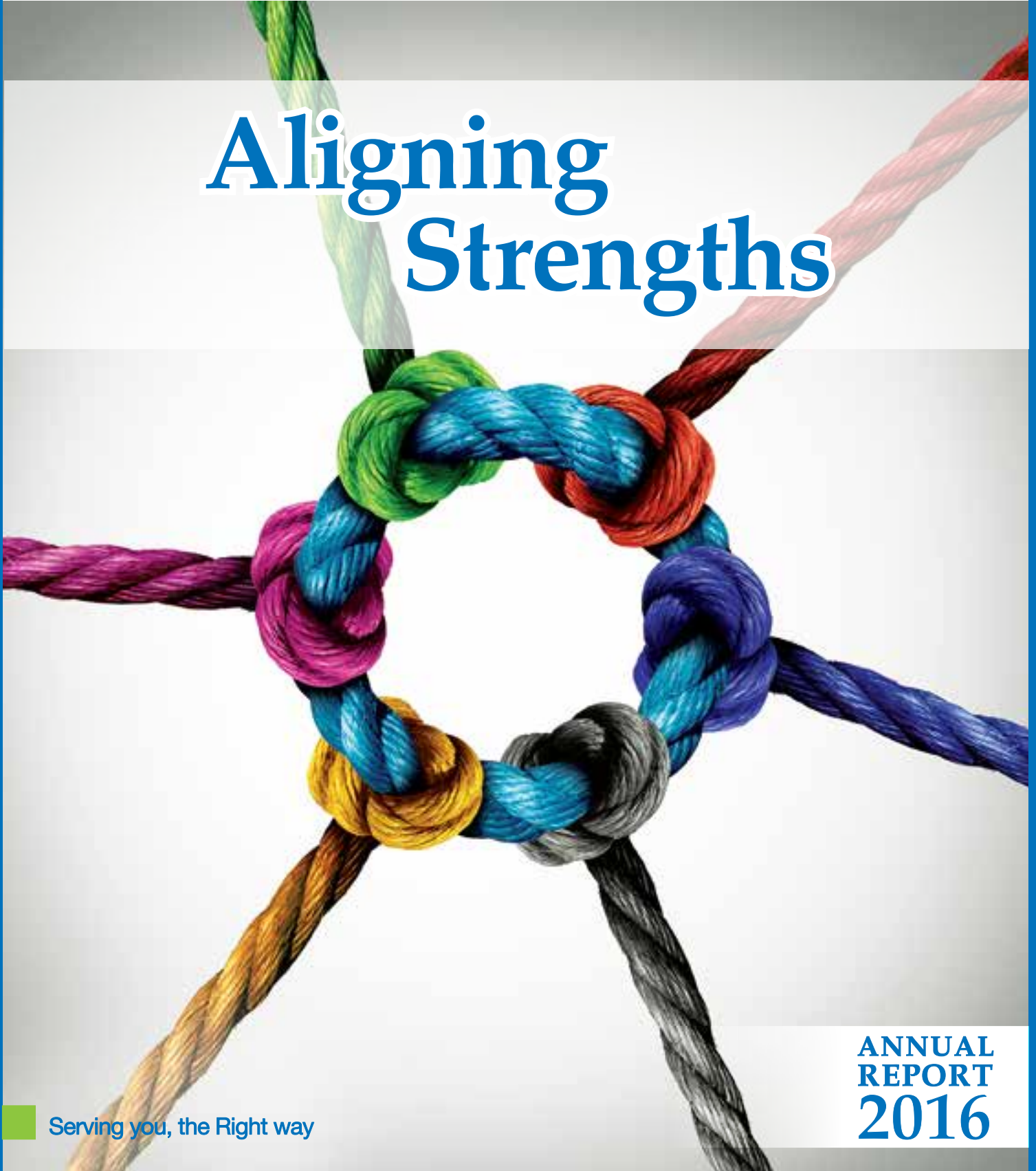


بَيْنَكَ وَالْإِسْلَامِ



BankIslami

# Aligning Strengths



ANNUAL  
REPORT  
2016

Serving you, the Right way

# Vision

The Vision of BankIslami is to be recognized as the leading Authentic Islamic Bank.

# Mission

The Mission of BankIslami is to create value for our stakeholders by offering Authentic, Shariah Compliant and Technologically advanced products and services.

We differentiate ourselves through:

- ◆ Authenticity
- ◆ Innovation
- ◆ Understanding our clients' needs
- ◆ Commitment to excellence and
- ◆ Fast, efficient and seamless delivery of solutions.

As a growing institution, the foundation for our performance lies on our human capital and BankIslami remains committed to becoming an employer of choice, attracting, nurturing and developing talent in a transparent and performance driven culture.

# Core Values

BankIslami is strongly committed towards its core values of:

- ◆ Product authenticity
- ◆ Customer focus
- ◆ Meritocracy
- ◆ Integrity
- ◆ Team work
- ◆ Humility
- ◆ Innovation



# Our Journey at a Glance



2008



Year of Growth & Rebranding

2009



Year of Consolidation

2010



Conquered New Frontiers

2011



Convenience Redefined



The Challenge

Re-Vitalization

Digital Revamping

2015



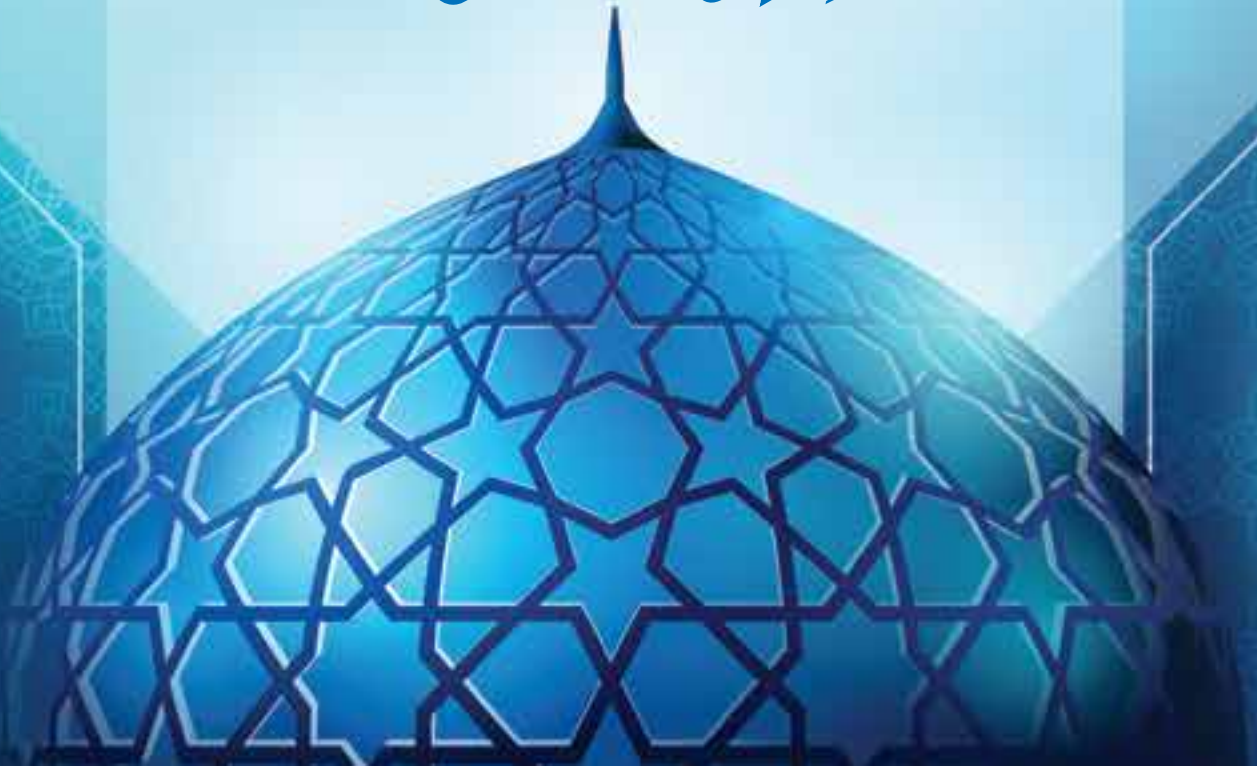
2016



2017



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



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A simple and Authentic name that leaves no confusion about what we do - only Islamic Banking!



**BankIslami**



#### **Motif:**

The blue and green motif sets the background of the logo. Like all 'Authentic' Islamic motifs, it has eight corners filled with flowing lines without any source point. These two features are important part of Islamic art.

#### **Script and Calligrapher:**

We opted for the Arabic script for its versatility and beauty. 'Khat-Sulus', a script which has graced the Islamic monuments from the subcontinent to Turkey and Arabia, including the two most sacred mosques was opted for. It stands for timeless traditions and values that Muslims in these regions have shared for centuries - trade and commerce included. Ustad Shafiq-uz-Zaman, the only person chosen to do calligraphy in the Masjid-e-Nabwi after 500 years, is behind crafting of the logo.

