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**ALBARAKA BANK (PAKISTAN) LIMITED**  
**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

EY Ford Rhodes  
Chartered Accountants  
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Pakistan

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## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed statement of financial position of **AlBaraka Bank (Pakistan) Limited** (the Bank) as at **31 December 2017**, and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for fifteen branches which have been audited by us 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 our audit.

It is the responsibility of the Bank's Board of Directors to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of loans and advances covered more than sixty percent of the total loans and advances of the Bank, we report that:

- (a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- (b) in our opinion:
  - (i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently;
  - (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;

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- (c) in our opinion, and to the best of our information and according to the explanations given to us the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at **31 December 2017** and its true balance of the loss, comprehensive loss, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

**Chartered Accountants**

**Audit Engagement Partner: Shaikh Ahmed Salman**

**Date: 26 February 2018**

**Karachi**

**ALBARAKA BANK (PAKISTAN) LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2017**

|   | Note | 2017<br>------(Rupees '000)----- | 2016<br>Restated<br>(Note 5) |
|---|------|----------------------------------|------------------------------|
| <b>ASSETS</b>                                 |      |                                  |                              |
| Cash and balances with treasury banks         | 7    | 8,915,585                        | 18,725,350                   |
| Balances with other banks                     | 8    | 2,932,165                        | 984,125                      |
| Due from financial institutions               | 9    | 5,095,411                        | 2,692,703                    |
| Investments                                   | 10   | 19,393,486                       | 24,601,518                   |
| Islamic financing and related assets          | 11   | 71,203,056                       | 66,785,266                   |
| Operating fixed assets                        | 12   | 4,082,153                        | 4,502,269                    |
| Deferred tax assets                           | 13   | 3,238,985                        | 2,873,137                    |
| Other assets                                  | 14   | 5,799,760                        | 5,634,265                    |
|   |      | <b>120,660,601</b>               | <b>126,798,633</b>           |
| <b>LIABILITIES</b>                            |      |                                  |                              |
| Bills payable                                 | 15   | 1,691,141                        | 1,386,390                    |
| Due to financial institutions                 | 16   | 3,209,400                        | 3,223,109                    |
| Deposits and other accounts                   | 17   | 98,589,904                       | 105,843,084                  |
| Sub-ordinated loans                           | 18   | 2,642,852                        | 1,428,568                    |
| Deferred tax liabilities                      |      | -                                | -                            |
| Other liabilities                             | 19   | 3,765,083                        | 3,527,979                    |
|   |      | <b>109,898,380</b>               | <b>115,409,130</b>           |
| <b>NET ASSETS</b>                             |      | <b>10,762,221</b>                | <b>11,389,503</b>            |
| <b>REPRESENTED BY</b>                         |      |                                  |                              |
| Share capital                                 | 20.2 | 13,739,628                       | 13,739,628                   |
| Discount on issuance of shares - net          |      | (632,766)                        | (632,766)                    |
| Reserves                                      |      | 159,348                          | 159,348                      |
| Accumulated loss                              |      | (2,675,723)                      | (2,281,369)                  |
|   |      | <b>10,590,487</b>                | <b>10,984,841</b>            |
| Surplus on revaluation of assets - net of tax | 21   | 171,734                          | 404,662                      |
|   |      | <b>10,762,221</b>                | <b>11,389,503</b>            |
| <b>CONTINGENCIES AND COMMITMENTS</b>          | 22   |                                  | <i>lyn</i>                   |

The annexed notes from 1 to 46 form an integral part of these financial statements.

|   |  |  |   |
|---|--|--|---|
| <br>Chairman | <br>Chief Executive Officer | <br>Director | <br>Director |
|---|--|--|---|

**ALBARAKA BANK (PAKISTAN) LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

|  | Note | 2017<br>------(Rupees '000)----- | 2016                 |
|--|------|----------------------------------|----------------------|
| Profit / return earned on Islamic financing and related assets, investments and placements | 23   | 6,717,570                        | 5,158,073            |
| Return on deposits and other dues expensed   | 24   | <u>(3,077,721)</u>               | <u>(2,794,910)</u>   |
| <b>Net spread earned</b>   |      | <b>3,639,849</b>                 | <b>2,363,163</b>     |
| Reversal of provision against non-performing Islamic financing and related assets          | 11.5 | <u>15,709</u>                    | <u>167,580</u>       |
| Provision for diminution in the value of investments                                       | 10.2 | <u>(114,042)</u>                 | <u>(3,330)</u>       |
|  |      | <u>(98,333)</u>                  | <u>164,250</u>       |
| <b>Net spread after provisions</b>   |      | <b>3,541,516</b>                 | <b>2,527,413</b>     |
| <b>Other income</b>  |      |                                  |                      |
| Fee, commission and brokerage income   |      | <u>667,109</u>                   | <u>521,529</u>       |
| Dividend income  |      | <u>44,469</u>                    | <u>20,182</u>        |
| Income from dealing in foreign currencies  |      | <u>173,949</u>                   | <u>133,413</u>       |
| (Loss)/gain on sale of securities  | 25   | <u>(4,659)</u>                   | <u>194,346</u>       |
| Unrealized loss on revaluation of investments classified as held-for-trading               |      | <u>(6,098)</u>                   | <u>-</u>             |
| Other income   | 26   | <u>93,026</u>                    | <u>4,730</u>         |
| Total other income   |      | <u>967,796</u>                   | <u>874,200</u>       |
|  |      | <b>4,509,312</b>                 | <b>3,401,613</b>     |
| <b>Other expenses</b>  |      |                                  |                      |
| Administrative expenses  | 27   | <u>(4,929,047)</u>               | <u>(3,414,381)</u>   |
| Other provisions / write off   | 28   | <u>(87,021)</u>                  | <u>(87,476)</u>      |
| Other charges  | 29   | <u>(24,317)</u>                  | <u>(504)</u>         |
| Total other expenses   |      | <u>(5,040,385)</u>               | <u>(3,502,361)</u>   |
|  |      | <u>(531,073)</u>                 | <u>(100,748)</u>     |
| Extra ordinary / unusual items   |      | <u>-</u>                         | <u>-</u>             |
| <b>Loss before taxation</b>  |      | <b>(531,073)</b>                 | <b>(100,748)</b>     |
| Taxation   |      | <u>(96,143)</u>                  | <u>(60,323)</u>      |
| - Current  |      | <u>-</u>                         | <u>-</u>             |
| - Prior year   |      | <u>237,778</u>                   | <u>5,544</u>         |
| - Deferred   | 30   | <u>141,635</u>                   | <u>(54,779)</u>      |
| <b>Loss after taxation</b>   |      | <b>(389,438)</b>                 | <b>(155,527)</b>     |
| ----- Rupee -----  |      |                                  |                      |
| <b>Loss per share - basic / diluted</b>  | 31   | <u>(0.28)</u>                    | <u>(0.17)</u><br>Eyr |

The annexed notes from 1 to 46 form an integral part of these financial statements.

  
 \_\_\_\_\_  
 Chairman

  
 \_\_\_\_\_  
 Chief Executive Officer

  
 \_\_\_\_\_  
 Director


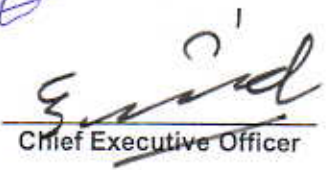


  
 \_\_\_\_\_  
 Director

**ALBARAKA BANK (PAKISTAN) LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

| Note   | 2017<br>------(Rupees '000)----- | 2016             |
|--|----------------------------------|------------------|
| Loss after taxation  | (389,438)                        | (155,527)        |
| <b>Items not to be reclassified to profit or loss in subsequent periods:</b>       |                                  |                  |
| Actuarial (loss)/gain on remeasurement of defined benefit plan                     | 34.7 (8,017)                     | 14,460           |
| Tax effect   | 2,806                            | (5,061)          |
|  | (5,211)                          | 9,399            |
| <b>Comprehensive loss transferred to equity</b>                                    | <b>(394,649)</b>                 | <b>(146,128)</b> |
| <b>Components of comprehensive income not reflected in equity</b>                  |                                  |                  |
| (Deficit) / surplus on revaluation of available-for-sale securities - net of tax * | (220,578)                        | 73,400           |
| Movement in revaluation of non-banking assets - net of tax                         | (12,350)                         | 345,677          |
| <b>Total comprehensive (loss) / income</b>   | <b>(627,577)</b>                 | <b>272,949</b>   |

\* Surplus / (deficit) on revaluation of available-for-sale securities - net of tax has been shown in the statement of comprehensive income in order to comply with the revised "Prudential Regulations for Corporate / Commercial Banking" issued by the State Bank of Pakistan vide its BPRD Circular No. 06 of 2014 on 26 June 2014.


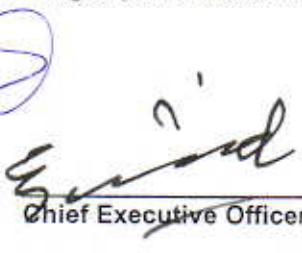

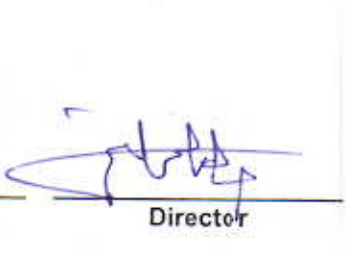
The annexed notes from 1 to 46 form an integral part of these financial statements.

|   |  |  |   |
|---|--|--|---|
| <br>Chairman | <br>Chief Executive Officer | <br>Director | <br>Director |
|---|--|--|---|

**ALBARAKA BANK (PAKISTAN) LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

|  | Note | 2017<br>------(Rupees '000)----- | 2016               |
|--|------|----------------------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                  |      |                                  |                    |
| Loss before taxation   |      | (531,073)                        | (100,748)          |
| Dividend income  |      | (44,469)                         | (20,182)           |
|  |      | <u>(575,542)</u>                 | <u>(120,930)</u>   |
| <b>Adjustments for non-cash and other items:</b>                             |      |                                  |                    |
| Depreciation   |      | 227,591                          | 157,811            |
| Amortisation   |      | 200,363                          | 88,374             |
| Depreciation - non banking assets  |      | 25,668                           | 22,848             |
| Reversal against non-performing Islamic financing and related assets         | 11.5 | (15,709)                         | (167,580)          |
| Provision for diminution in the value of investments                         | 10.2 | 114,042                          | 3,330              |
| Unrealized loss on revaluation of investments classified as held for trading |      | 6,098                            | -                  |
| Other provisions / write offs  |      | 87,021                           | 87,476             |
| Gain on sale of operating fixed assets                                       |      | (57,511)                         | (3,453)            |
|  |      | <u>587,563</u>                   | <u>188,806</u>     |
|  |      | 12,021                           | 67,876             |
| <b>(Increase) / decrease in operating assets</b>                             |      |                                  |                    |
| Due from financial institutions  |      | (2,402,708)                      | (860,987)          |
| Islamic financing and related assets   |      | (4,402,081)                      | (3,144,565)        |
| Other assets   |      | (263,758)                        | (343,830)          |
|  |      | <u>(7,068,547)</u>               | <u>(4,349,382)</u> |
| <b>(Decrease) / increase in operating liabilities</b>                        |      |                                  |                    |
| Bills payable  |      | 304,751                          | 148,934            |
| Due to financial institutions  |      | (13,709)                         | (339,646)          |
| Deposits and other accounts  |      | (7,253,180)                      | 13,560,211         |
| Other liabilities  |      | 237,104                          | 210,559            |
|  |      | <u>(6,725,034)</u>               | <u>13,580,058</u>  |
| Income tax paid  |      | (53,939)                         | (66,433)           |
| <b>Net cash (used in) / flow from operating activities</b>                   |      | <u>(13,835,499)</u>              | <u>9,232,119</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                  |      |                                  |                    |
| Net redemptions/investments in available-for-sale investments                |      | 4,781,677                        | (3,480,999)        |
| Net investments/redemptions in held-for-trading investments                  |      | (33,135)                         | 2,080,047          |
| Cash inflow on amalgamation of Ex-Burj Bank Limited                          |      | -                                | 2,391,474          |
| Net investments in operating fixed assets                                    |      | (108,287)                        | (520,317)          |
| Dividend received  |      | 44,511                           | 16,916             |
| Proceeds from disposal of operating fixed assets                             |      | 74,724                           | 6,132              |
| <b>Net cash flow from investing activities</b>                               |      | <u>4,759,490</u>                 | <u>493,253</u>     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                  |      |                                  |                    |
| Repayment of foreign currency debt   |      | -                                | (2,042,450)        |
| Payment to Parent Bank   |      | -                                | (95,704)           |
| Repayment of Tier II mudaraba sukuk - first issue                            |      | (285,716)                        | (285,716)          |
| Issuance of Tier II mudaraba sukuk - second issue                            | 18.2 | 1,500,000                        | -                  |
| <b>Net cash flow from / (used in) financing activities</b>                   |      | <u>1,214,284</u>                 | <u>(2,423,870)</u> |
| <b>Net (decrease) / increase in cash and cash equivalents</b>                |      | <u>(7,861,725)</u>               | <u>7,301,502</u>   |
| Cash and cash equivalents at beginning of the year                           |      | 19,709,475                       | 12,407,973         |
| <b>Cash and cash equivalents at end of the year</b>                          | 32   | <u>11,847,750</u>                | <u>19,709,475</u>  |

The annexed notes from 1 to 46 form an integral part of these financial statements.

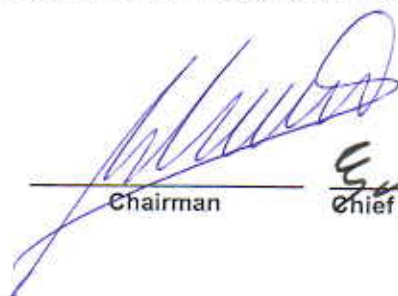


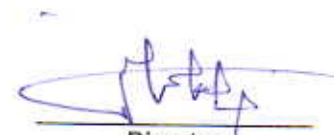
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|---|---|--|---|
|  |  |  |  |
| Chairman  | Chief Executive Officer   | Director   | Director  |

**ALBARAKA BANK (PAKISTAN) LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

|  | Issued,<br>subscribed<br>and paid-<br>up share<br>capital | Advance<br>against<br>issuance<br>of shares | Discount<br>on<br>issuance<br>of shares<br>- net | Statutory<br>Reserve * | Accumulated<br>loss | Total             |
|--|---|---|--|------------------------|---------------------|-------------------|
|  | ----- (Rupees '000) -----                                 |   |  |                        |                     |                   |
| Balance as at 01 January 2016  | 8,935,200   | 95,704                                      | (767,290)  | 159,348                | (2,135,310)         | 6,287,652         |
| Loss after taxation for the year   | -   | -   | -  | -                      | (155,527)           | (155,527)         |
| Other comprehensive income for the year                                    | -   | -   | -  | -                      | 9,399               | 9,399             |
| Total comprehensive loss for the year                                      | -   | -   | -  | -                      | (146,128)           | (146,128)         |
| Paid to Parent Bank  | -   | (95,704)                                    | -  | -                      | -                   | (95,704)          |
| Shares issued during the year  | 4,804,428   | -   | -  | -                      | -                   | 4,804,428         |
| Premium on issuance of shares  | -   | -   | 134,524  | -                      | -                   | 134,524           |
| Transfer from surplus on revaluation of<br>non-banking assets - net of tax | -   | -   | -  | -                      | 69                  | 69                |
| <b>Balance as at 31 December 2016</b>                                      | <b>13,739,628</b>   | <b>-</b>                                    | <b>(632,766)</b>                                 | <b>159,348</b>         | <b>(2,281,369)</b>  | <b>10,984,841</b> |
| Loss after taxation for the year   | -   | -   | -  | -                      | (389,438)           | (389,438)         |
| Other comprehensive loss for the year                                      | -   | -   | -  | -                      | (5,211)             | (5,211)           |
| Total comprehensive loss for the year                                      | -   | -   | -  | -                      | (394,649)           | (394,649)         |
| Transfer from surplus on revaluation of<br>non-banking assets - net of tax | -   | -   | -  | -                      | 295                 | 295               |
| <b>Balance as at 31 December 2017</b>                                      | <b>13,739,628</b>   | <b>-</b>                                    | <b>(632,766)</b>                                 | <b>159,348</b>         | <b>(2,675,723)</b>  | <b>10,590,487</b> |

\* This represents reserve created under section 21(1)(a) of the Banking Companies Ordinance, 1962.

The annexed notes from 1 to 46 form an integral part of these financial statements.

|   |  |  |   |
|---|--|--|---|
| <br>Chairman | <br>Chief Executive Officer | <br>Director | <br>Director |
|---|--|--|---|



**ALBARAKA BANK (PAKISTAN) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**1. LEGAL STATUS AND NATURE OF BUSINESS**

- 1.1** AlBaraka Bank (Pakistan) Limited (the Bank) was incorporated in Pakistan on 20 December 2004 as a public limited company under the Companies Ordinance, 1984.

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

- 1.2** During the year 2016, the shareholders of the Bank in their extra ordinary general meeting held on 22 August 2016 have approved the merger of the Bank with Burj Bank Limited under a "Scheme of Amalgamation" (the Scheme). Further, State Bank of Pakistan, through its letter no. BPRD (R&P-02)/2016/24373 dated 14 October 2016, has also approved the scheme of amalgamation and granted sanction order for the amalgamation of Ex-Burj Bank Limited with and into the Bank. As of the effective date of amalgamation, the entire undertaking of Ex-Burj Bank Limited stands amalgamated with and into the Bank.

The Bank is a subsidiary of AlBaraka Islamic Bank B.S.C. (c) {major sponsor} incorporated and domiciled in Bahrain and a member of AlBaraka Banking Group.

The Bank's registered office is located at 162, Bangalore Town, Main Sharah-e-Faisal, Karachi. The Bank has 188 branches including 13 sub-branches (31 December 2016 : 224 branches including 14 sub-branches) in Pakistan. The Bank has merged 39 closed proximity branches in first half of 2017. The vacant licences will gradually be utilized by opening new branches in 2018.

- 1.3** Based on the financial statements of the Bank for the year ended 31 December 2016, JCR-VIS has upgraded the long-term rating to 'A+' and maintained short-term rating at 'A1' along with stable outlook. Pakistan Credit Rating Agency Limited (PACRA) has maintained the Bank's long-term rating at "A" and short term rating at 'A1' and has upgraded the outlook to positive.
- 1.4** As at 31 December 2017, the Minimum Capital and Capital Adequacy Ratio (CAR) stood at Rs.10.43 billion and 10.17 % respectively.

**2. BASIS OF PRESENTATION**

These financial statements have been prepared in conformity with the format of financial statements prescribed by the SBP vide BSD Circular No. 04 dated 17 February 2006.

The Bank provides Islamic financing mainly through shariah compliant financial products as explained in Note 6.7. Except for Murabaha transactions (which are accounted for under the Islamic Financial Accounting Standard - 1), the purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of rental / profit thereon. Income, if any received, which does not comply with the principles of Shariah is recognized as charity payable.

**3. STATEMENT OF COMPLIANCE**

- 3.1** These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFASs) issued by the Institute of Chartered Accountants of Pakistan, as are notified by SECP, provisions of the repealed Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, and the directives issued by the SECP and SBP. Wherever the requirements of provisions of the repealed Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, the IFAS notified by the SECP and directives issued by the SECP and the SBP differ from the requirements of IFRS, the provisions of the repealed Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962, IFAS notified by the SECP and the directives issued by the SECP and the SBP have been followed.

*br*

- 3.1.1 Effective 30 May 2017, the Companies Act, 2017 (the Act) has been promulgated, however, the Securities and Exchange Commission of Pakistan (SECP) vide its circular No. 23 of 2017 dated October 04, 2017 decided that the companies whose financial year closes on or before December 31, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984.
- 3.2 The SBP vide BSD Circular Letter No. 10 dated 26 August 2002 has deferred the applicability of International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" (IAS 39) and International Accounting Standard 40, "Investment Property" (IAS 40) for banking companies till further instructions. Further, according to the notification of SECP dated 28 April 2008, the IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by the SBP.

#### 4. BASIS OF MEASUREMENT

- 4.1 These financial statements have been prepared under the historical cost convention except for available for sale investments, non-banking assets and commitments in respect of foreign exchange forward contracts which have been measured at fair value.
- 4.2 Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in Pakistani Rupees, which is the Bank's functional and presentation currency.

#### 5. BUSINESS COMBINATION - Restatement of prior year figures

- 5.1 During the year ended 31 December 2016, Shareholders of the Bank in their extra ordinary general meeting held on 22 August 2016, approved the merger of Bank with Ex-Burj Bank limited (BBL) under a scheme of amalgamation. Further, SBP through its letter no BPRD (R&P-02)//2016/24373 dated 14 October 2016, has also approved the scheme of amalgamation and granted sanction order for the amalgamation of BBL with and into the Bank.

The said amalgamation was accounted for by applying the acquisition method of accounting as prescribed by International Financial Reporting Standard 3, "Business combination" (IFRS 3). IFRS 3 allows the acquirer a maximum period of one year from the date of acquisition to finalise the accounting for business combination. If the initial accounting for a business combination remains incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report provisional amounts for the items for which the accounting is incomplete. Such provisional values shall be adjusted retrospectively within a period of one year from the acquisition date to reflect the results of the valuation and information that existed as of acquisition date.

- 5.2 During the current year, the exercise for the identification and fair valuation of assets acquired (including intangible assets) and liabilities assumed has been completed by management with the assistance of an independent consultant and consequently, Core Deposit has been identified as carrying an intangible value. Accordingly, provisional goodwill has been reduced by the value of Core Deposit as determined by the independent consultant. Details of the fair values of the assets acquired, liabilities assumed and purchase consideration and the resultant goodwill recognised, are as follows:

31 October 2016  
PKR in '000

|                                    |            |
|------------------------------------|------------|
| Fair values of assets acquired     | 28,040,800 |
| Fair values of liabilities assumed | 23,497,965 |
| Net assets acquired                | 4,542,835  |

#### Purchase consideration:

Shares issued ( 480,442,760 shares @ of Rs.10.28 each)

4,938,952

#### GOODWILL

396.117

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- 5.3 The final fair values of identifiable assets (including intangible assets) and liabilities of the Ex-Burj Bank Limited at the date of acquisition are as follows:

|                                       | Provisional<br>amounts as at<br>31 October<br>2016 | Fair value<br>adjustments /<br>Intangible<br>recognised | Final balances<br>including<br>Purchase price<br>allocation |
|---------------------------------------|--|---|---|
|                                       | -----Rupees '000-----                              |   |   |
| <b>ASSETS</b>                         |  |   |   |
| Cash and balances with treasury banks | 2,326,027  | -   | 2,326,027   |
| Balances with other banks             | 65,447   | -   | 65,447  |
| Investments                           | 5,732,572  | -   | 5,732,572   |
| Islamic financing and related assets  | 15,828,431   | -   | 15,828,431  |
| Operating fixed assets                | 535,946  | -   | 535,946   |
| Intangible assets                     | -  | 702,000   | 702,000   |
| Deferred tax assets                   | 1,706,344  | -   | 1,706,344   |
| Other assets                          | 1,144,033  | -   | 1,144,033   |
|                                       | 27,338,800   | 702,000   | 28,040,800  |
| <b>LIABILITIES</b>                    |  |   |   |
| Bills payable                         | 353,758  | -   | 353,758   |
| Due to financial institutions         | 1,454,500  | -   | 1,454,500   |
| Deposits and other accounts           | 20,638,487   | -   | 20,638,487  |
| Other liabilities                     | 1,051,220  | -   | 1,051,220   |
|                                       | 23,497,965   | -   | 23,497,965  |
| <b>NET ASSETS ACQUIRED</b>            | <b>3,840,835</b>                                   | <b>702,000</b>  | <b>4,542,835</b>  |

#### 5.4 Intangible recognized on acquisition

As a result of finalization of exercise for the identification and fair valuation of assets acquired (including intangible assets) and liabilities assumed, the Bank has recognized an intangible asset as at 31 October 2016 in the form of core deposits amounting to Rs. 702 million. The intangible asset is bank-specific and represents the value arising from the deposit base of the acquired business being a source of funding at lower cost rather than borrowing from money market. Therefore the value of the intangible asset represents net cost savings (i.e. the present value of the net cost savings) over an economic life which is considered longer than the contractual life. Based on this assumption, this intangible asset has been valued using certain valuation techniques and is being amortised keeping in view the life expectancy of the core deposits.

Net cost savings is the difference of funding rate of deposit products and the rate at which the bank may have to finance operations from market in absence of such funds. In addition to net cost savings, recurring net fee and commission income also contributes to the value of the said intangible asset. Valuations of core deposit intangible assets rest on the premise that the acquired customer relationships produce a stream of future benefits to the acquirer. These benefits last until the deposit relationship terminates.

The fair value of this identifiable intangible asset has been determined using the discounted cashflow method (cost saving method) which was considered to be the most appropriate methodology as it reflects the present value of the operating cash flows generated by the net cost savings from existing deposit accounts over their economic term.

The valuation is based on information at the time of acquisition and the expectations and assumptions that have been deemed reasonable by the Bank's management. It has been assumed that the underlying assumptions or events associated with such asset will occur as projected.

## 6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 6.1 New Standards, Interpretations and Amendments

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

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## Standard or Interpretation

IAS 7 Financial Instruments: Disclosures - Disclosure Initiative - (Amendment)

IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealized losses (Amendments)

## Improvements to Accounting Standards Issued by the IASB in September 2014

IFRS 12 Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12

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

### 6.2 Business combination and goodwill

Business combination are accounted for by applying the acquisition method. The cost of acquisition is measured as the fair value of assets given, equity instruments issued and the liabilities incurred or assumed at the date of acquisition. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement, if any. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets acquired in the case of a bargain purchase, the difference is recognised directly in profit and loss account.

### 6.3 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.

### 6.4 Due to / from Financial Institutions

#### Bai Muajjal

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

#### Musharaka / Mudaraba

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

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

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

### 6.5 Investments

#### 6.5.1 Investments are classified as follows:

##### (a) Held for trading

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

##### (b) Held to maturity

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

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**(c) Available for sale**

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

**6.5.2 Regular way contracts**

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

**6.5.3 Initial recognition and measurement**

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

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

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

**(b) Held to maturity**

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

**(c) Available for sale**

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

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available financial statements. In cases where the break up value of such shares is less than the cost, the difference of the cost and break up value is provided for accordingly by charging to the profit and loss account.

**6.5.5 Impairment**

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

**6.5.6 Cost of equity investments is determined on weighted average basis.****6.6 Islamic financing and related assets****6.6.1 Brief nature of Islamic financing arrangements**

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

**Murabaha**

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

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**Ijara Financing**

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

**Istasna**

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

**Tijarah**

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

**Diminishing Musharaka**

In diminishing musharaka based financing, the Bank enters into musharaka based on Shirkat-ul-Mulk for financing and agreed share of fixed assets (example: house, land, plant, machinery or vehicle) with its customers and enters into period profit payment agreement for the utilization of the Bank's musharaka share by the customer.

**Service Ijarah**

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

**Salam**

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

**Running Musharaka**

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

**Mudaraba**

Mudaraba financing is a special kind of partnership in which the Bank gives capital to the customers for investing in a commercial purpose, which is shariah-compliant, on the agreed profit and loss sharing ratio.

**6.6.2 Accounting policies of Islamic financing**

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

**Provisions against non-performing Islamic financing and related assets**

Specific provision against non-performing islamic financing is determined in accordance with the Prudential Regulations and other directives issued by the SBP. The Bank maintains general reserve (provision), unless specific exemption is available from SBP (refer note 11.5.2) in accordance with the applicable requirements of Prudential Regulations for consumer finance and small and medium enterprise financing.

**Ijarah Assets**

Ijarah financing booked on or after 01 January 2009 is accounted for as per the requirements of IFAS 2, whereby assets leased out under ijarah are depreciated over the term of ijarah and the related rental income is recognised in the profit and loss account on an accrual basis.

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

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

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## Inventories

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

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

## 6.7 Operating Fixed Assets

### 6.7.1 Tangible - owned

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

Depreciation is charged using the straight-line method in accordance with the rates specified in note 12.1 to these financial statements and after taking into account residual value, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate at each statement of financial position date. Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off.

Gains / losses on sale of fixed assets are credited / charged to the profit and loss account and disclosed in other income.

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

### 6.7.2 Capital work in progress

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

### 6.7.3 Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets are amortised from the month, when these assets are available for use, using the straight line method, whereby the cost of the intangible asset is amortised on the basis of the estimated useful life over which economic benefits are expected to flow to the Bank. The residual value, useful life and amortisation method are reviewed and adjusted, if appropriate, at each statement of financial position date. Amortization rates are specified in note 12.2.1 to these financial statements.

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

### 6.7.4 Impairment of operating fixed assets

The carrying amount of assets are reviewed at each reporting date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The resulting impairment loss is taken to the profit and loss account.

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## 6.8 Non-Banking Assets

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

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

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

## 6.9 Deposits

Deposits are generated on the basis of two modes i.e. Qard and Mudaraba. Deposits taken on Qard basis are classified as 'Current Accounts' and Deposits generated on Mudaraba basis are classified as 'Savings Account' and 'Fixed Deposit Accounts'.

No profit or loss is passed on to current account depositors. However, the funds of current accounts are treated as equity for the purpose of profit calculation and only any profit earned / loss incurred on these funds are allocated to the equity of the Bank. Profits realized in pool are distributed in pre-agreed profit sharing ratio. Rab-ul-Maal share is distributed among depositors according to weightages assigned at the inception of profit calculation period.

