208</u>	<u>89,710</u>
	Credit loss allowance	(10)	-
	Other assets (net of credit loss allowance)	<u>189,198</u>	<u>89,710</u>
17.1	Credit loss allowance held against other assets		
	Interest / return accrued in local currency	-	-
	Security deposits	(10)	-
		<u>(10)</u>	<u>-</u>
17.1.1	Movement in Credit loss allowance held against other assets		
	Opening balance	-	-
	Impact of adoption of IFRS 9	-	-
	Charge for the year	(10)	-
	Reversal during the year	-	-
	Amount written off	-	-
	Closing balance	<u>(10)</u>	<u>-</u>
18	BORROWINGS		
	Unsecured - Foreign currency		
	Borrowing from Mashreq Bank P.S.C	<u>1,960,862</u>	<u>1,949,850</u>
18.1	The Bank has borrowed an aggregate amount of USD 7 million (2024: USD 7 million) from the Parent Company to meet its working capital requirements. This borrowing does not carry any interest and has a three year maturity and will be repayable as a bullet payment at the maturity date.		

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19 DEPOSITS AND OTHER ACCOUNTS

	2025			2024		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
	----- (Rupees in '000) -----					
Customers						
Current deposits	205,337	-	205,337	-	-	-
Savings deposits	1,113,994	-	1,113,994	-	-	-
	<u>1,319,331</u>	<u>-</u>	<u>1,319,331</u>	<u>-</u>	<u>-</u>	<u>-</u>

	2025	2024
	----- (Rupees in '000) -----	
19.1 Composition of deposits		
Individuals	1,304,666	-
Private sector / others	14,665	-
	<u>1,319,331</u>	<u>-</u>

19.2 Deposits include eligible deposits to be covered under insurance arrangements with Deposit Protection Corporation (DPC) amounting to Rs. 1,185.243 million (2024: Nil).

19.3 Saving deposits include remunerative current deposits of Rs. 84.5 million (2024: Nil).

	2025	2024
	----- (Rupees in '000) -----	
20 LEASE LIABILITIES		
Opening balance as at January 1	-	-
Impact of adoption of IFRS 16	249,565	-
Addition during the period / year	170,537	-
Reassessment	2,507	-
Payments made during the year	(81,177)	-
Interest expense	44,645	-
Closing balance	<u>386,077</u>	<u>-</u>
20.1 Contractual maturity of lease liabilities		
Not later than one year	62,241	-
Later than one year and upto five years	323,836	-
Over five years	-	-
Total at the year end	<u>386,077</u>	<u>-</u>

	Note	2025	2024
		----- (Rupees in '000) -----	
21 OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		4,347	-
Accrued expenses		1,924,530	1,532,151
Payable to a defined benefit plan	37.4	103,098	60,008
Payable to a defined contribution plan		37,257	95,558
Payable to the Parent Company	21.1	4,352,288	-
Sundry creditors		7,070	20,343
Withholding taxes / duties		17,324	1,922
Others		33,660	-
		<u>6,479,574</u>	<u>1,709,982</u>

21.1 This represents amounts payable to Mashreq Bank UAE against management fee and pass through cost.

MASHREQ BANK PAKISTAN LIMITED
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 FOR THE YEAR ENDED DECEMBER 31, 2025

22 SHARE CAPITAL

22.1 Authorised capital

2025	2024		2025	2024
Number of shares			----- (Rupees in '000) -----	
<u>2,000,000,000</u>	<u>2,000,000,000</u>	Ordinary shares of Rs.10 each	<u>20,000,000</u>	<u>20,000,000</u>

22.2 Issued, subscribed and paid up

2025	2024		2025	2024
Number of shares			----- (Rupees in '000) -----	
<u>1,241,880,530</u>	<u>545,441,681</u>	Ordinary shares Fully paid in cash	<u>12,418,806</u>	<u>5,454,417</u>

22.2.1 Details of shares issued during the year

Date of Board resolutions	Shares issued	Consideration (Rs in '000)
January 15, 2025	98,669,752	986,698
April 15, 2025	99,271,159	992,712
June 17, 2025	100,322,341	1,003,223
August 19, 2025	99,809,420	998,094
October 29, 2025	298,366,177	2,983,662
	<u>696,438,849</u>	<u>6,964,389</u>

	2025	2024
	----- (Rupees in '000) -----	
23 ADVANCE AGAINST ISSUE OF SHARES	<u>2,975,167</u>	<u>-</u>

23.1 The amount of Rs. 2,975 million was received on December 29, 2025 from the Holding company against the issue of ordinary shares. Pursuant to the Board of Director's resolution passed subsequent to the year end, 297,516,735 ordinary shares were issued on January 14, 2026. As at December 31, 2025 the amount has been recorded as an advance against issue of shares.

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24	SURPLUS ON REVALUATION OF ASSETS	Note	2025	2024
			----- (Rupees in '000) -----	
	Surplus on revaluation of securities measured at FVOCI - Debt	11.1	17,031	17,975
	Less: Deferred tax on surplus on revaluation of securities measured at FVOCI - Debt		7,153	-
			<u>9,878</u>	<u>17,975</u>

25 CONTINGENCIES AND COMMITMENTS

25.1 There were no contingencies as at December 31, 2025 and December 31, 2024.

25.2 Commitments in respect of capital expenditure amounting to:	<u>8,202</u>	<u>229,035</u>
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25.3 The Bank has an agreement with a commercial bank under which its employees are eligible to obtain house loans at the rate of KIBOR plus 2% per annum. As per the terms of the agreement, the mark-up at the rate of 4% per annum on these loans is borne by the employee while remaining portion is borne by the Bank.

25.4 The Bank has an agreement with a leasing company under which its employees are eligible to obtain motor vehicle diminishing musharakah facility at the rate of KIBOR plus 4% or 5% per annum. As per the terms of the agreement, the mark-up at the rate of 5% per annum on these loans is borne by the employee while remaining portion is borne by the Bank.

26	MARK-UP / RETURN / INTEREST EARNED	2025	2024
		----- (Rupees in '000) -----	
	On:		
	(a) Loans and advances	1,585	2,110
	(b) Investments	676,829	83,243
	(c) Lending with financial institutions	51,340	-
	(d) Balances with banks	27,788	113,879
		<u>757,542</u>	<u>199,232</u>

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	Note	2025	2024
----- (Rupees in '000) -----			
27	MARK-UP / RETURN / INTEREST EXPENSED		
	On:		
	(a) Deposits	13,471	-
	(b) Leased assets	44,645	-
		<u>58,116</u>	<u>-</u>
28	FEE & COMMISSION INCOME		
	Retail banking customer fees	179	-
	Card related fees	260	-
		<u>439</u>	<u>-</u>
29	GAIN ON SECURITIES - NET		
	Realised on Federal Government securities - net	<u>2,417</u>	<u>-</u>
30	OTHER INCOME		
	Gain on sale of fixed assets - net	<u>-</u>	<u>342</u>
31	OPERATING EXPENSES		
	Total compensation expense	31.1 3,296,311	1,943,904
	Property expense		
	Rent & taxes	55,173	84,397
	Utilities cost	7,838	-
	Security (including guards)	7,124	996
	Repair and maintenance (including janitorial charges)	15,898	2,791
	Depreciation	13.1 1,273	-
	Depreciation on right-of-use assets	14 76,865	-
		164,171	88,184
	Information technology expenses		
	Software maintenance	2,530,599	936,865
	Hardware maintenance	3,367	12,610
	Depreciation	13.1 55,342	4,722
	Amortisation	15.1 44,132	-
	Network charges	77,850	91,008
		2,711,290	1,045,205