#### **The Crescent:**

A rising crescent in the traditional green encircles the motif and calligraphy. The Crescent has deep association with contemporary and modern Islam. In our logo, it stands for Shariah encompassing everything that we do at BankIslami.

#### **Motif Bands:**

Two motif bands run parallel to each other and frame the symbol. This band is found on many Islamic monuments all around the world including the Holy Kaa'ba.



Branch Network  
**321**



Cities Covered  
**105**

Amount Disbursed  
Rs. **3,623** mn

No. of Cars Financed  
**2,424**



Amount Disbursed  
Rs. **3,230** mn

No. of Houses Financed  
**473**



Takaful Sales

Rs. **223** mn

No. of Takaful Sold

**2,374**



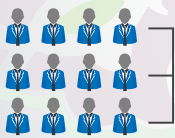
**2016**  
in review

No. of Internet Banking Users

**53,100**

No. of Logins

**828,263**



Number of Accounts

**623,633**

No of VISA Debit Card Holders

**228,872**



Number of Utility Bill Payments

**906,662**



No. of ATMs

**279**

No. of Cash Withdrawals in (000)

**6,316**



Rs. **2.8** Bn Amount of Remittances



MoneyGram.  
money transfer



## Corporate Information

### Board of Directors

Mr. Ali Hussain	Chairman
Mr. Ali Mohd Hussain Ali Al Shamali	
Mr. Ali Raza Siddiqui	
Mr. Fawad Anwar	
Mr. Hasan A. Bilgrami	Chief Executive Officer
Mr. Kamal Afsar	
Mr. Shabir Ahmed Randeree *	
Mr. Siraj Ahmed Dadabhoy **	

### Sharia'h Supervisory Board

Mufti Irshad Ahmad Aijaz	Chairman
Mufti Muhammad Husain	Member
Mufti Javed Ahmed	Member

### Audit Committee

Mr. Fawad Anwar	Chairman
Mr. Ali Raza Siddiqui	Member
Mr. Shabir Ahmed Randeree *	Member
Mr. Ali Mohd Hussain Ali Al Shamali ***	Member

### Risk Management Committee

Mr. Ali Mohd Hussain Ali Al Shamali	Chairman
Mr. Fawad Anwar	Member
Mr. Hasan A. Bilgrami	Member

### Information Technology Committee

Mr. Hasan A. Bilgrami	Chairman
Mr. Ali Hussain	Member
Mr. Ali Raza Siddiqui	Member

### Human Resource & Compensation Committee

Mr. Fawad Anwar ****	Chairman
Mr. Shabir Ahmed Randeree *	Chairman
Mr. Ali Hussain ****	Member
Mr. Ali Raza Siddiqui	Member
Mr. Ali Mohd Hussain Ali Al Shamali	Member
Mr. Hasan A. Bilgrami	Member
Mr. Kamal Afsar	Member

### Executive Committee

Mr. Ali Hussain	Chairman
Mr. Ali Raza Siddiqui	Member
Mr. Ali Mohd Hussain Ali Al Shamali	Member
Mr. Fawad Anwar	Member
Mr. Hasan A. Bilgrami	Member
Mr. Shabir Ahmed Randeree *	Member

### Investment/dis-investment Committee

Mr. Ali Hussain	Chairman
Mr. Fawad Anwar	Member
Mr. Hasan A Bilgrami	Member

\* resigned effective from June 4, 2016

\*\* co-opted from June 4, 2016 subject to SBP approval, SBP approval is awaited.

\*\*\* co-opted in Audit Committee from August 27, 2016

\*\*\*\* dis-associated himself from HR&C Committee from October 19, 2016.

\*\*\*\*\*co-opted as Chairman of HR&C Committee from October 19, 2016

**Company Secretary**

Mr. Khawaja Ehrar ul Hassan

**Auditors**

EY Ford Rhodes,  
Chartered Accountants

**Legal Adviser**

- 1- Haidermota & Co.  
Barrister at Law
- 2- Mohsin Tayebaly & Co.  
Corporate Legal Consultants / Barristers & Advocates  
High Courts & Supreme Court

**Management (in alphabetical order)**

Mr. Ahmad Mobeen Malik	Regional General Manager
Mr. Bilal Zuberi	Regional General Manager
Mr. Fakhir Ahmad	Head, Human Resources
Mr. Farooq Anwar	Head, Operations
Ms. Gulbano Bokhari Asim	Head, Consumer Banking & ADC
Mr. Hasan A. Bilgrami	Chief Executive Officer
Mr. Khawaja Ehrar ul Hassan	Company Secretary & Head of Legal
Mr. Masood Muhammad Khan	Head, Compliance
Mr. Muhamamd Faisal Shaikh	Head, Shariah Advisory & Structuring
Mr. Rehan Shuja Zaidi	Head, Internal Audit
Mr. Saad Ahmed Madani	Regional General Manager
Mr. Sadrauddin Pyar Ali	Head, Administration & General Services
Mr. Sohail Sikandar	Chief Financial Officer
Mr. Syed Akhtar Ausaf	Head, Risk Management
Mr. Syed Ata Hussain Jaffri	Head, Information System
Mr. Syed Muhammad Aamir Shamim	Head, Treasury & Financial Institutions
Mr. Syed Mujtaba Hussain Kazmi	Head, Banking Business*

\*Resigned on 31-Jan-2017

**Registered Office**

11th Floor, Executive Tower,  
Dolmen City, Marine Drive,  
Block-4, Clifton,  
Karachi.  
Phone (92-21) 111-247(BIP)-111  
Fax: (92-21) 35378373  
Email: info@bankislami.com.pk

**Share Registrar**

Share Registrar Department  
Central Depository Company of Pakistan Limited  
CDC House, 99 – B, Block 'B',  
S.M.C.H.S., Main Shakra-e-Faisal  
Karachi-74400.  
Tel: Customer Support Services (Toll Free) 0800-CDCPL (23275)  
Fax: (92-21) 34326053  
Email: info@cdcpak.com  
Website: www.cdcpakistan.com

**PUBLIC DEALING TIMINGS**

Monday to Thursday: 9:00 am to 7:00 pm  
Friday: 9:00 am to 12:30 pm and 2:30 pm to 7:00 pm  
Saturday: 9:00am to 1:00pm

**Website:**

www.bankislami.com.pk



## Profile of Shariah Supervisory Board

### **Mufti Irshad Ahmad Aijaz (Chairman, Shariah Supervisory Board)**

Mufti Irshad Ahmad Aijaz is graduated from Jamiat-ul-Uloom Islamiyyah, Binnori Town, Karachi and obtained his Shahadat-ul-Aalamia (Masters in Arabic and Islamic Studies) from there. Afterwards, he completed his Takhassus fil-Iftaa (Specialization in Islamic Jurisprudence and Fatwa) from Jamia Dar-ul-Uloom, Karachi. He has also completed his MBA program from a leading private university in Karachi, Pakistan.

He currently holds advisory position in following Institutions:

- Member, AAOIFI Shariah Standard Committee – Karachi
- Member, AAOIFI Ethics Committee
- Shariah Advisor, Al-Hilal Shariah Advisors
- Consultant, Shariah Review Bureau - Bahrain
- Member, ICAP- Committee on Accounting & Auditing Standards for Interest Free Modes of Financing and Investments
- Member of Shariah Board in different Islamic Financial Institutions

He is actively involved in providing consultation for development of policies and regulations for regulatory authorities and different Islamic financial institutions. He also regularly delivers lectures on Islamic Economics and Finance at different forums and educational institutions including National Institute of Banking and Finance (State Bank of Pakistan) and Centre for Islamic Economics (a division of Jamia Dar-ul-Uloom, Karachi).

### **Mufti Muhammad Hussain Khaleel Khail (Member, Shariah Supervisory Board)**

Mufti Muhammad Hussain is a prominent scholar in the field of Islamic jurisprudence. He graduated from Jamia Dar-ul-Uloom, Karachi and obtained his Shahadat-ul-Aalamia (Masters in Arabic and Islamic Studies) from there. Afterwards, he completed his Takhassus fil-Iftaa (Specialization in Islamic Jurisprudence and Fatwa) from Jamia -tur-Rasheed, Karachi.

He has been teaching Islamic studies including Fiqh and Fatwa for years. He has undertaken research work in various topics including economic thoughts in Islam, financial markets, modern economic and financial issues and Islamic banking and finance. His research works include Ushr obligation, Takaful on the basis of Waqf, Shariah rules of wealth earned through impermissible sources and rulings on status of juristic person in Islam. He has authored several articles and issued verdicts (Fatwas) on various issues. He is associated with Jamia-tur-Rasheed, Karachi as a senior Mufti in Darul Iftaa and lecturer in department of Fiqhul Muaamlaat.