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

## 6.10 Sub-ordinated Loans

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

## 6.11 Revenue Recognition

- Profit on murabaha transactions is recognised on accrual basis. Profit on Murabaha transactions for the period from the date of disbursement to the date of culmination of murabaha is recognized immediately upon the latter date.
- Rental income on ijarah financing booked on or after January 1, 2009 is recognised on accrual basis.
- Profit on diminishing musharaka, running musharaka, mudaraba and service ijarah are recognized on accrual basis.
- Profit on tijarah and istisna is recognized on accrual basis commencing from the time of sale of goods till the realization of sale proceeds by the Bank.
- Profit on bai muajjal transactions are recognized on accrual basis.
- Commission on letters of credit, acceptances and letters of guarantee is recognised on receipt basis.
- Dividend income is recognised when the Bank's right to receive the dividend is established.
- Profit from investment in sukuk is recognised on accrual basis. Premium and discount on purchase of sukuk are being amortized through profit and loss account over the remaining maturity.
- Gains / losses on disposal of fixed assets, ijarah assets and musharaka assets are taken to profit and loss account in the period in which they arise.
- Gains / losses on sale of investments is included in profit and loss account.
- Income earned from avenues that are not Shariah compliant is not recognised in the profit and loss account. This income is classified as charity payable in accordance with the recommendation of the Shariah Advisor of the Bank.
- Realization of profit earlier suspended in compliance with the Prudential Regulations issued by SBP is credited to profit and loss account on receipt basis.

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## 6.12 Taxation

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

### (a) Current / prior

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

### (b) Deferred

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

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

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

## 6.13 Staff Retirement Benefits

### (a) Defined benefit plan

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

### (b) Defined contribution plan

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

## 6.14 Provisions, Contingent Assets And Contingent Liabilities

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

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

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

## 6.15 Provision For Guarantee Claims And Other Off-Balance Sheet Obligations

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

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## 6.16 Foreign Currency Transactions

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

## 6.17 Commitments

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

## 6.18 Financial Instruments

### (a) Financial assets and financial liabilities

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

### (b) Off-setting

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

## 6.19 Earnings Per Share

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

## 6.20 Segment Reporting

A segment is a distinguishable component of the Bank that is engaged either 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.

### (a) Business segments

The business segments within the Bank have been categorised into the following classifications of business segments in accordance with the requirements specified by the SBP.

#### - Trading and sales

It includes fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and brokerage debt and prime brokerage.

#### - Retail banking

It includes retail lending and deposits, banking services, trust and estates, merchant / commercial / corporate cards and private labels and retail.

#### - Commercial banking

Commercial banking includes project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees, bills of exchange and deposits.

#### - Payment and settlement

It includes payments and collection, fund transfer, clearing and settlement.

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**(b) Geographical segments**

Currently, the operations of the Bank are carried out in Pakistan only.

**6.21 Pool Management**

The Bank operates general and specific pools for depositors.

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

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

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

The deposits and funds under the above mentioned pools are provided to diversified sectors and avenues of the economy / business as mentioned in the note 41.1.1 and are also invested in Government of Pakistan backed ijarah sukuk and other sovereign securities. Musharaka investments from State Bank of Pakistan under Islamic Export Refinance are channelled towards the export sector of the economy.

**6.22 Accounting Judgments And Estimates**

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

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

**a) Provision against non-performing Islamic financing**

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

The amount of general provision against consumer and Small and Medium Enterprise, Islamic financing are determined in accordance with the relevant Prudential Regulations and SBP directives.

**b) Impairment of available for sale investments**

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

**c) Income taxes**

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

d) **Operating fixed assets, depreciation and amortization**

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

e) **Employees' benefit plans**

The liabilities for employees' benefits are determined using actuarial valuations. The actuarial valuations involve assumptions about discount rates, expected rates of return on assets and future salary increases as disclosed in note 34. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

**6.23 Standards, interpretations and amendments to approved accounting standards that are not yet effective**

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

| Standard, interpretation or amendment  | Effective date (annual periods beginning on or after) |
|--|---|
| IFRS 2 Share-based Payments – Classification and Measurement of Share-based Payments Transactions (Amendments)   | January 01, 2018                                      |
| IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment) | Not yet finalized                                     |
| IFRS 9 Financial Instruments: Classification and Measurement   | July 01, 2018   |
| IFRS 9 Prepayment Features with Negative Compensation – (Amendments)   | January 01, 2019                                      |
| IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – (Amendments)   | January 01, 2018                                      |
| IFRS 15 Revenue from Contracts with Customers  | July 01, 2018   |
| IFRIC 22 Foreign Currency Transactions and Advance Consideration   | January 01, 2018                                      |
| IFRIC 23 Uncertainty over Income Tax Treatments  | January 01, 2019                                      |

The above standards and amendments are not expected to have any material impact on the Bank's financial statements in the period of initial application except IFRS 9. With regards to IFRS 9, the Bank considers that as the Prudential regulation and other SBP directives currently provide the accounting framework for the measurement and valuation of investment and provision against non-performing islamic financing and related assets, the implementation of IFRS 9 may require changes in the regulatory regime. Therefore, the Bank expects that the SBP would issue suitable guidance and instructions to the application of IFRS-9 for Banking sector of Pakistan.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB in December 2016. Such improvements are generally effective for accounting periods beginning on or after 01 January 2018. The Bank expects that such improvements to the standards will not have any impact on the Bank's financial statements in the period of initial application.

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

| Standards                              | IASB Effective date (annual periods beginning on or after) |
|--|--|
| IFRS 14 – Regulatory Deferral Accounts | January 01, 2016   |
| IFRS 16 – Leases                       | January 01, 2019   |
| IFRS 17 – Insurance Contracts          | January 01, 2021   |

|   | Note | 2017<br>----- (Rupees '000) ----- | 2016<br>----- (Rupees '000) ----- |
|---|------|-----------------------------------|-----------------------------------|
| <b>7. CASH AND BALANCES WITH TREASURY BANKS</b> |      |                                   |                                   |
| In hand   |      |                                   |                                   |
| - local currency                                |      | 2,217,811                         | 1,913,504                         |
| - foreign currencies                            |      | 524,591                           | 300,414                           |
|   |      | <u>2,742,402</u>                  | <u>2,213,918</u>                  |
| With State Bank of Pakistan in                  |      |                                   |                                   |
| - local currency current account                | 7.1  | 5,076,417                         | 15,409,774                        |
| - foreign currency - current account            | 7.1  | 8,405                             | 2,336                             |
| - deposit account                               | 7.1  | 722,169                           | 578,468                           |
|   |      | <u>5,806,991</u>                  | <u>15,990,578</u>                 |
| With National Bank of Pakistan in               |      |                                   |                                   |
| - local currency current account                |      | 366,185                           | 520,847                           |
| - local currency deposit account                |      | 7                                 | 7                                 |
|   |      | <u>366,185</u>                    | <u>520,847</u>                    |
|   |      | <u>8,915,585</u>                  | <u>18,725,350</u>                 |

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

|                                     | Note | 2017<br>----- (Rupees '000) ----- | 2016<br>----- (Rupees '000) ----- |
|-------------------------------------|------|-----------------------------------|-----------------------------------|
| <b>8. BALANCES WITH OTHER BANKS</b> |      |                                   |                                   |
| In Pakistan                         |      |                                   |                                   |
| - on current accounts               |      | 1,431                             | 1,432                             |
| - on deposit accounts               | 8.1  | 1,942,672                         | 632,031                           |
|                                     |      | <u>1,944,103</u>                  | <u>633,463</u>                    |
| Outside Pakistan                    |      |                                   |                                   |
| - on current accounts               |      | 885,914                           | 285,236                           |
| - on deposit accounts               |      | 102,148                           | 65,426                            |
|                                     |      | <u>988,062</u>                    | <u>350,662</u>                    |
|                                     |      | <u>2,932,165</u>                  | <u>984,125</u>                    |

8.1 The expected return on these deposits ranges from 2.50% to 5.74% (31 December 2016: 2.50% to 5.50%) per annum.

|   | Note  | 2017<br>----- (Rupees '000) ----- | 2016<br>----- (Rupees '000) ----- |
|---|-------|-----------------------------------|-----------------------------------|
| <b>9. DUE FROM FINANCIAL INSTITUTIONS</b> |       |                                   |                                   |
| Bai muajjal                               | 9.1   |                                   |                                   |
| - with State Bank of Pakistan             |       | 5,095,411                         | 485,809                           |
| - with other Financial Institution        |       | -                                 | 2,064,509                         |
|   |       | <u>5,095,411</u>                  | <u>2,550,318</u>                  |
| Lending to financial institutions         |       |                                   |                                   |
|   |       | -                                 | 142,385                           |
|   |       | <u>5,095,411</u>                  | <u>2,692,703</u>                  |
| 9.1 Bai muajjal                           |       | 5,372,200                         | 2,608,302                         |
| Deferred income                           |       | (129,674)                         | (21,755)                          |
| Profit receivable shown in other assets   |       | (147,115)                         | (36,229)                          |
|   | 9.1.1 | <u>5,095,411</u>                  | <u>2,550,318</u>                  |

9.1.1 The return on bai muajjal is 5.26% to 5.74% (31 December 2016: 5.62% to 5.90%) per annum. These will mature by June 2018.

|  |  | 2017<br>----- (Rupees '000) ----- | 2016<br>----- (Rupees '000) ----- |
|--|--|-----------------------------------|-----------------------------------|
| <b>9.2 Particulars of due from financial institution</b> |  |                                   |                                   |
| - local currency   |  | 5,095,411                         | 2,550,318                         |
| - foreign currency                                       |  | -                                 | 142,385                           |
|  |  | <u>5,095,411</u>                  | <u>2,692,703</u>                  |

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## 10. INVESTMENTS

| Note  | 2017         |                     |       | 2016         |                     |       |
|---|--------------|---------------------|-------|--------------|---------------------|-------|
|   | Held by Bank | Given as Collateral | Total | Held by Bank | Given as Collateral | Total |
| Rupees in '000  |              |                     |       |              |                     |       |
| <b>Investments by types</b>   |              |                     |       |              |                     |       |
| <b>Held for trading securities</b>  |              |                     |       |              |                     |       |
| Ordinary shares of listed companies   | 10.4         | 33,135              | -     | 33,135       | -                   | -     |
| <b>Available for sale securities</b>  |              |                     |       |              |                     |       |
| Sukuk certificates  | 10.3         | 18,499,630          | -     | 18,499,630   | 23,730,099          | -     |
| Ordinary shares of listed companies   | 10.4         | 1,272,585           | -     | 1,272,585    | 823,793             | -     |
| Units of open-end mutual funds  | 10.4         | 69,408              | -     | 69,408       | 69,408              | -     |
| Ordinary shares of unlisted company   | 10.5         | 52,200              | -     | 52,200       | 52,200              | -     |
|   |              | 19,893,823          | -     | 19,893,823   | 24,675,500          | -     |
| <b>Investments at cost</b>  |              | 19,926,958          | -     | 19,926,958   | 24,675,500          | -     |
| Less: Provisions for diminution in the value of investments                                   | 10.2         | (278,770)           | -     | (278,770)    | (164,728)           | -     |
| <b>Investments (net of provisions)</b>  |              | 19,648,188          | -     | 19,648,188   | 24,510,772          | -     |
| (Deficit) / surplus on revaluation of investments classified as available for sale securities | 21           | (248,604)           | -     | (248,604)    | 90,746              | -     |
| Deficit on revaluation of investments classified as held for trading securities               |              | (6,098)             | -     | (6,098)      | -                   | -     |
| <b>Total investments at market value</b>  |              | 19,393,486          | -     | 19,393,486   | 24,601,518          | -     |

| Note   | 2017<br>(Rupees '000) | 2016<br>(Rupees '000) |
|--|-----------------------|-----------------------|
| <b>10.1 Investments by segments</b>  |                       |                       |
| <b>Sukuk certificates</b>  |                       |                       |
| Federal Government Securities (ijara sukuk)                                      | 10,299,102            | 16,610,051            |
| Others   | 8,200,523             | 7,120,048             |
|  | 18,499,630            | 23,730,099            |
| <b>Fully paid-up ordinary shares</b>   |                       |                       |
| Ordinary shares of listed companies  | 1,305,720             | 823,793               |
| Ordinary shares of unlisted company  | 52,200                | 52,200                |
|  | 69,408                | 69,408                |
| <b>Units of open-end mutual funds</b>  |                       |                       |
|  | 69,408                | 69,408                |
| <b>Investments at cost</b>   |                       |                       |
| Less: Provisions for diminution in the value of investments                      | (278,770)             | (164,728)             |
| <b>Investments (net of provisions)</b>   | 19,648,188            | 24,510,772            |
| (Deficit)/Surplus on revaluation of investments classified as available for sale | (248,604)             | 90,746                |
| Deficit on revaluation of investments classified as held for trading securities  | (6,098)               | -                     |
| <b>Total investments at market value</b>   | 19,393,486            | 24,601,518            |
| <b>10.2 Particulars of provisions for diminution in the value of investments</b> |                       |                       |
| Opening balance  | 164,728               | 44,311                |
| Charge during the year   | 116,443               | 4,514                 |
| Reversal during the year   | (2,407)               | (1,184)               |
|  | 114,042               | 3,330                 |
| Transfer upon amalgamation   | -                     | 117,087               |
| Closing balance  | 278,770               | 164,728               |
| <b>10.2.1 Particulars of provisions in respect of type and segment</b>           |                       |                       |
| <b>Available for sale</b>  |                       |                       |
| Ordinary shares of unlisted companies  | 19,637                | 22,044                |
| Ordinary shares of listed companies  | 142,046               | 25,597                |
| Sukuk certificates   | 117,087               | 117,087               |
|  | 278,770               | 164,728               |

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| 10.3 | Sukuk certificates<br>Name of the investee          | Note      | 2017                           | 2016    | 2017                              | 2016       |
|------|---|-----------|--------------------------------|---------|-----------------------------------|------------|
|      |   |           | Number of certificates / units |         | Cost<br>----- (Rupees '000) ----- |            |
|      | <b>Available for sale</b>                           |           |                                |         |                                   |            |
|      | <b>Federal Government Securities</b>                |           |                                |         |                                   |            |
|      | Government of Pakistan Ijara Sukuk - 15             |           | -                              | 139,656 | -                                 | 13,961,563 |
|      | Government of Pakistan Ijara Sukuk - 16             | 10.3.1.1  | 26,250                         | 26,250  | 2,632,363                         | 2,639,774  |
|      | Government of Pakistan Ijara Sukuk - F1             | 10.3.1.2  | 10,087                         | 87      | 1,023,494                         | 8,714      |
|      | Government of Pakistan Ijara Sukuk - F2             | 10.3.1.3  | 46,000                         | -       | 4,640,242                         | -          |
|      | Government of Pakistan Ijara Sukuk - F3             | 10.3.1.4  | 20,030                         | -       | 2,903,003                         | -          |
|      |   |           |                                |         | 10,299,102                        | 16,610,051 |
|      | <b>Unquoted Securities</b>                          |           |                                |         |                                   |            |
|      | Sui Southern Gas Company Limited                    | 10.3.1.5  | 200,000                        | 200,000 | 1,000,000                         | 1,000,000  |
|      | Al Razi Healthcare (Private) Limited                |           | -                              | 60,000  | -                                 | 178,333    |
|      | WAPDA second sukuk certificates                     |           | -                              | 74,000  | -                                 | 61,975     |
|      | WAPDA third sukuk certificates                      | 10.3.1.6  | 214,975                        | 214,975 | 622,295                           | 780,537    |
|      | Neelum Jhelum Hydro Power Company (Private) Limited | 10.3.1.7  | 26,000                         | 26,000  | 2,600,000                         | 2,600,000  |
|      | Pakistan International Airline Corporation Limited  | 10.3.1.8  | 265,000                        | 265,000 | 1,325,000                         | 1,325,000  |
|      | Security Leasing Corporation Limited                | 10.3.1.9  | 6,000                          | 6,000   | 9,242                             | 9,242      |
|      | Quetta Textile Mills Limited                        | 10.3.1.10 | 30,000                         | 30,000  | 70,345                            | 70,345     |
|      | Amtex Limited                                       | 10.3.1.11 | 10,000                         | 10,000  | 37,500                            | 37,500     |
|      | AGP Limited   | 10.3.1.12 | 3,315                          | -       | 298,350                           | -          |
|      | Aspin Pharma (Private) Limited                      | 10.3.1.13 | 70,400                         | -       | 352,000                           | -          |
|      |   |           |                                |         | 6,314,732                         | 6,062,932  |
|      | <b>Quoted Securities</b>                            |           |                                |         |                                   |            |
|      | Emirates Islamic Bank Sukuk                         | 10.3.1.14 | 5,000                          | 5,000   | 556,658                           | 529,041    |
|      | Qatar Islamic Bank Sukuk                            | 10.3.1.15 | 5,000                          | 5,000   | 556,051                           | 528,075    |
|      | Oman Sovereign Sukuk                                | 10.3.1.16 | 3,000                          | -       | 332,004                           | -          |
|      | Dubai Islamic Bank Sukuk                            | 10.3.1.17 | 3,920                          | -       | 441,083                           | -          |
|      |   |           |                                |         | 1,885,796                         | 1,057,116  |
|      |   |           |                                |         | 18,499,630                        | 23,730,099 |

10.3.1 Other particulars of sukuk certificates are as follows:

| Particulars  | Certificates / units denomination | Profit rate per annum          | Profit payments | Maturity date     |
|--|-----------------------------------|--------------------------------|-----------------|-------------------|
| 10.3.1.1 Government of Pakistan Ijara Sukuk - 16             | PKR 100,000                       | 6 Months Treasury Bill - 0.50% | Semi Annually   | 18 December 2018  |
| 10.3.1.2 Government of Pakistan Ijara Sukuk - F1             | PKR 100,000                       | 6.10%                          | Semi Annually   | 15 February 2019  |
| 10.3.1.3 Government of Pakistan Ijara Sukuk - F2             | PKR 100,000                       | 5.59%                          | Semi Annually   | 29 March 2019     |
| 10.3.1.4 Government of Pakistan Ijara Sukuk - F3             | PKR 100,000                       | 5.24%                          | Semi Annually   | 30 June 2020      |
| 10.3.1.5 Sui Southern Gas Company Limited                    | PKR 5,000                         | 3 Months KIBOR + 0.40%         | Quarterly       | 31 October 2019   |
| 10.3.1.6 WAPDA third sukuk certificates                      | PKR 5,000                         | 6 Months KIBOR + 1.00%         | Semi Annually   | 14 October 2021   |
| 10.3.1.7 Neelum Jhelum Hydro Power Company (Private) Limited | PKR 100,000                       | 6 Months KIBOR + 1.13%         | Semi Annually   | 29 June 2026      |
| 10.3.1.8 Pakistan International Airline Corporation Limited  | PKR 5,000                         | 6 Months KIBOR + 1.75%         | Semi Annually   | 20 October 2019   |
| 10.3.1.9 Security Leasing Corporation Limited                | PKR 1,540                         | 6.00%                          | Monthly         | 19 January 2022   |
| 10.3.1.10 Quetta Textile Mills Limited                       | PKR 2,345                         | 6 Months KIBOR + 1.75%         | Semi Annually   | 28 September 2019 |
| 10.3.1.11 Amtex Limited                                      | PKR 3,750                         | 3 Months KIBOR + 2.00%         | Quarterly       | 11 October 2012   |
| 10.3.1.12 AGP Limited  | PKR 100,000                       | 3 Month Kibor + 1.30%          | Quarterly       | 9 June 2022       |
| 10.3.1.13 Aspin Pharma (Private) Limited                     | PKR 5,000                         | 3 Month Kibor + 1.50%          | Quarterly       | 30 November 2023  |
| 10.3.1.14 Emirates Islamic Bank Sukuk                        | USD 1,000                         | 3.54%                          | Semi Annually   | 31 May 2021       |
| 10.3.1.15 Qatar Islamic Bank Sukuk                           | USD 1,000                         | 2.75%                          | Semi Annually   | 27 October 2020   |
| 10.3.1.16 Oman Sovereign Sukuk                               | USD 1,000                         | 4.40%                          | Semi Annually   | 01 June 2024      |
| 10.3.1.17 Dubai Islamic Bank Sukuk                           | USD 1,000                         | 3.66%                          | Semi Annually   | 14 February 2022  |

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## 10.4 Particulars of investments in ordinary shares of listed companies / units of mutual funds

| Company Name                               | 2017                         |                  |                | 2016                         |                |                |
|--|------------------------------|------------------|----------------|------------------------------|----------------|----------------|
|  | Number of shares / units     | Cost             | Market Value   | Number of shares/ units      | Cost           | Market Value   |
|  | ----- (Rupees in '000) ----- |                  |                | ----- (Rupees in '000) ----- |                |                |
| <b>Available for sale - shares / units</b> |                              |                  |                |                              |                |                |
| <b>Chemicals and pharmaceutical</b>        |                              |                  |                |                              |                |                |
| Agritech Limited                           | 1,471,636                    | 51,507           | 7,167          | 1,471,636                    | 51,507         | 18,660         |
| The Searle Company Limited                 | 50,000                       | 19,917           | 15,743         | 50,000                       | 30,521         | 32,689         |
| GlaxoSmithKline Pakistan Limited           | 195,600                      | 45,881           | 32,837         | 75,000                       | 15,588         | 17,498         |
| <b>Fertilizer</b>                          |                              |                  |                |                              |                |                |
| Engro Fertilizers Limited                  | -                            | -                | -              | 115,000                      | 10,124         | 7,818          |
| Engro Corporation Limited                  | 300,000                      | 101,800          | 82,425         | 250,000                      | 74,629         | 79,023         |
| Dawood Hercules Corporation Limited        | 35,000                       | 5,286            | 3,916          | -                            | -              | -              |
| <b>Cement</b>                              |                              |                  |                |                              |                |                |
| Fauji Cement Company Limited               | 550,000                      | 19,984           | 13,756         | 600,000                      | 23,548         | 27,048         |
| Maple Leaf Cement Factory Limited          | 650,000                      | 60,766           | 44,292         | 200,000                      | 21,822         | 25,516         |
| D.G.Khan Cement Company Limited            | -                            | -                | -              | 200,000                      | 37,719         | 44,346         |
| Cherat Cement Company Limited              | 250,000                      | 37,515           | 27,727         | 100,000                      | 15,940         | 17,404         |
| Lucky Cement Limited                       | 200,000                      | 144,626          | 103,482        | 75,000                       | 55,845         | 64,970         |
| <b>Textile Composite</b>                   |                              |                  |                |                              |                |                |
| Nishat Mills Limited                       | -                            | -                | -              | 140,000                      | 20,626         | 21,318         |
| Kohinoor Textile Mills Limited             | 250,000                      | 22,857           | 16,507         | 100,000                      | 9,523          | 11,620         |
| <b>Power Generation &amp; Distribution</b> |                              |                  |                |                              |                |                |
| Kohinoor Energy Limited                    | -                            | -                | -              | 225,000                      | 10,720         | 9,675          |
| Hub Power Company Limited                  | 500,000                      | 62,504           | 45,500         | 500,000                      | 57,853         | 61,740         |
| K-Electric Limited                         | 4,500,000                    | 39,270           | 28,395         | 1,000,000                    | 9,267          | 9,370          |
| <b>Oil &amp; Gas</b>                       |                              |                  |                |                              |                |                |
| Pakistan Oil Fields Limited                | 93,650                       | 53,669           | 55,744         | 75,000                       | 36,141         | 40,096         |
| Attock Refinery Limited                    | 280,000                      | 92,940           | 65,554         | 50,000                       | 19,242         | 21,265         |
| Pakistan Petroleum Limited                 | 75,000                       | 13,917           | 15,443         | 75,000                       | 13,459         | 14,114         |
| Hascol Petroleum Limited                   | 300,000                      | 94,594           | 70,010         | 150,000                      | 49,982         | 50,628         |
| Oil & Gas Development Company Limited      | 250,000                      | 40,426           | 40,698         | -                            | -              | -              |
| Sui Northern Gas Pipelines Limited         | 250,000                      | 32,953           | 23,653         | -                            | -              | -              |
| Sui Southern Gas Company Limited           | 250,000                      | 10,166           | 7,623          | 750,000                      | 31,524         | 27,262         |
| <b>Food Producers</b>                      |                              |                  |                |                              |                |                |
| Abdullah Shah Ghazi Sugar Mills Limited    | 4,890,249                    | 41,961           | -              | 4,890,249                    | 41,962         | 36,628         |
| Al Shaheer Corporation Limited             | -                            | -                | -              | 150,000                      | 6,883          | 8,610          |
| <b>Miscellaneous</b>                       |                              |                  |                |                              |                |                |
| Shifa International Hospitals Limited      | -                            | -                | -              | 50,000                       | 16,281         | 15,371         |
| TPL Properties                             | 1,200,000                    | 13,200           | 14,256         | 1,600,000                    | 17,800         | 16,704         |
| <b>Paper &amp; Board</b>                   |                              |                  |                |                              |                |                |
| Roshan Packages Limited                    | 906,584                      | 71,409           | 32,859         | -                            | -              | -              |
| Packages Limited                           | 50,000                       | 34,957           | 25,492         | 50,000                       | 40,520         | 42,502         |
| <b>Automobile Assembler</b>                |                              |                  |                |                              |                |                |
| Millat Tractors Limited                    | 20,000                       | 25,112           | 23,433         | 41,050                       | 35,411         | 37,136         |
| Pak Suzuki Motor Company Limited           | 40,000                       | 27,317           | 19,911         | -                            | -              | -              |
| Honda Atlas Cars (Pakistan) Limited        | 30,000                       | 22,222           | 15,372         | 23,000                       | 13,384         | 15,379         |
| <b>Engineering</b>                         |                              |                  |                |                              |                |                |
| Crescent Steel & Allied Products Limited   | 100,400                      | 12,748           | 12,782         | -                            | -              | -              |
| International Steels Limited               | 100,000                      | 10,946           | 10,637         | -                            | -              | -              |
| Mughal Iron & Steel Industries Limited     | 300,000                      | 22,769           | 17,430         | -                            | -              | -              |
| <b>Cable &amp; Electrical Goods</b>        |                              |                  |                |                              |                |                |
| Pak Elektron Limited                       | 600,000                      | 40,366           | 28,494         | 850,000                      | 56,172         | 60,588         |
|  |                              | <u>1,272,585</u> | <u>901,138</u> |                              | <u>823,793</u> | <u>834,976</u> |
| <b>Open-end mutual funds</b>               |                              |                  |                |                              |                |                |
| Faysal Islamic Savings Growth Fund         | 665,909                      | 69,408           | 69,727         | 665,909                      | 69,108         | 69,854         |
|  |                              | <u>1,341,993</u> | <u>970,865</u> |                              | <u>893,011</u> | <u>904,832</u> |
| <b>Held for trading - shares / units</b>   |                              |                  |                |                              |                |                |
| <b>Cable &amp; Electrical Goods</b>        |                              |                  |                |                              |                |                |
| Pak Elektron Limited                       | 60,000                       | 4,332            | 2,849          | -                            | -              | -              |
| <b>Oil &amp; Gas</b>                       |                              |                  |                |                              |                |                |
| Hascol Petroleum Limited                   | 25,000                       | 7,195            | 6,176          | -                            | -              | -              |
| Attock Refinery Limited                    | 14,000                       | 4,879            | 3,278          | -                            | -              | -              |
| Sui Northern Gas Pipelines Limited         | 30,000                       | 3,599            | 2,838          | -                            | -              | -              |
| <b>Power Generation &amp; Distribution</b> |                              |                  |                |                              |                |                |
| Hub Power Company Limited                  | 50,000                       | 5,369            | 4,550          | -                            | -              | -              |
| <b>Fertilizer</b>                          |                              |                  |                |                              |                |                |
| Engro Corporation Limited                  | 7,500                        | 2,170            | 2,061          | -                            | -              | -              |
| <b>Cement</b>                              |                              |                  |                |                              |                |                |
| D.G.Khan Cement Company Limited            | 26,400                       | 3,726            | 3,530          | -                            | -              | -              |
| <b>Engineering</b>                         |                              |                  |                |                              |                |                |
| International Steels Limited               | 16,500                       | 1,865            | 1,755          | -                            | -              | -              |
|  |                              | <u>33,135</u>    | <u>27,037</u>  |                              |                |                |