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Other operating expenses

Directors' fees and allowances	39.2	19,000	16,500
Fees and allowances to Shariah Board	39.3	26,894	10,329
Legal & professional charges		184,811	87,301
Outsourced services costs	31.4	63,547	15,487
Travelling & conveyance		112,254	61,919
NIFT clearing charges		-	-
Depreciation	13.1	15,627	31,470
Training & development		3,800	3,289
Postage & courier charges		5,254	-
Communication		66,365	2,493
Subscription		11,610	403
Repair & maintenance		2,522	-
Stationery & printing		61,486	90
Marketing, advertisement & publicity		843,623	26,464
Management fee	31.3	790,945	-
Insurance		38,138	13,342
Auditors' remuneration	31.5	46,212	106,892
Others		30,826	27,986
		2,322,914	403,965
		<u>8,494,686</u>	<u>3,481,258</u>

	Note	2025	2024
----- (Rupees in '000) -----			
31.1 Total compensation expense			
Fees and allowances etc.			
Managerial remuneration			
i) Fixed		2,817,506	1,683,110
ii) Variable			
a) Cash bonus / awards etc.		307,554	143,867
Charge for defined benefit plan	37.6.1	64,103	60,008
Contribution to defined contribution Plan	38	84,575	42,054
Compensated absences		4,542	-
EOBI		2,671	1,440
Sub-total		3,280,951	1,930,479
Sign-on bonus		15,360	13,425
Grand total		<u>3,296,311</u>	<u>1,943,904</u>

31.2 These expenses include expenses charged by the Parent company through pass through cost mechanism, amounting to AED 36.217 million (PKR 2,762 million). These expenses pertain to technology related costs, staff costs, marketing, consultancy, travelling and other expenses.

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31.3 This expense pertains to a fee charged by the Parent company amounting to AED 9.016 million for providing various services such as technology, credit and risk management, human resources and others.

31.4 The cost of outsourced activities included in operating expenses is Rs. 63.547 million (2024: Rs. 15.487 million). This pertains to payments to companies incorporated in Pakistan.

	Note	2025	2024
----- (Rupees in '000) -----			
31.5	Auditors' remuneration		
	Audit and audit related fees		
	Audit fee	16,000	8,640
	Fee for other statutory and related certifications	5,188	-
	Sales Tax on Audit Fees	1,319	-
	Out-of-pocket expenses on Audit Fees	175	864
		22,682	9,504
	Other services		
	Special certifications and sundry advisory services	20,000	97,388
	Out of pocket expenses	461	-
	Sales tax on other services	3,069	-
		23,530	97,388
		<u>46,212</u>	<u>106,892</u>
32	CREDIT LOSS ALLOWANCE / REVERSALS - NET		
	Net reversal of credit loss allowance against balances with other banks	(103)	-
	Credit loss allowance against lendings to financial institutions	2	-
	Reversal of credit loss allowance against loans	12.2 (4)	-
	Credit loss allowance against other assets	10	-
		<u>(95)</u>	<u>-</u>
33	TAXATION		
	Current	9,505	2,591
	Prior year	-	-
	Deferred	(10,258)	-
		<u>(753)</u>	<u>2,591</u>
33.1	The tax being charged is minimum tax under section 113 of the Income Tax Ordinance, 2001. Therefore, the numerical reconciliation between average tax rates and applicable tax rates has not been presented in these		
34	BASIC AND DILUTED LOSS PER SHARE		
	Loss for the period	<u>(7,802,568)</u>	<u>(3,276,354)</u>
		----- (Number in '000) -----	
	Weighted average number of ordinary shares	<u>854,966</u>	<u>159,530</u>
		----- (Rupees) -----	
	Basic and diluted loss per share	<u>(9.13)</u>	<u>(20.54)</u>
34.1	Diluted loss per share has not been presented separately as the Bank does not have any convertible instruments in		

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	Note	2025	2024
----- (Rupees in '000) -----			
35 CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	8	97,263	375,000
Balances with other banks	9	85,576	765,192
Call money lendings - local currency	10	1,180,000	-
		<u>1,362,839</u>	<u>1,140,192</u>

		2025	2024
----- Number -----			
36 STAFF STRENGTH			
Permanent		128	107
On the Bank's contract		141	29
Bank's own staff strength at the end of the year		<u>269</u>	<u>136</u>

36.1 In addition to the above, 141 (December 31, 2024: 29) employees of outsourcing services companies were assigned to the Bank as at the end of the year to perform services other than guarding and janitorial services.

37 DEFINED BENEFIT PLAN

37.1 General description

The Bank operates an approved funded gratuity scheme which cover all regular permanent employees. The liability of the Bank in respect of the plan is determined based on actuarial valuation carried out using the projected unit credit method. Actuarial valuation of the defined benefit plan was carried out as at December 31, 2025.

		2025	2024
----- (Rupees in '000) -----			
37.2 Number of employees under the scheme			

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

Gratuity fund		<u>128</u>	<u>103</u>
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MASHREQ BANK PAKISTAN LIMITED
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	2025	2024
	-----Per annum-----	
37.3 Principal actuarial assumptions		
The actuarial valuations were carried out as at December 31, 2025 using the following significant assumptions:		
Discount rate	11.50%	12.25%
Expected rate of salary increase	11.50%	12.25%

	Note	2025	2024
		----- (Rupees in '000) -----	
37.4 Reconciliation of (receivable from) / payable to defined benefit plans			
Present value of obligations	37.5	103,098	60,008
Fair value of plan assets		-	-
Payable		-	-
		<u>103,098</u>	<u>60,008</u>

	Note	2025	2024
		----- (Rupees in '000) -----	
37.5 Movement in defined benefit obligations			
Obligations at the beginning of the year		60,008	-
Current service cost		53,594	60,008
Interest cost		10,509	-
Benefits paid by the Bank		(13,621)	-
Re-measurement gain		(7,392)	-
Obligations at the end of the year		<u>103,098</u>	<u>60,008</u>

37.6 Charge for defined benefit plans

37.6. Cost recognised in profit and loss

Current service cost	53,594	60,008
Net interest on defined benefit asset / liability	10,509	-
	<u>64,103</u>	<u>60,008</u>

37.6. Re-measurements recognised in OCI during the year

Loss / (gain) on obligation		
Financial assumptions	(1,727)	-
Experience adjustment	9,119	-
Total re-measurements recognised in OCI	<u>7,392</u>	<u>-</u>

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37.7 Sensitivity analysis

1% increase in discount rate	(12,283)	(7,389)
1% decrease in discount rate	14,531	8,743
1% increase in expected rate of salary increase	14,916	7,755
1% decrease in expected rate of salary increase	(12,793)	(6,743)

37.8 Expected contributions to be paid to the funds in the next financial year	<u>79,013</u>	<u>64,103</u>
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37.9 Expected charge for the next financial year	<u>79,013</u>	<u>64,103</u>
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37.1C Maturity profile

The weighted average duration of the obligation (in years)	<u>12.92</u>
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37.11 Funding policy

The Bank endeavors to ensure that liabilities under the various employee benefit schemes are covered by the Fund on any valuation date, based on various actuarial assumptions.