### **Mufti Javed Ahmad (Resident Shariah Board Member)**

Mufti Javed Ahmad has completed his Shahadat-ul-Alamia (Masters in Arabic and Islamic Studies) from Jamia Dar-ul-Uloom, Karachi, and Takhassus fi Fiqh-el-Muamlat (Specialization in Islamic Jurisprudence of trade and finance) from Jamia-tur-Rasheed, Karachi. He is also a Certified Shariah Advisor and Auditor (CSAA) from AAOIFI, Bahrain and Chartered Islamic Finance Professional (CIFP) from INCEIF, Malaysia. He has completed M.A. Economics from Karachi University. He has undertaken research work in numerous topics including Islamic Banking and Finance. Prior to joining BankIslami, he was associated with Ernst & Young Ford Rhodes as 'Senior Shariah Consultant' where he was engaged in Shariah Advisory, Shariah Review, Shariah Audit and Shariah Compliance activities for more than four years.

He regularly delivers lectures on Islamic Economics and Finance at different forums and educational institutions including National Institute of Banking and Finance (State Bank of Pakistan).

# Aligning Direction

At BankIslami, our methodologies and strategies are aligned with our vision. We ensure that BankIslami's employees coordinate their tasks in line with hierarchical targets and our ultimate vision. Thus, with a clear direction in mind, our energies and strategies remain focused on the goal – to provide a better customer experience.





## Drive your Dream Car - the Shariah Compliant Way

BankIslami's **Islami Auto Finance**\* offers you the convenience to get the car of your choice, the Shariah compliant way.

The features of Islami Auto Finance are:

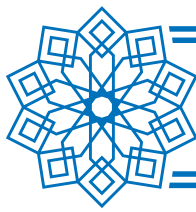
- Low customer equity
- No upfront Takaful (Islamic Insurance)
- No upfront registration charges
- Flexibility of choosing your own dealer
- No payment till the delivery of vehicle
- Minimal processing charges
- No upfront tracker charges
- Freedom of choosing New or Used/Reconditioned vehicles

Serving you, the Right way

# Six Year's Horizontal Analysis

	2016		Restated 2015		2014		2013		2012		2011	
	Rs. In Million	%	Rs. In Million	%	Rs. In Million	%	Rs. In Million	%	Rs. In Million	%	Rs. In Million	%
<b>Statement of Financial Position</b>												
<b>Assets</b>												
Cash and balances with treasury banks	8,921	-1%	9,036	42%	6,361	30%	4,883	-1%	4,939	5%	4,685	54%
Balances with other banks	1,140	-36%	1,781	143%	734	-24%	968	20%	806	47%	549	-4%
Due from financial institutions - net	27,219	-32%	39,824	119%	18,144	179%	6,511	-23%	8,476	91%	4,436	-2%
Investments - net	46,317	29%	35,886	17%	30,655	-3%	31,610	9%	28,994	38%	21,067	53%
Islamic financing and related assets and Advances (net)	77,817	13%	68,709	67%	41,097	7%	38,309	40%	27,433	11%	24,665	48%
Operating fixed assets	9,348	6%	8,829	161%	3,380	14%	2,958	55%	1,913	6%	1,812	-12%
Deferred tax assets	5,918	-10%	6,591	-	-	0%	-	0%	79	0%	182	0%
Other assets - net	4,166	19%	3,575	116%	1,614	0%	1,616	0%	1,608	12%	1,437	-64%
	<b>180,846</b>	<b>4%</b>	<b>174,231</b>	<b>71%</b>	<b>101,984</b>	<b>17%</b>	<b>86,856</b>	<b>17%</b>	<b>74,249</b>	<b>26%</b>	<b>58,833</b>	<b>31%</b>
<b>Liabilities</b>												
Bills payable	2,274	49%	1,524	66%	918	10%	836	-33%	1,251	57%	799	42%
Due to financial institutions	6,066	90%	3,198	470%	561	-78%	2,538	57%	1,621	103%	800	127%
Deposits and other accounts	154,400	1%	153,058	69%	90,331	20%	75,226	17%	64,216	27%	50,569	32%
Deferred tax liabilities	-	0%	-	-100%	200	14%	176	-	-	-	-	-
Other Liabilities	5,662	8%	5,265	69%	3,107	69%	1,838	17%	1,569	17%	1,341	16%
	<b>168,402</b>	<b>3%</b>	<b>163,045</b>	<b>71%</b>	<b>95,117</b>	<b>18%</b>	<b>80,613</b>	<b>17%</b>	<b>68,658</b>	<b>28%</b>	<b>53,508</b>	<b>33%</b>
<b>Net Assets</b>	<b>12,444</b>	<b>11%</b>	<b>11,186</b>	<b>63%</b>	<b>6,867</b>	<b>10%</b>	<b>6,242</b>	<b>12%</b>	<b>5,591</b>	<b>5%</b>	<b>5,325</b>	<b>12%</b>
<b>Represented by</b>												
Share Capital	10,000	0%	10,000	76%	5,680	8%	5,280	0%	5,280	0%	5,280	0%
Reserves	614	17%	523	91%	273	30%	210	21%	173	90%	91	880%
Unappropriated profit / (loss)	212	244%	(171)	-164%	267	975%	25	222%	8	-104%	(215)	-61%
Surplus on revaluation of assets - net of tax	1,618	94%	834	29%	647	-11%	727	458%	130	-23%	169	422%
	<b>12,444</b>	<b>11%</b>	<b>11,186</b>	<b>63%</b>	<b>6,867</b>	<b>10%</b>	<b>6,242</b>	<b>12%</b>	<b>5,591</b>	<b>5%</b>	<b>5,325</b>	<b>12%</b>
<b>Profit &amp; Loss Account</b>												
Profit / return earned	10,121	15%	8,834	13%	7,812	24%	6,289	5%	5,992	9%	5,502	45%
Profit / return expensed	(5,791)	-13%	(5,119)	-15%	(4,459)	-18%	(3,790)	-8%	(3,507)	-22%	(2,883)	-40%
<b>Net Spread earned</b>	<b>4,336</b>	<b>17%</b>	<b>3,715</b>	<b>11%</b>	<b>3,353</b>	<b>34%</b>	<b>2,500</b>	<b>1%</b>	<b>2,485</b>	<b>-5%</b>	<b>2,619</b>	<b>50%</b>
Provisions	2,030	321%	482	1292%	(40)	68%	(127)	-38%	(92)	-9%	(85)	-1965%
Net Spread after provisions	6,366	52%	4,197	27%	3,313	40%	2,373	-1%	2,394	-6%	2,534	45%
Other income	637	12%	570	-10%	632	39%	454	36%	333	47%	227	10%
Other expenses	(6,160)	-22%	(5,039)	-45%	(3,475)	-38%	(2,518)	-11%	(2,264)	-5%	(2,152)	-13%
<b>Profit / (loss) before taxation</b>	<b>843</b>	<b>410%</b>	<b>(272)</b>	<b>-158%</b>	<b>470</b>	<b>52%</b>	<b>308</b>	<b>-33%</b>	<b>463</b>	<b>-24%</b>	<b>609</b>	<b>1266%</b>
Taxation	(391)	-614%	76	149%	(156)	-27%	(123)	-21%	(156)	-21%	(199)	-10017%
<b>Profit / (loss) after taxation</b>	<b>452</b>	<b>331%</b>	<b>(196)</b>	<b>-162%</b>	<b>314</b>	<b>69%</b>	<b>185</b>	<b>-40%</b>	<b>307</b>	<b>-25%</b>	<b>410</b>	<b>780%</b>