## 10.4.1 Quality of available for sale securities

| Note   | 2017                          |                                       | 2016                          |                                       |           |
|--|-------------------------------|---------------------------------------|-------------------------------|---------------------------------------|-----------|
|  | Amount<br>(Rupees in<br>'000) | Rating<br>(Long term /<br>Short term) | Amount<br>(Rupees in<br>'000) | Rating<br>(Long term /<br>Short term) |           |
| <b>Sukuk certificates</b>                              |                               |                                       |                               |                                       |           |
| Government of Pakistan Ijara Sukuk                     | 10,299,102                    | GOP Guaranteed                        | 16,610,051                    | GOP Guaranteed                        |           |
| Sui Southern Gas Company Limited                       | 1,000,000                     | Unrated                               | 1,000,000                     | Unrated                               |           |
| Al Razi Healthcare (Private) Limited                   | -                             | -                                     | 178,333                       | Unrated                               |           |
| WAPDA second sukuk certificates                        | -                             | -                                     | 61,975                        | GOP Guaranteed                        |           |
| WAPDA third sukuk certificates                         | 622,295                       | GOP Guaranteed                        | 780,537                       | GOP Guaranteed                        |           |
| Neelum Jhelum Hydro Power Company<br>(Private) Limited | 2,600,000                     | GOP Guaranteed /<br>AAA               | 2,600,000                     | GOP<br>Guaranteed /                   |           |
| Pakistan International Airline Corporation Limited     | 1,325,000                     | GOP Guaranteed                        | 1,325,000                     | GOP Guaranteed                        |           |
| Security Leasing Corporation Limited                   | 9,242                         | Non-performing                        | 9,242                         | Non-performing                        |           |
| Quetta Textile Mills Limited                           | 70,345                        | Non-performing                        | 70,345                        | Non-performing                        |           |
| Amtex Limited  | 37,500                        | Non-performing                        | 37,500                        | Non-performing                        |           |
| AGP Limited  | 298,350                       | A                                     | -                             | -                                     |           |
| Aspin Pharma (Private) Limited                         | 352,000                       | A                                     | -                             | -                                     |           |
| Emirates Islamic Bank Sukuk                            | 556,658                       | A+                                    | 529,041                       | A+                                    |           |
| Qatar Islamic Bank Sukuk                               | 556,051                       | A                                     | 528,075                       | A+                                    |           |
| Oman Sovereign Sukuk                                   | 332,004                       | BBB-                                  | -                             | -                                     |           |
| Dubai Islamic Bank Sukuk                               | 441,083                       | A                                     | -                             | -                                     |           |
| <b>Ordinary shares</b>                                 |                               |                                       |                               |                                       |           |
| Takaful Pakistan Limited                               | 10.5                          | 52,200                                | BBB+                          | 52,200                                | BBB+      |
| Agritech Limited                                       |                               | 51,507                                | Unrated                       | 51,507                                | Unrated   |
| The Searle Company Limited                             |                               | 19,917                                | Unrated                       | 30,521                                | Unrated   |
| GlaxoSmithKline Pakistan Limited                       |                               | 45,881                                | Unrated                       | 15,588                                | Unrated   |
| Engro Fertilizers Limited                              |                               | -                                     | -                             | 10,124                                | AA- / A1+ |
| Engro Corporation Limited                              |                               | 101,800                               | AA / A1+                      | 74,629                                | AA / A1+  |
| Dawood Hercules Corporation Limited                    |                               | 5,286                                 | AA- / A1+                     | -                                     | -         |
| Fauji Cement Company Limited                           |                               | 18,984                                | Unrated                       | 23,548                                | Unrated   |
| Maple Leaf Cement Factory Limited                      |                               | 60,766                                | A+ / A1                       | 21,822                                | A+ / A1   |
| D.G.Khan Cement Company Limited                        |                               | -                                     | -                             | 37,719                                | Unrated   |
| Cherat Cement Company Limited                          |                               | 37,515                                | A / A1                        | 15,940                                | A / A1    |
| Lucky Cement Limited                                   |                               | 144,626                               | Unrated                       | 55,845                                | Unrated   |
| Nishat Mills Limited                                   |                               | -                                     | -                             | 20,626                                | AA / A1+  |
| Kohinoor Textile Mills Limited                         |                               | 22,857                                | A+ / A1                       | 9,523                                 | A+ / A1   |
| Kohinoor Energy Limited                                |                               | -                                     | -                             | 10,720                                | AA / A1+  |
| Hub Power Company Limited                              |                               | 62,504                                | AA+ / A1+                     | 57,653                                | AA+ / A1+ |
| K-Electric Limited                                     |                               | 39,270                                | AA / A1+                      | 9,267                                 | AA / A1+  |
| Pakistan Oil Fields Limited                            |                               | 53,669                                | Unrated                       | 36,141                                | Unrated   |
| Attock Refinery Limited                                |                               | 92,940                                | AA / A1+                      | 19,242                                | AA / A1+  |
| Pakistan Petroleum Limited                             |                               | 13,917                                | Unrated                       | 13,459                                | Unrated   |
| Hascol Petroleum Limited                               |                               | 94,594                                | AA- / A1                      | 49,982                                | A+ / A1   |
| Oil & Gas Development Company Limited                  |                               | 40,426                                | AAA / A1+                     | -                                     | -         |
| Sui Northern Gas Pipelines Limited                     |                               | 32,953                                | AA- / A1                      | -                                     | -         |
| Sui Southern Gas Company                               |                               | 10,166                                | A+ / A1                       | 31,524                                | A+ / A1   |
| Abdullah Shah Ghazi Sugar Mill Limited                 |                               | 41,961                                | Unrated                       | 41,962                                | Unrated   |
| Al Shaheer Corporation Limited                         |                               | -                                     | -                             | 6,883                                 | Unrated   |
| Shifa International Hospitals Limited                  |                               | -                                     | -                             | 16,281                                | Unrated   |
| Roshan Packages Limited                                |                               | 71,409                                | Unrated                       | -                                     | -         |
| Packages Limited                                       |                               | 34,957                                | AA / A1+                      | 40,520                                | AA / A1+  |
| Millat Tractors Limited                                |                               | 25,112                                | Unrated                       | 35,411                                | Unrated   |
| Pak Suzuki Motor Company Limited                       |                               | 27,317                                | Unrated                       | -                                     | -         |
| Honda Atlas Cars Pakistan Limited                      |                               | 22,222                                | Unrated                       | 13,384                                | Unrated   |
| Crescent Steel & Allied Products Limited               |                               | 12,748                                | A+ / A2                       | -                                     | -         |
| International Steels Limited                           |                               | 10,946                                | A+ / A1                       | -                                     | -         |
| Mughal Iron & Steel Industries Limited                 |                               | 22,769                                | A- / A2                       | -                                     | -         |
| Pak Elektron Limited                                   |                               | 40,366                                | A+ / A1                       | 56,372                                | A+ / A1   |
| TPL Properties   |                               | 13,200                                | A+ / A1                       | 17,600                                | A+ / A1   |
| <b>Units of open-end mutual funds</b>                  |                               |                                       |                               |                                       |           |
| Faysal Islamic Savings Growth Fund                     |                               | 69,408                                | A+(f)                         | 69,408                                | A(f)      |
| <b>Total</b>   |                               | <b>19,893,823</b>                     |                               | <b>24,675,500</b>                     |           |

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## 10.4.2 Quality of held for trading securities

## Ordinary shares

|                                    |               |           |          |          |
|------------------------------------|---------------|-----------|----------|----------|
| D.G.Khan Cement Company Limited    | 3,726         | Unrated   | -        | -        |
| Hub Power Company Limited          | 5,369         | AA+ / A1+ | -        | -        |
| Attock Refinery Limited            | 4,879         | AA / A1+  | -        | -        |
| Hascal Petroleum Limited           | 7,195         | AA- / A1  | -        | -        |
| Sui Northern Gas Pipelines Limited | 3,599         | AA- / A1  | -        | -        |
| International Steels Limited       | 1,865         | A+ / A1   | -        | -        |
| Engro Corporation Limited          | 2,170         | AA / A1+  | -        | -        |
| Pak Elektron Limited               | 4,332         | A+ / A1   | -        | -        |
|                                    | <u>33,135</u> |           | <u>-</u> | <u>-</u> |

## 10.5 Particulars of investments in ordinary shares of unlisted companies

|                                | 2017             | 2016      | 2017           | 2016          |
|--------------------------------|------------------|-----------|----------------|---------------|
|                                | Number of shares |           | Rupees in '000 |               |
| Takaful Pakistan Limited*      | 5,100,000        | 5,100,000 | 52,200         | 52,200        |
| Crown Textile Mills Limited ** | 444,656          | 444,656   | -              | -             |
|                                |                  |           | <u>52,200</u>  | <u>52,200</u> |

Takaful  
Pakistan  
Limited\*

Percentage of equity holding %

17%

Latest available audited financial statements

31 December 2016

Name of the chief executive officer

Syed Tariq Husain

\* The breakup value of Takaful Pakistan Limited is Rs.6.38 per share as per the financial statements for the period ended 30 June 2017 and and Rs. 6.04 per share as per the financial statements for the year ended 31 Decemebr 2016.

\*\* These were transferred at nil value upon amalgamation of Pakistan branches of AlBaraka Islamic Bank B.S.C. (c) with and into the Bank.

## 11. ISLAMIC FINANCING AND RELATED ASSETS

In Pakistan

## Islamic financing and related assets

|  | Note | 2017               | 2016               |
|--|------|--------------------|--------------------|
|  |      | (Rupees '000)      |                    |
| - Murabaha finance                                       | 11.1 | 9,603,633          | 13,811,162         |
| - Advance against murabaha finance                       |      | 2,101,551          | 918,213            |
| - Export refinance under Islamic scheme                  |      | 1,947,276          | 3,579,184          |
| - Advance against export refinance under Islamic scheme  |      | 1,772,129          | 252,506            |
| - Ijarah assets under IFAS 2                             |      | 2,643,116          | 4,191,559          |
| - Net investment in ijarah                               | 11.2 | 112,493            | 112,530            |
| - Advance against ijarah                                 |      | 19,974             | 39,326             |
| - Service Ijarah   |      | -                  | 260,417            |
| - Diminishing musharaka financing                        |      | 36,142,499         | 31,705,563         |
| - Advance against diminishing musharaka finance          |      | 991,561            | 1,143,500          |
| - Running musharaka                                      |      | 150,000            | 150,000            |
| - Tijarah finance  |      | 1,378,591          | 777,563            |
| - Over due acceptances                                   |      | 698,722            | 612,598            |
| - Payment against guarantee                              |      | 62,796             | 61,896             |
| - Payment against documents                              |      | 4,701              | 4,718              |
| - Salam financing  |      | 22,087             | 22,485             |
| - Advance against salam                                  |      | 8,968,061          | 6,015,358          |
| - Salam inventory  |      | 8,160              | 185,999            |
| - Financing against bills                                |      | 569,832            | 597,286            |
| - Istasna finance  |      | 1,235,413          | 2,517,612          |
| - Advance against istasna                                |      | 5,713,369          | 2,732,661          |
| - Istasna inventory                                      |      | 30,800             | -                  |
| - Mudaraba   |      | -                  | 80,000             |
| - Staff financing  |      | 1,308,798          | 1,308,824          |
| - Advance against staff financing                        |      | 6,626              | 9,067              |
| - Rahnuma travel services                                |      | 81                 | 161                |
| Islamic financing and related assets - gross             |      | <u>75,492,269</u>  | <u>71,090,188</u>  |
| Provisions for non-performing financing - specific       | 11.5 | (4,202,127)        | (4,217,953)        |
| - general  | 11.5 | (87,086)           | (86,969)           |
|  |      | <u>(4,289,213)</u> | <u>(4,304,922)</u> |
| Islamic financing and related assets - net of provisions |      | <u>71,203,056</u>  | <u>66,785,266</u>  |

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|        | Note  | 2017              | 2016              |
|--------|---|-------------------|-------------------|
|        |   | (Rupees '000)     |                   |
| 11.1   | Murabaha receivable - gross   | 10,149,414        | 14,534,931        |
|        | Deferred murabaha income  | (388,887)         | (534,246)         |
|        | Profit receivable shown in other assets   | (156,894)         | (189,523)         |
|        | Murabaha finance  | <u>9,603,633</u>  | <u>13,811,162</u> |
| 11.1.1 | Murabaha sale price   | 10,149,414        | 14,534,931        |
|        | Murabaha purchase price   | (9,603,633)       | (13,811,162)      |
|        |   | <u>545,781</u>    | <u>723,769</u>    |
| 11.2   | These represents the ijarah financing contracts entered up to December 2008. These are accounted for as finance lease where by assets under ijarah agreements are presented as a receivable at an amount equal to net investment in ijarah. |                   |                   |
|        | Present value of minimum ijarah   |                   |                   |
|        | - Not later than one year   | 112,493           | 112,530           |
|        |   | <u>112,493</u>    | <u>112,530</u>    |
| 11.3   | <b>Particulars of Islamic financing and related assets</b>  |                   |                   |
| 11.3.1 | In local currency   | 70,048,924        | 65,407,626        |
|        | In foreign currency   | 1,154,130         | 1,377,640         |
|        |   | <u>71,203,054</u> | <u>66,785,266</u> |
| 11.3.2 | Short-term (for upto one year)  | 42,114,395        | 38,761,395        |
|        | Long term (for over one year)   | 29,088,659        | 28,023,871        |
|        |   | <u>71,203,054</u> | <u>66,785,266</u> |
| 11.4   | Islamic financing and related assets include Rs.7,651.332 (31 December 2016: Rs.7,146.027) million which have been placed under non-performing status as detailed below:  |                   |                   |

| Category of classifications       | 2017  |          |                  | Provision required | Provision held   |
|-----------------------------------|---|----------|------------------|--------------------|------------------|
|                                   | Classified Islamic financing and related assets |          |                  |                    |                  |
|                                   | Domestic  | Overseas | Total            |                    |                  |
|                                   | (Rupees in '000)                                |          |                  |                    |                  |
| Other assets especially mentioned | 35,182  | -        | 35,182           | -                  | -                |
| Substandard                       | 1,434,832                                       | -        | 1,434,832        | 133,894            | 133,894          |
| Doubtful                          | 653,068   | -        | 653,068          | 127,265            | 127,265          |
| Loss                              | 5,528,250                                       | -        | 5,528,250        | 3,940,968          | 3,940,968        |
|                                   | <u>7,651,332</u>                                | <u>-</u> | <u>7,651,332</u> | <u>4,202,127</u>   | <u>4,202,127</u> |

| Category of classifications       | 2016  |          |                  | Provision required | Provision held   |
|-----------------------------------|---|----------|------------------|--------------------|------------------|
|                                   | Classified Islamic financing and related assets |          |                  |                    |                  |
|                                   | Domestic  | Overseas | Total            |                    |                  |
|                                   | (Rupees in '000)                                |          |                  |                    |                  |
| Other assets especially mentioned | 74,385  | -        | 74,385           | -                  | -                |
| Substandard                       | 1,085,697                                       | -        | 1,085,697        | 89,521             | 89,521           |
| Doubtful                          | 784,546   | -        | 784,546          | 211,700            | 211,700          |
| Loss                              | 5,201,399                                       | -        | 5,201,399        | 3,916,732          | 3,916,732        |
|                                   | <u>7,146,027</u>                                | <u>-</u> | <u>7,146,027</u> | <u>4,217,953</u>   | <u>4,217,953</u> |

## 11.5 Particulars of provisions against non-performing islamic financing and related assets

|                            | 2017                       |         |           | 2016      |         |           |
|----------------------------|----------------------------|---------|-----------|-----------|---------|-----------|
|                            | Specific                   | General | Total     | Specific  | General | Total     |
|                            | ----- Rupees in '000 ----- |         |           |           |         |           |
| Opening balance            | 4,217,953                  | 86,969  | 4,304,922 | 2,875,066 | 28,386  | 2,903,452 |
| Charge for the year        | 459,119                    | 117     | 459,236   | 513,194   | 18,688  | 531,882   |
| Reversals for the year     | (474,945)                  | -       | (474,945) | (699,462) | -       | (699,462) |
|                            | (15,826)                   | 117     | (15,709)  | (186,268) | 18,688  | (167,580) |
| Transfer upon amalgamation | -                          | -       | -         | 1,529,155 | 39,895  | 1,569,050 |
| Closing balance            | 4,202,127                  | 87,086  | 4,289,213 | 4,217,953 | 86,969  | 4,304,922 |

11.5.1 The above provision against non-performing Islamic financing and related assets has been computed after considering allowable forced sale value (FSV) of collateral amounting to Rs. 2,597.403 (31 December 2016: Rs. 2,252.469) million. The FSV benefit recognized is not allowed for distribution of cash or stock dividend to shareholders and bonus to employees.

11.5.2 The Bank maintains general reserve (provisions) in accordance with the applicable requirements of prudential regulations for housing finance and small and medium enterprise Islamic financing. However, the State Bank of Pakistan vide its letter BPRD/BRD/PRs/3073/2017 dated 6 February 2017 has allowed an exemption till 31 December 2017 from recognising general reserve requirement for its auto finance subject to the following conditions :

- The Bank shall classify its auto financing as "loss" on 180th day from the date of default and shall recognise 100% provision there against;
- The general reserve already accumulated and maintained shall not be reversed; and
- The classified portfolio of auto finance shall remain upto 5% of the Bank's auto finance portfolio. In case, if classified portfolio of auto finance increases beyond 5% threshold, the exemption shall stand withdrawn from that point of time.

11.5.3 SBP vide its letter BPRD/BLRD-3/DMG/2011-1035 dated 26 January 2011 and BPRD/BRD/PRs/ 024/2018 dated 01 January 2018 has allowed relaxation from further provisioning requirement against certain financing exposures having a provisioning impact of Rs. 278.307 (31 December 2016: Rs. 297.581) million. The relaxation allowed vide letter BPRD/BRD/PRs/ 024/2018 dated 01 January 2018 amounting to Rs. 237.726 million is to be recognized in a phased manner by 31 December 2018.

## 11.5.4 Particulars of provisions against non-performing islamic financing and related assets

|                     | 2017                       |         |           | 2016      |         |           |
|---------------------|----------------------------|---------|-----------|-----------|---------|-----------|
|                     | Specific                   | General | Total     | Specific  | General | Total     |
|                     | ----- Rupees in '000 ----- |         |           |           |         |           |
| In local currency   | 4,188,532                  | 87,086  | 4,275,618 | 4,204,358 | 86,969  | 4,291,327 |
| In foreign currency | 13,595                     | -       | 13,595    | 13,595    | -       | 13,595    |
|                     | 4,202,127                  | 87,086  | 4,289,213 | 4,217,953 | 86,969  | 4,304,922 |

11.5.5 In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written off financing or any other financial relief of five hundred thousand rupees or above allowed to any person during the year ended 31 December 2017 is required to be disclosed in financial statements. During the year ended 31 December 2017, the Bank did not write off any financing of an amount equal to or exceeding five hundred thousand rupees. However, the statement in respect of written off profit or any other financial relief of five hundred thousand rupees or above allowed is annexed to these financial statements.

|  | 2017                      | 2016      |
|--|---------------------------|-----------|
|  | ----- (Rupees *000) ----- |           |
| <b>11.6 Particulars of Islamic financing to executives, directors, associated companies etc.</b>                             |                           |           |
| Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other person* |                           |           |
| Balance at the beginning of the year   | 1,317,891                 | 723,302   |
| Islamic financing during the year  | 374,242                   | 285,153   |
| Repayments during the year   | (378,396)                 | (226,082) |
| Transfer upon amalgamation   | -                         | 535,518   |
| Balance at the end of the year   | 1,313,737                 | 1,317,891 |

\* These represent Islamic financing given by the Bank to its employees as per the terms of their employment.

|                                   | Note | 2017                     | 2016      |
|-----------------------------------|------|--------------------------|-----------|
|                                   |      | ----- (Rupees*000) ----- |           |
|                                   |      |                          | Restated  |
| <b>12. OPERATING FIXED ASSETS</b> |      |                          |           |
| Property and equipment            | 12.1 | 1,855,376                | 2,054,500 |
| Intangible assets                 | 12.2 | 1,720,577                | 1,884,535 |
| Capital work-in-progress          | 12.3 | 506,200                  | 563,234   |
|                                   |      | 4,082,153                | 4,502,269 |

## 12.1 Property and equipment

|   | 2017                  |   |                        |                          |   |                        |           | Net book value as at 31 December 2017 | Rate of depreciation |
|---|-----------------------|---|------------------------|--------------------------|---|------------------------|-----------|---------------------------------------|----------------------|
|   | COST                  |   |                        | ACCUMULATED DEPRECIATION |   |                        |           |                                       |                      |
|   | As at 01 January 2017 | Additions / (disposals) / (write offs*) | As at 31 December 2017 | As at 01 January 2017    | Charge for the year / (on disposals) / (on write offs*) | As at 31 December 2017 |           |                                       |                      |
|   | Rupees in '000        |   |                        |                          |   |                        |           | %                                     |                      |
| Leasehold land                              | 707,104               | -                                       | 707,104                | -                        | -   | -                      | 707,104   | -                                     |                      |
| Building and improvements on leasehold land | 1,405,998             | 54,017<br>(32,227)<br>(229,586) *       | 1,198,202              | 647,086                  | 100,656<br>(21,849)<br>(146,350)                        | 579,543                | 618,659   | 5% - 10%                              |                      |
| Furniture and fixtures                      | 331,959               | 16,499<br>(4,508)                       | 343,950                | 212,022                  | 30,682<br>(3,735)                                       | 238,969                | 104,981   | 10%                                   |                      |
| Computer and office equipments              | 1,595,637             | 40,469<br>(29,503)                      | 1,606,603              | 1,157,354                | 84,965<br>(25,879)                                      | 1,216,440              | 390,163   | 10% - 50%                             |                      |
| Vehicles                                    | 78,201                | 17,931<br>(9,215)                       | 86,917                 | 47,937                   | 11,288<br>(6,777)                                       | 52,448                 | 34,469    | 20%                                   |                      |
|   | 4,118,899             | 128,916<br>(75,453)<br>(229,586) *      | 3,942,776              | 2,064,399                | 227,591<br>(58,240)<br>(146,350) *                      | 2,087,400              | 1,855,376 |                                       |                      |

|   | 2016                  |   |                            |                          |                       |   |                            | Net book value as at 31 December 2016 | Rate of depreciation |                        |
|---|-----------------------|---|----------------------------|--------------------------|-----------------------|---|----------------------------|---------------------------------------|----------------------|------------------------|
|   | COST                  |   |                            | ACCUMULATED DEPRECIATION |                       |   |                            |                                       |                      |                        |
|   | As at 01 January 2016 | Additions / (disposals) / (write offs*) | Transfer upon amalgamation | As at 31 December 2016   | As at 01 January 2016 | Charge for the year / (on disposals) / (on write offs*) | Transfer upon amalgamation |                                       |                      | As at 31 December 2016 |
|   | Rupees in '000        |   |                            |                          |                       |   |                            | %                                     |                      |                        |
| Leasehold land                              | 707,104               | -                                       | -                          | 707,104                  | -                     | -   | -                          | 707,104                               | -                    |                        |
| Building and improvements on leasehold land | 720,279               | 22,748<br>(661)<br>(3,100) *            | 666,732                    | 1,405,998                | 234,415               | 49,732<br>(254)<br>(3,100)                              | 366,293                    | 647,086                               | 758,912              | 5% - 10%               |
| Furniture and fixtures                      | 206,194               | 4,632<br>(839)                          | 121,972                    | 331,959                  | 124,966               | 21,293<br>(761)   | 66,524                     | 212,022                               | 119,937              | 10%                    |
| Computer and office equipments              | 854,220               | 110,280<br>(3,879)                      | 635,016                    | 1,595,637                | 564,340               | 76,552<br>(3,193)                                       | 519,655                    | 1,157,354                             | 438,283              | 10% - 50%              |
| Vehicles                                    | 73,873                | 2,383<br>(21,952)                       | 23,897                     | 78,201                   | 43,963                | 10,234<br>(20,444)                                      | 14,184                     | 47,937                                | 30,264               | 20%                    |
|   | 2,561,870             | 140,043<br>(27,331)<br>(3,100) *        | 1,447,617                  | 4,118,899                | 967,684               | 157,811<br>(24,652)<br>(3,100)                          | 966,656                    | 2,064,399                             | 2,054,500            |                        |

12.1.1 Property and equipment include assets that are fully depreciated and are still in use aggregating to Rs. 1,051,058 million (31 December 2016 - Rs. 935,763 million).

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| 12.2 Intangible assets              | Note   | 2017                      |  | 2016             |
|-------------------------------------|--------|---------------------------|--|------------------|
|                                     |        | ----- (Rupees '000) ----- |  | Restated         |
| Computer software and core deposits | 12.2.1 | 941,315                   |  | 1,105,273        |
| Brand with indefinite useful life   | 12.2.2 | 383,145                   |  | 383,145          |
| Goodwill                            |        | 396,117                   |  | 396,117          |
|                                     |        | <u>1,720,577</u>          |  | <u>1,884,535</u> |

| 12.2.1            | 2017                  |               |                            |                          |                       |                           |                            |                        |                |                        |
|-------------------|-----------------------|---------------|----------------------------|--------------------------|-----------------------|---------------------------|----------------------------|------------------------|----------------|------------------------|
|                   | COST                  |               |                            | ACCUMULATED AMORTISATION |                       |                           |                            | Net book value as at   |                | Rate of amortisation % |
|                   | As at 01 January 2017 | Additions     | Transfer upon amalgamation | As at 31 December 2017   | As at 01 January 2017 | Amortisation for the year | Transfer upon amalgamation | As at 31 December 2017 | December 2017  |                        |
|                   | Rupees in '000        |               |                            |                          |                       |                           |                            |                        |                |                        |
| Computer software | 721,184               | 36,405        | -                          | 757,589                  | 614,032               | 55,680                    | -                          | 669,712                | 87,877         | 20 - 33%               |
| Core deposits     | 1,386,000             | -             | -                          | 1,386,000                | 387,879               | 144,583                   | -                          | 532,562                | 853,438        | 8.33%-10%              |
| 31 December 2017  | <u>2,107,184</u>      | <u>36,405</u> | <u>-</u>                   | <u>2,143,589</u>         | <u>1,001,911</u>      | <u>200,363</u>            | <u>-</u>                   | <u>1,202,274</u>       | <u>941,315</u> |                        |

|                   | 2016 (Restated)       |                |                            |                          |                       |                           |                            |                        |                  |                        |
|-------------------|-----------------------|----------------|----------------------------|--------------------------|-----------------------|---------------------------|----------------------------|------------------------|------------------|------------------------|
|                   | COST                  |                |                            | ACCUMULATED AMORTISATION |                       |                           |                            | Net book value as at   |                  | Rate of amortisation % |
|                   | As at 01 January 2016 | Additions      | Transfer upon amalgamation | As at 31 December 2016   | As at 01 January 2016 | Amortisation for the year | Transfer upon amalgamation | As at 31 December 2016 | December 2016    |                        |
|                   | Rupees in '000        |                |                            |                          |                       |                           |                            |                        |                  |                        |
| Computer software | 276,978               | 60,624         | 383,582                    | 721,184                  | 247,020               | 25,419                    | 341,593                    | 614,032                | 107,152          | 20 - 33%               |
| Core deposits     | 684,000               | 702,000        | -                          | 1,386,000                | 324,924               | 62,955                    | -                          | 387,879                | 998,121          | 8.33%-10%              |
| 31 December 2016  | <u>960,978</u>        | <u>762,624</u> | <u>383,582</u>             | <u>2,107,184</u>         | <u>571,944</u>        | <u>88,374</u>             | <u>341,593</u>             | <u>1,001,911</u>       | <u>1,105,273</u> |                        |

12.2.2 During the year, the management has assessed the fair value of the Bank which exceeds its breakup value. IAS 36 "Impairment of assets" requires that an impairment loss shall be recognized for a cash-generating unit, if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). Accordingly, no impairment loss has been recognized in these financial statements on the Intangible assets.

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

|                           |                  |
|---------------------------|------------------|
| - Discount rate - Pre tax | 14.75% per annum |
| - Terminal growth rate    | 10% per annum    |

#### Discount rates

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

#### Terminal growth rates

Terminal growth rate is a stable growth rate at which an asset will continue to grow perpetually.

#### Sensitivity to changes in assumptions

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

| 12.3 Capital work-in-progress                                      | 2017                      |                | 2016                      |                |
|--|---------------------------|----------------|---------------------------|----------------|
|  | ----- (Rupees '000) ----- |                | ----- (Rupees '000) ----- |                |
| Land and building including advances to suppliers and contractors  |                           | 505,200        |                           | 684,283        |
| Advance for purchase of property - related party                   |                           | 251,680        |                           | 251,680        |
| Provisions for impairment against advance for purchase of property |                           | (251,680)      |                           | (251,680)      |
| Transfer to computer software                                      |                           | -              |                           | (45,890)       |
| Write off  |                           | -              |                           | (75,159)       |
| Total capital work-in-progress                                     |                           | <u>505,200</u> |                           | <u>583,234</u> |

#### 12.4 Disposal of assets

Details of disposal of fixed assets where cost exceeds Rs.1 million or book value is greater than Rs.0.25 million, whichever is lower are as follows:

| Description  | Cost          | Accumulated depreciation | Book value    | Sale proceeds | Mode of disposal     | Particulars of purchaser  |
|--|---------------|--------------------------|---------------|---------------|----------------------|---------------------------|
|  |               |                          |               |               |                      |                           |
| <b>Vehicles</b>                                    |               |                          |               |               |                      |                           |
| Honda Civic  | 2,224         | 1,592                    | 632           | 1,091         | Auction              | Mr. Jamal Ahmed           |
| Honda Civic  | 2,103         | 1,505                    | 598           | 1,136         | Auction              | Muhammadi Motors          |
| Toyota Corolla                                     | 1,707         | 1,221                    | 486           | 729           | As per Bank's policy | Multi Muneeb ur Rehman    |
| Toyota Corolla                                     | 1,523         | 1,072                    | 451           | 1,091         | Auction              | Mr. Laraib                |
| Suzuki Cultus                                      | 955           | 684                      | 271           | 527           | Auction              | Muhammadi Motors          |
| <b>Building and improvements on leasehold land</b> |               |                          |               |               |                      |                           |
| Civil Work   | 24,801        | 17,154                   | 7,647         | 33,017        | Insurance Claim      | Pak-Qatar General Takaful |
| Civil Work   | 3,102         | 2,275                    | 827           | 138           | Auction              | Mr. Ghulam Rasool         |
| Civil Work   | 1,272         | 880                      | 392           | 1,694         | Insurance Claim      | Pak-Qatar General Takaful |
| Renovation work                                    | 683           | 347                      | 336           | 909           | Insurance Claim      | Pak-Qatar General Takaful |
| <b>Office Equipment</b>                            |               |                          |               |               |                      |                           |
| Generator  | 1,131         | 1,131                    | -             | 186           | Auction              | Mr. Muhammad Irfan        |
| Electrical Installation                            | 628           | 251                      | 377           | 836           | Insurance Claim      | Pak-Qatar General Takaful |
| UPS  | 1,270         | 243                      | 1,027         | 1,691         | Insurance Claim      | Pak-Qatar General Takaful |
|  | <u>41,399</u> | <u>28,355</u>            | <u>13,044</u> | <u>43,045</u> |                      |                           |

Fixed assets having book value of less than Rs.0.25 million or cost of Rs.1 million is as follows:

|                  |               |               |               |               |
|------------------|---------------|---------------|---------------|---------------|
| Various          | 34,054        | 29,885        | 4,169         | 31,879        |
| 31 December 2017 | <u>75,453</u> | <u>58,240</u> | <u>17,213</u> | <u>74,724</u> |
| 31 December 2016 | <u>27,331</u> | <u>24,652</u> | <u>2,679</u>  | <u>6,132</u>  |

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| 13. DEFERRED TAX ASSETS   | Note | 2017<br>----- (Rupees '000) ----- | 2016<br>----- (Rupees '000) ----- |
|---|------|-----------------------------------|-----------------------------------|
| <b>Deferred tax debits arising in respect of</b>  |      |                                   |                                   |
| Provisions against non performing islamic financing and related assets                  |      | 777,551                           | 859,817                           |
| Provisions for diminution in the value of investments                                   |      | 99,126                            | 59,211                            |
| Provisions against operating fixed assets   |      | 22,022                            | 22,022                            |
| Provisions against other assets   |      | 6,614                             | 28,349                            |
| Minimum tax   |      | 496,202                           | 432,702                           |
| Deferred tax on remeasurement of defined benefit plan                                   |      | 17,521                            | 14,715                            |
| Tax effect of revaluation of investments classified as available-for-sale               |      | 87,011                            | -                                 |
| Unused tax losses   |      | 2,055,194                         | 1,837,553                         |
|   |      | <b>3,561,241</b>                  | <b>3,254,369</b>                  |
| <b>Deferred tax credits arising due to</b>  |      |                                   |                                   |
| Excess of accounting book values over tax written down values of operating fixed assets |      | (142,576)                         | (163,300)                         |
| Tax effect of revaluation of investments classified as available-for-sale               |      | -                                 | (31,761)                          |
| Tax effect of incremental depreciation transferred to retained earnings                 |      | (196)                             | (37)                              |
| Tax effect of revaluation of non-banking assets   |      | (179,484)                         | (186,134)                         |
|   |      | <b>(322,256)</b>                  | <b>(381,232)</b>                  |
|   | 13.1 | <b><u>3,238,985</u></b>           | <b><u>2,873,137</u></b>           |

13.1 The deferred tax asset has been recognized in these financial statements as the management estimates that sufficient taxable profits will be available in future years against which the unused carry forward tax losses and other deductible temporary differences can be utilised. Deferred tax asset on minimum tax has been recognized in these financial statements based on availability of taxable profits to utilize the aforesaid asset. The estimates of future taxable profits are based on financial projections of the Bank for the next five years approved by the Board. The projections involve certain key assumptions underlying the estimation of future taxable profits. Key assumptions include income tax rates, cost to income ratio, deposit composition, Kibor rates, growth of deposits and Islamic financing, investment returns, product mix of Islamic financing and related assets, potential provision against assets and branch expansion plan. Any significant change in the key assumptions may have an effect on the realisability of the deferred tax asset.

| 14. OTHER ASSETS  | Note | 2017<br>----- (Rupees '000) ----- | 2016<br>----- (Rupees '000) ----- |
|---|------|-----------------------------------|-----------------------------------|
| Profit / return accrued in local currency                       |      | 2,061,371                         | 1,618,522                         |
| Profit / return accrued in foreign currency                     |      | 12,399                            | 5,475                             |
| Advances, deposits and prepayments                              | 14.1 | 724,044                           | 741,268                           |
| Advance taxation (payments less provision)                      |      | 351,742                           | 393,946                           |
| Receivable in respect of defined benefit plan                   | 34.3 | 12,579                            | 52,331                            |
| Receivable against sale of shares                               |      | 72,739                            | 244,351                           |
| Unrealised gain on re-measurement of forward exchange contracts |      | 140,174                           | 2,075                             |
| Branch adjustment account                                       |      | 21,919                            | 151,084                           |
| Stamps and stationery   |      | 5,722                             | 6,232                             |
| Non banking assets acquired in satisfaction of claims           | 14.2 | 2,313,006                         | 2,351,512                         |
| Others  |      | 232,370                           | 211,989                           |
|   |      | <b>5,948,065</b>                  | <b>5,778,785</b>                  |
| Less: Provisions held against other assets                      | 14.3 | (148,305)                         | (144,520)                         |
| Other assets (net of provisions)                                |      | <b><u>5,799,760</u></b>           | <b><u>5,634,265</u></b>           |

14.1 This includes prepaid rent and prepaid takaful aggregating to Rs.310.3 (31 December 2016: Rs.266.7) million and Rs.32.073 (31 December 2016: Rs.58.7) million respectively.

| 14.2 Non banking assets acquired in satisfaction of claims            | 2017<br>----- (Rupees '000) ----- | 2016<br>----- (Rupees '000) ----- |
|---|-----------------------------------|-----------------------------------|
| Market value of non-banking assets acquired in satisfaction of claims | 2,361,522                         | 2,374,360                         |
| Less: Accumulated depreciation  | (48,516)                          | (22,848)                          |
|   | <b><u>2,313,006</u></b>           | <b><u>2,351,512</u></b>           |

14.2.1 The cost of the non-banking assets acquired in satisfaction of claims amounts to Rs. 1,848.151 (Dec 2016 : Rs. 1,842.443) million.