37.12 The significant risks associated with the staff retirement benefit schemes are as follows:

Mortality risk	The risk that the actual mortality experience is different. The effect depends on the beneficiaries' service/age distribution and the benefit.
Final salary risk	The risk that the final salary at the time of cessation of service is higher than what we assumed. Since the benefit is calculated on the final salary, the benefit amount increases similarly.
Withdrawal risk	The risk of higher or lower withdrawal experience than assumed. The final effect could go either way depending on the beneficiaries' service/age distribution and the benefit.

38 DEFINED CONTRIBUTION PLAN

The Bank operates a recognised provident fund scheme for the permanent employees. Contributions to the Fund are made monthly by the Bank and employee at the rate of 8.33% of the basic salary. The Banks contributions are recognised as employee benefit expense when these are due.

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39 COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

39.1 Total compensation expense

	2025						
	Directors			Members shariah board	CEO	Key management personnel	Other material risk takers / controllers
	Chairman	Executives (other than CEO)	Non-executives				
	(Rupees in '000)						
Fees and allowances etc.	-	-	19,000	15,364	-	-	-
Managerial remuneration							
i) Fixed	-	-	-	10,200	75,600	344,397	-
ii) Variable							
a) Cash bonus / awards	-	-	-	1,330	28,190	130,421	-
Charge for defined benefit plan	-	-	-	565	4,191	19,092	-
Contribution to defined contribution plan	-	-	-	510	3,779	16,567	-
Conveyance	-	-	-	-	1,982	-	-
Others	-	-	-	-	90	-	-
Total	-	-	19,000	27,969	113,832	510,477	-
Number of persons	-	-	3	3	1	16	-
	(Rupees in '000)						
	2024						
	Directors			Members shariah board	CEO	Key management personnel	Other material risk takers / controllers
	Chairman	Executives (other than CEO)	Non-executives				
	(Rupees in '000)						
Fees and allowances etc.	-	-	16,500	6,736	-	-	-
Managerial remuneration							
i) Fixed	-	-	-	3,400	54,000	302,766	-
ii) Variable							
a) Cash bonus / awards	-	-	-	-	-	72,849	-
b) Bonus & awards in shares	-	-	-	-	-	-	-
Charge for defined benefit plan	-	-	-	132	2,091	11,725	-
Contribution to defined contribution plan	-	-	-	61	2,583	14,720	-
Conveyance	-	-	-	-	1,765	-	-
Others	-	-	-	-	90	-	-
Total	-	-	16,500	10,329	60,529	402,060	-
Number of persons	-	-	3	3	1	14	-

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39.2 Remuneration paid to Directors for participation in board and committee meetings

2025						
Name of Director	Meeting Fees and Allowances Paid					
	For Board Meetings	For Board Committees				Total Amount Paid
		Audit Committee (BAC)	Risk Management & Credit Committee (BRMCC)	Human Resource & Remuneration Committee (BHRRC)	Digital, IT and Information Security Committee (BDTIS)	
----- (Rupees in '000) -----						
Mr. Shazad Dada	3,500	-	1,500	500	1,000	6,500
Mr. Syed Naseer Ul Hasan	3,500	2,000	-	500	1,000	7,000
Mr. Rashid Ali Khan	3,000	2,500	-	-	-	5,500
Total amount paid	<u>10,000</u>	<u>4,500</u>	<u>1,500</u>	<u>1,000</u>	<u>2,000</u>	<u>19,000</u>

2024						
Name of Director	Meeting Fees and Allowances Paid					
	For Board Meetings	For Board Committees				Total Amount Paid
		Audit Committee (BAC)	Risk Management & Credit Committee (BRMCC)	Human Resource & Remuneration Committee (BHRRC)	Digital, IT and Information Security Committee (BDTIS)	
----- (Rupees in '000) -----						
Mr. Shazad Dada	3,500	-	1,000	1,000	500	6,000
Mr. Syed Naseer Ul Hasan	3,500	1,500	-	1,000	500	6,500
Mr. Rashid Ali Khan	2,000	1,000	-	1,000	-	4,000
Total amount paid	<u>9,000</u>	<u>2,500</u>	<u>1,000</u>	<u>3,000</u>	<u>1,000</u>	<u>16,500</u>

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39.3 Remuneration paid to Shariah Board Members

Items	2025			2024		
	Chairman	Resident Member	Non-Resident Member(s)	Chairman	Resident Member	Non-Resident Member(s)
----- (Rupees in '000) -----						
Meeting Fees and Allowances	5,764	-	9,600	1,936	-	4,800
Managerial remuneration			-			
i) Fixed	-	10,200	-	-	3,400	-
ii) Variable						
a) Cash bonus / awards	-	1,330	-	-	-	-
Charge for defined benefit plan	-	565	-	-	132	-
Contribution to defined contribution plan	-	510	-	-	61	-
Total amount	5,764	12,605	9,600	1,936	3,593	4,800
Total number of persons	1	1	1	1	1	1

40 FAIR VALUE MEASUREMENTS

Fair value measurement defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of quoted securities other than those classified as amortised cost / held to maturity, is based on quoted market price. Quoted debt securities classified as amortised cost / held to maturity are carried at cost.

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

40.1 Fair value of financial assets

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

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

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

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

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

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2025			
Fair value			
Level 1	Level 2	Level 3	Total

------(Rupees in '000)-----

On balance sheet financial instruments

Financial assets measured at fair value

Investments - FVOCI

- Federal government securities	1,033,264	8,925,094	-	9,958,358
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Financial assets - disclosed but not measured
 at fair value

Investments - Amortised Cost

- Federal government securities	-	1,412,609	-	1,412,609
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<u>1,033,264</u>	<u>10,337,703</u>	<u>-</u>	<u>11,370,967</u>
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On balance sheet financial instruments

2024			
Fair value			
Level 1	Level 2	Level 3	Total

------(Rupees in '000)-----

Financial assets measured at fair value

Investments - FVOCI

- Federal government securities	-	2,220,256	-	2,220,256
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Financial assets - disclosed but not measured
 at fair value

Investments - Amortised Cost

- Federal government securities	-	1,361,422	-	1,361,422
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<u>-</u>	<u>3,581,678</u>	<u>-</u>	<u>3,581,678</u>
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Valuation techniques used in determination of fair valuation of financial instruments within level 2.

Market Treasury Bills (MTB)	The fair value of Market Treasury Bills is valued using PKRV rates.
GoP Ijarah Sukuks	The fair value of GoP Ijarah sukuks listed on Pakistan Stock Exchange has been determined through the closing rates of the Pakistan Stock Exchange. The fair value of other GoP Ijarah sukuks is derived using PKISRV rates. The PKISRV rates are announced by the FMA (Financial Market Association) through Reuters.