# Six Year's Vertical Analysis

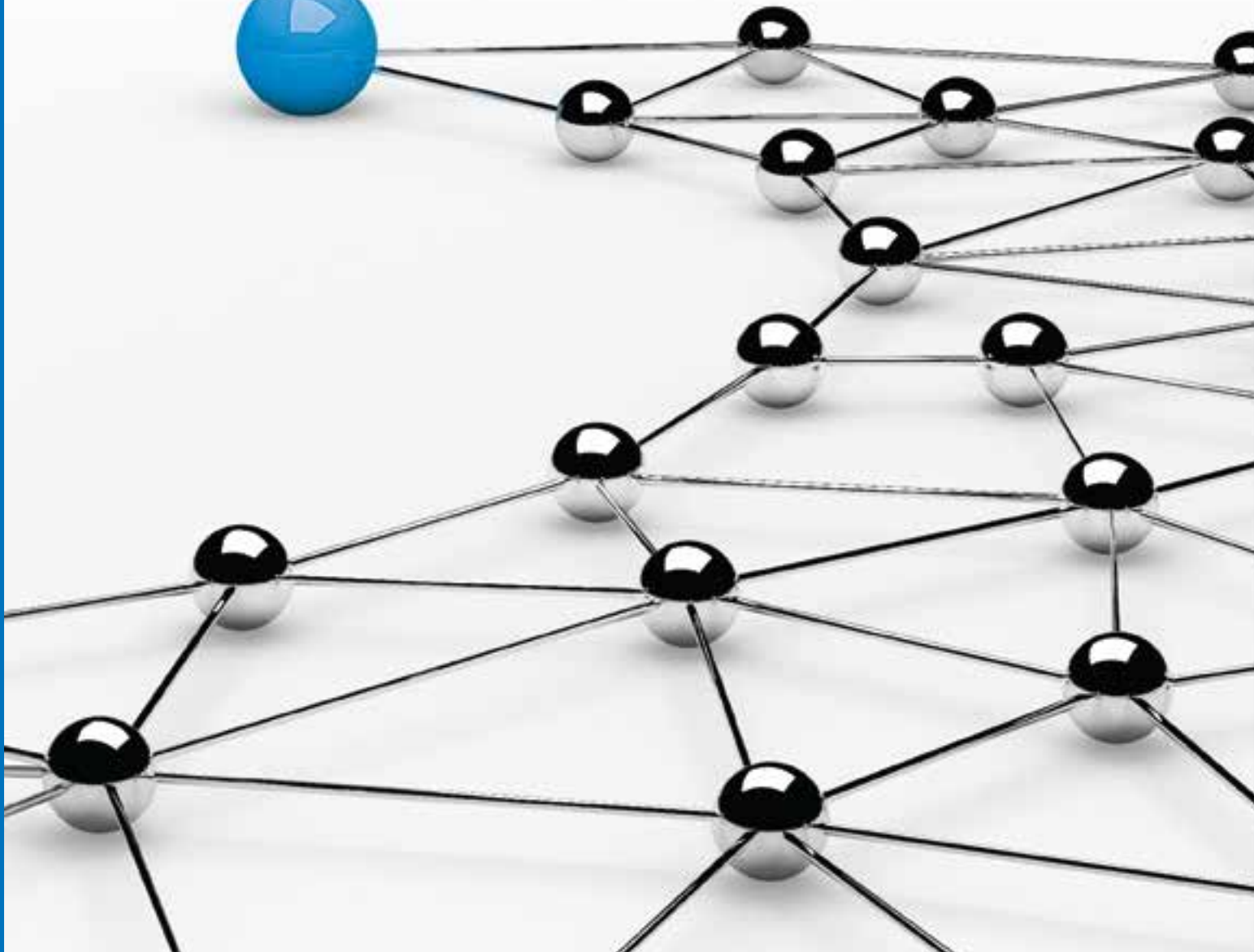


	2016		Restated 2015		2014		2013		2012		2011	
	Rs. In Million	%	Rs. In Million	%	Rs. In Million	%	Rs. In Million	%	Rs. In Million	%	Rs. In Million	%
<b>Statement of Financial Position</b>												
<b>Assets</b>												
Cash and balances with treasury banks	8,921	5%	9,036	5%	6,361	6%	4,883	6%	4,939	7%	4,685	8%
Balances with other banks	1,140	1%	1,781	1%	734	1%	968	1%	806	1%	549	1%
Due from financial institutions - net	27,219	15%	39,824	23%	18,144	18%	6,511	7%	8,476	11%	4,436	8%
Investments - net	46,317	26%	35,886	21%	30,655	30%	31,610	36%	28,994	39%	21,067	36%
Islamic financings and related assets and advances - net	77,817	43%	68,709	39%	41,097	40%	38,309	44%	27,433	37%	24,665	42%
Operating fixed assets	9,348	5%	8,829	5%	3,380	3%	2,958	3%	1,913	3%	1,812	3%
Deferred tax assets	5,918	3%	6,591	4%	-	0%	-	0%	79	0%	182	0%
Other assets net	4,166	2%	3,575	2%	1,614	2%	1,616	2%	1,608	2%	1,437	2%
	<b>180,846</b>	<b>100%</b>	<b>174,231</b>	<b>100%</b>	<b>101,984</b>	<b>100%</b>	<b>86,856</b>	<b>100%</b>	<b>74,249</b>	<b>100%</b>	<b>58,833</b>	<b>100%</b>
<b>Liabilities</b>												
Bills payable	2,274	1%	1,524	1%	918	1%	836	1%	1,251	2%	799	1%
Due to financial institutions	6,066	3%	3,198	2%	561	1%	2,538	3%	1,621	2%	800	1%
Deposits and other accounts	154,400	85%	153,058	88%	90,331	89%	75,226	87%	64,216	86%	50,569	86%
Deferred tax liabilities	-	0%	-	0%	200	0%	176	0%	-	0%	-	0%
Other Liabilities	5,662	3%	5,265	3%	3,107	3%	1,838	2%	1,569	2%	1,341	2%
	<b>168,402</b>	<b>93%</b>	<b>163,045</b>	<b>94%</b>	<b>95,117</b>	<b>93%</b>	<b>80,613</b>	<b>93%</b>	<b>68,658</b>	<b>92%</b>	<b>53,508</b>	<b>91%</b>
<b>Net Assets</b>	<b>12,444</b>	<b>7%</b>	<b>11,186</b>	<b>6%</b>	<b>6,867</b>	<b>7%</b>	<b>6,242</b>	<b>7%</b>	<b>5,591</b>	<b>8%</b>	<b>5,325</b>	<b>9%</b>
<b>Represented by</b>												
Share Capital	10,000	6%	10,000	6%	5,680	6%	5,280	6%	5,280	7%	5,280	9%
Reserves	614	0%	523	0%	273	0%	210	0%	173	0%	91	0%
Unappropriated profit / (loss)	212	0%	(171)	0%	267	0%	25	0%	8	0%	(215)	0%
Surplus on revaluation of assets - net of deferred tax	1,618	1%	834	0%	647	1%	727	1%	130	0%	169	0%
	<b>12,444</b>	<b>7%</b>	<b>11,186</b>	<b>6%</b>	<b>6,867</b>	<b>7%</b>	<b>6,242</b>	<b>7%</b>	<b>5,591</b>	<b>7%</b>	<b>5,325</b>	<b>7%</b>
<b>Profit &amp; Loss Account</b>												
Profit / return earned	10,127	94%	8,834	94%	7,812	93%	6,289	93%	5,992	95%	5,502	96%
Profit / return expensed	(5,791)	-54%	(5,119)	-54%	(4,459)	-53%	(3,790)	-56%	(3,507)	-55%	(2,883)	-50%
Net-Spread earned	4,336	40%	3,715	40%	3,353	40%	2,500	37%	2,485	39%	2,619	46%
Provisions	2,030	19%	482	5%	(40)	0%	(127)	-2%	(91)	-1%	(85)	-1%
Net Spread after provisions	6,366	59%	4,197	45%	3,313	39%	2,373	35%	2,394	38%	2,534	44%
Other income	637	6%	570	6%	632	7%	454	7%	333	5%	227	4%
Other expenses	(6,160)	-57%	(5,039)	-54%	(3,475)	-41%	(2,518)	-37%	(2,264)	-36%	(2,152)	-38%
<b>Profit / (loss) before taxation</b>	<b>843</b>	<b>8%</b>	<b>(272)</b>	<b>-3%</b>	<b>470</b>	<b>6%</b>	<b>308</b>	<b>5%</b>	<b>463</b>	<b>7%</b>	<b>609</b>	<b>11%</b>
Taxation	(391)	-4%	(76)	-1%	(156)	-2%	(123)	-2%	(156)	-2%	(199)	-3%
<b>Profit / (loss) after taxation</b>	<b>452</b>	<b>4%</b>	<b>(196)</b>	<b>-2%</b>	<b>314</b>	<b>4%</b>	<b>185</b>	<b>3%</b>	<b>307</b>	<b>5%</b>	<b>410</b>	<b>7%</b>



# Network Expansion

BankIslami's branch network is present in all the major towns and cities, as well as remote areas to grant equal focus on both the banked and the un-banked areas. With over 321 Branches in 105 Cities, we provide banking connectivity from the agricultural 'mandis' (markets) to business hubs and from urban settlements to remote tourism areas, such as Naran, where BankIslami is the only bank serving the entire community.