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14.2.2 During the year, non performing financing amounting to Rs.251,496 million have settled against settlement of claims. The Bank reversed the provision of Rs.251,496 million recorded in prior years.

|  | Note   | 2017<br>----- (Rupees '000) ----- | 2016               |
|--|--------|-----------------------------------|--------------------|
| <b>14.3 Provisions held against other assets</b>   |        |                                   |                    |
| Opening balance  |        | 144,520                           | 51,207             |
| Charge during the year   |        | 8,381                             | 12,317             |
| Reversal during the year   | 28     | (4,596)                           | -                  |
|  |        | 3,785                             | 12,317             |
| Transfer upon amalgamation   |        | -                                 | 80,996             |
|  |        | <u>148,305</u>                    | <u>144,520</u>     |
| <b>15. BILLS PAYABLE</b>   |        |                                   |                    |
| In Pakistan  |        | 1,691,141                         | 1,386,390          |
| Outside Pakistan   |        | -                                 | -                  |
|  |        | <u>1,691,141</u>                  | <u>1,386,390</u>   |
| <b>16. DUE TO FINANCIAL INSTITUTIONS</b>   |        |                                   |                    |
| In Pakistan  | 16.1   | 3,209,400                         | 3,223,109          |
| Outside Pakistan   |        | -                                 | -                  |
|  |        | <u>3,209,400</u>                  | <u>3,223,109</u>   |
| <b>16.1 Particulars of due to financial institutions with respect to currencies</b>  |        |                                   |                    |
| In local currency  |        | 3,209,400                         | 3,223,109          |
| In foreign currency  |        | -                                 | -                  |
|  |        | <u>3,209,400</u>                  | <u>3,223,109</u>   |
| <b>16.2 Details of due to financial institutions Secured</b>   |        |                                   |                    |
| Borrowings from State Bank of Pakistan   |        |                                   |                    |
| Under Islamic export refinance scheme (IERS)   | 16.2.1 | <u>3,209,400</u>                  | <u>3,223,109</u>   |
| <b>16.2.1</b> The range of profit rates on these borrowings is 1.0% to 2.0% (31 December 2016 : 1.0% to 2.0%) per annum. The maximum limit approved by SBP to the Bank under Islamic Export Refinance Scheme is Rs.4.65 (31 December 2016: Rs.4.65) billion. The above contracts will mature starting from 13 February 2018 to 27 June 2018.   |        |                                   |                    |
| <b>16.3 Particulars of due to financial institutions</b>   |        | 2017                              | 2016               |
| Short-term (for up to one year)  |        | ----- (Rupees '000) -----         | -----              |
| Long term (for over one year)  |        | 3,209,400                         | 3,223,109          |
|  |        | -                                 | -                  |
|  |        | <u>3,209,400</u>                  | <u>3,223,109</u>   |
| <b>17. DEPOSITS AND OTHER ACCOUNTS</b>   |        |                                   |                    |
| <b>Customers</b>   |        |                                   |                    |
| Fixed deposits   |        | 18,530,047                        | 23,855,144         |
| Savings deposits   |        | 49,335,247                        | 45,031,088         |
| Current accounts - non-remunerative  |        | 24,074,933                        | 24,579,138         |
| Margin deposits  |        | 1,359,486                         | 891,821            |
|  |        | 93,299,713                        | 94,357,191         |
| <b>Financial Institutions</b>  |        |                                   |                    |
| Remunerative deposits  |        | 5,201,905                         | 11,263,522         |
| Non-remunerative deposits  |        | 88,286                            | 222,371            |
|  |        | <u>5,290,191</u>                  | <u>11,485,893</u>  |
|  |        | <u>98,589,904</u>                 | <u>105,843,084</u> |
| <b>17.1 Particulars of deposits</b>  |        |                                   |                    |
| In local currency  |        | 91,348,408                        | 100,349,952        |
| In foreign currencies  |        | 7,241,496                         | 5,493,132          |
|  |        | <u>98,589,904</u>                 | <u>105,843,084</u> |
| <b>18. SUB - ORDINATED LOANS</b>   |        |                                   |                    |
| Tier II mudaraba sukuk - first issue   | 18.1   | 1,142,852                         | 1,428,568          |
| Tier II mudaraba sukuk - second issue  | 18.2   | 1,500,000                         | -                  |
|  |        | <u>2,642,852</u>                  | <u>1,428,568</u>   |
| <b>18.1</b> During the year 2014, the Bank has issued unsecured, sub-ordinated and privately placed sukuk amounting to Rs. 2,000 million. The tenor of the sukuk is seven years maturing in 2021. During the quarter and nine months ended 31 March 2017 and 30 September 2017, the Bank has paid the fifth and sixth trench of principal repayment along with the profit to its sukuk holders amounting to Rs. 285.7 million and Rs. 99.5 million respectively. |        |                                   |                    |



- 18.2 During the year, the Bank has issued its second unsecured, sub-ordinated and privately placed sukuk amounting to Rs. 1,500 million. The tenor of the sukuk is seven years with principal repayable in full at the end of the tenor in 2024. Profit is payable on sukuk semi-annually at 6 months KIBOR + 0.75%.

| 19. OTHER LIABILITIES  | Note | 2017<br>----- (Rupees '000) ----- | 2016<br>----- (Rupees '000) ----- |
|--|------|-----------------------------------|-----------------------------------|
| Return on deposits and borrowings:                                 |      |                                   |                                   |
| - payable in local currency  |      | 521,698                           | 456,001                           |
| - payable in foreign currencies                                    |      | 2,643                             | 2,786                             |
| Accrued expenses   |      | 323,905                           | 274,954                           |
| Security deposit against ijarah                                    |      | 1,213,895                         | 1,681,163                         |
| Charity payable  | 19.1 | 76,218                            | 49,928                            |
| Payable against purchase of listed shares                          |      | 182,324                           | 10,749                            |
| Advance payments   |      | 728,936                           | 500,609                           |
| Insurance payable against ijarah and diminishing musharakah assets |      | 213,935                           | 145,892                           |
| Others   |      | 501,529                           | 405,897                           |
|  |      | <u>3,765,083</u>                  | <u>3,527,979</u>                  |

#### 19.1 Movement of charity payable

|  |               |               |
|--|---------------|---------------|
| Opening balance                        | 49,928        | 47,763        |
| Amount transferred during the year     | 58,876        | 15,085        |
| Payments / utilization during the year | (32,586)      | (26,297)      |
| Transfer upon amalgamation             | -             | 13,377        |
| Closing balance                        | <u>76,218</u> | <u>49,928</u> |

- 19.1.1 According to the instructions of the Shariah Advisor, any income earned by the Bank from Shariah non-compliant avenues should be utilized by the Bank for charitable purposes.

- 19.1.2 Detailed information relating to charity paid to organisations / individuals equal to or in excess of Rs.100,000 is given in Annexure II to these financial statements.

## 20. SHARE CAPITAL

### 20.1 Authorized Capital

| 2017<br>Number of shares | 2016<br>Number of shares |                               | 2017<br>----- (Rupees '000) ----- | 2016<br>----- (Rupees '000) ----- |
|--------------------------|--------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| <u>1,800,000,000</u>     | <u>1,800,000,000</u>     | Ordinary shares of Rs.10 each | <u>18,000,000</u>                 | <u>18,000,000</u>                 |

### 20.2 Issued, subscribed and paid up capital

| 2017<br>Number of shares | 2016<br>Number of shares |  | 2017<br>----- (Rupees '000) ----- | 2016<br>----- (Rupees '000) ----- |
|--------------------------|--------------------------|--|-----------------------------------|-----------------------------------|
| 450,000,000              | 450,000,000              | Ordinary shares of Rs.10 each fully paid in cash                       | 4,500,000                         | 4,500,000                         |
| 923,962,760              | 443,520,000              | Issued for consideration other than cash -<br>at beginning of the year | 9,239,628                         | 4,435,200                         |
| -                        | 480,442,760              | Issued during the year for consideration<br>other than cash            | -                                 | 4,804,428                         |
| 923,962,760              | 923,962,760              | Balance as at December 31  | 9,239,628                         | 9,239,628                         |
| <u>1,373,962,760</u>     | <u>1,373,962,760</u>     |  | <u>13,739,628</u>                 | <u>13,739,628</u>                 |

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## 20.3 Shareholders having more than 10% shareholding in 2017 and 2016

| Name of shareholder  | 2017                  |                            | 2016                  |                            |
|--|-----------------------|----------------------------|-----------------------|----------------------------|
|  | Number of shares held | Percentage of shareholding | Number of shares held | Percentage of shareholding |
| AlBaraka Islamic Bank (Bahrain) B.S.C. (c) Islamic Corporation for the Development of the Private Sector | 812,446,582           | 59.13%                     | 788,677,133           | 57.40%                     |
| Mal Al Khaleej Investment L.L.C.   | 162,847,717           | 11.85%                     | 162,847,717           | 11.85%                     |
|  | 158,360,039           | 11.53%                     | 158,360,039           | 11.53%                     |

| 21. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - NET OF TAX  | Note | 2017                      | 2016             |
|--|------|---------------------------|------------------|
|  |      | ----- (Rupees '000) ----- |                  |
| Surplus / (deficit) on revaluation of investments classified as 'available for sale'                                   |      |                           |                  |
| - Sukuk certificates - listed  |      | (21,919)                  | (8,691)          |
| - Government of Pakistan - Ijarah sukuk  |      | 2,400                     | 62,211           |
| - Ordinary shares - listed   |      | (229,405)                 | 36,780           |
| - Units of Open-end mutual funds   |      | 320                       | 446              |
|  |      | <u>(248,604)</u>          | <u>90,746</u>    |
| Surplus on revaluation of non banking assets acquired in satisfaction of claims  | 21.1 | 512,810                   | 531,811          |
| Surplus on revaluation of assets   |      | <u>264,206</u>            | <u>622,557</u>   |
| Related deferred tax liability   |      | <u>(92,472)</u>           | <u>(217,895)</u> |
|  |      | <u>171,734</u>            | <u>404,662</u>   |
| <b>21.1 Surplus on revaluation of non banking assets acquired in satisfaction of claims</b>                            |      |                           |                  |
| Surplus at the beginning of the year   |      | 531,811                   | -                |
| Surplus recognised during the year   |      | 26,362                    | 531,917          |
| Realised on disposal during the year   |      | (44,909)                  | -                |
| Transferred to accumulated losses in respect of incremental depreciation charged during the year - net of deferred tax |      | (295)                     | (69)             |
| Related deferred tax liability on incremental depreciation charged during the year                                     |      | (159)                     | (37)             |
|  |      | <u>512,810</u>            | <u>531,811</u>   |
| <b>22. CONTINGENCIES AND COMMITMENTS</b>   |      |                           |                  |
| <b>22.1 Transaction-related contingent liabilities</b>   |      |                           |                  |
| Includes performance bonds, bid bonds, shipping guarantees favouring:  |      |                           |                  |
| - Government   |      | 5,589,644                 | 5,187,996        |
| - Banking companies and other financial institutions   |      | 25,252                    | 27,983           |
| - Others   |      | 1,500,360                 | 3,089,234        |
|  |      | <u>7,115,256</u>          | <u>8,305,213</u> |
| <b>22.2 Trade-related contingent liabilities</b>   |      |                           |                  |
| Letters of credit  |      | <u>8,082,529</u>          | <u>5,993,210</u> |
| Others - Shipping Guarantees   |      | <u>2,650</u>              | <u>-</u>         |
| Acceptances  |      | <u>1,991,792</u>          | <u>1,913,423</u> |
| <b>22.3 Commitments in respect of forward exchange contracts</b>   |      |                           |                  |
| Purchase   |      | <u>5,582,401</u>          | <u>4,236,420</u> |
| Sale   |      | <u>3,547,869</u>          | <u>2,512,760</u> |
| <b>22.4 Commitments to incur capital expenditure</b>   |      | <u>10,501</u>             | <u>29,826</u>    |

**22.5 Other Contingencies**

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

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

**22.5.2** The Bank has filed appeals before ATIR against the orders in respect of assessment years 2001-2002, 2002-2003 and tax years 2004 to 2011. Moreover, the Income Tax Department has also filed appeals before ATIR against the orders in respect of assessment years 2001-2002, 2002-2003 and tax year 2004 to 2011 issued by CIR Appeals. Appeals filed by the Bank and the Income Tax Department are pending for decision. The management of the Bank is confident that the appeals are likely to be decided in favor of the Bank and, hence no provision has been made in these financial statements for the income tax claims amounting to Rs.116.512 (31 December 2016: Rs.116.512) million.

|   | 2017<br>----- (Rupees '000) ----- | 2016<br>----- |
|---|-----------------------------------|---------------|
| <b>23. PROFIT / RETURN EARNED ON ISLAMIC FINANCING AND RELATED ASSETS, INVESTMENTS AND PLACEMENTS</b> |                                   |               |
| On islamic financing and related assets   | 5,318,191                         | 3,934,153     |
| On investments in   |                                   |               |
| - Available-for-sale securities   | 1,105,136                         | 815,598       |
| - Held to maturity securities   | -                                 | 113,651       |
|   | 1,105,136                         | 929,249       |
| On deposits with banks  | 71,317                            | 146,600       |
| On due from financial institutions  | 222,926                           | 148,071       |
|   | 6,717,570                         | 5,158,073     |
| <b>24. RETURN ON DEPOSITS AND OTHER DUES EXPENSED</b>   |                                   |               |
| Deposits and other accounts   | 2,780,128                         | 2,595,516     |
| Tier II Sukuk Mudaraba  | 131,799                           | 119,337       |
| On export refinance under Islamic scheme  | 56,738                            | 53,579        |
| Other short term borrowings   | 109,056                           | 26,478        |
|   | 3,077,721                         | 2,794,910     |
| <b>25. (LOSS) / GAIN ON SALE OF SECURITIES</b>  |                                   |               |
| (Loss) / gain on sale of sukuk certificates   |                                   |               |
| - Federal government sukuk certificates   | (1,234)                           | 10,358        |
| - Other sukuk certificates  | -                                 | 5,567         |
|   | (1,234)                           | 15,925        |
| (Loss) / Gain on sale of listed shares  | (3,425)                           | 178,421       |
|   | (4,659)                           | 194,346       |

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|  | Note      | 2017<br>----- (Rupees '000) ----- | 2016<br>-----    |
|--|-----------|-----------------------------------|------------------|
| <b>26. OTHER INCOME</b>                                      |           |                                   |                  |
| Gain on sale of assets                                       |           | 59,170                            | 4,704            |
| Gain on sale of non banking assets                           |           | 32,709                            | -                |
| Rental Income from non-banking assets                        |           | 1,147                             | -                |
| Others   |           | -                                 | 26               |
|  |           | <u>93,026</u>                     | <u>4,730</u>     |
| <b>27. ADMINISTRATIVE EXPENSES</b>                           |           |                                   |                  |
| Salaries, allowances and other staff benefits                | 27.1      | 1,967,697                         | 1,447,335        |
| Contribution to defined benefit and contribution plan        | 34.7 & 35 | 111,939                           | 29,063           |
| Non-executive directors' fees, allowances and other expenses | 36        | 44,692                            | 40,355           |
| Rent, taxes, insurance, electricity, etc.                    |           | 1,010,650                         | 675,110          |
| Takaful and registration of Ijarah                           |           | 134,399                           | 158,833          |
| Legal and professional charges                               |           | 64,504                            | 89,452           |
| Software maintenance and license fee                         |           | 224,048                           | 122,699          |
| Communication  |           | 154,499                           | 113,359          |
| Brokerage, commission and bank charges                       |           | 87,494                            | 30,592           |
| Traveling and conveyance                                     |           | 31,877                            | 21,786           |
| Repairs and maintenance                                      |           | 139,592                           | 98,046           |
| Training and development                                     |           | 5,583                             | 4,143            |
| Stationery and printing                                      |           | 60,046                            | 51,580           |
| Advertisement and publicity                                  |           | 76,964                            | 33,798           |
| Auditors' remuneration                                       | 27.2      | 11,804                            | 14,720           |
| Depreciation   | 12.1      | 227,591                           | 157,811          |
| Amortization   | 12.2.1    | 200,363                           | 88,374           |
| Depreciation - Non banking assets                            |           | 25,668                            | 22,848           |
| Security charges   |           | 209,858                           | 149,685          |
| Newspaper and periodicals                                    |           | 2,454                             | 4,308            |
| Entertainment  |           | 40,728                            | 33,451           |
| Other expenses   |           | 96,597                            | 27,033           |
|  |           | <u>4,929,047</u>                  | <u>3,414,381</u> |

27.1 This includes remuneration paid during the year to Shariah Board including Resident Shariah Board Member amounting to Rs.9,138 (31 December 2016: Rs.6,106) million.

|   | 2017<br>----- (Rupees '000) ----- | 2016<br>----- |
|---|-----------------------------------|---------------|
| <b>27.2 Auditors' remuneration</b>              |                                   |               |
| Fee for statutory audit - annual                | 2,392                             | 2,225         |
| Fee for special audit due to amalgamation       | -                                 | 3,750         |
| Fee for limited scope review - half yearly      | 720                               | 670           |
| Fee for other audit, reviews and certifications | 6,995                             | 5,818         |
| Sindh Sales Tax                                 | 809                               | 940           |
| Out of Pocket expenses                          | 888                               | 1,317         |
|   | <u>11,804</u>                     | <u>14,720</u> |

|   | Note   | 2017<br>----- (Rupees '000) ----- | 2016<br>-----      |
|---|--|-----------------------------------|--------------------|
| <b>28. Other provisions / write offs</b>                |  |                                   |                    |
| Provision against other assets                          | 14.3   | 3,785                             | 12,317             |
| Fixed assets written off                                |  | 83,236                            | 75,159             |
|   |  | <u>87,021</u>                     | <u>87,476</u>      |
| <b>29. OTHER CHARGES</b>                                |  |                                   |                    |
| Penalties imposed by the State Bank of Pakistan         |  | <u>24,317</u>                     | <u>504</u>         |
| <b>30. TAXATION</b>                                     |  |                                   |                    |
| Current taxation  | 30.1   | (96,143)                          | (60,323)           |
| Deferred taxation                                       |  | 237,778                           | 5,544              |
|   |  | <u>141,635</u>                    | <u>(54,779)</u>    |
| <b>30.1</b>   | The charge for current tax represents minimum tax in accordance with section 113 of the Income Tax Ordinance, 2001.  |                                   |                    |
| <b>31. BASIC AND DILUTED (LOSS) / EARNING PER SHARE</b> |  |                                   |                    |
| Loss after taxation for the year                        |  | <u>(389,438)</u>                  | <u>(155,527)</u>   |
|   |  | 2017                              | 2016               |
|   |  | ----- Number of shares -----      |                    |
| Weighted average number of ordinary shares              |  | <u>1,373,962,760</u>              | <u>897,458,055</u> |
|   |  | Rupee                             |                    |
| Basic / diluted loss per share                          | 31.1   | <u>(0.28)</u>                     | <u>(0.17)</u>      |
| <b>31.1</b>   | There were no convertible / dilutive potential ordinary shares outstanding as at 31 December 2017 and 31 December 2016.  |                                   |                    |
|   |  | 2017                              | 2016               |
|   |  | ----- (Rupees '000) -----         |                    |
| <b>32. CASH AND CASH EQUIVALENTS</b>                    |  |                                   |                    |
| Cash and balances with treasury banks                   | 7  | 8,915,585                         | 18,725,350         |
| Balances with other banks                               | 8  | 2,932,165                         | 984,125            |
|   |  | <u>11,847,750</u>                 | <u>19,709,475</u>  |
| <b>33. STAFF STRENGTH</b>                               |  |                                   |                    |
|   |  | ----- Number -----                |                    |
| Permanent   |  | 1,591                             | 1,648              |
| Temporary / on contractual basis                        |  | 337                               | 394                |
| Consultants   |  | 1                                 | 1                  |
| <b>Bank's own staff strength at the end of the year</b> |  | <u>1,929</u>                      | <u>2,043</u>       |
| Outsourced  |  | 626                               | 702                |
| <b>Total Staff Strength</b>                             |  | <u>2,555</u>                      | <u>2,745</u>       |
| <b>34. DEFINED BENEFIT PLAN</b>                         |  |                                   |                    |
| <b>34.1</b>   | The Bank operates funded gratuity scheme for all its permanent employees except employees transferred to the Bank from Ex-Burj Bank Limited. The benefits under the gratuity scheme are payable on retirement at the age of 60 or earlier cessation of service, in lump sum. The benefit is equal to one month's last drawn basic salary for each completed year of service, subject to a minimum of three years of service. |                                   |                    |

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## 34.2 Significant Actuarial Assumptions

|  | Note | 2017<br>Per annum               | 2016<br>Per annum               |
|--|------|---------------------------------|---------------------------------|
| <b>Financial assumptions</b>             |      |                                 |                                 |
| - Valuation discount rate                |      | 9.25%                           | 9.00%                           |
| - Salary increase rate                   |      | 7.75%                           | 7.50%                           |
| <b>Demographic assumptions</b>           |      |                                 |                                 |
| - Mortality rates (for death in service) |      | Adjusted<br>SLIC 2001-05<br>Low | Adjusted<br>SLIC 2001-05<br>Low |
| - Rates of employee turnover             |      |                                 |                                 |

## 34.3 Fair value of plan assets and present value of obligation

|   |              | 2017<br>----- (Rupees '000) ----- | 2016            |
|---|--------------|-----------------------------------|-----------------|
| Present value of defined benefit obligation | 34.4 & 34.10 | 260,828                           | 219,727         |
| Fair value of plan assets                   | 34.5 & 34.12 | (273,407)                         | (272,058)       |
|   | 34.6         | <u>(12,579)</u>                   | <u>(52,331)</u> |

## 34.4 Movement in the present value of defined benefit obligation

|   |  |                |                |
|---|--|----------------|----------------|
| Obligation at the beginning of the year |  | 219,727        | 279,796        |
| Current service cost                    |  | 44,145         | 43,320         |
| Interest cost                           |  | 18,906         | 22,850         |
| Past service cost / other adjustment    |  | -              | (68,487)       |
| Benefits paid                           |  | (19,321)       | (51,825)       |
| Actuarial gain on obligations           |  | (2,629)        | (5,927)        |
| Obligation at the end of the year       |  | <u>260,828</u> | <u>219,727</u> |

## 34.5 Movement in the fair value of plan assets

|   |  |                |                |
|---|--|----------------|----------------|
| Fair value at the beginning of the year |  | 272,058        | 253,302        |
| Expected return on plan assets          |  | 23,947         | 22,256         |
| Contributions                           |  | 7,369          | 39,792         |
| Benefits paid                           |  | (19,321)       | (51,825)       |
| Actuarial (loss) / gain on plan assets  |  | (10,646)       | 8,533          |
| Fair value at the end of the year       |  | <u>273,407</u> | <u>272,058</u> |

## 34.6 Movement in (receivable) / payable to defined benefit plan

|  |              |                 |                 |
|--|--------------|-----------------|-----------------|
| Opening balance  |              | (52,331)        | 26,494          |
| Charge / (Income) for the year                                 | 34.7         | 39,104          | (24,573)        |
| Bank's contribution to the fund made during the year           |              | (7,369)         | (39,792)        |
| Re-measurements recognized in Other Comprehensive Income (OCI) | 34.7 & 34.11 | 8,017           | (14,460)        |
| Closing balance  |              | <u>(12,579)</u> | <u>(52,331)</u> |

## 34.7 Defined benefit cost / (income) for the year

## Service cost

|                                       |  |        |          |
|---------------------------------------|--|--------|----------|
| Current service cost                  |  | 44,145 | 43,320   |
| Past service cost / other adjustments |  | -      | (68,487) |
|                                       |  | 44,145 | (25,167) |

## Net Interest Cost

|   |  |          |          |
|---|--|----------|----------|
| Interest cost on defined benefit obligation |  | 18,906   | 22,850   |
| Expected return on plan assets              |  | (23,947) | (22,256) |
| Net interest cost                           |  | (5,041)  | 594      |
|   |  | 39,104   | (24,573) |

## Re-measurements recognized in other comprehensive income during the year

|  |       |         |          |
|--|-------|---------|----------|
| Actuarial gain on obligations          |       | (2,629) | (5,927)  |
| Actuarial loss / (gain) on plan assets |       | 10,646  | (8,533)  |
|  | 34.11 | 8,017   | (14,460) |

## Total defined benefit cost / (income) recognized in profit and loss and other comprehensive income

|  |  |               |                 |
|--|--|---------------|-----------------|
|  |  | <u>47,121</u> | <u>(39,033)</u> |
|--|--|---------------|-----------------|

## 34.8 Actual return on plan assets

|  |  |               |               |
|--|--|---------------|---------------|
|  |  | <u>13,301</u> | <u>30,789</u> |
|--|--|---------------|---------------|

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|   | 2017                      | 2016            |
|---|---------------------------|-----------------|
|   | ----- (Rupees '000) ----- |                 |
| <b>34.9 Expected contributions to be paid to the fund in the next financial year</b>        |                           |                 |
| <b>Service cost</b>   |                           |                 |
| Current service cost  | 41,813                    | 36,968          |
| <b>Net Interest cost</b>  |                           |                 |
| Interest cost on defined benefit obligation   | 22,530                    | 19,775          |
| Return on plan assets   | (26,583)                  | (24,485)        |
|   | (4,053)                   | (4,710)         |
|   | <u>37,760</u>             | <u>32,258</u>   |
| <b>34.10 Analysis of present value of defined benefit obligations</b>                       |                           |                 |
| <b>Vested / Non-Vested</b>  |                           |                 |
| Vested benefits   | 239,810                   | 198,926         |
| Non-vested benefits   | 21,018                    | 20,801          |
|   | <u>260,828</u>            | <u>219,727</u>  |
| <b>Type of Benefits</b>   |                           |                 |
| Accumulated benefit obligation  | 117,210                   | 103,939         |
| Amounts attributed to future salary increases   | 143,618                   | 115,788         |
|   | <u>260,828</u>            | <u>219,727</u>  |
| <b>34.11 Re-measurements recognized in Other Comprehensive Income during the year</b>       |                           |                 |
| <b>Re-measurements: (Gain) / loss on obligation</b>   |                           |                 |
| Due to change in experience adjustments   | (2,629)                   | (5,927)         |
| <b>Re-measurements: (Gain) / loss on plan assets</b>  |                           |                 |
| Actual return on plan assets  | (13,301)                  | (30,789)        |
| Return on plan assets   | 23,947                    | 22,256          |
|   | 10,646                    | (8,533)         |
|   | <u>8,017</u>              | <u>(14,460)</u> |
| <b>34.12 Components of plan assets</b>  |                           |                 |
| Cash and cash equivalents   | 230,518                   | 218,470         |
| Investments   | 42,888                    | 53,588          |
|   | <u>273,406</u>            | <u>272,058</u>  |
| <b>34.13 Maturity profile of the defined benefit obligation</b>                             |                           |                 |
| Weighted average duration of the defined benefit obligation                                 |                           |                 |
| Distribution of timing of benefit payments  | 11.05 years               | 11.25 years     |
| Less than 12 months   | 25,726                    | 24,525          |
| Between 1 year and 5 years  | 33,329                    | 50,168          |
| Between 6 and 10 years  | 102,932                   | 86,558          |
| Above 10 years  | 828,228                   | 674,628         |
| <b>34.14 Sensitivity Analysis on significant actuarial assumptions: Actuarial Liability</b> |                           |                 |
| Discount Rate +1%   | 234,230                   | 197,119         |
| Discount Rate -1%   | 292,366                   | 246,562         |
| Salary Increases +1%  | 293,774                   | 247,749         |
| Salary Increases -1%  | 232,677                   | 195,809         |
| Withdrawal Rates +10%   | 261,501                   | 220,103         |
| Withdrawal Rates -10%   | 260,272                   | 219,345         |
| 1 Year Mortality age set back   | 260,643                   | 219,554         |
| 1 Year Mortality age set forward  | 261,011                   | 219,900         |