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41 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	2025				
	Retail Banking	Treasury	Head Office	Elimination	Total
----- (Rupees in '000) -----					
Statement of profit and loss account					
Net mark-up / return / interest / profit	(13,194)	755,787	(43,167)	-	699,426
Inter segment revenue - net	20,045	(751,898)	731,853	-	-
Non mark-up / return / interest income	439	2,417	(11,012)	-	(8,156)
Total Income	<u>7,290</u>	<u>6,306</u>	<u>677,674</u>	<u>-</u>	<u>691,270</u>
Segment direct expenses					
Segment direct expenses	(3,082,731)	(26,215)	(5,385,740)	-	(8,494,686)
Inter segment expense allocation	(5,385,740)	-	5,385,740	-	-
Total expenses	<u>(8,468,471)</u>	<u>(26,215)</u>	<u>-</u>	<u>-</u>	<u>(8,494,686)</u>
Credit loss allowance	-	-	95	-	95
Loss before tax	<u>(8,461,181)</u>	<u>(19,909)</u>	<u>677,769</u>	<u>-</u>	<u>(7,803,321)</u>
Statement of financial position					
Cash and bank balances	-	182,839	-	-	182,839
Investments - net	-	11,366,912	-	-	11,366,912
Net inter segment lending	-	-	19,870,990	(19,870,990)	-
Lendings to financial institutions	-	1,179,998	-	-	1,179,998
Advances - performing	-	-	-	-	-
Credit loss allowance against advances	-	-	-	-	-
Others	-	-	1,249,025	-	1,249,025
Total assets	<u>-</u>	<u>12,729,749</u>	<u>21,120,015</u>	<u>(19,870,990)</u>	<u>13,978,774</u>
Borrowings					
Borrowings	-	-	1,960,862	-	1,960,862
Subordinated debt	-	-	-	-	-
Deposits and other accounts	1,319,331	-	-	-	1,319,331
Net inter segment borrowing	7,138,366	12,732,624	-	(19,870,990)	-
Others	3,484	-	6,862,167	-	6,865,651
Total liabilities	<u>8,461,181</u>	<u>12,732,624</u>	<u>8,823,029</u>	<u>(19,870,990)</u>	<u>10,145,844</u>
Equity	<u>(8,461,181)</u>	<u>(2,875)</u>	<u>12,296,986</u>	<u>-</u>	<u>3,832,930</u>
Total equity and liabilities	<u>-</u>	<u>12,729,749</u>	<u>21,120,015</u>	<u>(19,870,990)</u>	<u>13,978,774</u>
Contingencies and commitments					
Contingencies and commitments	-	-	8,202	-	8,202

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2024					
Retail Banking	Treasury	Head Office	Elimination	Total	
(Rupees in '000)					
Statement of profit and loss account					
Net mark-up / return / interest / profit	-	83,243	115,989	-	199,232
Inter segment revenue - net	-	(82,455)	82,455	-	-
Non mark-up / return / interest income	-	-	8,263	-	8,263
Total Income	-	788	206,707	-	207,495
Segment direct expenses	-	(17,397)	(3,463,861)	-	(3,481,258)
Inter segment expense allocation	-	-	-	-	-
Total expenses	-	(17,397)	(3,463,861)	-	(3,481,258)
Credit loss allowance	-	-	-	-	-
Loss before tax	-	(16,609)	(3,257,154)	-	(3,273,763)

2024					
Retail Banking	Treasury	Head Office	Elimination	Total	
(Rupees in '000)					
Statement of financial position					
Cash and bank balances	-	375,000	765,192	-	1,140,192
Investments - net	-	3,601,245	-	-	3,601,245
Net inter segment lending	-	-	3,968,249	(3,968,249)	-
Lendings to financial institutions	-	-	-	-	-
Advances - performing	-	-	11,424	-	11,424
Advances - non-performing	-	-	-	-	-
Credit loss allowance against advances	-	-	-	-	-
Others	-	-	606,830	-	606,830
Total assets	-	3,976,245	5,351,695	(3,968,249)	5,359,691
Borrowings	-	-	1,949,850	-	1,949,850
Deposits and other accounts	-	-	-	-	-
Net inter segment borrowing	-	3,968,249	-	(3,968,249)	-
Others	-	-	1,709,982	-	1,709,982
Total liabilities	-	3,968,249	3,659,832	(3,968,249)	3,659,832
Equity	-	7,996	1,691,863	-	1,699,859
Total equity and liabilities	-	3,976,245	5,351,695	(3,968,249)	5,359,691
Contingencies and commitments	-	-	229,035	-	229,035

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42 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and includes the holding company, associated companies, retirement benefit funds, directors, and key management personnel and their close family members.

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

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

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

	2025					Total
	Parent	Associates	Key management personnel	Directors	Retirement benefit plans	
	----- (Rupees in '000) -----					
Borrowings						
Opening balance	1,949,850	-	-	-	-	1,949,850
Borrowings during the year	-	-	-	-	-	-
Loss on revaluation	11,012	-	-	-	-	11,012
Repaid during the year	-	-	-	-	-	-
Closing balance	<u>1,960,862</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,960,862</u>
Deposits and other accounts						
Opening balance	-	-	-	-	-	-
Received during the year	-	-	738,589	-	-	738,589
Withdrawn during the year	-	-	(600,101)	-	-	(600,101)
Transfer in / (out) - net	-	-	(4,399)	-	-	(4,399)
Closing balance	<u>-</u>	<u>-</u>	<u>134,089</u>	<u>-</u>	<u>-</u>	<u>134,089</u>
Other liabilities						
Profit payable	-	-	693	-	-	693
Accrued expenses and other liabilities	4,352,288	-	-	-	140,355	4,492,643
	<u>4,352,288</u>	<u>-</u>	<u>693</u>	<u>-</u>	<u>140,355</u>	<u>4,493,336</u>

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	2024					Total
	Parent	Associates	Key management personnel	Directors	Retirement benefit plans	
	(Rupees in '000)					
Borrowings						
Opening balance	563,721	-	-	-	-	563,721
Borrowings during the year	1,394,050	-	-	-	-	1,394,050
Gain on revaluation	(7,921)	-	-	-	-	(7,921)
Closing balance	<u>1,949,850</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,949,850</u>
Deposits and other accounts						
Opening balance	-	-	-	-	-	-
Received during the year	-	-	-	-	-	-
Withdrawn during the year	-	-	-	-	-	-
Closing balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other liabilities						
Accrued expenses and other liabilities	<u>906,618</u>	<u>5,257</u>	<u>-</u>	<u>-</u>	<u>155,566</u>	<u>1,067,441</u>

Transactions during the year	2025					Total
	Parent	Associates	Key management personnel	Directors	Retirement benefit plans	
	(Rupees in '000)					
Expense						
Mark-up / return / interest expensed	-	-	2,825	-	-	2,825
Salaries and allowances	-	4,305	523,082	-	-	527,387
Directors' fees and allowances	-	-	-	19,000	-	19,000
Charge to defined benefit plan	-	-	-	-	64,103	64,103
Contribution to defined contribution plan	-	-	-	-	84,575	84,575
Information technology and other administrative expenses	<u>3,455,546</u>	<u>13,344</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,468,890</u>

Transactions during the year	2024					Total
	Parent	Associates	Key management Personnel	Directors	Retirement Benefit Plans	
	(Rupees in '000)					
Expenses						
Salaries and allowances	-	5,616	405,653	-	-	411,269
Directors' fees and allowances	-	-	-	16,500	-	16,500
Charge to defined benefit plan	-	-	-	-	60,008	60,008
Contribution to defined contribution plan	-	-	-	-	42,054	42,054
Information technology and other administrative expenses	<u>901,261</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>901,261</u>

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43	CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS	2025 (Rupees in '000)
	Minimum Capital Requirement (MCR):	
	Paid-up capital (net of losses)	3,823,052
	Capital Adequacy Ratio (CAR):	
	Eligible common Equity Tier 1 (CET 1) Capital	3,383,177
	Eligible Additional Tier 1 (ADT 1) Capital	-
	Total Eligible Tier 1 capital	3,383,177
	Eligible Tier 2 Capital	9,878
	Total Eligible Capital (Tier 1 + Tier 2)	3,393,055
	Risk Weighted Assets (RWAs):	
	Credit risk	1,068,416
	Market risk	2,497,137
	Operational risk	584,476
	Total	4,150,029
	Common Equity Tier-1 capital adequacy ratio	81.52%
	Tier 1 capital adequacy ratio	81.52%
	Total capital adequacy ratio	81.76%
	Minimum capital requirements prescribed by the SBP	
	CET 1 capital adequacy ratio	9.50%
	Tier 1 capital adequacy ratio	12.50%
	Total capital adequacy ratio	15.00%
	The Bank uses Standardized approach for credit risk, market risk and basic indicator approach for operational risk exposures in the capital adequacy calculation.	
	Leverage Ratio (LR):	
	Eligible tier-1 capital	3,383,177
	Total exposures	11,693,138
	Leverage ratio	28.93%

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Liquidity Coverage Ratio (LCR):	2025
	(Rupees in '000)
Total high quality liquid assets	4,794,382
Total net cash outflow	1,736,063
Liquidity coverage ratio	<u>276%</u>
Net Stable Funding Ratio (NSFR):	
Total available stable funding	5,020,328
Total required stable funding	2,049,475
Net stable funding ratio	<u>245%</u>

43.1 Comparative figures have not been presented as the Bank commenced operations during the current period following the grant of a restricted banking license by the SBP.