# بِنكِ اِسْلَامِي



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## Statement of Value Added

	2016	2015
	----- Rupees in million -----	
<b>Value Added</b>		
Net Spread earned	4,336	3,715
Other income	638	570
Operating expenses excluding staff cost, depreciation, amortisation, donations, defined benefit plan and defined contribution plan, etc.	(2,740)	(2,320)
Reversal of Provision against advances, investments & others	2,030	482
Value added available for distribution	<u>4,264</u>	<u>2,447</u>
<b>Distribution of value added</b>		
<b>To employees</b>		
Remuneration, defined benefit plan and defined contribution plan provident fund and other benefits	2,702	2,182
<b>To government</b>		
Worker welfare fund	17	-
Taxation	391	(76)
	408	(76)
<b>To Society</b>		
Donations	-	-
<b>To Shareholders</b>		
Depreciation	641	507
Amortisation	61	30
Retained during the year	452	(196)
	<u>1,154</u>	<u>341</u>
	<u>4,264</u>	<u>2,447</u>



## Six Years' Financial Summary 2011-2016

	Rupees in million						
	2016	Restated 2015	2014	2013	2012	2011	
<b>Profit &amp; Loss Accounts</b>							
Profit/return Earned	10,127	8,834	7,812	6,289	5,992	5,502	
Profit /return Expensed	5,791	5,119	4,459	3,790	3,507	2,883	
Net Spread earned	4,336	3,715	3,353	2,500	2,485	2,619	
Fee,commission,brokerage & exchange Income	404	490	560	368	282	187	
Dividend and capital gains	122	15	32	7	17	0.002	
Other Income	112	65	40	79	34	39	
Total Other Income	638	570	632	454	333	227	
Total Income	4,974	4,285	3,985	2,953	2,818	2,846	
Other expenses	6,160	5,039	3,475	2,518	2,264	2,152	
Profit/(loss) before tax and provisions	(1,187)	(754)	510	435	554	693	
Provisions	(2,030)	(482)	40	127	91	85	
Profit/(loss) before tax	843	(273)	470	308	463	609	
Profit/(loss) after tax	452	(196)	314	185	307	410	
<b>Statement of Financial Position</b>							
Paid up capital	10,000	10,000	5,680	5,280	5,280	5,280	
Reserves	614	523	273	210	173	91	
Unappropriated profit/(loss)	212	(171)	267	25	8	(215)	
Shareholders' equity	10,826	10,352	6,220	5,515	5,461	5,156	
Surplus on revaluation of assets-net of tax	1,618	834	647	727	130	169	
Net Assets	12,444	11,186	6,867	6,242	5,591	5,325	
Total Assets	180,846	174,231	101,984	86,856	74,249	58,833	
Earning Assets	152,493	146,200	90,629	77,398	65,710	50,718	
Gross Financings	89,949	82,361	41,698	38,932	27,934	25,055	
Financings-net of provisions	77,817	68,709	41,097	38,309	27,433	24,665	
Non-performing Loans (NPLs)	14,534	15,684	1,062	1,109	1,205	838	
Investments	46,317	35,886	30,655	31,610	28,994	21,067	
Total Liabilities	168,402	163,045	95,117	80,613	68,658	53,508	
Deposits & other accounts	154,400	153,058	90,331	75,226	64,216	50,569	
Current & Saving Deposits (CASA)	111,037	102,491	55,234	40,556	33,925	25,926	
Borrowing	6,066	3,198	561	2,538	1,621	800	
Profit bearing Liabilities	110,912	110,800	73,688	65,141	54,393	41,123	
Contingencies and commitments	33,521	29,022	9,538	10,308	8,238	4,595	
<b>Financial Ratios</b>							
Profit before tax ratio(PBT/total income)	16.96%	-6.36%	11.79%	10.43%	16.43%	21.39%	
Net Spread earned/Profit Earned	42.82%	42.05%	42.92%	39.74%	41.47%	47.60%	
Other income to total income	12.82%	13.30%	15.86%	15.36%	11.83%	7.97%	
Total income/ Other expense ratio (excl. provisions)	Times	0.81	0.85	1.15	1.17	1.24	1.32
Return on average equity (ROE)		4.27%	-2.37%	5.35%	3.38%	5.78%	8.28%
Return on average assets (ROA)		0.25%	-0.14%	0.33%	0.23%	0.46%	0.79%
Return on Capital Employed (ROCE)		0.68%	-0.22%	0.58%	0.43%	0.77%	1.31%
Earning per share (EPS after tax)	Rs.	0.4487	(0.2437)	0.5777	0.3467	0.5809	0.7757
Gross financing/ deposit ratio		58.26%	53.81%	46.16%	51.75%	43.50%	49.55%
Net financing/ deposit ratio		50.40%	44.89%	45.50%	50.92%	42.72%	48.78%
Breakup value per share (excl.surplus on rev. of assets)	Rs.	10.74	10.27	10.80	10.45	10.34	9.77
Breakup value per share (incl.surplus on rev. of assets)	Rs.	12.35	11.10	11.92	11.82	10.59	10.09
Earning assets to total assets ratio		84.32%	83.91%	88.87%	89.11%	88.50%	86.21%
Earning assets to profit bearing Liabilities	Times	1.37	1.32	1.23	1.19	1.21	1.23
CASA to Total Deposits		71.92%	66.96%	61.15%	53.91%	52.83%	51.27%
NPLs to Gross Financings ratio		16.16%	19.04%	2.55%	2.85%	4.31%	3.35%
Total Assets to Equity	Times	16.70	16.83	16.40	15.75	13.60	11.41
Deposit to share holder equity	Times	14.26	14.79	14.52	13.64	11.76	9.81
Capital Adequacy Ratio		13.43%	12.34%	16.70%	15.37%	15.13%	17.18%
Market value per share-Dec 31	Rs.	13.36	11.50	9.81	6.94	9.21	3.1
<b>Non Financial Information</b>							
Number of branches		321	317	213	201	141	102
Total number of employees		3,206	2,929	2,150	1,520	1,410	1,448



# Encouraging Teamwork

BankIslami's culture nurtures the employee to become a team player. We ensure an environment of trust and opportunity for every employee which translates in achieving individual as well as organizational goals via extensive teamwork in order to give seamless customer experience.

# بَيْنَكَ وَبَيْنَ اللَّهِ



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Renovation

Replacement-BTF

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\*For Salaried individuals only

## Notice of Annual General Meeting

Notice is hereby given that the 13th Annual General Meeting of the Members of BankIslami Pakistan Limited will be held Inshallah on Tuesday, April, 11, 2017 at 09:00 a.m. at DHA Golf Club, Zulfiqar street # 1, Phase VIII, D.H.A. Karachi-75500, to transact the following business:

### ORDINARY BUSINESS

- 1- To confirm minutes of the 12th Annual General Meeting of the Bank held on June 29, 2016.
- 2- To receive, consider and adopt the Annual Audited Accounts of the Bank and Consolidated Audited Accounts of the Bank for the year ended December 31, 2016 together with the Auditors; and Directors; Reports thereon.
- 3- To appoint Auditors of the Bank for the year ending December 31, 2017 and to fix their remuneration. The present auditors, EY Ford Rhodes, Chartered Accountants, retire and being eligible, offer themselves for re-appointment.
- 4- To elect seven (7) Directors of the Bank as fixed by the Board of Directors under section 178(1) of the Companies Ordinance, 1984 for a term of three years in place of the following retiring Directors who are eligible for re-election:

- 1- Mr. Ali Hussain
- 2- Mr. Ali Raza Siddiqui
- 3- Mr. Ali Mohd Hussain Ali Al Shamali
- 4- Mr. Fawad Anwar
- 5- Mr. Kamal Afsar
- 6- Mr. Siraj Ahmed Dadabhoy

### SPECIAL BUSINESS

- 5- To consider and, if thought fit, pass the following resolutions as Special Resolutions, with or without modification, to amend the Articles of Association of the Bank in order to enable the e-voting mechanism as prescribed in the Companies (E-voting) Regulations, 2016 issued by the Securities and Exchange Commission of Pakistan ("SECP").

"RESOLVED that, subject to obtaining the requisite approvals, the Articles of Association of the Bank be and are hereby amended as mentioned below:

- (i) The following new Article 32A to be incorporated after the Article 32:

32A "E-Voting Members may exercise voting rights at general meetings through electronic means in accordance with the provisions and requirements prescribed under the applicable laws with respect to the use of electronic voting by members at general meetings from time to time and the same shall be deemed to be incorporated in these Articles notwithstanding anything contradictory herein.

- (ii) The existing 42 shall stand deleted and replaced by following new Article 42:

42: Instrument Appointing Proxy to be Deposited: The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notorially certified copy of that power or authority, shall be deposited at the Registered Office of the Company not less than forty eight (48) hours before the time for holding the meeting at which the person named in the instrument purposes to vote and in default the instrument of proxy shall not be treated as valid. For the purposes of e-voting, the instrument appointing the proxy shall be deposited with the company in the manner stipulated under the applicable laws.



(iii) The existing Article 43 shall stand deleted and replaced by the following new Article 43:

43 Form of Proxy: An instrument appointing a proxy may be in the following form, or in any other form which the Directors shall approve.

I/We, \_\_\_\_\_ of \_\_\_\_\_, being a member of BankIslami Pakistan Limited, holder of \_\_\_\_\_ Ordinary Shares(s) as per Register Folio No. \_\_\_\_\_ hereby Appoint Mr. \_\_\_\_\_, Folio No. (if member) \_\_\_\_\_ of \_\_\_\_\_ or failing him Mr. \_\_\_\_\_, Folio No. (if member), \_\_\_\_\_ of \_\_\_\_\_ as my / our proxy in my / our absence to attend and vote for me / us, and on my / our behalf at the Annual General Meeting/Extra Ordinary General Meeting of the Company to be held on \_\_\_\_\_ and at any adjournment thereof, Signed under my / our hand this \_\_\_\_\_ day of \_\_\_\_\_.

For the purposes of e-voting, the instrument appointing the proxy shall be in the form stipulated under the applicable law.