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## 34.15 Historical information

|   | 2017            | 2016            | 2015           | 2014            | 2013            |
|---|-----------------|-----------------|----------------|-----------------|-----------------|
|   | (Rupees '000)   |                 |                |                 |                 |
| Defined benefit obligation                      | 260,828         | 219,727         | 279,796        | 263,682         | 203,381         |
| Fair value of plan assets                       | (273,407)       | (272,058)       | (253,302)      | (245,401)       | (210,331)       |
| <b>Net defined benefit (assets) / liability</b> | <b>(12,579)</b> | <b>(52,331)</b> | <b>26,494</b>  | <b>18,281</b>   | <b>(6,950)</b>  |
| Remeasurement gain/(loss) on obligation         | 2,629           | 5,927           | 4,094          | (28,547)        | (15,742)        |
| Remeasurement gain/(loss) on plan asset         | (10,646)        | 8,533           | (9,761)        | (4,526)         | 1,812           |
| <b>Other comprehensive income</b>               | <b>(8,017)</b>  | <b>14,460</b>   | <b>(5,667)</b> | <b>(33,073)</b> | <b>(13,930)</b> |

## 34.16 Risks associated with defined benefit plan

- **Investment risks:**

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

- **Longevity risks:**

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

- **Salary increase risk:**

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

- **Withdrawal risk:**

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

## 35. DEFINED CONTRIBUTION PLAN

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

|                                 | 2017           | 2016           |
|---------------------------------|----------------|----------------|
|                                 | (Rupees '000)  |                |
| Contribution from the Bank      | 72,835         | 53,636         |
| Contribution from the employees | 72,835         | 53,636         |
|                                 | <b>145,670</b> | <b>107,272</b> |

## 36. COMPENSATION OF DIRECTORS AND EXECUTIVES

|   | President / Chief Executive Officer |               | Directors     |               | Executives *   |                |
|---|-------------------------------------|---------------|---------------|---------------|----------------|----------------|
|   | 2017                                | 2016          | 2017          | 2016          | 2017           | 2016           |
|   | Rupees in '000                      |               |               |               |                |                |
| Managerial remuneration                   | 29,921                              | 28,909        | -             | -             | 453,099        | 303,668        |
| Charge for defined benefit plan           | 401                                 | 2,207         | -             | -             | 3,863          | 18,861         |
| Contribution to defined contribution plan | 2,992                               | 2,891         | -             | -             | 40,340         | 26,780         |
| Rent and house maintenance                | 5,069                               | 5,069         | -             | -             | 148,916        | 94,088         |
| Utilities allowance                       | 1,690                               | 1,690         | -             | -             | 43,069         | 30,183         |
| Medical allowance                         | 1,690                               | 1,690         | -             | -             | 44,609         | 30,183         |
| Bonus                                     | 1,807                               | 8,566         | -             | -             | 31,082         | 23,807         |
| Conveyance                                | 696                                 | 1,236         | 10,032        | 12,472        | -              | -              |
| Fee                                       | -                                   | -             | 34,660        | 27,883        | -              | -              |
| Others                                    | 3,641                               | 3,600         | -             | -             | 203,016        | 107,493        |
|   | <b>47,907</b>                       | <b>55,858</b> | <b>44,692</b> | <b>40,355</b> | <b>967,994</b> | <b>635,063</b> |
| Number of persons                         | <b>1</b>                            | <b>1</b>      | <b>9</b>      | <b>9</b>      | <b>481</b>     | <b>399</b>     |

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

36.1 The Bank also provides Bank maintained car to certain executives for their own use and business use.

## 37. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of traded investments is based on quoted market prices, except for tradable securities classified by the Bank as 'held to maturity'. These securities are carried at amortized cost in order to comply with the requirements of BSD Circular No. 14 dated 24 September 2004. As of 31 December 2017, the Bank does not have any investment as 'held to maturity'.

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

Fair value of Islamic financing and related assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of Islamic financing has been calculated in accordance with the Bank's accounting policy.



The repricing profile and maturity are stated in note 41.3.4 and 41.4.1 to these financial statements.

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

### 37.2 Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1:** Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2:** Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3:** Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Financial assets which are tradeable in an open market are revalued at the market prices prevailing on the statement of financial position date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book value.

The following table provides the fair value measurement hierarchy of the Bank's assets:

|   |             | 2017                      |                   |                  |                   |
|---|-------------|---------------------------|-------------------|------------------|-------------------|
|   |             | Level 1                   | Level 2           | Level 3          | Total             |
|   |             | ----- (Rupees '000) ----- |                   |                  |                   |
| <b>On - balance sheet financial instruments</b>                       | <b>Note</b> |                           |                   |                  |                   |
| <b>Financial assets classified as 'held-for-trading'</b>              |             |                           |                   |                  |                   |
| <b>Ordinary shares</b>  |             |                           |                   |                  |                   |
| Listed shares   |             | 27,037                    | -                 | -                | 27,037            |
| <b>Financial assets classified as 'available-for-sale securities'</b> |             |                           |                   |                  |                   |
| <b>Ordinary shares</b>  |             |                           |                   |                  |                   |
| Listed shares   |             | 901,135                   | -                 | -                | 901,135           |
| <b>Government Securities</b>  |             |                           |                   |                  |                   |
| Government of Pakistan - Ijarah sukuk                                 |             | -                         | 10,301,502        | -                | 10,301,502        |
| <b>Sukuks</b>   |             |                           |                   |                  |                   |
| Sukuk certificates - listed   |             | 1,863,876                 | -                 | -                | 1,863,876         |
| <b>Mutual Funds</b>   |             |                           |                   |                  |                   |
| Units of open end fund  |             | -                         | 69,727            | -                | 69,727            |
| <b>Non - financial assets</b>   |             |                           |                   |                  |                   |
| Non banking assets acquired in satisfaction of claims - Gross         |             | -                         | -                 | 2,361,522        | 2,361,522         |
|   |             | <b>2,792,048</b>          | <b>10,371,229</b> | <b>2,361,522</b> | <b>15,524,799</b> |
| <b>Off - balance sheet financial instruments</b>                      |             |                           |                   |                  |                   |
| <b>Forward exchange contracts</b>                                     |             |                           |                   |                  |                   |
| Purchase  | 37.2.1      | -                         | 5,582,401         | -                | 5,582,401         |
| Sale  | 37.2.1      | -                         | 3,547,869         | -                | 3,547,869         |
|   |             | 2016                      |                   |                  |                   |
|   |             | Level 1                   | Level 2           | Level 3          | Total             |
|   |             | ----- (Rupees '000) ----- |                   |                  |                   |
| <b>On - balance sheet financial instruments</b>                       |             |                           |                   |                  |                   |
| <b>Financial assets classified as 'available-for-sale securities'</b> |             |                           |                   |                  |                   |
| <b>Ordinary shares</b>  |             |                           |                   |                  |                   |
| Listed shares   |             | 834,978                   | -                 | -                | 834,978           |
| <b>Government Securities</b>  |             |                           |                   |                  |                   |
| Government of Pakistan - Ijarah sukuk                                 |             | -                         | 16,672,262        | -                | 16,672,262        |
| <b>Sukuks</b>   |             |                           |                   |                  |                   |
| Sukuk certificates - listed   |             | 1,048,425                 | -                 | -                | 1,048,425         |
| <b>Mutual Funds</b>   |             |                           |                   |                  |                   |
| Units of open end fund  |             | -                         | 69,854            | -                | 69,854            |
| <b>Non - financial assets</b>   |             |                           |                   |                  |                   |
| Non banking assets acquired in satisfaction of claims - Gross         |             | -                         | -                 | 2,374,360        | 2,374,360         |
|   |             | <b>1,883,403</b>          | <b>16,742,116</b> | <b>2,374,360</b> | <b>20,999,879</b> |

|  |        | 2016                      |           |         |           |
|--|--------|---------------------------|-----------|---------|-----------|
|  |        | Level 1                   | Level 2   | Level 3 | Total     |
|  |        | ----- (Rupees '000) ----- |           |         |           |
| <b>Off - balance sheet financial instruments</b> |        |                           |           |         |           |
| <b>Forward exchange contracts</b>                |        |                           |           |         |           |
| Purchase   | 37.2.1 | -                         | 4,236,420 | -       | 4,236,420 |
| Sale   | 37.2.1 | -                         | 2,512,760 | -       | 2,512,760 |

|   |  | 2017                      | 2016      |
|---|--|---------------------------|-----------|
|   |  | ----- (Rupees '000) ----- |           |
| <b>37.2.1 Book value of off - balance sheet financial instruments</b> |  |                           |           |
| Forward purchase of foreign exchange                                  |  | 5,335,027                 | 4,238,066 |
| Forward sale of foreign exchange                                      |  | 3,440,667                 | 2,516,480 |

### 37.3 Valuation techniques used in determination of fair values within level 2 and level 3

| Particulars   | Valuation approach and input used  |
|---|--|
| Government of Pakistan - Ijarah sukuk                         | The fair value of GOP Ijarah Sukuks are derived using PKISRV rates. The PKISRV rates are announced by Financial Market Association (FMA) through Reuters. The rates announced are simple average of quotes received from approved dealers / brokers. |
| Forward foreign exchange contracts                            | The valuation has been determined by interpolating the mid rates announced by State Bank of Pakistan.  |
| Non banking assets acquired in satisfaction of claims - Gross | Non banking assets acquired in satisfaction of claims are revalued on a periodic basis using professional valuers. The valuation is based on their assessment of the market value of the assets.   |
| Units of open end fund  | These are valued using NAV as declared by the respective fund managers.  |

### 38. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

|   | 2017           |                    |                 |             |             |
|---|----------------|--------------------|-----------------|-------------|-------------|
|   | Retail Banking | Commercial Banking | Trading & Sales | Others      | Total       |
| -----Rupees in '000-----                |                |                    |                 |             |             |
| Total income                            | 1,564,124      | 4,813,121          | 1,176,501       | 131,620     | 7,685,366   |
| Total expenses                          | 996,015        | 4,675,581          | 1,131,536       | 1,271,672   | 8,074,804   |
| Net income / (loss)                     | 568,109        | 137,540            | 44,965          | (1,140,052) | (389,438)   |
| Segment return on assets (ROA) (%)      | 11.44%         | 7.63%              | 4.25%           | 1.61%       | 7.27%       |
| Segment cost of funds (%)               | 3.05%          | 3.05%              | 3.05%           | 3.05%       | 3.05%       |
| Segment assets (gross of provisions)    | 24,067,393     | 70,579,215         | 22,119,270      | 8,183,936   | 124,949,814 |
| Segment non performing financing (NPFs) | 398,592        | 7,252,740          | -               | -           | 7,651,332   |
| Segment provision required against NPFs | 285,640        | 4,003,573          | -               | -           | 4,289,213   |
| Segment liabilities                     | 90,827,651     | 11,002,116         | 3,770,376       | 4,298,237   | 109,898,380 |

|  | 2016           |                    |                 |             |             |
|--|----------------|--------------------|-----------------|-------------|-------------|
|  | Retail Banking | Commercial Banking | Trading & Sales | Others      | Total       |
| -----Rupees in '000-----                 |                |                    |                 |             |             |
| Total income                             | 599,728        | 4,096,896          | 1,158,954       | 176,695     | 6,032,273   |
| Total expenses                           | 486,179        | 3,588,588          | 821,192         | 1,291,841   | 6,187,800   |
| Net income / (loss)                      | 113,549        | 508,308            | 337,762         | (1,115,146) | (155,527)   |
| Segment return on assets (ROA) (%)       | 11.28%         | 6.85%              | 4.62%           | 1.01%       | 6.83%       |
| Segment cost of funds (%)                | 3.48%          | 3.48%              | 3.48%           | 3.48%       | 3.48%       |
| Segment assets (gross of provisions)     | 32,314,904     | 59,605,721         | 21,602,939      | 17,579,991  | 131,103,555 |
| Segment non performing financings (NPFs) | 310,110        | 6,835,917          | -               | -           | 7,146,027   |
| Segment provision required against NPFs  | 237,884        | 4,067,038          | -               | -           | 4,304,922   |
| Segment liabilities                      | 108,703,114    | 3,338,655          | -               | 3,367,361   | 115,409,130 |

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## 39. RELATED PARTY TRANSACTIONS

39.1 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 and operational decisions and include Key management personnel, Parent Bank, shareholders of the Bank, staff retirement benefit plan and Directors of the Bank. Banking transactions with related parties are entered into the normal course of business. Details of transactions with the related parties, other than those which have been disclosed elsewhere in these financial statements, are as follows:

|   | Note      | 2017<br>----- (Rupees '000) ----- | 2016       |
|---|-----------|-----------------------------------|------------|
| <b><u>Key management personnel</u></b>                                      |           |                                   |            |
| <b>Islamic financing and related assets</b>                                 |           |                                   |            |
| At beginning of the year  |           | 233,323                           | 151,457    |
| Disbursements / additions during the year                                   |           | 71,175                            | 109,578    |
| Repayments / deletions during the year                                      |           | (65,604)                          | (60,633)   |
| Transfer upon amalgamation  |           | -                                 | 32,921     |
| At end of the year  |           | 238,894                           | 233,323    |
| <b>Deposits</b>   |           |                                   |            |
| At beginning of the year  |           | 172,200                           | 95,028     |
| Deposits / additions during the year  |           | 577,096                           | 584,252    |
| Withdrawals / deletions during the year                                     |           | (551,830)                         | (508,260)  |
| Transfer upon amalgamation  |           | -                                 | 1,180      |
| At end of the year  |           | 197,466                           | 172,200    |
| <b>Other Balances</b>   |           |                                   |            |
| Profit receivable on Islamic financing and related assets                   |           | 199                               | 254        |
| Return payable on deposit   |           | 1,137                             | 1,031      |
| Other receivables   |           | -                                 | 708        |
| <b>Transactions, income and expenses</b>                                    |           |                                   |            |
| Profit earned on Islamic financing and related assets                       |           | 8,522                             | 6,494      |
| Return on deposits expenses   |           | 7,480                             | 5,642      |
| Salaries, allowances and benefits   |           | 210,063                           | 186,808    |
| <b><u>Shareholders, directors and other related parties of the Bank</u></b> |           |                                   |            |
| <b>Islamic financing and related assets</b>                                 |           |                                   |            |
| At beginning of the year  |           | 153,345                           | -          |
| Disbursements / additions during the year                                   |           | -                                 | -          |
| Repayments / deletions during the year                                      |           | (62,979)                          | -          |
| Transfer upon amalgamation  |           | -                                 | 153,345    |
| At end of the year  |           | 90,366                            | 153,345    |
| <b>Deposits</b>   |           |                                   |            |
| At beginning of the year  |           | 745,954                           | 687,191    |
| Deposits / additions during the year  |           | 413,432                           | 592,561    |
| Withdrawals / deletions during the year                                     |           | (340,184)                         | (582,078)  |
| Transfer upon amalgamation  |           | -                                 | 48,280     |
| At end of the year  |           | 819,202                           | 745,954    |
| <b>Other balances</b>   |           |                                   |            |
| Profit receivable on Islamic financing and related assets                   |           | 142                               | 235        |
| Return payable on deposits  |           | 3,156                             | 3,054      |
| Investments   |           | 52,200                            | 52,200     |
| Provision for diminution in the value of investments                        |           | 19,637                            | 22,044     |
| Sub-ordinated loan  |           | 5,714                             | 7,143      |
| Return payable on Sub-ordinated loan  |           | 113                               | 139        |
| Non funded exposures  |           | -                                 | 2,772      |
| <b>Payable to shareholders</b>  |           | <b>657</b>                        | <b>657</b> |
| <b>Transactions, income and expenses</b>                                    |           |                                   |            |
| Profit earned on Islamic financing and related assets                       |           | 9,556                             | 2,067      |
| Revenue earned from non funded exposure                                     |           | -                                 | 13         |
| Return on deposits expenses   |           | 34,413                            | 37,362     |
| Director fee and other allowances   |           | 44,692                            | 40,355     |
| Shariah Board fee   |           | 4,105                             | 2,054      |
| Return on Sub-ordinated loan  |           | 498                               | -          |
| Others  |           | 65,348                            | 3,891      |
| <b><u>Staff Retirement benefit plan of the Bank</u></b>                     |           |                                   |            |
| <b>Balance</b>  |           |                                   |            |
| Receivable in respect of defined benefit plan                               | 34.3      | 12,579                            | 52,331     |
| <b>Transactions, income and expenses</b>                                    |           |                                   |            |
| Contribution to defined contribution and benefit plan                       | 34.7 & 35 | 111,939                           | 29,063     |

## 40. CAPITAL - ASSESSMENT AND ADEQUACY - BASEL III SPECIFIC

### 40.1 Capital Adequacy Framework

As per requirements of SBP, the Bank is required to comply with the capital adequacy framework which comprises of the following capital standards:

#### i) Minimum Capital Requirement (MCR):

MCR defines the minimum paid-up capital that the Bank is required to hold at all times. As of statement of financial position date, the Bank's paid up capital stands at Rs. 10.431 billion as against the required MCR of Rs. 10 billion.

#### ii) Capital Adequacy Ratio (CAR):

The Capital Adequacy Ratio (CAR) assesses the capital requirement based on the risks faced by the banks. The Banks are required to comply with the CAR as specified by SBP on standalone as well as consolidated basis.

SBP issued the instructions on the computation of CAR based on Basel III capital reform as published by Basel Committee on Banking Supervision. These instructions are effective from 31 December 2013 with full implementation intended by 31 December 2019. These instructions also specify the transitional arrangements from 2013 to 2019.

Accordingly, the Bank has assessed and reported its Capital Adequacy Ratio in these financial statements on the basis of BASEL III requirements as prescribed by SBP. As of 31 Dec 2017, CAR of the Bank stands at 10.17% ( Dec 2016: 10.26%)

### 40.2 Scope of Applications

The Basel-III framework is applicable to the Bank on a standalone basis as the Bank does not have a subsidiary. Standardized Approach has been used for calculating the Capital Adequacy for Credit and Market risk, whereas, Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purposes.

### 40.3 Capital Structure

Bank's regulatory capital has been analyzed in two tiers;

- Common equity Tier 1 capital (CET 1), which includes fully paid up capital, discount on issuance of shares, statutory reserves, accumulated losses and regulatory adjustments applicable on CET 1.
- Tier 2 capital, which includes subordinated debt/instrument, general provisions for loan losses (upto a maximum of 1.25% of credit risk weighted assets) and reserves on revaluation of investments.

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|  | 2017                     | 2016              |
|--|--------------------------|-------------------|
| Note   | -----Rupees in '000----- |                   |
| <b>Common Equity Tier 1 capital (CET1): Instruments and reserves</b>   |                          |                   |
| Share Capital including advance against issuance of shares   | 13,739,628               | 13,739,628        |
| Balance in share premium account   | -                        | -                 |
| Reserve for issue of bonus shares  | -                        | -                 |
| Discount on Issuance of shares - net   | (632,766)                | (632,766)         |
| Statutory reserves   | 159,348                  | 159,348           |
| Gain/(Losses) on derivatives held as Cash Flow Hedge   | -                        | -                 |
| Accumulated loss   | (2,675,723)              | (2,281,369)       |
| Mirority Interests arising from CET1 capital instruments issued to third parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group) | -                        | -                 |
| <b>CET 1 before Regulatory Adjustments</b>   | <b>10,590,487</b>        | <b>10,984,841</b> |
| <b>Total regulatory adjustments applied to CET1</b>  | <b>4,189,323</b>         | <b>3,527,604</b>  |
| <b>Common Equity Tier 1</b>  | <b>6,401,164</b>         | <b>7,457,237</b>  |
| <b>Additional Tier 1 (AT 1) Capital</b>  |                          |                   |
| Qualifying Additional Tier-1 capital instruments plus any related share premium  | -                        | -                 |
| of which: Classified as equity   | -                        | -                 |
| of which: Classified as liabilities  | -                        | -                 |
| Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)  | -                        | -                 |
| of which: instrument issued by subsidiaries subject to phase out   | -                        | -                 |
| <b>AT1 before regulatory adjustments</b>   | <b>-</b>                 | <b>-</b>          |
| Total regulatory adjustment applied to AT1 capital   | -                        | -                 |
| Additional Tier 1 Capital after regulatory adjustments   | -                        | -                 |
| <b>Additional Tier 1 capital recognized for capital adequacy</b>   | <b>-</b>                 | <b>-</b>          |
| <b>Tier 1 Capital (CET1 + admissible AT1)</b>  | <b>6,401,164</b>         | <b>7,457,237</b>  |
| <b>Tier 2 Capital</b>  |                          |                   |
| Qualifying Tier 2 capital instruments under Basel III  | 1,842,857                | 1,142,854         |
| Tier 2 capital instruments subject to phase-out arrangement issued under pre-Basel 3 rules   | -                        | -                 |
| Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group tier 2)   | -                        | -                 |
| of which: instruments issued by subsidiaries subject to phase out  | -                        | -                 |
| General provisions for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets   | 87,086                   | 86,969            |
| Revaluation Reserves (net of taxes)  | -                        | -                 |
| of which: Revaluation reserves on fixed assets   | -                        | -                 |
| of which: Unrealized gains on AFS  | -                        | 58,985            |
| Foreign Exchange Translation Reserves  | -                        | -                 |
| Undisclosed/Other Reserves   | -                        | -                 |
| <b>T2 before regulatory adjustments</b>  | <b>1,929,943</b>         | <b>1,288,808</b>  |
| Total regulatory adjustment applied to T2 capital  | -                        | -                 |
| <b>Tier 2 capital (T2) after regulatory adjustments</b>  | <b>1,929,943</b>         | <b>1,288,808</b>  |
| Tier 2 capital recognized for capital adequacy   | 1,929,943                | 1,288,808         |
| Portion of Additional Tier 1 capital recognized in Tier 2 capital  | -                        | -                 |
| <b>Total Tier 2 capital admissible for capital adequacy</b>  | <b>1,929,943</b>         | <b>1,288,808</b>  |
| <b>TOTAL CAPITAL (T1 + admissible T2)</b>  | <b>8,331,107</b>         | <b>8,746,045</b>  |
| <b>Total Risk Weighted Assets (RWA)</b>  | <b>81,883,065</b>        | <b>85,247,279</b> |
| <b>Capital Ratios and buffers (in percentage of risk weighted assets)</b>  |                          |                   |
| CET1 to total RWA  | 7.82%                    | 8.75%             |
| Tier-1 capital to total RWA  | 7.82%                    | 8.75%             |
| Total capital to RWA   | 10.17%                   | 10.26%            |
| Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)   | -                        | -                 |
| of which: capital conservation buffer requirement  | -                        | -                 |
| of which: countercyclical buffer requirement   | -                        | -                 |
| of which: D-SIB or G-SIB buffer requirement  | -                        | -                 |
| CET1 available to meet buffers (as a percentage of risk weighted assets)   | -                        | -                 |
| <b>National minimum capital requirements prescribed by SBP</b>   |                          |                   |
| CET1 minimum ratio   | 6.00%                    | 6.00%             |
| Tier 1 minimum ratio   | 7.50%                    | 7.50%             |
| Total capital minimum ratio  | 11.28%                   | 10.65%            |

## 40.4 Regulatory Adjustments and Additional Information

|  | Amount<br>2017   | Amounts<br>subject to<br>Pre- Basel<br>III treatment | Amount<br>2016   | Amounts<br>subject to<br>Pre- Basel<br>III treatment |
|--|------------------|--|------------------|--|
| -----Rupees in '000-----   |                  |  |                  |  |
| <b>40.4.1 Common Equity Tier 1 capital: Regulatory adjustments</b>   |                  |  |                  |  |
| - Goodwill (net of related deferred tax liability)   | 396,117          | -  | 1,098,117        | -  |
| - All other intangibles (net of any associated deferred tax liability)   | 1,309,848        | -  | 787,888          | -  |
| - Shortfall in provisions against classified assets  | 278,307          | -  | 297,581          | -  |
| - Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)  | 1,857,616        | 2,322,020  | 1,219,006        | 2,031,677  |
| - Defined-benefit pension fund net assets  | -                | -  | -                | -  |
| - Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities   | -                | -  | -                | -  |
| - Cash flow hedge reserve  | -                | -  | -                | -  |
| - Investment in own shares/ CET1 instruments   | -                | -  | -                | -  |
| - Securitization gain on sale  | -                | -  | -                | -  |
| - Capital shortfall of regulated subsidiaries  | -                | -  | -                | -  |
| - Deficit on account of revaluation of investments classified as AFS   | 161,593          | -  | -                | -  |
| - Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) | -                | -  | -                | -  |
| - Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)  | -                | -  | -                | -  |
| - Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)  | 185,843          | 232,304  | 125,012          | 208,353  |
| - Amount exceeding 15% threshold   | -                | -  | -                | -  |
| - of which: significant investments in the common stocks of financial entities   | -                | -  | -                | -  |
| - of which: deferred tax assets arising from temporary differences   | -                | -  | -                | -  |
| - National specific regulatory adjustments applied to CET1 capital   | -                | -  | -                | -  |
| - Investments in TFCs of other banks exceeding the prescribed limit  | -                | -  | -                | -  |
| - Any other deduction specified by SBP   | -                | -  | -                | -  |
| - Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions  | -                | -  | -                | -  |
| <b>Total regulatory adjustments applied to CET1</b>  | <b>4,189,324</b> | <b>2,554,324</b>                                     | <b>3,527,604</b> | <b>2,240,030</b>                                     |
| <b>40.4.2 Additional Tier-1 &amp; Tier-1 Capital: regulatory adjustments</b>   |                  |  |                  |  |
| - Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment]  | -                | -  | -                | -  |
| - Investment in own AT1 capital instruments  | -                | -  | -                | -  |
| - Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial and insurance entities  | -                | -  | -                | -  |
| - Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) | -                | -  | -                | -  |
| - Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation   | -                | -  | -                | -  |
| - Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from additional tier-1 capital   | -                | -  | -                | -  |
| - Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions  | -                | -  | -                | -  |
| <b>Total regulatory adjustment applied to AT1 capital</b>  | -                | -  | -                | -  |

| Amount | Amounts<br>subject to<br>Pre- Basel<br>III treatment<br>2017 | Amount | Amounts<br>subject to<br>Pre- Basel<br>III treatment<br>2016 |
|--------|--|--------|--|
|--------|--|--------|--|

-----Rupees in '000-----

#### 40.4.3 Tier 2 Capital: regulatory adjustments

- Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital
  - Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities
  - Investment in own Tier 2 capital instrument
  - Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)
  - Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation
- Total regulatory adjustment applied to T2 capital**

|   |   |   |   |
|---|---|---|---|
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |

#### 40.4.4 Additional Information

##### Risk Weighted Assets subject to pre-Basel III treatment

- Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment)
  - of which: deferred tax assets
  - of which: Defined-benefit pension fund net assets
  - of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity
  - of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity

2017

2016

|         |         |
|---------|---------|
| -       | -       |
| 464,404 | 812,671 |
| -       | -       |
| -       | -       |
| -       | -       |

##### Amounts below the thresholds for deduction (before risk weighting)

- Non-significant investments in the capital of other financial entities
- Significant investments in the common stock of financial entities
- Deferred tax assets arising from temporary differences (net of related tax liability)

-

-

32,563

30,156

612,260

676,959

##### Applicable caps on the inclusion of provisions in Tier 2

- Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)
- Cap on inclusion of provisions in Tier 2 under standardized approach
- Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)
- Cap for inclusion of provisions in Tier 2 under internal ratings-based approach

|   |
|---|
| - |
| - |
| - |
| - |

|   |
|---|
| - |
| - |
| - |
| - |

## 40.5 Capital Structure Reconciliation

## Step 1

| As per published financial statements | Under regulatory scope of consolidation | As per published financial statements | Under regulatory scope of consolidation |
|---------------------------------------|---|---------------------------------------|---|
| 2017                                  | 2017                                    | 2016                                  | 2016                                    |

----- Rupees in '000 -----

## Assets

|                                       |                    |                    |                    |                    |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|
| Cash and balances with treasury banks | 8,915,585          | 8,915,585          | 18,725,350         | 18,725,350         |
| Balances with other banks             | 2,932,165          | 2,932,165          | 984,125            | 984,125            |
| Due to financial institutions         | 5,095,411          | 5,095,411          | 2,692,703          | 2,692,703          |
| Investments                           | 19,393,486         | 19,393,486         | 24,601,518         | 24,601,518         |
| Islamic financing and related assets  | 71,203,056         | 71,203,056         | 66,785,266         | 66,785,266         |
| Operating fixed assets                | 4,082,153          | 4,082,153          | 4,502,269          | 4,502,269          |
| Deferred tax assets                   | 3,238,985          | 3,238,985          | 2,873,137          | 2,873,137          |
| Other assets                          | 5,799,760          | 5,799,760          | 5,634,265          | 5,634,265          |
| <b>Total assets</b>                   | <b>120,660,601</b> | <b>120,660,601</b> | <b>126,798,633</b> | <b>126,798,633</b> |