43.2 Full disclosure on Capital Adequacy, Leverage Ratio & Liquidity Requirements prepared as per SBP instructions is available at <https://www.mashreq.com/en/pk/home/>

44 RISK MANAGEMENT

Risk management aspects are embedded in the Bank's strategy, organization structure and processes. The Bank has adopted a cohesive risk management structure for credit, market, liquidity and operational risk with an integrated approach to strengthen the process and system as controls are more effective and valuable when built into the process. Effective risk management is considered essential in the preservation of the assets and long-term profitability of the Bank.

44.1 Credit

Credit Risk means the possibility of monetary loss to Bank arising due to the inability or unwillingness of a counterparty to perform a commitment as per the agreed terms and conditions, among other things, on account of lending, trading, hedging, settlement, and other financial transactions. Currently, the Bank does not hold a significant credit portfolio, and this status is expected to remain unchanged throughout 2025 and 2026. The initiation of lending is strategically planned to commence in 2026-2027, with preparations and frameworks being established in the interim to support the Bank's future lending activities.

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The credit risk weighted assets are at Rs. 1,068.416 million of which Rs. 1,062.264 million pertains to on balance sheet exposure and the remaining pertains to commitment and contingencies from committed capital expenditure. On balance sheet exposure includes placements with banks which are currently at least AA+ rated. This exposure is currently short term in nature.

44.1.: Lendings to financial institutions

Credit risk by public / private sector	Gross lendings to financial institutions		Non-performing lendings		Credit loss allowance held	
	2025	2024	2025	2024	2025	2024
-----Rupees in '000-----						
Public / Government	-	-	-	-	-	-
Private	1,180,000	-	-	-	(2)	-
	<u>1,180,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2)</u>	<u>-</u>

44.1.: Investment in debt securities

Credit risk by industry sector	Gross investments in debt securities		Non-performing investments		Credit loss allowance held	
	2025	2024	2025	2024	2025	2024
-----Rupees in '000-----						
Federal Government securities	11,366,912	3,601,245	-	-	-	-
	<u>11,366,912</u>	<u>3,601,245</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Credit risk by public / private sector	Gross investments in debt securities		Non-performing investments		Credit loss allowance held	
	2025	2024	2025	2024	2025	2024
-----Rupees in '000-----						
Public / Government	11,366,912	3,601,245	-	-	-	-
Private	-	-	-	-	-	-
	<u>11,366,912</u>	<u>3,601,245</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

44.1.: Contingencies and commitments

Credit risk by industry sector	Gross amount		Non-performing amount		Credit loss allowance held	
	2025	2024	2025	2024	2025	2024
-----Rupees in '000-----						
Others	8,202	229,035	-	-	-	-
	<u>8,202</u>	<u>229,035</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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Credit risk by public / private sector	Gross amount		Non-performing amount		Credit loss allowance held	
	2025	2024	2025	2024	2025	2024
	-----Rupees in '000-----					
Public / Government	-	-	-	-	-	-
Private	8,202	229,035	-	-	-	-
	<u>8,202</u>	<u>229,035</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

44 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems, people, or from external events. It encompasses a broad range of potential risks that can disrupt normal operations or lead to financial loss, and it is a critical part of the Bank's overall Enterprise Risk Management Framework ("ERMF"). In line with the ERMF, the Bank has established a dedicated Operational Risk Management Department ("ORMD"), who is the primary owner of the Operational Risk Management Framework ("ORMF").

To ensure effective implementation of the ORMF, Business Unit Risk Assessors ("BURAs") and Business Unit Risk Managers ("BURMs") have been nominated across more than 15 departments. These individuals are responsible for coordinating with ORMD to embed operational risk practices within their respective functions. The ORMF addresses key components of operational risk, including Risk and Control Self-Assessment (RCSA), Key Risk Indicators (KRIs), operational loss data management, operational risk reporting, and capital calculation. As part of the risk identification, assessment, monitoring and reporting process, the Bank has initiated the development of a risk register in collaboration with various functional units.

For regulatory capital purposes, the Bank currently uses the Basic Indicator Approach ("BIA") to calculate the operational risk capital charge, which amounts to Rs 584.476 million. During the year, the Bank did not incur any material operational risk-related losses.

44.3 Market risk

Market Risk is the risk arising from changes in the value of on and off-balance sheet positions of the Bank due to adverse movements in market rates or prices such as interest rates, foreign exchange rates, equity prices, credit spreads and commodity prices, resulting in a loss to earnings and capital. Due to the external nature of the risk, and given the prevalent macro-economic environment, the likelihood of adverse price movements is currently high. However, stringent controls are in place to mitigate any material impact on profitability and capital.

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44.3. Balance sheet split by trading and banking books

	December 31, 2025			December 31, 2024		
	Banking Book	Trading Book	Total	Banking Book	Trading Book	Total
----- (Rupees in '000) -----						
Cash and balances with treasury banks	97,263	-	97,263	375,000	-	375,000
Balances with other banks	85,576	-	85,576	765,192	-	765,192
Lendings to financial institutions	1,179,998	-	1,179,998	-	-	-
Investments	1,408,554	9,958,358	11,366,912	1,380,989	2,220,256	3,601,245
Advances	-	-	-	11,424	-	11,424
Property and equipment	263,599	-	263,599	249,826	-	249,826
Right-of-use assets	356,353	-	356,353	-	-	-
Intangible assets	439,875	-	439,875	267,294	-	267,294
Deferred tax assets	-	-	-	-	-	-
Other assets	189,198	-	189,198	89,710	-	89,710
	<u>4,020,416</u>	<u>9,958,358</u>	<u>13,978,774</u>	<u>3,139,435</u>	<u>2,220,256</u>	<u>5,359,691</u>

44.3. Foreign exchange risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank's exposure to foreign exchange risk arises primarily from a foreign currency-denominated loan obtained from the Parent company.

	December 31, 2025			December 31, 2024		
	Foreign Currency Assets	Foreign Currency Liabilities	Net Foreign Currency Exposure	Foreign Currency Assets	Foreign Currency Liabilities	Net Foreign Currency Exposure
----- (Rupees in '000) -----						
USD						
Borrowing from Parent	-	1,960,862	(1,960,862)	-	1,949,850	(1,949,850)
Payable to Parent	-	4,352,288	(4,352,288)	-	-	-
	<u>-</u>	<u>6,313,150</u>	<u>(6,313,150)</u>	<u>-</u>	<u>-</u>	<u>-</u>

44.3. Yield / Interest rate risk in the banking book (IRRBB)-Basel II specific

Yield risk occurs when there is a mismatch between positions, which are subject to interest rate alterations within a particular time period. The Bank's placement and investment activities give rise to interest rate risk. The effect of changes in interest rate is on the Bank's income and resultant impact is on the Bank's net worth.