FURTHER RESOLVED THAT the President & Chief Executive Officer, Company Secretary and Head of Operations any two be and are hereby jointly authorized to take all steps necessary, ancillary and incidental to amend Bank's Articles of Association but not limited to obtaining all requisite regulatory approvals and sanctions; engaging legal counsel, filing of all the requisite statutory forms and all other documents as may be required to be filed with the SBP, SECP and Pakistan Stock Exchange, executing all such certificates, applications, notices, reports, letters and any other document or instrument including any amendments or substitutions to any of the foregoing as may be required in respect of the amendments in Articles of Association and all other matters incidental or ancillary thereto."

- 6- To approve transmission of Annual Audited Accounts of the Bank and Consolidated Audited Accounts of the Bank together with the Auditors; and Directors; Reports thereon to members through CD/DVD/USB at their registered address as allowed by the Securities and Exchange Commission of Pakistan.

"Resolved that as notified by the Securities and Exchange Commission of Pakistan vide its SRO No. 470(I)/2016 dated May 31, 2016 the transmission of Annual Audited Accounts of the Bank and Consolidated Audited Accounts of the Bank together with the Auditors; and Directors; Reports thereon to members including Notice of Annual General Meeting at their registered address in soft form that is by way of CD/DVD/USB instead of transmitting the annual audited accounts in hard copies be and is hereby approved.

FURTHER RESOLVED THAT the President and chief Executive Officer, Company Secretary and Head of Operations any two be and are hereby jointly authorized to take all steps necessary, ancillary and incidental to give effect to transmission of Annual Audited Accounts of the Bank and Consolidated Audited Accounts of the Bank together with the Auditors; and Directors; Reports thereon to members including Notice of Annual General Meeting as per notification".

By Order of the Board

Karachi: March 20, 2017

Khawaja Ehrar ul Hassan  
Company Secretary





# Focused Determination

At BankIslami, we are determined to offer banking solutions that suits the need of individuals and businesses. We are focused and determined to serve our customers with a product suite that are in line with Shariah standards as well as in line with new requirements of today's banking customer.

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## STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984

This statement set out the material facts concerning the resolution contained in the Notice pertaining to the special business to be transacted at the Annual General Meeting of the Bank to be held on April 11, 2017.

### **Agenda Item No. 5 - Amendments in the Articles of Association:**

Board of Directors in their meeting held on March 10, 2017 discussed and recommended for approval by shareholders amendments suggested by the legal adviser in the Articles of Association of the Bank in view of Companies (E-Voting) Regulations, 2016. The Companies (E-Voting) Regulations, 2016 provides the members of a company an option to vote electronically at general meetings of a company and a member may in this regard appoint another member or a non-member as their proxy to vote on their behalf through electronic voting. As such, in order to enable electronic voting and to allow non-members to be appointed as a proxy for electronic voting the Articles of Association of the company are required to be amended. The approval of the Members is being sought for the specific amendments to the Articles of Association.

The resolution required for the above purpose is set forth in the notice convening the Annual General Meeting and that resolution will be proposed and passed as a Special Resolution.

None of the directors of the Company have any direct or indirect interest in the above said special business.

### **Agenda Item No.6: Transmission of Annual Audited financial statements through CD/DVD/USB**

The SECP has allowed listed companies through its SRO 470 (I)/2016 dated May 31, 2016 to circulate the annual balance sheet and profit and loss account, auditor's report and directors' report etc ("annual audited accounts") to its members through CD/DVD/USB at their registered address instead of transmitting the said accounts in hard copies. The company shall, however, supply the hard copies of the annual audited accounts to the shareholders on demand, free of cost upon receipt of Request Form, duly completed, which is available at its website i.e. [www.bankislami.com.pk](http://www.bankislami.com.pk)

None of the directors of the Company have any direct or indirect interest in the above said special business.



#### Notes:

1. The Members' Register will remain closed from April 6, 2017 to April 12, 2017 (both days inclusive).
2. A member eligible to attend and vote at this meeting may appoint proxy to attend and vote in the meeting.
3. Proxies in order to be effective must be received at the registered office of the Bank not less than 48 hours before the time of the meeting.
4. The proxy form shall be witnessed by two person whose names, addresses and CNIC numbers shall be mentioned on the form.
5. Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
6. The proxy shall produce his/ her original CNIC or original passport at the time of the meeting.
7. An individual beneficial owner of the Central Depository Company, entitled to vote at this meeting must bring his/her Computerized National Identity Card with him/her to prove his/her identity, and in case of proxy must enclose an attested copy of his/her Computerized National Identity Card. Representatives of corporate members should bring the usual documents required for such purposes.
8. Members are requested to promptly notify Share Registrar Department, Central Depository Company of Pakistan Limited, CDC House, 99 – B, Block 'B', S.M.C.H.S., Main Shakra-e-Faisal, Karachi-74400 of any change in their address.
9. In pursuance with the Securities and Exchange Commission of Pakistan ("SECP") Notification No SRO.831 (1)/2012 of July 5th, 2012 in suppression of earlier notification No. SRO 779 (1)/2011 of August 18, 2011, SECP directed all listed companies to mention Computerized National Identity Card (CNIC) / NTN numbers of the registered members on the dividend warrant. The Shareholders having physical shares are once again requested to immediately send a copy of their valid Computerised National Identity Card (C.N.I.C) to our Registrar Office, Share Registrar Department, Central Depository Company of Pakistan Limited, CDC House, 99 – B, Block 'B', S.M.C.H.S., Main Shakra-e-Faisal, Karachi-74400 for printing/insertion on dividend warrants. In case of non-receipts of copy of valid C.N.I.C (Unless it has been provided earlier) and non-compliance of the above requirement the company will be constrained to withhold dispatch of dividend warrants to such shareholders as per S.E.C.P SRO and directives. The corporate entities has also advised to submit the NTN number to the above given address.
10. Any person who seeks to contest the election of directors shall file the following with the Bank at its Registered Office not later than fourteen days before the day of the above said meeting.
  - i) His/her intention to offer himself/herself for election of Directors in terms of Section 178(3) of the Companies Ordinance 1984 (the Ordinance) together with (a) consent on Form 28 as prescribed by the Companies (Provision and Forms) Rule, 1985 (b) a declaration with the consent to act as Director under Code of Corporate Governance (the Code) to the effect that he/she is aware of the duties and powers of Directors as mentioned in the Companies Ordinance 1984, the Memorandum and Articles of the Bank and the Listing Regulations of the Pakistan Stock Exchange, has read the relevant provisions contained therein, he/she is not serving as a Director of more than seven listed companies, he/she is registered National Tax Payee (except where he/she is a non-resident) and he/she has not been convicted by a court of competent jurisdiction as defaulter in payment of any loan to a banking company, a development financial institution or a non-banking financial Institution.

- ii) A specified affidavit as prescribed in the State Bank of Pakistan (SBP) BPRD Circular No. 04 of 2007 dated April 23, 2007 together with the prescribed Questionnaire in accordance with the Prudential Regulation No. G-1, the 'Fit and Proper Test' for the appointment of Directors in terms of SBP BPRD Circular No. 04 of 2007 dated April 23, 2007 along with two recent photographs and a copy of CNIC (Passport in case of a foreign national). Copies of SBP circular / annexures may be obtained from the SBP website or from the office of the Company Secretary of the Bank. SBP circular / annexures also list various persons who are not eligible to become director of a bank. Any person with these anomalies is considered undesirable; and against the public interest in terms of SBP BPRD Circular No. 04 of 2007 dated April 23, 2007.

#### 11. Consent for Video Conference Facility

For this Annual General Meeting, under following conditions, Members can also avail video conference facility at Lahore & Islamabad.

If the Bank receives consent from members holding in aggregate 10% or more shareholding residing at a geographical location, to participate in the meeting through video conference at least 10 days prior to date of meeting, the Bank will arrange video conference facility in that city subject to availability of such facility in that city.

The Company will intimate members regarding venue of video conference facility at least 5 days before the date of general meeting along with complete information necessary to enable them to access such facility.

In this regard, members who wish to participate through video conference facility at Lahore & Islamabad should send a duly signed request as per following format to the resgistered address of the Bank at least 10 days before the date of general meeting.

I/We, \_\_\_\_\_ of \_\_\_\_\_, being a member of BankIslami Pakistan Limited, holder of \_\_\_\_\_ Ordinary Share(s) as per Registered Folio No. \_\_\_\_\_ hereby opt for video conference facility at \_\_\_\_\_.