## Liabilities

|   |                    |                    |                    |                    |
|---|--------------------|--------------------|--------------------|--------------------|
| Bills payable                                       | 1,691,141          | 1,691,141          | 1,386,390          | 1,386,390          |
| Due to financial institutions                       | 3,209,400          | 3,209,400          | 3,223,109          | 3,223,109          |
| Deposits and other accounts                         | 98,589,904         | 98,589,904         | 105,843,084        | 105,843,084        |
| Sub-ordinated loans                                 | 2,642,852          | 1,929,943          | 1,428,568          | 1,428,568          |
| Liabilities against assets subject to finance lease | -                  | -                  | -                  | -                  |
| Deferred tax liabilities                            | -                  | -                  | -                  | -                  |
| Other liabilities                                   | 3,765,083          | 3,765,083          | 3,527,979          | 3,527,979          |
| <b>Total liabilities</b>                            | <b>109,898,380</b> | <b>109,185,471</b> | <b>115,409,130</b> | <b>115,409,130</b> |

## Represented by

|   |                   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|-------------------|
| Share capital (including advance against issuance of shares and discount) | 13,106,862        | 13,106,862        | 13,106,862        | 13,106,862        |
| Reserves  | 159,348           | 159,348           | 159,348           | 159,348           |
| Accumulated loss  | (2,675,723)       | (2,675,723)       | (2,281,369)       | (2,281,369)       |
| Minority interest   | -                 | -                 | -                 | -                 |
| Deficit on revaluation of Investments-net of tax                          | 171,734           | 171,734           | 404,662           | 404,662           |
| <b>Total equity</b>   | <b>10,762,221</b> | <b>10,762,221</b> | <b>11,389,503</b> | <b>11,389,503</b> |

## Total liabilities &amp; equity

|                    |                    |                    |                    |
|--------------------|--------------------|--------------------|--------------------|
| <b>120,660,601</b> | <b>119,947,692</b> | <b>126,798,633</b> | <b>126,798,633</b> |
|--------------------|--------------------|--------------------|--------------------|

## Step 2

| As per published financial statements | Under regulatory scope of consolidation | As per published financial statements | Under regulatory scope of consolidation | Ref |
|---------------------------------------|---|---------------------------------------|---|-----|
| 2017                                  | 2017                                    | 2016                                  | 2016                                    |     |

----- Rupees in '000 -----

## Assets

|  |                    |                    |                    |                    |   |
|--|--------------------|--------------------|--------------------|--------------------|---|
| Cash and balances with treasury banks  | 8,915,585          | 8,915,585          | 18,725,350         | 18,725,350         |   |
| Balanced with other banks  | 2,932,165          | 2,932,165          | 984,125            | 984,125            |   |
| Due from Financial institutions  | 5,095,411          | 5,095,411          | 2,692,703          | 2,692,703          |   |
| Investments  | 19,393,486         | 19,393,486         | 24,601,518         | 24,601,518         |   |
| <i>of which: Non-significant investments in the capital instruments of banking, financial and insurance entities exceeding 10% threshold</i>           | -                  | -                  | -                  | -                  | a |
| <i>of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold</i> | -                  | -                  | -                  | -                  | b |
| <i>of which: Mutual Funds exceeding regulatory threshold</i>   | -                  | -                  | -                  | -                  | c |
| <i>of which: reciprocal crossholding of capital instrument (separate for CET1, AT1, T2)</i>  | -                  | -                  | -                  | -                  | d |
| <i>of which: others (mention details)</i>  | -                  | -                  | -                  | -                  | e |
| Islamic financing and related assets   | 71,203,056         | 71,203,056         | 66,785,266         | 66,785,266         |   |
| <i>shortfall in provisions against classified assets</i>   | 278,307            | 278,307            | 297,581            | 297,581            | f |
| <i>general provisions reflected in Tier 2 capital</i>  | 87,086             | 87,086             | 86,969             | 86,969             | g |
| Operating fixed assets   | 4,082,153          | 4,082,153          | 4,502,269          | 4,502,269          |   |
| Deferred Tax Assets  | 3,238,985          | 3,238,985          | 2,873,137          | 2,873,137          |   |
| <i>of which: DTAs that rely on future profitability excluding those arising from temporary differences</i>   | 2,322,020          | 2,322,020          | 2,031,677          | 2,031,677          | h |
| <i>of which: DTAs arising from temporary differences exceeding regulatory threshold</i>  | 187,012            | 187,012            | 885,312            | 885,312            | i |
| Other assets   | 5,799,760          | 5,799,760          | 5,634,265          | 5,634,265          |   |
| <i>of which: Goodwill</i>  | 1,632,698          | 1,632,698          | 1,098,117          | 1,098,117          | j |
| <i>of which: Intangibles</i>   | 87,878             | 87,878             | 787,888            | 787,888            | k |
| <i>of which: Defined-benefit pension fund net assets</i>   | -                  | -                  | -                  | -                  | l |
| <b>Total assets</b>  | <b>120,660,601</b> | <b>120,660,601</b> | <b>126,798,633</b> | <b>126,798,633</b> |   |

EY



## Step 2

## Liabilities &amp; Equity

|  | As per<br>published<br>financial<br>statements | Under<br>regulatory<br>scope of<br>consolidation | As per<br>published<br>financial<br>statements | Under<br>regulatory<br>scope of<br>consolidation | Ref |
|--|--|--|--|--|-----|
|  | 2017   | 2017   | 2016   | 2016   |     |
| -----Rupees in '000-----   |  |  |  |  |     |
| Bills payable  | 1,691,141                                      | 1,691,141  | 1,386,390                                      | 1,386,390  |     |
| Due to Financial institutions                                      | 3,209,400                                      | 3,209,400  | 3,223,109                                      | 3,223,109  |     |
| Deposits and other accounts  | 98,589,904                                     | 98,589,904                                       | 105,843,084                                    | 105,843,084                                      |     |
| Sub-ordinated loans  | 2,642,852                                      | 1,842,857  | 1,428,568                                      | 1,428,568  | m   |
| of which: eligible for inclusion in AT1                            | -  | -  | -  | -  | n   |
| of which: eligible for inclusion in Tier 2                         | 2,642,852                                      | 1,842,857  | 1,428,568                                      | 1,428,568  |     |
| Liabilities against assets subject to finance lease                | -  | -  | -  | -  |     |
| Deferred tax liabilities   | -  | -  | -  | -  | o   |
| of which: DTLs related to goodwill                                 | -  | -  | -  | -  | p   |
| of which: DTLs related to intangible assets                        | -  | -  | -  | -  | q   |
| of which: DTLs related to defined pension fund net assets          | -  | -  | -  | -  | r   |
| of which: other deferred tax liabilities                           | -  | -  | -  | -  |     |
| Other liabilities  | 3,765,083                                      | 3,765,083  | 3,527,979                                      | 3,527,979  |     |
| <b>Total liabilities</b>   | <b>109,898,380</b>                             | <b>109,098,385</b>                               | <b>115,409,130</b>                             | <b>115,409,130</b>                               |     |
| Share capital  | 13,106,862                                     | 13,106,862                                       | 13,106,862                                     | 13,106,862                                       | s   |
| of which: amount eligible for CET1                                 | -  | -  | -  | -  | t   |
| of which: amount eligible for AT1                                  | -  | -  | -  | -  |     |
| Reserves   | 159,348  | 159,348  | 159,348  | 159,348  | u   |
| of which: portion eligible for inclusion in CET1 (provide breakup) | 159,348  | 159,348  | 159,348  | 159,348  | v   |
| of which: portion eligible for inclusion in Tier 2                 | -  | -  | -  | -  | w   |
| Accumulated losses   | (2,675,723)                                    | (2,675,723)                                      | (2,281,369)                                    | (2,281,369)                                      |     |
| Minority Interest  | -  | -  | -  | -  | x   |
| of which: portion eligible for inclusion in CET1                   | -  | -  | -  | -  | y   |
| of which: portion eligible for inclusion in AT1                    | -  | -  | -  | -  | z   |
| of which: portion eligible for inclusion in Tier 2                 | -  | -  | -  | -  |     |
| Surplus on revaluation of assets                                   | -  | -  | -  | -  | aa  |
| of which: Revaluation reserves on Fixed Assets                     | 10,141   | 10,141   | 404,662  | 404,662  | ab  |
| of which: Unrealized Gains/Losses on AFS                           | -  | -  | -  | -  |     |
| In case of Deficit on revaluation (deduction from CET1)            | 161,593  | 161,593  | -  | -  |     |
| <b>Total equity and liabilities</b>                                | <b>10,762,221</b>                              | <b>10,752,080</b>                                | <b>11,389,503</b>                              | <b>11,389,503</b>                                |     |
| <b>Total Equity</b>  | <b>120,660,601</b>                             | <b>119,850,465</b>                               | <b>126,798,633</b>                             | <b>126,798,633</b>                               |     |

## Step 3

## Common Equity Tier 1 capital (CET1): Instruments and reserves

|  | Component<br>of regulatory<br>capital<br>reported by<br>bank<br>2017 | Source<br>based on<br>reference<br>number from<br>step 2 | Component<br>of regulatory<br>capital<br>reported by<br>bank<br>2016 | Source<br>based on<br>reference<br>number from<br>step 2 |
|--|--|--|--|--|
|  | Rupees in '000   |  | Rupees in '000   |  |
| Share capital (including advance against issuance of shares)   | 13,739,628   |  | 13,739,628   |  |
| Discount against issuance of shares  | (632,766)  | (s)  | (632,766)  | (s)  |
| Reserve for issue of Bonus Shares  | -  |  | -  |  |
| Statutory Reserves   | 159,348  | (u)  | 159,348  | (u)  |
| Gain/(Losses) on derivatives held as Cash Flow Hedge   | -  |  | -  |  |
| Accumulated losses   | (2,675,723)  | (w)  | (2,281,369)  | (w)  |
| Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)   | -  | (x)  | -  | (x)  |
| <b>CET 1 before Regulatory Adjustments</b>   | <b>10,590,487</b>  |  | <b>10,984,841</b>  |  |
| <b>Common Equity Tier 1 capital: Regulatory adjustments</b>  |  |  |  |  |
| Goodwill (net of related deferred tax liability)   | 396,117  | (j) - (o)  | 1,098,117  | (j) - (o)  |
| All other intangibles (net of any associated deferred tax liability)   | 1,309,848  | (k) - (p)  | 787,888  | (k) - (p)  |
| Shortfall of provisions against classified assets  | 278,307  | (f)  | 297,581  | (f)  |
| Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)  | 1,857,616  | ((h) - (r)) * 80%  | 1,219,006  | ((h) - (r)) * 60%  |
| Defined-benefit pension fund net assets  | -  | ((l) - (q)) * 0%   | -  | ((l) - (q)) * 0%   |
| Reciprocal cross holdings in CET1 capital instruments  | -  | (d)  | -  | (d)  |
| Cash flow hedge reserve  | -  |  | -  |  |
| Investment in own shares/ CET1 instruments   | -  |  | -  |  |
| Securitization gain on sale  | -  |  | -  |  |
| Capital shortfall of regulated subsidiaries  | -  |  | -  |  |
| Deficit on account of revaluation from bank's holdings of fixed assets/ AFS  | 161,593  | (ab)   | -  | (ab)   |
| Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) | -  | (a) - (ac) - (ae)  | -  | (a) - (ac) - (ae)  |
| Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)   | -  | (b) - (ad) - (af)  | -  | (b) - (ad) - (af)  |
| Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)  | 185,843  | (i)  | 125,012  | (i)  |
| Amount exceeding 15% threshold   | -  |  | -  |  |
| of which: significant investments in the common stocks of financial entities   | -  |  | -  |  |
| of which: deferred tax assets arising from temporary differences   | -  |  | -  |  |
| National specific regulatory adjustments applied to CET1 capital   | -  |  | -  |  |
| of which: Investment in TFCs of other banks exceeding the prescribed limit   | -  |  | -  |  |
| of which: Any other deduction specified by SBP (mention details)   | -  |  | -  |  |
| Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions   | -  |  | -  |  |
| <b>Total regulatory adjustments applied to CET1</b>  | <b>4,189,324</b>   |  | <b>3,527,804</b>   |  |

|  |                  |                 |                  |                 |
|--|------------------|-----------------|------------------|-----------------|
| <b>Common Equity Tier 1</b>  | <b>6,401,163</b> |                 | <b>7,457,237</b> |                 |
| <b>Additional Tier 1 (AT 1) Capital</b>  |                  |                 |                  |                 |
| Qualifying Additional Tier-1 instruments plus any related share premium  |                  |                 |                  |                 |
| of which: Classified as equity   | -                | (t)             | -                | (t)             |
| of which: Classified as liabilities  | -                |                 | -                |                 |
| Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)   | -                | (y)             | -                | (y)             |
| of which: instrument issued by subsidiaries subject to phase out   | -                |                 | -                |                 |
| <b>AT1 before regulatory adjustments</b>   | -                |                 | -                |                 |
| <b>Additional Tier 1 Capital: regulatory adjustments</b>   |                  |                 |                  |                 |
| Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)  | -                |                 | -                |                 |
| Investment in own AT1 capital instruments  | -                |                 | -                |                 |
| Reciprocal cross holdings in Additional Tier 1 capital instruments   | -                |                 | -                |                 |
| Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) | -                | (ac)            | -                | (ac)            |
| Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation  | -                | (ad)            | -                | (ad)            |
| Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital   | -                |                 | -                |                 |
| Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions   | -                |                 | -                |                 |
| Total of Regulatory Adjustment applied to AT1 capital  | -                |                 | -                |                 |
| Additional Tier 1 capital  | -                |                 | -                |                 |
| <b>Additional Tier 1 capital recognized for capital adequacy</b>   | -                |                 | -                |                 |
| <b>Tier 1 Capital (CET1 + admissible AT1)</b>  | <b>6,401,163</b> |                 | <b>7,457,237</b> |                 |
| <b>Tier 2 Capital</b>  |                  |                 |                  |                 |
| Qualifying Tier 2 capital instruments under Basel III plus any related share premium   | 1,842,857        | (n)             | 1,142,854        | (n)             |
| Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)   | -                |                 | -                |                 |
| Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)   | -                | (z)             | -                | (z)             |
| of which: instruments issued by subsidiaries subject to phase out  | -                |                 | -                |                 |
| General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets   | 87,086           | (g)             | 86,969           | (g)             |
| Revaluation Reserves   | -                |                 | -                |                 |
| of which: Revaluation reserves on fixed assets   | -                |                 | -                |                 |
| of which: Unrealized Gains/Losses on AFS   | -                | portion of (aa) | 58,985           | portion of (aa) |
| Foreign Exchange Translation Reserves  | -                | (v)             | -                | (v)             |
| Undisclosed/Other Reserves (if any)  | -                |                 | -                |                 |
| <b>T2 before regulatory adjustments</b>  | <b>1,929,943</b> |                 | <b>1,288,808</b> |                 |
| <b>Tier 2 Capital: regulatory adjustments</b>  |                  |                 |                  |                 |
| Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital   | -                |                 | -                |                 |
| Reciprocal cross holdings in Tier 2 instruments  | -                |                 | -                |                 |
| Investment in own Tier 2 capital instrument  | -                |                 | -                |                 |
| Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) | -                | (ae)            | -                | (ae)            |
| Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation  | -                | (af)            | -                | (af)            |
| Amount of Regulatory Adjustment applied to T2 capital  | -                |                 | -                |                 |
| <b>Tier 2 capital (T2)</b>   | <b>1,929,943</b> |                 | <b>1,288,808</b> |                 |
| Tier 2 capital recognized for capital adequacy   | 1,929,943        |                 | 1,288,808        |                 |
| Excess Additional Tier 1 capital recognized in Tier 2 capital  | -                |                 | -                |                 |
| <b>Total Tier 2 capital admissible for capital adequacy</b>  | <b>1,929,943</b> |                 | <b>1,288,808</b> |                 |
| <b>TOTAL CAPITAL (T1 + admissible T2)</b>  | <b>8,331,106</b> |                 | <b>8,746,045</b> |                 |

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## 40.6 Risk-Weighted Exposures

|  | 2017                       |                             | 2016                       |                             |
|--|----------------------------|-----------------------------|----------------------------|-----------------------------|
|  | -----Rupees in '000-----   |                             |                            |                             |
| <b>Credit Risk</b>   | <b>Capital Requirement</b> | <b>Risk weighted Assets</b> | <b>Capital Requirement</b> | <b>Risk weighted Assets</b> |
| <b>On-Balance sheet</b>  |                            |                             |                            |                             |
| <b>Portfolios subject to standardized approach (Simple or Comprehensive)</b>           |                            |                             |                            |                             |
| Cash and cash equivalents  | -                          | -                           | -                          | -                           |
| Sovereign  | 7,492                      | 74,920                      | 234                        | 2,336                       |
| Public Sector entities   | -                          | -                           | 50,563                     | 505,628                     |
| Banks  | 143,189                    | 1,431,894                   | 128,405                    | 1,284,047                   |
| Corporate  | 3,911,922                  | 39,119,222                  | 4,342,225                  | 43,422,254                  |
| Retail   | 1,163,056                  | 11,630,560                  | 638,049                    | 6,380,493                   |
| Residential mortgages  | 152,285                    | 1,522,851                   | 127,566                    | 1,275,662                   |
| Past due loans   | 524,074                    | 5,240,737                   | 384,002                    | 3,840,019                   |
| Operating fixed assets   | 236,157                    | 2,361,575                   | 261,627                    | 2,616,272                   |
| Other assets   | 522,518                    | 5,225,179                   | 813,308                    | 8,133,077                   |
|  | <b>6,660,693</b>           | <b>66,606,938</b>           | <b>6,745,979</b>           | <b>67,459,788</b>           |
| <b>Portfolios subject to Internal Rating Based (IRB) Approach</b>                      |                            |                             |                            |                             |
| Corporate, Sovereign, Corporate, Retail, Securitization etc.                           | -                          | -                           | -                          | -                           |
| <b>Off-Balance sheet</b>   |                            |                             |                            |                             |
| <b>Non-market related</b>  |                            |                             |                            |                             |
| Financial guarantees, acceptances, performance related commitments, trade related etc. | 493,697                    | 4,936,971                   | 798,160                    | 7,981,603                   |
| <b>Market related</b>  |                            |                             |                            |                             |
| Foreign exchange contracts   | 11,561                     | 115,614                     | 3,513                      | 35,127                      |
| <b>Equity Exposure Risk in the Banking Book</b>  |                            |                             |                            |                             |
| Under simple risk weight method  |                            |                             |                            |                             |
| - Listed   | 4,003                      | 40,026                      | 5,529                      | 55,288                      |
| - Unlisted   | 8,141                      | 81,408                      | 7,539                      | 75,390                      |
| Under Internal models approach   | -                          | -                           | -                          | -                           |
| <b>Market Risk</b>   |                            |                             |                            |                             |
| Capital Requirement for portfolios subject to Standardized Approach                    |                            |                             |                            |                             |
| Interest rate risk   | 9,512                      | 118,898                     | 7,178                      | 71,778                      |
| Equity position risk   | 142,103                    | 1,776,292                   | 155,938                    | 1,559,378                   |
| Foreign Exchange risk  | 8,251                      | 103,139                     | 4,923                      | 49,232                      |
|  | -                          | -                           | -                          | -                           |
| Capital Requirement for portfolios subject to Internal Models Approach                 | -                          | -                           | -                          | -                           |
|  | -                          | -                           | -                          | -                           |
| <b>Operational Risk</b>  |                            |                             |                            |                             |
| Capital Requirement for operational risks  | 648,302                    | 8,103,776                   | 795,970                    | 7,959,695                   |
|  | <b>1,325,570</b>           | <b>15,276,124</b>           | <b>1,778,750</b>           | <b>17,787,491</b>           |
| <b>Total Risk-Weighted Exposures</b>   | <b>7,986,263</b>           | <b>81,883,062</b>           | <b>8,524,729</b>           | <b>85,247,279</b>           |

## 40.6.1 Capital Adequacy Ratios

|                             | 2017     |        | 2016     |        |
|-----------------------------|----------|--------|----------|--------|
|                             | Required | Actual | Required | Actual |
| CET1 to total RWA           | 6.00%    | 7.82%  | 6.00%    | 8.75%  |
| Tier-1 capital to total RWA | 7.50%    | 7.82%  | 7.50%    | 8.75%  |
| Total capital to total RWA  | 11.28%   | 10.17% | 10.65%   | 10.26% |

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## 40.7 Main Features Template of Regulatory Capital Instruments

|                             | COMMON SHARES   | FIRST ISSUE TIER II SUKUK  | SECOND ISSUE TIER II SUKUK  |
|-----------------------------|---|--|---|
| 1                           | Issuer  | Al Baraka Bank (Pakistan) Limited                                      | Al Baraka Bank (Pakistan) Limited   |
| 2                           | Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)  | Not Applicable   | 2ND Al-Baraka Bank Tier-II Modaraba Sukuk   |
| 3                           | Governing law(s) of the instrument  | Laws applicable in Pakistan  | Laws applicable in Pakistan   |
| <b>Regulatory treatment</b> |   |  |   |
| 4                           | Transitional Basel III rules  | Common equity Tier 1   | Tier 2  |
| 5                           | Post-transitional Basel III rules   | Common equity Tier 1   | Tier 2  |
| 6                           | Eligible at solo / group / group&solo   | Solo   | Solo  |
| 7                           | Instrument type   | Common shares  | Subordinated Debt   |
| 8                           | Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting date)                     | 6,401,164  | 342,857   |
| 9                           | Par value of instrument   | Rs 10 per share  | Rs 1 million per certificate  |
| 10                          | Accounting classification   | Shareholder equity   | Liability - subordinated loans  |
| 11                          | Original date of issuance   | 2005-2016  | September 2014  |
| 12                          | Perpetual or dated  | Perpetual  | Dated   |
| 13                          | Original maturity date  | No maturity  | 26 September 2021   |
| 14                          | Issuer call subject to prior supervisory approval   | No   | Yes   |
| 15                          | Optional call date, contingent call dates and redemption amount   | Not Applicable   | 25 September 2019   |
| 16                          | Subsequent call dates, if applicable  | Not Applicable   | Any time after the option call date   |
| <b>Coupons / dividends</b>  |   |  |   |
| 17                          | Fixed or floating dividend/ coupon  | Not Applicable   | Floating  |
| 18                          | coupon rate and any related index/ benchmark  | Not Applicable   | 6 months Kibor + 1.25% per annum  |
| 19                          | Existence of a dividend stopper   | No   | No  |
| 20                          | Fully discretionary, partially discretionary or mandatory   | Fully Discretionary  | Partially discretionary   |
| 21                          | Existence of step up or other incentive to redeem   | No   | No  |
| 22                          | Noncumulative or cumulative   | Non cumulative   | Cumulative  |
| 23                          | <b>Convertible or non-convertible</b>   | Non Convertible  | Convertible   |
| 24                          | If convertible, conversion trigger (s)  | Not Applicable   | The Instrument is subject to loss absorbency, under which SBP may convert the instrument, fully or partially, into common ordinary shares upon the occurrence of a non-viability trigger event (the "PONV"). The conversion shall be based on the price as agreed with SBP. |
| 25                          | If convertible, fully or partially  | Not Applicable   | May convert fully or partially upon the occurrence of PONV.   |
| 26                          | If convertible, conversion rate   | Not Applicable   | To be determined in the case of Trigger event.  |
| 27                          | If convertible, mandatory or optional conversion  | Not Applicable   | Option of SBP   |
| 28                          | If convertible, specify instrument type convertible into  | Not Applicable   | Common Equity Tier 1  |
| 29                          | If convertible, specify issuer of instrument it converts into   | Not Applicable   | AlBaraka Bank (Pakistan) Limited  |
| 30                          | <b>Write-down feature</b>   | No   | No  |
| 31                          | If write-down, write-down trigger(s)  | Not Applicable   | The Instrument is subject to loss absorbency, under which SBP, may either convert into common ordinary shares or immediately write off upon the occurrence of a non-viability trigger event (the "PONV").   |
| 32                          | If write-down, full or partial  | Not Applicable   | May be written down fully or may be written off partially   |
| 33                          | If write-down, permanent or temporary   | Not Applicable   | Permanent   |
| 34                          | If temporary write-down, description of write-up mechanism  | Not Applicable   | Not Applicable  |
| 35                          | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Subordinated debt as shareholders' equity represents residual interest | Subordinate to all other indebtedness to the Bank including depositors  |
| 36                          | Non-compliant transitioned features   | No   | No  |
| 37                          | If yes, specify non-compliant features  | Not Applicable   | Not Applicable  |

## 40.8 Leverage ratio

During 2013, SBP issued the instructions on the computation of Tier 1 Leverage Ratio. In line with these instructions, parallel run period for leverage ratio will commence from 31 December 2013 to 31 December 2017. During the period, banks has to maintain Tier 1 Leverage ratio of 3%.

|                 | 2017                      | 21 16       |
|-----------------|---------------------------|-------------|
|                 | ----- Rupees in '000----- |             |
| Tier-1 Capital  | 6,401,164                 | 7,457,237   |
| Total Exposures | 141,187,419               | 142,028,873 |
| Leverage Ratio  | 4.53%                     | 5.25%       |

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## 41. RISK MANAGEMENT

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

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

- Credit risk is the risk of loss resulting from client or counterparty default (note 41.1).
- Market risk is exposure to market variables such as benchmark rates, exchange rates and equity indices (note 41.3).
- Liquidity risk is the potential loss arising from Bank's inability to meet its obligations when due (note 41.4).
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events and Shariah non compliance (note 41.5).

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

### Risk management principles

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

### Risk management organization

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

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

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

#### Name of the committees

#### Chaired by

Credit committee

Chief Executive Officer

Asset and liability management committee (ALCO)

Chief Executive Officer

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

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

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

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

### 41.1 Credit Risk

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

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

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

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

Expected Credit Loss (ECL) assessment has been made under IFRS 9 through implementation of Moody's Risk Analyst, a world's renowned internal credit rating system. The Moody's RA system takes into consideration qualitative and quantitative factors of the counter-party, transaction structure & collaterals and generates ratings at Obligor and Facility levels as required by Internal Rating Based (IRB) approach under Basel regulations. The facility rating system, developed in line with SBP's guidelines, also provides estimated LGD (Loss Given Default) and Obligor rating provides PD (Probability of Default). The system is backed by secured database with backup support and is capable of generating MIS reports providing snapshot of the entire portfolio for strategizing and decision making.