Interest rate risk is primarily managed by monitoring the rate sensitive gaps and by having the pre-approved limits for repricing buckets. ALCO is the supervising body for adherence with these, complemented by the monitoring of sensitivity of the Bank's financial assets and liabilities to various scenarios.

	2025		2024	
	Banking book	Trading book	Banking book	Trading book
----- Rupees in '000 -----				
Impact of 1% change in interest rates on				
- Profit and loss account	6,994	-	1,992	-
- Other comprehensive income	-	-	-	-
	<u>6,994</u>	<u>-</u>	<u>1,992</u>	<u>-</u>

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44.3.4 Mismatch of Interest Rate Sensitive Assets and Liabilities

		2025										
Effective Yield / interest rate	Total	Exposed to Yield / Interest risk									Non-interest bearing financial	
		Upto1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years		
		Rupees in '000										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	97,263	-	-	-	-	-	-	-	-	-	97,263
Balances with other banks	9.29%	85,576	83,662	-	-	-	-	-	-	-	-	1,914
Lendings to financial institutions	10.28%	1,179,998	1,179,998	-	-	-	-	-	-	-	-	-
Investments	10.83%	11,366,912	161,202	2,447,793	4,479,708	4,278,209	-	-	-	-	-	-
Advances	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	21,380	-	-	-	-	-	-	-	-	-	21,380
		12,751,129	1,424,862	2,447,793	4,479,708	4,278,209	-	-	-	-	-	120,557
Liabilities												
Bills payable	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	-	1,960,862	-	-	-	-	-	-	-	-	-	1,960,862
Deposits and other accounts	8.03%	1,319,331	1,113,994	-	-	-	-	-	-	-	-	205,337
Subordinated debt	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	6,462,250	-	-	-	-	-	-	-	-	-	6,462,250
		9,742,443	1,113,994	-	-	-	-	-	-	-	-	8,628,449
On-balance sheet gap		3,008,686	310,868	2,447,793	4,479,708	4,278,209	-	-	-	-	-	(8,507,892)
Total yield / interest rate risk sensitivity gap			310,868	2,447,793	4,479,708	4,278,209	-	-	-	-	-	(8,507,892)
Cumulative yield / interest rate risk sensitivity gap			310,868	2,758,661	7,238,369	11,516,578	11,516,578	11,516,578	11,516,578	11,516,578	11,516,578	3,008,686

2024												
Effective Yield / interest rate	Total	Exposed to Yield / Interest risk									Non-interest bearing financial	
		Upto1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years		
Rupees in '000												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	375,000	-	-	-	-	-	-	-	-	-	375,000
Balances with other banks	10.46%	765,192	761,948	-	-	-	-	-	-	-	-	3,244
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	13.58%	3,601,245	-	-	515,907	3,085,338	-	-	-	-	-	-
Advances	4.00%	11,424	5	9	15	31	71	84	216	985	10,008	-
Other assets	-	-	-	-	-	-	-	-	-	-	-	-
		4,752,861	761,953	9	515,922	3,085,369	71	84	216	985	10,008	378,244
Liabilities												
Bills payable	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	-	1,949,850	-	-	-	-	-	-	-	-	-	1,949,850
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	1,689,639	-	-	-	-	-	-	-	-	-	1,689,639
		3,639,489	-	-	-	-	-	-	-	-	-	3,639,489
On-balance sheet gap		1,113,372	761,953	9	515,922	3,085,369	71	84	216	985	10,008	(3,261,245)
Total yield / interest rate risk sensitivity gap			761,953	9	515,922	3,085,369	71	84	216	985	10,008	(3,261,245)
Cumulative yield / interest rate risk sensitivity gap			761,953	761,962	1,277,884	4,363,253	4,363,324	4,363,408	4,363,624	4,364,609	4,374,617	1,113,372

44.3.4.1 Mismatch of Interest Rate Sensitive Assets and Liabilities

	2025	2024
	----- (Rupees in '000) -----	
Total financial assets as per note 44.3.4	12,751,129	4,752,861
Add: Non financial assets		
Property and equipment	263,599	249,826
Right-of-use assets	356,353	-
Intangible assets	439,875	267,294
Other assets	167,818	89,710
Total assets as per the statement of financial position	13,978,774	5,359,691
Total financial liabilities as per note 44.3.4	9,742,443	3,639,489
Add: Non financial liabilities		
Lease liability against right-of-use assets	386,077	-
Other liabilities	17,324	20,343
Total liabilities as per the statement of financial position	10,145,844	3,659,832

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44.4 Liquidity risk

Liquidity is a financial capacity to meet its obligations as they fall due without incurring losses. Liquidity risk is the risk to an earnings, capital and reputation arising from its inability (real or perceived) to meet its contractual obligations in a timely manner without incurring unacceptable losses when they come due. The Bank manages and controls liquidity risk through a detailed risk management framework, which includes BoD approved policy and Asset & Liability Committee (ALCO) level guidelines. Under this framework, various liquidity metrics are

44.4. Maturities of assets and Liabilities - based on contractual maturity of the assets and liabilities of the Bank

	2025													
	Total	Upto 1 day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 month	Over 1 to 2 months	Over 2 to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 years
----- Rupees in '000 -----														
Assets														
Cash and balances with treasury banks	97,263	97,263	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	85,576	85,576	-	-	-	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	1,179,998	980,000	-	199,998	-	-	-	-	-	-	-	-	-	-
Investments	11,366,912	-	-	161,202	-	-	2,447,793	4,479,708	4,278,209	-	-	-	-	-
Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property and equipment	263,599	245	1,470	1,715	4,164	6,076	6,728	19,206	19,206	19,206	71,598	71,268	42,717	-
Right-of-use assets	356,353	-	-	-	7,654	7,654	7,654	22,961	22,961	22,961	91,842	91,842	80,824	-
Intangible assets	439,875	566	3,395	3,961	9,619	12,637	13,991	39,942	39,942	39,942	159,768	116,112	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	189,198	22,153	443	-	8,814	4,295	2,565	31,476	2,325	51,019	17,224	2,307	41,117	5,460
	<u>13,978,774</u>	<u>1,185,803</u>	<u>5,308</u>	<u>366,876</u>	<u>30,251</u>	<u>30,662</u>	<u>2,478,731</u>	<u>4,593,293</u>	<u>4,362,643</u>	<u>133,128</u>	<u>340,432</u>	<u>281,529</u>	<u>164,658</u>	<u>5,460</u>
Liabilities														
Bills payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	1,960,862	-	-	-	-	-	-	-	280,123	280,123	1,400,616	-	-	-
Deposits and other accounts	1,319,331	1,319,331	-	-	-	-	-	-	-	-	-	-	-	-
Lease liabilities	386,077	-	-	-	6,664	1,505	1,523	15,975	17,708	18,866	87,844	114,843	121,149	-
Subordinated debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	6,479,574	4,347	58,054	-	1,924,530	-	-	4,352,288	-	-	-	-	-	140,355
	<u>10,145,844</u>	<u>1,323,678</u>	<u>58,054</u>	<u>-</u>	<u>1,931,194</u>	<u>1,505</u>	<u>1,523</u>	<u>4,368,263</u>	<u>297,831</u>	<u>298,989</u>	<u>1,488,460</u>	<u>114,843</u>	<u>121,149</u>	<u>140,355</u>
Net assets	<u>3,832,930</u>	<u>(137,875)</u>	<u>(52,746)</u>	<u>366,876</u>	<u>(1,900,943)</u>	<u>29,157</u>	<u>2,477,208</u>	<u>225,030</u>	<u>4,064,812</u>	<u>(165,861)</u>	<u>(1,148,028)</u>	<u>166,686</u>	<u>43,509</u>	<u>(134,895)</u>
Share capital	12,418,806													
Advance against issue of shares	2,975,167													
Reserves	-													
Surplus on revaluation of assets	9,878													
Accumulated losses	(11,570,921)													
	<u>3,832,930</u>													