Signature of Member



## Directors Report

Dear Shareholders,

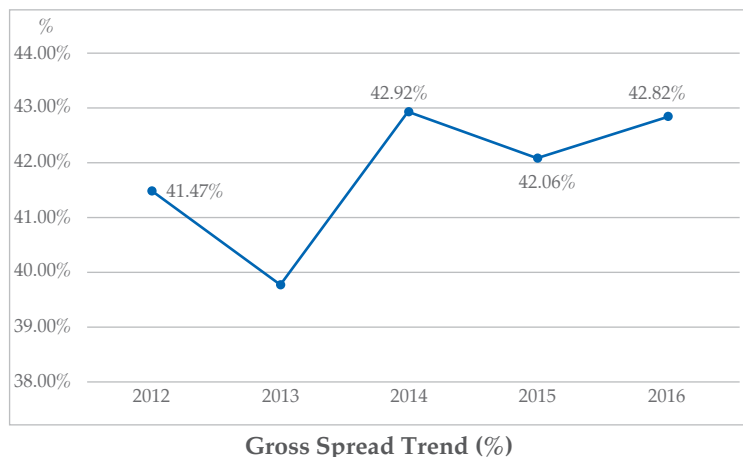
On behalf of the Board, I would like to present the thirteenth Annual Report of BankIslami Pakistan Limited ('the Bank' or 'BIPL' or 'BankIslami') for the year ended December 31, 2016. The following are the key financial highlights of the year:

	Dec-16	Dec-15	Growth (%)
	.....Rupees in millions.....		
Total Deposits	154,400	153,058	0.88%
Total Assets	180,846	174,231	3.79%
Total Financing and related assets-net	77,817	68,709	13.26%
Total Investments	46,317	35,886	29.07%
Shareholder's Equity	12,445	11,186	11.25%
Profit After Tax	452	-196	330.76%
Basic Earnings/(loss) per share- rupees	0.449	-0.244	284.02%
Branches network- Number	321	317	1.26%

2016 was a year of consolidation for the Bank after regulatory merger of the defunct KASB Bank with BankIslami. Key highlights are as follows:

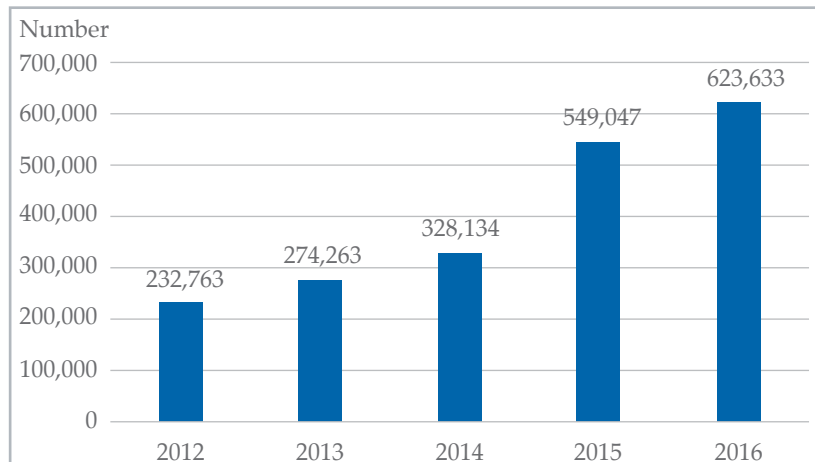
### *Deposits and cost rationalization*

The Bank's focus remained on rationalizing deposits by shedding high cost deposits and improving its Current and Saving Accounts ('CASA') mix which improved to 71.58% from 66.71%. The cost of deposits resultantly dropped by 110bps to 2.99% in Dec-16 from 4.09% in Dec-15. The gross spread or net spread before provisions improved to 42.82% from 42.06%, a rise by 76 bps as compared to last year. We anticipate reaping the benefit of this drop in cost of funds in future.



*Outreach*

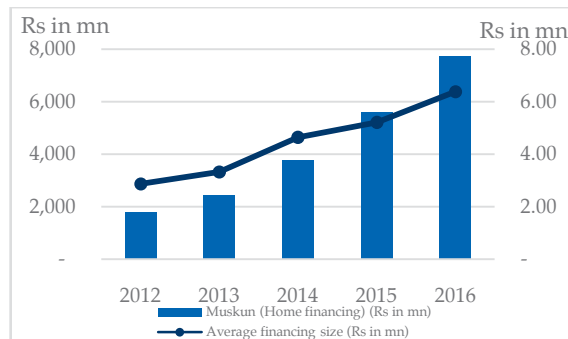
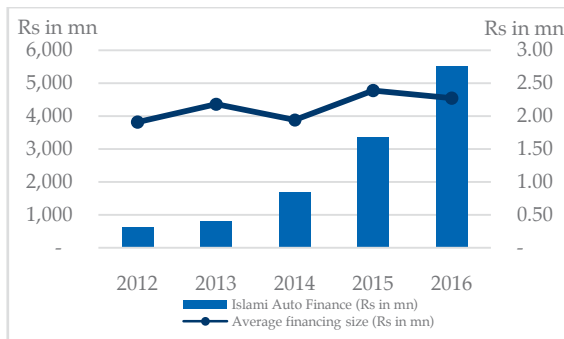
The Bank added 74,586 new customers resulting in its Customer base to reach 623,633 relationships from 549,047 last year, a growth of 13.58%. The outreach increased to 105 cities with 321 branches. The Bank intends consolidating the network in 2017 as well as further improving the deposit per branch to approximately Rs. 600 million per branch.



Number of Depository Accounts

*Consumer Financing*

BIPL increased focus towards growing its consumer financing business and accordingly the share of consumer financing as a percentage of total financing grew from 10.88% in 2015 to 14.75%. We introduced Diminishing Musharika based auto financing product during the year as well as signed strategic alliance agreements with Al-Haj FAW Motors, Honda Pakistan and Audi Pakistan for priority delivery to BankIslami customers. Total growth in the consumer financing portfolio was 47.69% which is expected to improve the spreads further in 2017 and beyond. Another unique feature of BIPL's consumer financing business is cross selling, whereby most of the sales take place from the branches and that too to existing customers. We would like to further increase the number of relationships with our existing clients as opposed to soliciting new customers.

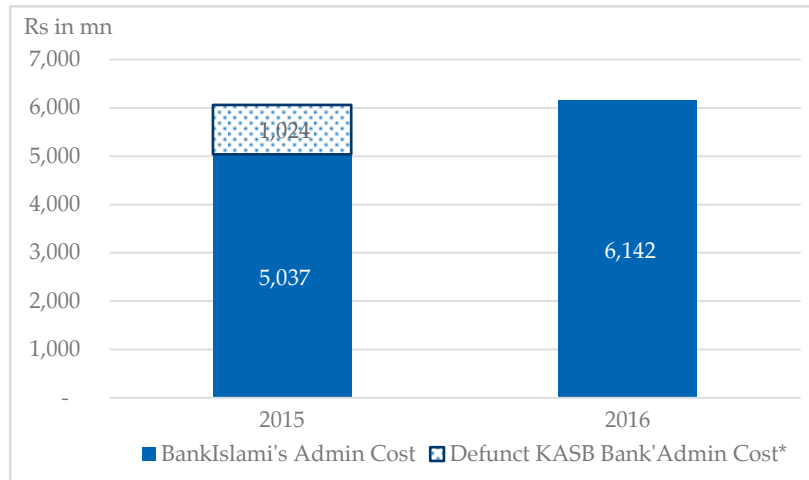


Consumer Financing Growth Trends (%)



### Cost rationalization

Comparatively expanded network, renovated and relocated branches and hiring of skilled human resources lead to an increase in administration expenses by 21.94%. However, if the intermediation cost of the defunct KASB Bank from January till May 07, 2015 is factored in, the Bank has increased cost by only 1.35% on a year-on-year basis, which is commendable. This also includes cost incurred in re-location of more than 50 branches. Despite of these efficiencies, the inherited cost structure of the defunct KASB Bank continues to put pressure on the profitability which we expect to improve gradually.



### Cost efficiencies of Consolidation<sup>1</sup>

Increase in revenues, rationalization of costs and reversals of provisions lead the Bank to report a profit after tax of Rs. 452 mn against a loss of Rs. 196 mn last year. Alhamdulillah.

*A full discussion on financial performance is contained in the Management Discussion and Analysis Section.*

### Achievements

- During the year, the Bank received 'Transaction for the Year 2015 - Runners Up' award from the CFA Society, Pakistan for 'Acquisition of defunct KASB Bank'.
- The Bank was also awarded by Islamic Finance News for Pakistan's Deal of the Year for 'Power Holding's Rs. 25 billion Syndicated Long Term Islamic Finance Facility' as one of the arrangers of the transaction along with two other Islamic Banks.

### New Initiatives

A new corporate financing product structured under Wakalatul Istithmar model was developed by BankIslami that helped extend Shariah Compliant financing to independent power plants and software development companies, etc.

With the coordination of NCCPL, it successfully structured Shariah Compliant margin financing transactions for customers of its subsidiary company, BIPL Securities. It plans to extend its collaboration with BIPL Securities and introduce a combined depository account for its customers InShaAllah.

<sup>1</sup> Administration cost of Defunct KASB Bank for period of Jan 1, 2015 till May 7, 2015.