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

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

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

#### 41.1.1 Segmental information

##### 41.1.1.1 Segments by class of business

|   | 2017   |                |                   |                |                               |                |
|---|--|----------------|-------------------|----------------|-------------------------------|----------------|
|   | Islamic financing and related assets (Gross) |                | Deposits          |                | Contingencies and commitments |                |
|   | Rupees in '000                               | %              | Rupees in '000    | %              | Rupees in '000                | %              |
| Agriculture, forestry, hunting and fishing  | 1,563,657                                    | 2.07%          | 751,024           | 0.76%          | 14,671                        | 0.06%          |
| Mining and quarrying                        | 823,804                                      | 1.09%          | 700,376           | 0.71%          | -                             | 0.00%          |
| Textile                                     | 9,008,919                                    | 11.93%         | 2,019,142         | 2.05%          | 1,043,860                     | 3.93%          |
| Chemical and pharmaceuticals                | 5,491,892                                    | 7.27%          | 1,261,748         | 1.28%          | 3,459,547                     | 13.02%         |
| Cement                                      | 1,200,000                                    | 1.59%          | 200,210           | 0.20%          | 358,664                       | 1.35%          |
| Sugar                                       | 2,714,624                                    | 3.60%          | 82,329            | 0.08%          | 44,855                        | 0.17%          |
| Footwear and leather garments               | 801,811                                      | 1.06%          | 298,820           | 0.30%          | 71,695                        | 0.27%          |
| Automobile and transportation equipment     | 400,683                                      | 0.53%          | 194,522           | 0.20%          | 961,270                       | 3.62%          |
| Electronics and electrical appliances       | 3,599,684                                    | 4.77%          | 225,244           | 0.23%          | 690,565                       | 2.60%          |
| Construction                                | 1,368,782                                    | 1.81%          | 1,872,408         | 1.90%          | 1,834,411                     | 6.91%          |
| Power (electricity), gas, water and sanitar | 2,658,626                                    | 3.52%          | 673,189           | 0.68%          | 96,942                        | 0.36%          |
| Wholesale and retail trade                  | 2,995,312                                    | 3.97%          | 2,335,345         | 2.37%          | 1,770,063                     | 6.66%          |
| Exports / imports                           | 1,039,901                                    | 1.38%          | 1,114,174         | 1.13%          | 168,278                       | 0.63%          |
| Transport, storage and communication        | 9,175,629                                    | 12.15%         | 456,753           | 0.46%          | 164,939                       | 0.62%          |
| Financial                                   | 236,441                                      | 0.31%          | 4,235,243         | 4.30%          | 9,279,222                     | 34.93%         |
| Insurance                                   | 12,845                                       | 0.02%          | 1,054,948         | 1.07%          | -                             | 0.00%          |
| Services                                    | 3,369,623                                    | 4.46%          | 8,769,550         | 8.89%          | 1,415,770                     | 5.33%          |
| Individuals / staff                         | 14,411,247                                   | 19.09%         | 46,390,113        | 47.05%         | -                             | 0.00%          |
| Food products and beverages                 | 9,184,036                                    | 12.17%         | 292,053           | 0.30%          | 362,787                       | 1.37%          |
| Others                                      | 5,434,753                                    | 7.20%          | 25,662,713        | 26.02%         | 4,826,040                     | 18.17%         |
|   | <b>75,492,269</b>                            | <b>100.00%</b> | <b>98,589,904</b> | <b>100.00%</b> | <b>26,563,579</b>             | <b>100.00%</b> |

|  | 2016   |         |                |         |                               |         |
|--|--|---------|----------------|---------|-------------------------------|---------|
|  | Islamic financing and related assets (Gross) |         | Deposits       |         | Contingencies and commitments |         |
|  | Rupees in '000                               | %       | Rupees in '000 | %       | Rupees in '000                | %       |
| Agriculture, forestry, hunting and fishing   | 1,533,866                                    | 1.79%   | 793,821        | 0.75%   | 2,235,087                     | 9.15%   |
| Mining and quarrying                         | 1,124,644                                    | 1.66%   | 361,991        | 0.34%   | 19,000                        | 0.08%   |
| Textile                                      | 8,490,615                                    | 8.90%   | 1,529,161      | 1.44%   | 598,391                       | 2.45%   |
| Chemical and pharmaceuticals                 | 6,467,564                                    | 9.39%   | 1,628,474      | 1.54%   | 2,737,750                     | 11.21%  |
| Cement                                       | 250,000                                      | 0.37%   | 106,310        | 0.10%   | 118,839                       | 0.49%   |
| Sugar  | 2,511,371                                    | 3.59%   | 520,586        | 0.49%   | 45,238                        | 0.19%   |
| Footwear and leather garments                | 797,436                                      | 1.14%   | 297,342        | 0.28%   | 129,139                       | 0.53%   |
| Automobile and transportation equipment      | 971,248                                      | 1.45%   | 310,848        | 0.29%   | 452,609                       | 1.85%   |
| Electronics and electrical appliances        | 1,902,529                                    | 2.78%   | 641,006        | 0.61%   | 1,075,602                     | 4.40%   |
| Construction                                 | 1,763,022                                    | 2.61%   | 2,093,462      | 1.98%   | 2,108,514                     | 8.63%   |
| Power (electricity), gas, water and sanitary | 2,978,349                                    | 4.45%   | 168,253        | 0.16%   | 357,963                       | 1.47%   |
| Wholesale and retail trade                   | 3,011,697                                    | 4.35%   | 351,559        | 0.33%   | 1,588,774                     | 6.50%   |
| Exports / imports                            | 760,341                                      | 1.03%   | 969,762        | 0.92%   | 459,165                       | 1.88%   |
| Transport, storage and communication         | 1,868,448                                    | 2.71%   | 525,000        | 0.50%   | 96,593                        | 0.40%   |
| Financial                                    | 311,092                                      | 0.35%   | 10,632,448     | 10.05%  | 7,184,555                     | 29.41%  |
| Insurance                                    | -  | 0.00%   | 517,035        | 0.49%   | -                             | 0.00%   |
| Services                                     | 5,247,872                                    | 7.78%   | 11,665,264     | 11.02%  | 673,585                       | 2.76%   |
| Individuals / staff                          | 13,186,495                                   | 19.51%  | 46,556,707     | 43.99%  | 350                           | 0.00%   |
| Food products and beverages                  | 7,871,588                                    | 11.70%  | 639,460        | 0.60%   | 481,032                       | 1.97%   |
| Others                                       | 10,042,011                                   | 14.38%  | 25,534,795     | 24.12%  | 4,067,214                     | 16.65%  |
|  | 71,090,188                                   | 100.00% | 105,843,084    | 100.00% | 24,429,400                    | 100.00% |

## 41.1.1.2 Segment by sector

|                     | 2017   |         |                |         |                               |         |
|---------------------|--|---------|----------------|---------|-------------------------------|---------|
|                     | Islamic financing and related assets (Gross) |         | Deposits       |         | Contingencies and commitments |         |
|                     | Rupees in '000                               | %       | Rupees in '000 | %       | Rupees in '000                | %       |
| Public / government | 7,667,695                                    | 10.16%  | 8,504,891      | 8.63%   | 215,406                       | 0.81%   |
| Private             | 67,824,574                                   | 89.84%  | 90,085,013     | 91.37%  | 26,348,173                    | 99.19%  |
|                     | 75,492,269                                   | 100.00% | 98,589,904     | 100.00% | 26,563,579                    | 100.00% |

|                     | 2016   |         |                |         |                               |         |
|---------------------|--|---------|----------------|---------|-------------------------------|---------|
|                     | Islamic financing and related assets (Gross) |         | Deposits       |         | Contingencies and commitments |         |
|                     | Rupees in '000                               | %       | Rupees in '000 | %       | Rupees in '000                | %       |
| Public / government | 5,921,170                                    | 8.87%   | 3,753,126      | 3.56%   | 1,628,111                     | 6.66%   |
| Private             | 65,169,018                                   | 91.13%  | 102,089,958    | 96.45%  | 22,801,289                    | 93.34%  |
|                     | 71,090,188                                   | 100.00% | 105,843,084    | 100.00% | 24,429,400                    | 100.00% |

## 41.1.1.3 Details of non-performing Islamic financing and related assets and specific provisions by class of business segment

|  | 2017                         |                          | 2016                         |                          |
|--|------------------------------|--------------------------|------------------------------|--------------------------|
|  | Classified Islamic Financing | Specific Provisions Held | Classified Islamic Financing | Specific Provisions Held |
|  | (Rupees in '000)             |                          |                              |                          |
| Agriculture, forestry, hunting and fishing   | 7,535                        | 5,457                    | 353,202                      | 335,665                  |
| Mining and quarrying                         | 12,202                       | 12,202                   | 70,542                       | -                        |
| Chemical and pharmaceuticals                 | 486,718                      | 308,458                  | 319,637                      | 195,185                  |
| Textile                                      | 2,641,093                    | 2,123,809                | 2,895,605                    | 2,544,635                |
| Sugar  | 608,142                      | 20,810                   | 962,521                      | 110,600                  |
| Footwear and leather garments                | 60,081                       | 39,067                   | 60,080                       | 34,872                   |
| Electronics and electrical appliances        | 555,030                      | 258,624                  | 349,621                      | 48,239                   |
| Construction                                 | 440,151                      | 101,813                  | 116,022                      | 21,937                   |
| Power (electricity), gas, water and sanitary | 4,062                        | 4,062                    | 4,062                        | 4,062                    |
| Wholesale / retail trade                     | 80,140                       | 48,009                   | 181,691                      | 109,151                  |
| Exports / imports                            | 41,270                       | 5,859                    | 96,612                       | 70,105                   |
| Transport, storage and communication         | 381,440                      | 62,330                   | 98,500                       | 55,609                   |
| Financial                                    | 102,804                      | 101,820                  | 107,137                      | 74,456                   |
| Insurance                                    | 3                            | 1                        | -                            | -                        |
| Services                                     | 80,492                       | 80,109                   | 376,900                      | 51,955                   |
| Individuals                                  | 398,591                      | 201,576                  | 310,108                      | 153,820                  |
| Food products and beverages                  | 1,120,614                    | 414,780                  | 356,365                      | 56,077                   |
| Others                                       | 630,964                      | 413,341                  | 487,422                      | 351,585                  |
|  | 7,651,332                    | 4,202,127                | 7,146,027                    | 4,217,953                |

## 41.1.1.4 Details of non-performing Islamic financing and related assets and specific provisions by class of business segment and sector

|                     | 2017                         |                          | 2016                         |                          |
|---------------------|------------------------------|--------------------------|------------------------------|--------------------------|
|                     | Classified Islamic financing | Specific Provisions Held | Classified Islamic financing | Specific provisions held |
|                     | (Rupees in '000)             |                          |                              |                          |
| Public / government | -                            | -                        | -                            | -                        |
| Private             | 7,651,332                    | 4,202,127                | 7,146,027                    | 4,217,953                |
|                     | 7,651,332                    | 4,202,127                | 7,146,027                    | 4,217,953                |

**41.1.2 Credit Risk – General Disclosures**

The Bank has adopted Standardised Approach, under Basel III.

**41.1.2.1 Credit Risk: Standardized Approach**

The Bank use rating assigned by JCR-VIS and PACRA as External Credit Assessment Institutions (ECAI) for the purpose of risk weighing its exposure. In the case of foreign currency exposure, ratings assigned by S&P and Moody's have been applied.

Following are the types of exposure for which each agency is used:

| Exposure   | MOODY'S | S&P | JCR-VIS | PACRA |
|------------|---------|-----|---------|-------|
| Corporate  | -       | -   | ✓       | ✓     |
| Banks      | ✓       | ✓   | ✓       | ✓     |
| Sovereigns | ✓       | -   | -       | -     |

Most of the Bank's asset base is short or medium term. Therefore, the Bank uses the entity's rating to assess the risk of its exposure without any adjustments.

For exposure amounts after risk mitigation subject to the standardised approach, amount of Bank's outstandings (rated and unrated) in each risk bucket as well as those that are deducted are as follows:

| Exposure                  | Rating category No. | Amount outstanding | Deduction CRM* | Net Amount  |
|---------------------------|---------------------|--------------------|----------------|-------------|
| Rupees in '000            |                     |                    |                |             |
| Corporate                 | 1                   | 4,761,606          | -              | 4,761,606   |
|                           | 2                   | 7,229,350          | 274,322        | 6,955,028   |
|                           | 3,4                 | 862,344            | 113,779        | 748,565     |
|                           | Unrated-1           | 23,674,003         | 1,797,447      | 21,876,556  |
|                           | Unrated-2           | 9,971,987          | 320,575        | 9,651,412   |
|                           |                     | 46,499,290         | 2,506,123      | 43,993,167  |
| Banks                     | 1,2,3               | 4,845,067          | -              | 4,845,067   |
| Sovereigns etc.           |                     | 22,668,451         | -              | 22,668,451  |
| Public sector enterprises | 1                   | 663,750            | 663,750        | -           |
|                           | 2,3                 | -                  | -              | -           |
|                           | Unrated             | 7,500,000          | 7,500,000      | -           |
|                           |                     | 8,163,750          | 8,163,750      | -           |
| Others                    |                     | 34,381,774         | 147,426        | 34,234,348  |
| Total                     |                     | 116,558,332        | 10,817,299     | 105,741,033 |

\* CRM= Credit Risk Mitigation

Main types of collateral taken by the Bank are:

- Cash margin
- Lien on deposits
- Government guarantee
- Bank guarantee

The Bank has adopted simple approach to credit risk mitigation under Basel III and therefore has not applied any haircuts to the collateral. Moreover the Bank's eligible collateral only includes cash / liquid securities.

**41.1.2.2 Equity position in the banking and trading book**

The Bank classifies and value its investments portfolio in accordance with the directions of SBP.

**Trading book**

Trading book consists of positions in financial instruments held either with a trading intent or in order to hedge other elements of the trading book. Positions held in trading book are marked to market and any valuation difference is charged / credited to profit and loss account in case of held for trading securities and to equity in case of available for sale securities.

**Banking book**

All instruments / positions which are not part of the trading book.

**41.2 GEOGRAPHICAL SEGMENT ANALYSIS**

|                | 2017                 |                       |                     |                               |
|----------------|----------------------|-----------------------|---------------------|-------------------------------|
|                | Loss before taxation | Total assets employed | Net assets employed | Contingencies and Commitments |
| Rupees in '000 |                      |                       |                     |                               |
| Pakistan       | (531,073)            | 120,660,601           | 10,762,221          | 16,563,579                    |
|                | (531,073)            | 120,660,601           | 10,762,221          | 16,563,579                    |
| 2016           |                      |                       |                     |                               |
|                | Loss before taxation | Total assets employed | Net assets employed | Contingencies and Commitments |
| Rupees in '000 |                      |                       |                     |                               |
| Pakistan       | (100,748)            | 126,798,633           | 11,389,503          | 24,429,400                    |
|                | (100,748)            | 126,798,633           | 11,389,503          | 24,429,400                    |



### 41.3 MARKET RISK

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

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

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

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

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

### 41.3.2 Foreign Exchange Risk

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

|                            | 2017               |                    |                                |                             | 2016               |                    |                                   |                             |
|----------------------------|--------------------|--------------------|--------------------------------|-----------------------------|--------------------|--------------------|-----------------------------------|-----------------------------|
|                            | Assets             | Liabilities        | Off-<br>balance<br>sheet items | Net<br>currency<br>exposure | Assets             | Liabilities        | Off-<br>balance<br>sheet<br>items | Net<br>currency<br>exposure |
| ----- Rupees in '000 ----- |                    |                    |                                |                             |                    |                    |                                   |                             |
| Pakistan rupee             | 115,370,521        | 102,621,441        | 2,034,532                      | 14,783,612                  | 122,258,283        | 109,899,471        | (1,723,660)                       | 10,635,151                  |
| United States dollar       | 4,880,975          | 4,947,712          | (1,089,473)                    | (1,156,210)                 | 4,018,270          | 3,792,079          | 1,157,200                         | 1,383,391                   |
| Great Britain pound        | 166,442            | 626,303            | (601,404)                      | (1,061,265)                 | 245,112            | 483,776            | 404,197                           | 165,534                     |
| Euro                       | 66,071             | 1,553,129          | (360,674)                      | (1,847,732)                 | 79,183             | 1,108,627          | 237,766                           | (791,678)                   |
| Arab Emirates Dirham       | 164,546            | 147,304            | -                              | 17,242                      | 171,855            | 105,612            | (71,621)                          | (5,378)                     |
| Japanese Yen               | 7,896              | 2,466              | -                              | 5,430                       | 23,611             | 19,565             | -                                 | 4,046                       |
| Canadian Dollar            | 935                | -                  | -                              | 935                         | 1,110              | -                  | (3,882)                           | (2,772)                     |
| Saudi Riyal                | -                  | -                  | -                              | -                           | 160                | -                  | -                                 | 160                         |
| Singapore Dollar           | 23                 | 23                 | -                              | -                           | 22                 | -                  | -                                 | 22                          |
| Swiss Frank                | 3,190              | -                  | 17,019                         | 20,209                      | 1,027              | -                  | -                                 | 1,027                       |
| Malaysian Ringit           | 2                  | 2                  | -                              | -                           | -                  | -                  | -                                 | -                           |
|                            | <b>120,660,601</b> | <b>109,898,380</b> | <b>-</b>                       | <b>10,762,221</b>           | <b>126,798,633</b> | <b>115,409,130</b> | <b>-</b>                          | <b>11,389,503</b>           |

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

### 41.3.3 Equity position risk

Equity position risk is the risk to earning from adverse changes in the value of equity portfolio of the Bank.

Counter parties limits are considered to limit risk concentration. The Bank invests in those equities which are Shariah compliant as advised by the Shariah advisor.

## 41.3.4 MISMATCH OF YIELD RATE SENSITIVE ASSETS AND LIABILITIES

2017

Exposed to Yield/ profit rate risk

| Effective yield | Total | Over 6 months to |                    |                    |        |                   |                   | Non-profit bearing financial instruments |
|-----------------|-------|------------------|--------------------|--------------------|--------|-------------------|-------------------|--|
|                 |       | Upto 1 month     | Over 1 to 3 months | Over 3 to 6 months | 1 year | Over 1 to 2 years | Over 2 to 3 years |  |

## On-balance sheet financial instruments

| Rupees in '000                        |       |             |            |            |            |           |           |           |           |         |            |
|---------------------------------------|-------|-------------|------------|------------|------------|-----------|-----------|-----------|-----------|---------|------------|
| <b>Assets</b>                         |       |             |            |            |            |           |           |           |           |         |            |
| Cash and balances with treasury banks | -     | -           | -          | -          | -          | -         | -         | -         | -         | -       | 8,915,585  |
| Balances with other banks             | 5.19% | 2,044,820   | -          | -          | -          | -         | -         | -         | -         | -       | 887,345    |
| Due from financial institutions       | 5.53% | 5,095,411   | -          | 5,095,411  | -          | -         | -         | -         | -         | -       | -          |
| Investments                           | 5.58% | 19,393,486  | 650,350    | 7,190,990  | 5,095,411  | 2,538,651 | 995,659   | 331,364   | -         | -       | 1,030,463  |
| Islamic financing and related assets  | 8.57% | 71,203,056  | 20,085,355 | 15,859,320 | 17,110,344 | 9,772,382 | 63,129    | 60,002    | 209,892   | 781,059 | 6,806,339  |
| Other assets                          | -     | 4,753,271   | -          | -          | -          | -         | -         | -         | -         | -       | 4,753,271  |
|                                       |       | 112,292,974 | 23,130,175 | 16,509,670 | 29,396,745 | 9,772,382 | 6,111,243 | 2,601,780 | 1,055,661 | 541,256 | 22,393,003 |

## Liabilities

|                               |       |             |            |           |           |   |   |   |   |   |            |
|-------------------------------|-------|-------------|------------|-----------|-----------|---|---|---|---|---|------------|
| Bills payable                 | -     | 1,691,141   | -          | -         | -         | - | - | - | - | - | 1,691,141  |
| Due to financial institutions | 2.00% | 3,209,400   | -          | 1,702,700 | 1,506,700 | - | - | - | - | - | -          |
| Deposits and other accounts   | 4.20% | 98,589,904  | 73,067,199 | -         | -         | - | - | - | - | - | 25,522,705 |
| Sub-ordinated loans           | 7.12% | 2,642,852   | 2,642,852  | -         | -         | - | - | - | - | - | -          |
| Other liabilities             | -     | 3,588,767   | -          | -         | -         | - | - | - | - | - | 3,588,767  |
|                               |       | 109,722,064 | 73,067,199 | 4,345,552 | 1,506,700 | - | - | - | - | - | 30,802,613 |

## On-balance sheet gap

|  |           |              |            |            |           |           |           |           |         |         |             |
|--|-----------|--------------|------------|------------|-----------|-----------|-----------|-----------|---------|---------|-------------|
|  | 2,570,910 | (49,937,024) | 12,164,118 | 27,890,045 | 9,772,382 | 6,111,243 | 2,601,780 | 1,055,661 | 541,256 | 781,059 | (8,409,610) |
|--|-----------|--------------|------------|------------|-----------|-----------|-----------|-----------|---------|---------|-------------|

## Non financial assets

|                        |           |
|------------------------|-----------|
| Operating fixed assets | 4,082,153 |
| Other assets           | 1,046,489 |
| Deferred tax assets    | 3,238,985 |
|                        | 8,367,627 |

## Non financial liabilities

|                   |         |
|-------------------|---------|
| Other liabilities | 176,316 |
|-------------------|---------|

## Total net assets

|  |            |
|--|------------|
|  | 10,762,221 |
|--|------------|

## Total yield / profit risk sensitivity gap

|  |              |            |            |           |           |           |           |         |         |             |
|--|--------------|------------|------------|-----------|-----------|-----------|-----------|---------|---------|-------------|
|  | (49,937,024) | 12,164,118 | 27,890,045 | 9,772,382 | 6,111,243 | 2,601,780 | 1,055,661 | 541,256 | 781,059 | (8,409,610) |
|--|--------------|------------|------------|-----------|-----------|-----------|-----------|---------|---------|-------------|

## Cumulative yield / profit risk sensitivity gap

|  |              |              |             |           |           |           |           |            |            |           |
|--|--------------|--------------|-------------|-----------|-----------|-----------|-----------|------------|------------|-----------|
|  | (49,937,024) | (37,772,906) | (9,882,861) | (110,479) | 6,000,764 | 8,602,544 | 9,658,205 | 10,199,461 | 10,980,520 | 2,570,910 |
|--|--------------|--------------|-------------|-----------|-----------|-----------|-----------|------------|------------|-----------|

EY

MISMATCH OF YIELD RATE SENSITIVE ASSETS AND LIABILITIES - (continued)

2016

Exposed to Yield/ profit rate risk

| On-balance sheet financial instruments                | Effective yield | Total       | Rupees in '000 |                    |                    |                         |                   |                   | Non-profit bearing financial instruments |                   |                    |                |             |
|---|-----------------|-------------|----------------|--------------------|--------------------|-------------------------|-------------------|-------------------|--|-------------------|--------------------|----------------|-------------|
|   |                 |             | Upto 1 month   | Over 1 to 3 months | Over 3 to 6 months | Over 6 months to 1 year | Over 1 to 2 years | Over 2 to 3 years |  | Over 3 to 5 years | Over 5 to 10 years | Above 10 years |             |
| <b>Assets</b>   |                 |             |                |                    |                    |                         |                   |                   |  |                   |                    |                |             |
| Cash and balances with treasury banks                 | -               | 18,725,350  | -              | -                  | -                  | -                       | -                 | -                 | -  | -                 | -                  | -              | 18,725,350  |
| Balances with other banks                             | 5.35%           | 984,125     | 697,457        | -                  | -                  | -                       | -                 | -                 | -  | -                 | -                  | -              | 286,668     |
| Due from financial institutions                       | 5.03%           | 2,692,703   | -              | 2,692,703          | -                  | -                       | -                 | -                 | -  | -                 | -                  | -              | -           |
| Investments   | 4.81%           | 24,601,518  | 240,308        | -                  | 22,368,816         | -                       | -                 | 8,981             | 1,048,426                                | -                 | -                  | -              | 934,987     |
| Islamic financing and related assets                  | 8.79%           | 66,785,266  | 14,136,367     | 20,379,194         | 16,406,400         | 11,061,946              | -                 | 826,773           | 174,663                                  | 334,517           | 433,951            | -              | 2,849,105   |
| Other assets  | -               | 4,415,388   | -              | -                  | -                  | -                       | -                 | -                 | -  | -                 | -                  | -              | 4,415,388   |
|   |                 | 118,204,350 | 15,074,132     | 23,071,897         | 38,775,216         | 11,061,946              | -                 | 826,773           | 1,223,089                                | 334,517           | 433,951            | -              | 27,217,498  |
| <b>Liabilities</b>                                    |                 |             |                |                    |                    |                         |                   |                   |  |                   |                    |                |             |
| Bills payable   | -               | 1,386,390   | -              | -                  | -                  | -                       | -                 | -                 | -  | -                 | -                  | -              | 1,386,390   |
| Due to financial institutions                         | 2.01%           | 3,223,109   | 61,800         | 1,732,800          | 1,428,509          | -                       | -                 | -                 | -  | -                 | -                  | -              | -           |
| Deposits and other accounts                           | 4.46%           | 105,843,084 | 80,149,754     | -                  | -                  | -                       | -                 | -                 | -  | -                 | -                  | -              | 25,693,330  |
| Sub-ordinated loans                                   | 7.31%           | 1,428,568   | -              | 1,428,568          | -                  | -                       | -                 | -                 | -  | -                 | -                  | -              | -           |
| Other liabilities                                     | -               | 3,496,464   | -              | -                  | -                  | -                       | -                 | -                 | -  | -                 | -                  | -              | 3,496,464   |
|   |                 | 115,377,615 | 80,211,554     | 3,161,368          | 1,428,509          | -                       | -                 | -                 | -  | -                 | -                  | -              | 30,576,184  |
| <b>On-balance sheet gap</b>                           |                 | 2,826,735   | (65,137,422)   | 19,910,529         | 37,346,707         | 11,061,946              | -                 | 826,773           | 1,223,089                                | 334,517           | 433,951            | -              | (3,364,686) |
| <b>Non financial assets</b>                           |                 |             |                |                    |                    |                         |                   |                   |  |                   |                    |                |             |
| Operating fixed assets                                |                 | 4,502,269   |                |                    |                    |                         |                   |                   |  |                   |                    |                |             |
| Other assets  |                 | 1,218,877   |                |                    |                    |                         |                   |                   |  |                   |                    |                |             |
| Deferred tax asset                                    |                 | 2,873,137   |                |                    |                    |                         |                   |                   |  |                   |                    |                |             |
|   |                 | 8,594,283   |                |                    |                    |                         |                   |                   |  |                   |                    |                |             |
| <b>Non financial liabilities</b>                      |                 |             |                |                    |                    |                         |                   |                   |  |                   |                    |                |             |
| Other liabilities                                     |                 | 31,515      |                |                    |                    |                         |                   |                   |  |                   |                    |                |             |
| <b>Total net assets</b>                               |                 | 11,389,503  |                |                    |                    |                         |                   |                   |  |                   |                    |                |             |
| <b>Total yield / profit risk sensitivity gap</b>      |                 |             | (65,137,422)   | 19,910,529         | 37,346,707         | 11,061,946              | -                 | 826,773           | 1,223,089                                | 334,517           | 433,951            | -              | (3,364,686) |
| <b>Cumulative yield / profit risk sensitivity gap</b> |                 |             | (65,137,422)   | (45,226,893)       | (7,880,186)        | 3,181,760               | 4,008,533         | 4,199,864         | 5,422,953                                | 5,757,470         | 6,191,421          | -              | 2,826,735   |

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates.

41.4 LIQUIDITY RISK

Liquidity risk is defined as the potential loss arising from the Bank's inability to meet its obligation when due.

The Liquidity Coverage Ratio (LCR) is a quantitative requirement which aims to ensure that a bank maintains an adequate level of unencumbered high quality liquid assets which can easily be converted into cash at little or no loss of value in private markets, to withstand an acute liquidity stress scenario over a 30-day horizon at both the entity and consolidated level.

LCR has been defined as 
$$\frac{\text{Stock of high quality liquid assets (HQLAs)}}{\text{Total net cash outflows over the next 30 calendar days}}$$

Liquid assets comprise of high quality assets that can be readily sold or used as collateral to obtain funds in a range of stress scenarios. There are two categories of assets included in the stock of HQLAs, viz. Level 1 and Level 2 assets. Level 1 assets are with 0% haircut while Level 2A assets are with a minimum 15% haircut and Level 2B Assets, with a maximum 50% haircut.

The term "Total net cash outflows" is defined as the total expected cash outflows minus total expected cash inflows in the stress scenario for the subsequent 30 calendar days.

The most significant drivers of the Bank's cash outflow were Retail and unsecured wholesale funding. Unsecured funding transactions include funds provided by non-financial corporate customers, sovereigns, central banks, multilateral development banks and PSEs.

The objective of NSFR is to reduce funding risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress.

NSFR has been defined as 
$$\frac{\text{Available amount of Stable Funding (Funding Source)}}{\text{Required amount of Stable Funding (Funding User)}}$$

The amount of available stable funding (ASF) is measured mainly on the broad characteristics of the relative stability of a bank's funding sources (equity & liabilities), contractual maturity of its liabilities and the difference in the tendency to withdraw their funding by different types of funding providers.

The amount of required stable funding (RSF) is measured based on the broad characteristics of the liquidity risk profile of a bank's assets and off-balance sheet (OBS) exposures.

As per bank's Investment Policy ALCO shall be the management's governing committee mainly responsible for Market and Liquidity risks pertaining to balance sheet and off-balance sheet items. It is ALCO's responsibility to establish and monitor liquidity targets as well as strategies and tactics to meet those targets. Furthermore, ALCO will ensure that sufficient liquidity is available for unanticipated contingencies. ALCO monitors the maintenance of liquidity ratios, depositor's concentration both in terms of overall funding mix and avoidance of reliance on large individual deposits. The Board of Directors have approved a comprehensive liquidity management policy.

Management of liquidity is centrally managed through the Treasury within the bank. The Bank has sufficient liquidity sources for outflows and management is of the view that we are adequately liquid as required by LCR & NSFR regulations. The Asset and Liability Management Committee (ALCO) of the Bank is responsible for oversight of liquidity management and review of positions on monthly basis and/or on need basis based on systemic risks.

The Bank has a comprehensive Contingency plan that specifies strategies for dealing with the liquidity problem and outlines particular funding sources that would be drawn upon as part of the overall strategy. It also outlines trigger points that would be indicative of the crisis and lays the course of action taken by the institution for handling such a crises.

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## 41.4.1 MATURITIES OF ASSETS AND LIABILITIES

## 41.4.1.1 Maturities of assets and liabilities based on expected maturities

During the year, the Bank has conducted a behavioural study based on five years data to determine the expected maturities of non contractual deposit ( saving and current). Accordingly, Saving and current accounts have been bucketed on the basis of aforementioned study conducted by the Bank as disclosed below.