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2024													
Total	Upto 1 Day	Over 1 to 7 Days	Over 7 to 14 Days	Over 14 Days to 1 month	Over 1 to 2 months	Over 2 to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 years
----- Rupees in '000 -----													
Assets													
Cash and balances with treasury banks	375,000	375,000	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	765,192	765,192	-	-	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	3,601,245	-	-	-	-	-	515,907	3,085,338	-	-	-	-	-
Advances	11,424	-	-	-	4	4	5	15	15	16	71	84	216
Property and equipment	249,826	161	968	1,129	2,743	4,747	5,255	15,003	15,003	15,003	60,012	54,862	74,940
Right-of-use assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	267,294	8,622	51,734	60,357	146,581	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	89,710	-	-	-	14,881	65	4,025	5,964	197	16,279	33,155	830	1,725
	<u>5,359,691</u>	<u>1,148,975</u>	<u>52,702</u>	<u>61,486</u>	<u>164,209</u>	<u>4,816</u>	<u>9,285</u>	<u>536,889</u>	<u>3,100,553</u>	<u>31,298</u>	<u>93,238</u>	<u>55,776</u>	<u>76,881</u>
													<u>23,583</u>
Liabilities													
Bills payable	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	1,949,850	1,949,850	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-	-	-	-
Lease liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,709,982	-	22,265	-	1,532,151	-	-	-	-	-	-	-	155,566
	<u>3,659,832</u>	<u>1,949,850</u>	<u>22,265</u>	<u>-</u>	<u>1,532,151</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>155,566</u>
Net assets	<u>1,699,859</u>	<u>(800,875)</u>	<u>30,437</u>	<u>61,486</u>	<u>(1,367,942)</u>	<u>4,816</u>	<u>9,285</u>	<u>536,889</u>	<u>3,100,553</u>	<u>31,298</u>	<u>93,238</u>	<u>55,776</u>	<u>76,881</u>
													<u>(131,983)</u>
Share capital - net	5,454,417												
Reserves	-												
Surplus on revaluation of assets	17,975												
Accumulated losses	(3,772,533)												
	<u>1,699,859</u>												

MASHREQ BANK PAKISTAN LIMITED
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44.4.2 Maturities of assets and liabilities - based on expected maturity of the assets and liabilities of the Bank

		2025							
Total	Upto 1 month	Upto 1 to 3 month	Over 3 months to 6 months	Over 6 months to 12 months	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 years	
----- Rupees in '000 -----									
Assets									
Cash and balances with treasury banks	97,263	97,263	-	-	-	-	-	-	
Balances with other banks	85,576	85,576	-	-	-	-	-	-	
Lendings to financial institutions	1,179,998	1,179,998	-	-	-	-	-	-	
Investments	11,366,912	161,202	2,447,793	4,479,708	4,278,209	-	-	-	
Advances	-	-	-	-	-	-	-	-	
Property and equipment	263,599	7,593	12,804	19,206	38,412	71,598	71,268	42,718	
Right-of-use assets	356,353	7,654	15,307	22,961	45,921	91,842	91,842	80,826	
Intangible assets	439,875	17,540	26,628	39,942	79,884	159,768	116,113	-	
Deferred tax assets	-	-	-	-	-	-	-	-	
Other assets	189,198	31,410	6,860	31,476	53,344	17,224	2,307	41,117	
	13,978,774	1,588,236	2,509,392	4,593,293	4,495,770	340,432	281,530	164,661	
								5,460	
Liabilities									
Bills payable	-	-	-	-	-	-	-	-	
Borrowings	1,960,862	-	-	-	560,246	1,400,616	-	-	
Deposits and other accounts	1,319,331	1,319,331	-	-	-	-	-	-	
Lease liabilities	386,077	6,664	3,028	15,975	36,574	87,844	114,843	121,149	
Subordinated debt	-	-	-	-	-	-	-	-	
Other liabilities	6,479,574	1,986,931	-	4,352,288	-	-	-	140,355	
	10,145,844	3,312,926	3,028	4,368,263	596,820	1,488,460	114,843	121,149	
								140,355	
Net assets	3,832,930	(1,724,690)	2,506,364	225,030	3,898,950	(1,148,028)	166,687	43,512	
								(134,895)	
Share capital - net	12,418,806								
Advance against issue of shares	2,975,167								
Reserves	-								
Surplus on revaluation of assets	9,878								
Accumulated losses	(11,570,921)								
	<u>3,832,930</u>								
		2024							
Total	Upto 1 month	Upto 1 to 3 month	Over 3 months to 6 months	Over 6 months to 12 months	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 years	
----- Rupees in '000 -----									
Assets									
Cash and balances with treasury banks	375,000	375,000	-	-	-	-	-	-	
Balances with other banks	765,192	765,192	-	-	-	-	-	-	
Due from financial institutions	-	-	-	-	-	-	-	-	
Investments	3,601,245	-	-	515,907	3,085,338	-	-	-	
Advances	11,424	5	9	15	31	71	84	10,993	
Property and equipment	249,826	5,001	10,002	15,003	30,006	60,012	54,862	74,940	
Right-of-use assets	-	-	-	-	-	-	-	-	
Intangible assets	267,294	267,294	-	-	-	-	-	-	
Deferred tax assets	-	-	-	-	-	-	-	-	
Other assets	89,710	14,881	4,090	3,390	16,475	35,729	830	1,725	
	5,359,691	1,427,373	14,101	534,315	3,131,850	95,812	55,776	76,881	
								23,583	
Liabilities									
Bills payable	-	-	-	-	-	-	-	-	
Borrowings	1,949,850	1,949,850	-	-	-	-	-	-	
Deposits and other accounts	-	-	-	-	-	-	-	-	
Lease liabilities	-	-	-	-	-	-	-	-	
Subordinated debt	-	-	-	-	-	-	-	-	
Other liabilities	1,709,982	1,554,416	-	-	-	-	-	155,566	
	3,659,832	3,504,266	-	-	-	-	-	155,566	
Net assets	1,699,859	(2,076,893)	14,101	534,315	3,131,850	95,812	55,776	76,881	
								(131,983)	
Share capital - net	5,454,417								
Reserves	-								
Surplus on revaluation of assets	17,975								
Accumulated losses	(3,772,533)								
	<u>1,699,859</u>								

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45 GENERAL

45.1 Corresponding figures have been rearranged and reclassified, wherever considered necessary, for the purpose of comparison and to reflect the substance of transactions. No significant rearrangements or reclassifications have been made in these financial statements during the current year.

45.2 The figures in these financial statements have been rounded off to the nearest thousand rupee.

46 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 26, 2026 by the Board of Directors of the Bank.

_____ Atif Saeed Dar Chief Financial Officer	_____ Muhammad Hamayun Sajjad Chief Executive Officer	_____ Fernando Morillo Director	_____ Naseer ul Hasan Director	_____ Mohamad Abdel Razek Director
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MASHREQ BANK PAKISTAN LIMITED
 ISLAMIC BANKING BUSINESS
 STATEMENT OF FINANCIAL POSITION
 AS AT DECEMBER 31, 2025

Annexure I

The Bank has commenced Islamic Banking window operations on September 16, 2025.

	Note	2025	2024
		----- (Rupees in '000) -----	
ASSETS			
Cash and balances with treasury banks		42,781	-
Balances with other banks		594	-
Due from financial Institutions	1	899,999	-
Investments	2	1,033,264	-
Islamic financing and related assets - net		-	-
Property and equipment		-	-
Right-of-use assets		-	-
Intangible assets		-	-
Due from head office		-	-
Other assets	4	1,939	-
Total assets		1,978,577	-
LIABILITIES			
Bills payable		-	-
Due to financial institutions		-	-
Deposits and other accounts	3	1,005,261	-
Due to head office		-	-
Lease liabilities		-	-
Subordinated debt		-	-
Other liabilities	5	401,540	-
Total liabilities		1,406,801	-
NET ASSETS		571,776	-
REPRESENTED BY			
Islamic Banking Fund		1,000,000	-
Surplus on revaluation of assets - net of tax		4,315	-
Accumulated losses		(432,539)	-
		571,776	-
CONTINGENCIES AND COMMITMENTS	7	-	-

MASHREQ BANK PAKISTAN LIMITED
 ISLAMIC BANKING BUSINESS
 STATEMENT OF PROFIT AND LOSS ACCOUNT
 FOR THE YEAR ENDED DECEMBER 31, 2025

	Note	2025	2024
----- (Rupees in '000) -----			
Profit / return earned	8	40,641	-
Profit / return expensed	9	(6,994)	-
Net profit / return		<u>33,647</u>	<u>-</u>
PROFIT			
Other income		1	-
Total Income / (expense)		<u>33,648</u>	<u>-</u>
OTHER EXPENSES			
Operating expenses		466,186	-
Workers' welfare fund		-	-
Other charges		-	-
Other expenses		(466,186)	-
Loss before credit loss allowance		<u>(432,538)</u>	<u>-</u>
Credit loss allowance and reversals - net		(1)	-
LOSS BEFORE TAXATION		<u>(432,539)</u>	<u>-</u>
Taxation		-	-
LOSS AFTER TAXATION		<u><u>(432,539)</u></u>	<u><u>-</u></u>

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	2025			2024		
	In Local Currency	In Foreign currencies	Total	In Local Currency	In Foreign currencies	Total
1 DUE FROM FINANCIAL INSTITUTIONS	----- (Rupees in '000) -----					
Musharaka placements	900,000	-	900,000	-	-	-
Less: credit loss allowance Stage 1	(1)	-	(1)	-	-	-
	<u>899,999</u>	<u>-</u>	<u>899,999</u>	<u>-</u>	<u>-</u>	<u>-</u>

2 INVESTMENTS BY SEGMENTS

	2025				2024			
	Cost / amortised cost	Credit loss allowance	Surplus / (deficit)	Carrying value	Cost / amortised cost	Credit loss allowance	Surplus / (deficit)	Carrying value
Fair value through other comprehensive income	----- (Rupees in '000) -----							
Federal government securities:	1,028,949	-	4,315	1,033,264	-	-	-	-
Total Investments	<u>1,028,949</u>	<u>-</u>	<u>4,315</u>	<u>1,033,264</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

3 DEPOSITS AND OTHER ACCOUNTS

	2025			2024		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
Customers	----- (Rupees in '000) -----					
Current deposits	121,888	-	121,888	-	-	-
Savings deposits	883,373	-	883,373	-	-	-
	<u>1,005,261</u>	<u>-</u>	<u>1,005,261</u>	<u>-</u>	<u>-</u>	<u>-</u>

3.1 Composition of Deposits	2025	2024
	----- (Rupees in '000) -----	
- Individuals	990,596	-
- Private sector	14,665	-
	<u>1,005,261</u>	<u>-</u>

3.2 This includes deposits eligible to be covered under insurance arrangements with Deposit Protection Corporation (DPC) amounting to Rs. 885.396 million (2024: Nil).

3.3 Savings deposits include remunerative current deposits of Rs. 84.5 million (2024: Nil).

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	2025	2024
	-----(Rupees in '000)----	
4 OTHERASSETS		
Profit / return accrued in local currency - net of provision	363	-
Alternate Delivery Channels (ADC) settlement account	1,576	-
	<u>1,939</u>	<u>-</u>
Credit loss allowance / provision against other assets	-	-
Other assets (net of credit loss allowance)	<u>1,939</u>	<u>-</u>
	2025	2024
	-----(Rupees in '000)----	
5 OTHERLIABILITIES		
Profit / return payable in local currency	4,363	-
Payable to head office	397,125	-
Withholding tax / duties	52	-
	<u>401,540</u>	<u>-</u>
6 ISLAMIC BANKING BUSINESS UNAPPROPRIATED PROFIT		
Opening balance	-	-
Impact of adopting IFRS 9	-	-
Balance at January 01 on adopting IFRS 9	<u>-</u>	<u>-</u>
Add: Islamic Banking profit before taxation for the year	(432,539)	-
Closing balance	<u>(432,539)</u>	<u>-</u>
7 CONTINGENCIES AND COMMITMENTS		
There are no contingencies and commitments as at December 31, 2025		
8 PROFIT / RETURN EARNED		
On:		
Financing	-	-
Investments	35,482	-
Due from financial institutions	4,989	-
Balance with Banks	170	-
	<u>40,641</u>	<u>-</u>
9 PROFIT / RETURN EXPENSED		
On:		
Deposits and other accounts	6,994	-
	<u>6,994</u>	<u>-</u>

10 POOL MANAGEMENT

General pool

The Bank operates general pools for deposits under Mudaraba modes.

The General pool is collective investment pool of remunerative deposits and bank's own equity which is invested in Shariah compliant assets with the aim of earning and sharing the return with remunerative deposit account holders. The objective of this pool is to effectively manage Rupee deposits of customers to earn and distribute returns from Rupee denominated earning assets. The funds in this pool are deployed in Sukuk and FI placements.

The risk characteristic of each pool mainly depends on the assets and liabilities profile of each pool. As per the Bank's policy, relatively low risk transactions and assets are allocated to general depositor's pool. All risk of assets in the pool is borne by the Depositors (Rab-ul-Maal) up to their proportionate share in pool.

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Equity pool

The Equity pool is an investment pool composed of the bank's own equity (shareholder's capital and retained earnings) and non-remunerative deposits which are invested in Shariah compliant assets to earn returns. This pool comprises of all assets, liabilities and equities of the Bank which are not tagged to any other remunerative pool.

To safeguard the interest of customers all high-risk transactions will be made through equity pool. All risk of assets in the pool is borne by the Bank.

General Remunerative Depositor's Pools	Profit rate and weightage announcement period	Profit rate return earned	Profit sharing ratio Mudarib Share / Fee	Profit sharing ratio Rabbul Maal Share	Mudarib share	Profit rate return distributed to remunerative deposits (savings)	Percentage of Mudarib share transferred through Hiba	Amount of Mudarib Share transferred through Hiba
General pool	Monthly	9.58%	50.00%	50.00%	3,550	9.42%	97.00%	3,444