2017

|   | 2017        |              |                    |                    |                         |                   |                   |                   |                    |                |
|---|-------------|--------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|----------------|
|   | Total       | Upto 1 month | Over 1 to 3 months | Over 3 to 6 months | Over 6 months to 1 year | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 5 years | Over 5 to 10 years | Above 10 years |
| Rupees in '000                                |             |              |                    |                    |                         |                   |                   |                   |                    |                |
| <b>ASSETS</b>                                 |             |              |                    |                    |                         |                   |                   |                   |                    |                |
| Cash and balances with treasury banks         | 8,915,585   | 8,915,585    | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              |
| Balances with other banks                     | 2,932,165   | 2,932,165    | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              |
| Due from financial institutions               | 5,095,411   | -            | -                  | 5,095,411          | -                       | -                 | -                 | -                 | -                  | -              |
| Investments                                   | 19,393,486  | 910,236      | 113,060            | -                  | 2,643,695               | 7,988,176         | 2,538,651         | 1,916,304         | 3,283,364          | -              |
| Islamic financing and related assets          | 71,203,056  | 13,927,246   | 10,604,753         | 11,788,700         | 5,635,559               | 7,562,303         | 7,105,858         | 11,258,982        | 2,259,508          | 1,060,147      |
| Operating fixed assets                        | 4,082,153   | 20,783       | 41,566             | 568,549            | 124,698                 | 249,397           | 234,600           | 338,969           | 707,893            | 1,795,698      |
| Deferred tax assets                           | 3,238,985   | -            | -                  | -                  | 255,948                 | 649,854           | 655,258           | 1,139,923         | 203,471            | 334,531        |
| Other assets                                  | 5,799,760   | 1,252,803    | 955,771            | 1,145,097          | 1,380,068               | 326,827           | 58,178            | 681,016           | -                  | -              |
|   | 120,660,601 | 27,958,818   | 11,715,150         | 18,597,757         | 10,039,968              | 16,776,557        | 10,592,545        | 15,335,194        | 6,454,236          | 3,190,376      |
| <b>LIABILITIES</b>                            |             |              |                    |                    |                         |                   |                   |                   |                    |                |
| Bills payable                                 | 1,691,141   | 1,691,141    | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              |
| Due to financial institutions                 | 3,209,400   | -            | 1,702,700          | 1,506,700          | -                       | -                 | -                 | -                 | -                  | -              |
| Deposits and other accounts                   | 98,589,904  | 11,460,748   | 12,392,920         | 8,831,822          | 11,794,559              | 12,471,429        | 12,587,398        | 13,189,467        | 11,896,171         | 3,965,390      |
| Sub-ordinated loans                           | 2,642,852   | -            | 142,858            | -                  | 142,858                 | 285,716           | 285,716           | 285,704           | 1,500,000          | -              |
| Deferred tax liabilities                      | -           | -            | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              |
| Other liabilities                             | 3,765,083   | 1,503,582    | 1,072,940          | 108,167            | 284,089                 | 297,939           | 236,372           | 261,994           | -                  | -              |
|   | 109,898,380 | 14,655,471   | 15,311,418         | 10,446,689         | 12,221,506              | 13,055,084        | 13,109,486        | 13,737,165        | 13,396,171         | 3,965,390      |
| <b>NET ASSETS</b>                             | 10,762,221  | 13,303,347   | (3,596,268)        | 8,151,068          | (2,181,538)             | 3,721,473         | (2,516,941)       | 1,598,029         | (6,941,935)        | (775,014)      |
| <b>REPRESENTED BY</b>                         |             |              |                    |                    |                         |                   |                   |                   |                    |                |
| Share capital                                 | 13,739,628  |              |                    |                    |                         |                   |                   |                   |                    |                |
| Discount on issuance of shares - net          | (632,766)   |              |                    |                    |                         |                   |                   |                   |                    |                |
| Reserves                                      | 159,348     |              |                    |                    |                         |                   |                   |                   |                    |                |
| Accumulated loss                              | (2,675,723) |              |                    |                    |                         |                   |                   |                   |                    |                |
| Surplus on revaluation of assets - net of tax | 171,734     |              |                    |                    |                         |                   |                   |                   |                    |                |
|   | 10,762,221  |              |                    |                    |                         |                   |                   |                   |                    |                |

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## Maturities of assets and liabilities based on expected maturities - (continued)

2016

|   | Total       | Rupees in '000 |                    |                    |                         |                   |                   |                   |                    |                |           |           |   |
|---|-------------|----------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|----------------|-----------|-----------|---|
|   |             | Upto 1 month   | Over 1 to 3 months | Over 3 to 6 months | Over 6 months to 1 year | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 5 years | Over 5 to 10 years | Above 10 years |           |           |   |
| <b>ASSETS</b>                                 |             |                |                    |                    |                         |                   |                   |                   |                    |                |           |           |   |
| Cash and balances with treasury banks         | 18,725,350  | 18,725,350     | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -         | -         | - |
| Balances with other banks                     | 984,125     | 984,125        | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -         | -         | - |
| Due from financial institutions               | 2,692,703   | -              | 2,692,703          | -                  | -                       | -                 | -                 | -                 | -                  | -              | -         | -         | - |
| Investments                                   | 24,601,518  | 886,171        | 30,156             | 13,974,274         | 61,975                  | 2,707,666         | 2,333,981         | 2,007,295         | 2,600,000          | 1,844,143      | 1,221,586 | 2,422,815 |   |
| Islamic financing and related assets          | 66,785,266  | 13,013,281     | 9,297,719          | 9,952,866          | 6,497,529               | 8,536,495         | 7,460,114         | 8,961,533         | 1,844,143          | 528,609        | 868,564   | 9,876     |   |
| Operating fixed assets                        | 4,502,269   | 18,196         | 36,387             | 617,814            | 109,160                 | 218,320           | 219,647           | 331,321           | 1,017,971          | 436,871        | 5,851,192 | 3,644,401 |   |
| Deferred tax assets                           | 2,873,137   | -              | -                  | -                  | 50,743                  | 282,316           | 653,543           | 1,017,971         | 868,564            | -              | -         | -         |   |
| Other assets                                  | 5,634,265   | 1,243,191      | 846,837            | 534,572            | 2,080,281               | 411,143           | 71,494            | 436,871           | 9,876              | -              | -         | -         |   |
|   | 126,798,633 | 34,870,314     | 12,903,802         | 25,079,526         | 8,799,688               | 12,155,940        | 10,738,779        | 12,754,991        | 5,851,192          | 3,644,401      |           |           |   |
| <b>LIABILITIES</b>                            |             |                |                    |                    |                         |                   |                   |                   |                    |                |           |           |   |
| Bills payable                                 | 1,386,390   | 1,386,390      | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -         | -         |   |
| Due to financial institutions                 | 3,223,109   | 61,800         | 1,732,800          | 1,428,509          | -                       | -                 | -                 | -                 | -                  | -              | -         | -         |   |
| Deposits and other accounts                   | 105,843,084 | 14,950,322     | 15,959,235         | 8,722,394          | 12,167,426              | 12,579,337        | 12,537,063        | 13,095,028        | 11,874,209         | 3,958,070      |           |           |   |
| Subordinated loans                            | 1,428,568   | -              | 142,856            | -                  | 142,857                 | 285,714           | 285,714           | 571,427           | -                  | -              | -         | -         |   |
| Deferred tax liabilities                      | -           | -              | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -         | -         |   |
| Other liabilities                             | 3,527,979   | 1,372,265      | 717,883            | 45,292             | 97,885                  | 260,894           | 353,131           | 680,023           | 606                | -              | -         | -         |   |
|   | 115,409,130 | 17,770,777     | 18,562,774         | 10,196,195         | 12,408,168              | 13,125,945        | 13,175,908        | 14,346,478        | 11,874,815         | 3,958,070      |           |           |   |
| <b>NET ASSETS</b>                             | 11,389,503  | 17,099,537     | (5,648,972)        | 14,883,331         | (3,608,480)             | (970,005)         | (2,437,129)       | (1,591,487)       | (6,023,623)        | (313,669)      |           |           |   |
| <b>REPRESENTED BY</b>                         |             |                |                    |                    |                         |                   |                   |                   |                    |                |           |           |   |
| Share capital                                 | 13,739,626  |                |                    |                    |                         |                   |                   |                   |                    |                |           |           |   |
| Discount on issuance of shares - net          | (632,766)   |                |                    |                    |                         |                   |                   |                   |                    |                |           |           |   |
| Reserves                                      | 159,348     |                |                    |                    |                         |                   |                   |                   |                    |                |           |           |   |
| Accumulated loss                              | (2,281,369) |                |                    |                    |                         |                   |                   |                   |                    |                |           |           |   |
| Surplus on revaluation of assets - net of tax | 404,662     |                |                    |                    |                         |                   |                   |                   |                    |                |           |           |   |
|   | 11,389,503  |                |                    |                    |                         |                   |                   |                   |                    |                |           |           |   |

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41.4.1.2 Maturities of assets and liabilities based on contractual maturities

2017

|   | Total       | Rupees in '000 |                    |                    |                         |                   |                   |                   |                    |                |   |   |
|---|-------------|----------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|----------------|---|---|
|   |             | Upto 1 month   | Over 1 to 3 months | Over 3 to 6 months | Over 6 months to 1 year | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 5 years | Over 5 to 10 years | Above 10 years |   |   |
| <b>ASSETS</b>                                 |             |                |                    |                    |                         |                   |                   |                   |                    |                |   |   |
| Cash and balances with treasury banks         | 8,915,585   | 8,915,585      | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | - | - |
| Balances with other banks                     | 2,932,165   | 2,932,165      | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | - | - |
| Due from financial institutions               | 5,095,411   | -              | -                  | 5,095,411          | -                       | -                 | -                 | -                 | -                  | -              | - | - |
| Investments                                   | 19,393,486  | 910,236        | 113,060            | -                  | 2,643,695               | 7,988,176         | 2,538,651         | 1,916,304         | 3,283,364          | -              | - | - |
| Islamic financing and related assets          | 71,203,056  | 13,927,246     | 10,604,753         | 11,788,700         | 5,635,559               | 7,562,303         | 7,105,858         | 11,258,982        | 2,259,508          | 1,060,147      | - | - |
| Operating fixed assets                        | 4,082,153   | 20,783         | 41,566             | 568,549            | 124,698                 | 249,397           | 234,600           | 338,969           | 707,893            | 1,795,698      | - | - |
| Deferred tax assets                           | 3,238,985   | -              | -                  | -                  | 255,948                 | 649,854           | 655,258           | 1,139,923         | 203,471            | 334,531        | - | - |
| Other assets                                  | 5,799,760   | 1,252,803      | 955,771            | 1,145,097          | 1,380,068               | 326,827           | 58,178            | 681,016           | -                  | -              | - | - |
|   | 120,660,601 | 27,958,818     | 11,715,150         | 18,597,757         | 10,039,968              | 16,776,557        | 10,592,545        | 15,335,194        | 6,454,236          | 3,190,376      | - | - |
| <b>LIABILITIES</b>                            |             |                |                    |                    |                         |                   |                   |                   |                    |                |   |   |
| Bills payable                                 | 1,691,141   | 1,691,141      | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | - | - |
| Due to financial institutions                 | 3,209,400   | -              | 1,702,700          | 1,506,700          | -                       | -                 | -                 | -                 | -                  | -              | - | - |
| Deposits and other accounts                   | 98,589,904  | 82,837,774     | 6,048,295          | 3,280,276          | 3,863,778               | 575,258           | 691,227           | 1,293,296         | -                  | -              | - | - |
| Sub-ordinated loans                           | 2,642,852   | -              | 142,858            | -                  | 142,858                 | 285,716           | 285,716           | 285,704           | 1,500,000          | -              | - | - |
| Deferred tax liabilities                      | -           | -              | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | - | - |
| Other liabilities                             | 3,765,083   | 1,503,582      | 1,072,940          | 108,167            | 284,089                 | 297,939           | 236,372           | 261,994           | -                  | -              | - | - |
|   | 109,898,380 | 86,032,497     | 8,966,793          | 4,895,143          | 4,290,725               | 1,158,913         | 1,213,315         | 1,840,994         | 1,500,000          | -              | - | - |
| <b>NET ASSETS</b>                             | 10,762,221  | (58,073,679)   | 2,748,357          | 13,702,614         | 5,749,243               | 15,617,644        | 9,379,230         | 13,494,200        | 4,954,236          | 3,190,376      | - | - |
| <b>REPRESENTED BY</b>                         |             |                |                    |                    |                         |                   |                   |                   |                    |                |   |   |
| Share capital                                 | 13,739,628  |                |                    |                    |                         |                   |                   |                   |                    |                |   |   |
| Discount on issuance of shares - net          | (632,766)   |                |                    |                    |                         |                   |                   |                   |                    |                |   |   |
| Reserves                                      | 159,348     |                |                    |                    |                         |                   |                   |                   |                    |                |   |   |
| Accumulated Loss                              | (2,675,723) |                |                    |                    |                         |                   |                   |                   |                    |                |   |   |
| Surplus on revaluation of assets - net of tax | 171,734     |                |                    |                    |                         |                   |                   |                   |                    |                |   |   |
|   | 10,762,221  |                |                    |                    |                         |                   |                   |                   |                    |                |   |   |

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## Maturities of assets and liabilities based on contractual maturities - (continued)

2016

|   | Total       | Rupees in '000 |                    |                    |                         |                   |                   |                   |                    |                |           |   |   |   |
|---|-------------|----------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|----------------|-----------|---|---|---|
|   |             | Upto 1 month   | Over 1 to 3 months | Over 3 to 6 months | Over 6 months to 1 year | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 5 years | Over 5 to 10 years | Above 10 years |           |   |   |   |
| <b>ASSETS</b>                                 |             |                |                    |                    |                         |                   |                   |                   |                    |                |           |   |   |   |
| Cash and balances with treasury banks         | 18,725,350  | -              | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -         | - | - | - |
| Balances with other banks                     | 984,125     | -              | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -         | - | - | - |
| Due from financial institutions               | 2,692,703   | 2,692,703      | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -         | - | - | - |
| Investments                                   | 24,601,518  | 886,171        | 30,156             | 13,974,274         | 61,975                  | 2,707,666         | 2,333,981         | 2,007,295         | 2,600,000          | 1,844,143      | 1,221,586 | - | - | - |
| Islamic financing and related assets          | 66,785,266  | 13,013,281     | 9,297,719          | 9,952,866          | 6,497,529               | 8,536,495         | 7,460,114         | 8,961,533         | 1,844,143          | 528,609        | 2,422,815 | - | - | - |
| Operating fixed assets                        | 4,502,269   | 18,196         | 36,387             | 617,814            | 109,160                 | 218,320           | 219,647           | 331,321           | 868,564            | -              | -         | - | - | - |
| Deferred tax assets                           | 2,873,137   | -              | -                  | -                  | 50,743                  | 262,316           | 653,543           | 1,017,971         | 9,876              | -              | -         | - | - | - |
| Other assets                                  | 5,634,265   | 1,243,191      | 846,837            | 534,572            | 2,080,281               | 411,143           | 71,494            | 436,871           | 5,851,192          | 3,644,401      | -         | - | - | - |
|   | 126,798,633 | 34,870,314     | 12,903,802         | 25,079,526         | 8,799,688               | 12,155,940        | 10,738,779        | 12,754,991        | 5,851,192          | 3,644,401      | -         | - | - | - |
| <b>LIABILITIES</b>                            |             |                |                    |                    |                         |                   |                   |                   |                    |                |           |   |   |   |
| Bills payable                                 | 1,386,390   | 1,386,390      | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -         | - | - | - |
| Due to financial institutions                 | 3,223,109   | 61,800         | 1,732,800          | 1,428,509          | -                       | -                 | -                 | -                 | -                  | -              | -         | - | - | - |
| Deposits and other accounts                   | 105,843,084 | 86,195,575     | 9,626,324          | 3,181,097          | 4,251,287               | 705,128           | 662,854           | 1,220,819         | -                  | -              | -         | - | - | - |
| Sub-ordinated loans                           | 1,428,568   | -              | 142,857            | -                  | 142,857                 | 285,714           | 285,714           | 571,426           | -                  | -              | -         | - | - | - |
| Deferred tax liabilities                      | -           | -              | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -         | - | - | - |
| Other liabilities                             | 3,527,979   | 1,372,265      | 717,883            | 45,292             | 97,885                  | 260,894           | 353,131           | 680,023           | 606                | -              | -         | - | - | - |
|   | 115,409,130 | 89,016,030     | 12,219,864         | 4,654,898          | 4,492,029               | 1,251,736         | 1,301,699         | 2,472,268         | 606                | -              | -         | - | - | - |
|   | 11,389,503  | (54,145,716)   | 683,938            | 20,424,628         | 4,307,659               | 10,904,204        | 9,437,080         | 10,282,723        | 5,850,586          | 3,644,401      | -         | - | - | - |
| <b>NET ASSETS REPRESENTED BY</b>              |             |                |                    |                    |                         |                   |                   |                   |                    |                |           |   |   |   |
| Share capital                                 | 13,739,628  | -              | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -         | - | - | - |
| Discount on issuance of shares - net          | (632,766)   | -              | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -         | - | - | - |
| Reserves                                      | 159,348     | -              | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -         | - | - | - |
| Accumulated loss                              | (2,281,369) | -              | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -         | - | - | - |
| Surplus on revaluation of assets - net of tax | 404,662     | -              | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -         | - | - | - |
|   | 11,389,503  | -              | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -         | - | - | - |

Current and saving deposits have been classified under maturity upto one month as these do not have any contractual maturity. *En*



## 41.4.2 Liquidity Coverage Ratio

|   | 2017                             |                                |
|---|----------------------------------|--------------------------------|
|   | Total Unweighted Value (Average) | Total Weighted Value (Average) |
|   | ------(Rupees in '000)-----      |                                |
| <b>HIGHQUALITY LIQUID ASSETS</b>  |                                  |                                |
| 1 Total high quality liquid assets (HQLA)                                   | -                                | 24,576,501                     |
| <b>CASH OUTFLOWS</b>  |                                  |                                |
| Retail deposits and deposits from small business customers of which:        | 62,545,725                       | 6,254,572                      |
| 2.1 -stable deposit   | -                                | -                              |
| 2.2 -Less stable deposit  | 62,545,725                       | 6,254,572                      |
| 3 Unsecured wholesale funding of which:                                     | 36,044,179                       | 19,935,256                     |
| 3.1 -Operational deposits (all counterparties)                              | -                                | -                              |
| 3.2 -Non-operational deposits (all counterparties)                          | -                                | -                              |
| 3.3 -Unsecured debt   | 36,044,179                       | 19,935,256                     |
| 4 -Secured wholesale funding  | -                                | -                              |
| 5 Additional requirements of which:   | 1,689,836                        | 145,315                        |
| -Outflows related to derivative exposures and other collateral requirements | -                                | -                              |
| 5.1   | -                                | -                              |
| 5.2 -Outflows related to loss of funding on debt products                   | -                                | -                              |
| 5.3 -Credit and Liquidity facilities  | 1,689,836                        | 145,315                        |
| 6 Other contractual funding obligations                                     | -                                | -                              |
| 7 Other contingent funding obligations                                      | 19,086,593                       | 2,753,972                      |
| 8 <b>TOTAL CASH OUTFLOWS</b>  |                                  | 29,089,115                     |
| <b>CASH INFLOWS</b>   |                                  |                                |
| 9 Secured lending   | -                                | -                              |
| 10 Inflows from fully performing exposures                                  | 10,664,026                       | 5,333,901                      |
| 11 Other Cash inflows   | 2,375,797                        | 2,181,501                      |
| 12 <b>TOTAL CASH INFLOWS</b>  |                                  | 7,515,402                      |
| 21 <b>TOTAL HQLA</b>  |                                  | 24,576,501                     |
| 22 <b>TOTAL NET CASH OUTFLOWS</b>   |                                  | 21,573,713                     |
| 23 <b>LIQUIDITY COVERAGE RATIO</b>  |                                  | 113.92%                        |

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## 41.4.3 Net Stability Funding Ratio

|   | 2017                                  |            |                    |            | Weighted value    |
|---|---------------------------------------|------------|--------------------|------------|-------------------|
|   | Unweighted value by residual maturity |            |                    |            |                   |
|   | No Maturity                           | < 6 months | 6 months to < 1 yr | ≥ 1 yr     |                   |
|   | (Rupees in '000)                      |            |                    |            |                   |
| <b>Available Stable Funding (ASF)</b>   |                                       |            |                    |            |                   |
| 1 Capital:  |                                       |            |                    |            |                   |
| 2 -Regulatory capital   | 13,233,340                            | -          | -                  | -          | 13,233,340        |
| 3 -Other capital instruments  | -                                     | -          | -                  | 3,356,086  | 3,356,086         |
| Retail deposits and deposit from small business customers:  |                                       |            |                    |            |                   |
| 4 -Stable deposits  | -                                     | -          | -                  | -          | -                 |
| 6 -Less stable deposits   | 51,089,046                            | 6,907,293  | 2,514,386          | 2,035,000  | 45,980,142        |
| 7 Wholesale funding:  |                                       |            |                    |            |                   |
| 8 -Operational deposits   | -                                     | -          | -                  | -          | -                 |
| 9 -Other wholesale funding  | 28,738,929                            | 5,438,358  | 1,342,112          | 524,781    | 13,423,028        |
| 10 Other liabilities:   |                                       |            |                    |            |                   |
| 11 -NSFR derivative liabilities   | -                                     | -          | -                  | 3,440,667  | -                 |
| 12 other categories   | -                                     | -          | 5,309,538          | -          | 142,045           |
| 13 <b>Total ASF</b>   |                                       |            |                    |            | <b>76,134,641</b> |
| <b>Required Stable Funding (RSF)</b>  |                                       |            |                    |            |                   |
| 14 Total NSFR high-quality liquid assets (HQLA)   | -                                     | -          | -                  | -          | -                 |
| Deposits held at other financial institutions for operational purposes  | 194,297                               | -          | -                  | -          | 97,148            |
| 16 Performing loans and securities:   |                                       |            |                    |            |                   |
| Performing loans to financial institutions  |                                       |            |                    |            |                   |
| 17 secured by Level 1 HQLA  | -                                     | -          | -                  | -          | -                 |
| Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured  |                                       |            |                    |            |                   |
| 18 performing loans to financial institutions   | -                                     | -          | -                  | -          | -                 |
| Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which: |                                       |            |                    |            |                   |
| 19 With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk   | -                                     | 33,057,479 | 5,299,193          | 29,197,878 | 21,173,047        |
| 20 Securities that are not in default and do not qualify as HQLA including exchange-traded equities.  | -                                     | 2,094,569  | 334,497            | 4,209,604  | 2,736,243         |
| 22 Other assets:  |                                       |            |                    |            |                   |
| 23 Physical traded commodities, including gold  | -                                     | -          | -                  | -          | -                 |
| 24 Assets posted as initial margin for derivative contracts   | -                                     | -          | -                  | -          | -                 |
| 25 NSFR derivative assets   | -                                     | -          | -                  | 5,335,027  | 5,335,027         |
| 26 NSFR derivative liabilities before deduction of variation margin posted  | -                                     | -          | -                  | 3,440,667  | (3,440,667)       |
| All other assets not included in the above categories   | 52,911,755                            | -          | -                  | -          | 43,677,563        |
| 28 Off-balance sheet items  | -                                     | -          | -                  | 18,882,069 | 944,103           |
| 29 <b>Total RSF</b>   |                                       |            |                    |            | <b>70,522,464</b> |
| 30 <b>Net Stable Funding Ratio (%)</b>  |                                       |            |                    |            | <b>107.96%</b>    |

## 41.5 OPERATIONAL RISK

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

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

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

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

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

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

### 42.1 General remunerative depositors' pools / IERS pools / Treasury Pools

2017

| Remunerative pools            | Period          | Profit sharing ratio (average) | Profit rate and weightage announcement period | Mudarib share (Rupees in '000) | Percentage of Mudarib Share transferred through Hiba | Profit rate return earned | Profit rate return distributed |
|-------------------------------|-----------------|--------------------------------|---|--------------------------------|--|---------------------------|--------------------------------|
| General Pool - PKR            | Jan to Dec 2017 | 41%                            | Monthly                                       | 1,512,383                      | 20.3%  | 6.2%                      | 4.2%                           |
| General Pool - FCY            | Jan to Dec 2017 | 65%                            | Monthly                                       | 34,539                         | 14.9%  | 1.8%                      | 0.8%                           |
| Islamic Export Refinance Pool | Jan to Dec 2017 | 88%                            | Monthly                                       | -                              | -  | 6.7%                      | 1.9%                           |
| Treasury Pool                 | Jan to Dec 2017 | 80%                            | Variable                                      | -                              | -  | 8.4%                      | 5.7%                           |

## 43. COMPLAINT MANAGEMENT

### 43.1 Mechanism of the Compliant Management Unit

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

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

### 43.2 Lodgement of complaints

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

The Bank receive complaints from following sources :

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

During 2017, the Bank received 3,499 complaints through different channels, out of which 96% were investigated and resolved. The Bank follows defined standards, practices and regulatory requirements in resolution of complaints lodged with the Bank.

### 43.3 Steps of compliant resolution or handling of complaint

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

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

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#### 43.4 New initiatives

The Bank has introduced the Quarterly Branch Service Ladder which includes monitoring Several Key Service indicators at branch level.

Further, the Complaint Management has been fine-tuned by introducing a daily escalation report which is being sent to all Stakeholders to manage closure of complaints within prescribed Turnaround Times. Also a Quarterly Root Cause Analysis has been introduced to deep dive in the actual reason for the complaint.

#### 44. TRUST ACTIVITIES

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

| Category        | Type                               | 2017                  |                                       | 2016                  |                                       |
|-----------------|------------------------------------|-----------------------|---------------------------------------|-----------------------|---------------------------------------|
|                 |                                    | Number of IPS account | Face Value<br>---- (Rupees '000) ---- | Number of IPS account | Face Value<br>---- (Rupees '000) ---- |
| Takaful Company | Government of Pakistan Ijara Sukuk | 1                     | 50,000                                | 1                     | 75,000                                |
| Employee Funds  | Government of Pakistan Ijara Sukuk | 1                     | 50,000                                | 1                     | 50,000                                |
|                 |                                    | <u>2</u>              | <u>100,000</u>                        | <u>2</u>              | <u>125,000</u>                        |


#### 45. GENERAL


45.1 Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate the comparison. No significant reclassification were made during the current period.


45.2 Figures have been rounded off to the nearest thousand rupees.

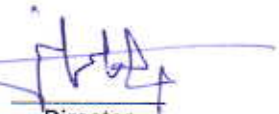
#### 46. DATE OF AUTHORISATION

These financial statements were authorized for issue on 28 February 2018 by the Board of Directors of the Bank. Eya

  
 Chairman

  
 Chief Executive Officer

  
 Director

  
 Director

## STATEMENT SHOWING WRITTEN-OFF FINANCING OR ANY OTHER FINANCIAL RELIEF OF RUPEES 500,000 OR ABOVE DURING THE YEAR ENDED 31 DECEMBER 2017

Annexure - I

| Sr. No. | Name of the borrower        | Name of individuals/ partners/ directors (with NIC No.)   | Father's/ Husband's name   | Outstanding Liabilities at beginning of year |               |                        | Rupees in thousands |          |                               |                 |               |
|---------|-----------------------------|---|--|--|---------------|------------------------|---------------------|----------|-------------------------------|-----------------|---------------|
|         |                             |   |  | Principal                                    | Profit        | Other financial relief | Principal           | Profit   | Waiver Other financial relief | Total (9+10+11) |               |
| 1       | 2                           | 3   | 4  | 5  | 6             | 7                      | 8                   | 9        | 10                            | 11              | 12            |
| 1       | Syed Ahmed Zubair           | Syed Ahmed Zubair (42201-2317520-3)   | Mir Makhdoom Ali   | 11,759                                       | 14,296        | 221                    | 26,276              | -        | 13,631                        | 221             | 14,052        |
| 2       | Kamalia Sugar Mills Limited | Farooq Ahmad Khan (35201-4848795-7)<br>Mrs. Nuzhat Farooq (35201-4415206-6)<br>Omer Farooq Khan (35201-3225687-3)<br>Mrs. Ayesha Khan Rafi (35201-1302205-4)<br>Mrs. Amina Junaid (35201-7574635-2) | Abdul Majeed Khan<br>Farooq Ahmad Khan<br>Farooq Ahmad Khan<br>Shehriar Imtiaz Rafi<br>Junaid Khwaja | 91,679                                       | 9,704         | 10,541                 | 112,124             | -        | -                             | 10,541          | 10,541        |
|         |                             |   |  | <b>103,638</b>                               | <b>24,000</b> | <b>10,762</b>          | <b>138,400</b>      | <b>-</b> | <b>13,631</b>                 | <b>10,762</b>   | <b>24,593</b> |

## STATEMENT SHOWING CHARITY PAID OF RUPEES 100,000 OR ABOVE DURING THE YEAR ENDED 31 DECEMBER 2017

| Names  | Rupees in thousands |                  |
|--|---------------------|------------------|
|  | 31 December 2017    | 31 December 2016 |
| The Citizens Foundation  | 3,000               | -                |
| Afzal Memorial Thalassemia Foundation                                    | 2,000               | 1,750            |
| Bakhtawar Amin Memorial Trust  | 2,000               | 1,000            |
| Family Educational Services Foundation                                   | 1,600               | 1,600            |
| Burn And Children Care Welfare Organization                              | 1,000               | -                |
| Endowment Fund Trust (Gc University Lahore)                              | 1,000               | -                |
| Indus Foundation   | 1,000               | -                |
| Khairun Nisa Hospital Foundation   | 1,000               | -                |
| Lahore Businessmen Association For Rehabilitation Of The Disabled-Punjab | 1,000               | 1,000            |
| Patients Aid Foundation  | 1,000               | -                |
| Patient's Behbud Society For Akhu  | 1,500               | -                |
| Children Health & Education Foundation (Chaef)                           | 795                 | -                |
| Care Foundation  | 500                 | -                |
| Green Crescent Trust   | 500                 | 200              |
| Hira Foundation Academy  | 500                 | -                |
| Ibrahim Trust Gujranwala   | 500                 | -                |
| Sos Children's Village   | 500                 | 500              |
| Sundas Foundation  | 500                 | 500              |
| Usman Sadiq  | 400                 | -                |
| University Of Wah  | 390                 | -                |
| Liaquat National Hospital (Nazia)  | 375                 | -                |
| Akhuwat  | 300                 | 250              |
| Centre For Development Of Social Services                                | 300                 | -                |
| Pakistan Association Of The Blind  | 300                 | -                |
| Pakistan Myasthenic Welfare Org. Pmwo                                    | 300                 | -                |
| Rising Sun Education & Welfare Society                                   | 300                 | -                |
| Attock Sahara Foundation   | 250                 | -                |
| Diabetes Center  | 250                 | -                |
| Bin Qutab Foundation   | 250                 | -                |
| Ghazala Faizi  | 240                 | -                |
| Child Health & Education   | 220                 | -                |
| Afbmtc CmH Hospital Rawalpindi - Patient Amjad Ali                       | 200                 | -                |
| Association For The Rehabilitation Of Challenging People-Sindh           | 200                 | 200              |
| Child Aid Association  | 200                 | -                |
| Orange Tree Foundation   | 200                 | -                |
| Raza Maqsood   | 200                 | -                |
| Sanober Ali  | 200                 | -                |
| Syeda Zeba Haseeb  | 150                 | -                |
| Donald Kulder David  | 140                 | -                |
| Naveed   | 136                 | -                |
| Ittehad Iron Store   | 115                 | -                |
| Shayan Akhtar  | 107                 | -                |
| Abdul Sattar   | 100                 | -                |
| Aziz Jehan Begum Trust   | 100                 | -                |
| Infaq Memorial Trust   | 100                 | -                |
| Haseena Parveen  | 100                 | -                |
| Riffat Kashif  | 100                 | -                |
| Shahida  | 100                 | -                |
| Hameeda Naeem  | 100                 | -                |
| Shaukat Khanum Memorial Trust  | -                   | 6,960            |
| Children Hospital Quetta   | -                   | 3,000            |
| Sayeban Pakistan   | -                   | 1,470            |
| Health And Nutrition Development Society                                 | -                   | 1,000            |
| Cancer Care Hospital And Research Centre                                 | -                   | 500              |
| Students Of Wah Engineering College                                      | -                   | 490              |
| Estanara   | -                   | 250              |
| Shamima Begum  | -                   | 200              |
| Zafar Iqbal  | -                   | 200              |
| Shahnaz Begum  | -                   | 200              |
| Fresh Foundation   | -                   | 200              |
| Fauzia Ameer   | -                   | 150              |
| Najum Un Nisa  | -                   | 150              |
| Mohammad Ameen   | -                   | 125              |
| Nazakat Jehan  | -                   | 100              |
| Ayesha Tahir   | -                   | 100              |
| Abdul Rashed   | -                   | 100              |
|  | <b>26,318</b>       | <b>22,195</b>    |