- A unique Cash Management Solutions agreement was signed with Akhuwat Foundation for the distribution of its Qarz-e-Hasna Scheme through biometric ATM network of BankIslami.
- A mobile banking application, 'mBankIslami' was introduced for its customers during the year with plans to enhance its features going forward.
- An agreement with Ria International for home remittance transfer services through Bank's nationwide branch network was also signed.
- BIPL signed an agreement with Bank of Azad Kashmir for facilitating them in home remittances transfers and disbursements by overseas Pakistanis to Azad Kashmir.
- Shariah Advisory Services were provided to Ghani Gases Limited for arrangement of its Sukuk transaction. In addition, the Bank was again appointed by AlFalah GHP Investment Management Limited to provide Shariah Advisory Service for its new Shariah Compliant fund.

### Operational Achievements

During the year, the Bank set up a dedicated Alternate Distribution Channels department to fully optimize its technological edge on top of its biometric footprint.

The core banking data base system was upgraded to improve overall system performance and reduce transaction turnaround time. An automated Profit Calculation System was also successfully implemented. Branch reporting system was also automated in order to minimize the MIS preparation time and improve reporting.

As a commitment to clean energy, the Bank installed solar power in around 111 of its branches that will also help minimize the energy cost going forward.

### Marketing & Promotional Initiatives

For its debit card holders, the Bank launched 'Swipe n Win' campaign enabling card holders to win prizes. A number of strategic alliances with renowned brands were signed to provide different discounts to its debit card holders. Further new initiatives are in the pipeline which includes launch of number of customized loyalty schemes, supplementary & joint account holder's cards and titanium MasterCard etc.

During the year, the Bank also launched a successful 360 degree media campaign on TV, radio, print, outdoor and digital marketing channels. In addition, it enhanced the visibility of its outdoor sign board and the façade of its Branches which led to increased market presence and brand awareness.

### Human Resource & Training Initiatives

A total of 1,311 employees were hired in different positions during the year. Around 172 training sessions were conducted for 5,869 participants to further develop the capabilities of employees. Six town hall seminar were conducted on 'Strategic Business Development' at Karachi, Hyderabad, Multan, Lahore, Islamabad and Quetta for its business & operations managers. A comprehensive and customized Leadership course was also developed and launched for business managers by the Bank. A series of training sessions including Islamic banking, orientation programs and new trainee induction programs were also conducted during the year.

A fully automated biometric enabled attendance portal was also successfully implemented throughout its nationwide network in order to improve its human resource management and ensure quality service to its customers.



## **Future Strategy**

The Bank aims to continue to consolidate its position in the competitive Banking Industry in general and Islamic Banking sector in particular. It is well positioned to reap the opportunities that a revived economy provides to the financial sector especially the demand for consumer & infrastructure financing and fin-tech based solutions going forward.

## **Corporate and Financial Reporting Framework**

The Board of Directors is fully cognizant of its responsibility under the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan and adopted by the State Bank of Pakistan. The following statements are a manifestation of its commitment towards high standards of Corporate Governance and continuous organizational improvement:

- 1- The financial statements prepared by the Management of the Bank present fairly its state of affairs, the results of its operations, cash flow and changes in equity.
- 2- Proper books of account of the Bank have been maintained.
- 3- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- 4- International Financial Reporting Standards, as applicable in Pakistan have been followed in the preparation of financial statements and any departure there from has been adequately disclosed and explained.
- 5- The system of internal control is sound in design and has been effectively implemented and monitored.
- 6- There are no doubts upon the Bank's ability to continue as a going concern.
- 7- There has been no material departure from the best practices of Corporate Governance as detailed in the listing regulations.
- 8- The value of investments of the Bank's Provident Fund and gratuity fund based on un-audited accounts at December 31, 2016 amounted to Rs.453.441 million and Rs.306.437 million respectively.
- 9- Following information enclosed as annexure to the Directors' Report.
  - The purchase and sale of shares by the Directors and the Chief Executive during the year.
  - Key operating and financial data of last ten years.
  - Number of Board meetings, Audit and Human Resource & Compensation Committee Meetings held during the year and attendance of each director

## **Compliance with Code of Corporate Governance**

The requirements of the Code of Corporate Governance set out by Pakistan Stock Exchange in its listing regulations relevant for the year ended December 31, 2016 have been adopted by the Bank and have been duly complied with. A statement to this effect is annexed with the report.

## **Risk Management**

Committees related to the management of risks at BankIslami form the main layer of the risk management framework; the inflow and outflow of information is through the dedicated risk management unit. The Heads of Credit, Risk management, Operations, Finance, Treasury and other related functions review the critical risk areas of operational, credit and market risk as well as other risks being faced by the Bank, along with the magnitude of their impact and likelihood of occurrence.

BankIslami perceives the management of risk not to be limited to a department or a function, but rather a part of daily business routine. Ideas and decisions are largely based on the risk and reward trade-off some of the ideas which never see the light of the day are usually the ones which have been shelved due to an unacceptable risk level. The risks when identified and analyzed are further weighed against the applicable risk weights and its impact reviewed on a periodic basis. This pro-active approach helps in outlining the Bank's risk tolerance level vis-à-vis its risk appetite in relation to its size, current position and market standing, with a view to refine processes, controls and guidelines to not only mitigate, but also to effectively manage risks.

## **Credit Rating**

The Pakistan Credit Rating Agency Limited (PACRA) maintained the long-term entity rating of BankIslami at "A+" and short-term rating at "A1".

## **Pattern of Shareholding**

The Pattern of shareholding as at December 31, 2016 is annexed with the report.

## **Auditors**

The present Auditors EY Ford Rhodes Chartered Accountants., retire and being eligible offer themselves for re-appointment. As required under the Code of Corporate Governance, the Audit Committee has recommended the appointment of EY Ford Rhodes Chartered Accountants. , as Auditors for the year ending December 31, 2017.

## **Acknowledgments**

The Board would like to place on record its deep appreciation to the State Bank of Pakistan for providing assistance and guidance. It would also like to thank the Securities and Exchange Commission of Pakistan and other regulatory authorities for their support to us. We would like to express our gratitude to our valued customers, business partners and shareholders for their continued patronage and trust. Moreover, we would also like to acknowledge the dedication, commitment and hard work put in by our management team and employees that has enabled BankIslami to capture a prominent position in the Banking industry in general and Islamic Banking industry in particular.

On behalf of the Board,



Hasan A Bilgrami  
Chief Executive Officer  
March 10, 2017

## ڈائریکٹرز کی رپورٹ

معزز حاملین حصص:

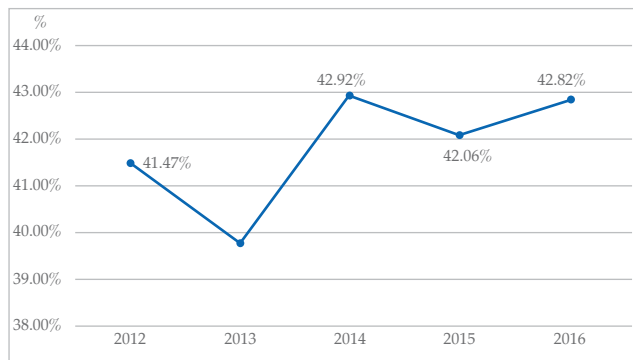
میں بورڈ کی جانب سے بینک اسلامی پاکستان لمیٹڈ ("بینک" یا "بی آئی پی ایل" یا "بینک اسلامی") 31 دسمبر 2016 کو اختتام پذیر ہونے والے سال کی تیرہویں سالانہ رپورٹ پیش کرتا ہوں۔ اس سال کی اہم مالیاتی نکات درج ذیل ہیں۔

نمو (فیصد)	دسمبر-15	دسمبر-16	
----- روپے ملین میں -----			
0.88%	153,058	154,400	کل ڈپازٹ
3.79%	174,231	180,846	کل اثاثے
13.26%	68,709	77,817	کل تمویل اور متعلقہ اثاثے
29.07%	35,886	46,317	کل سرمایہ کاری
11.25%	11,186	12,445	حصہ داران کی سرمایہ کاری
330.76%	-196	452	ٹیکس کے بعد نفع
284.02%	-0.224	0.449	فی حصہ بنیادی آمدنی / نقصان
1.26%	317	321	برانچوں کی تعداد

2016 کا سال کا عدم KASB بینک کے انتظامی انضمام کے بعد مستحکم ہونے کا سال تھا۔ اس سال کی نمایاں پیش رفت درج ذیل ہیں۔

ڈپازٹس کی صورت حال میں مثبت تبدیلی:

بینک کے مجموعی ڈپازٹس میں کرنٹ اور سیونگ اکاؤنٹ (CASA) کا جھکاؤ 66.71% سے بڑھ کر 71.58% ہو گیا۔ نتیجتاً ڈپازٹس کی لاگت 110 پیسے پوائنٹز کم ہو کر 2.99% ہو گئی جو دسمبر میں 4.09% تھی۔ خام سپریڈ (Gross spread) یا خالص سپریڈ (Net Spread) احتیاطی رقم نکالنے سے پہلے 42.06% سے 42.82% ہو گیا جس میں 76 پیسے پوائنٹ اضافہ ہوا۔ ہم امید رکھتے ہیں کہ اس بہتری سے مستقبل میں فنڈز کی لاگت میں فائدہ ہوگا۔

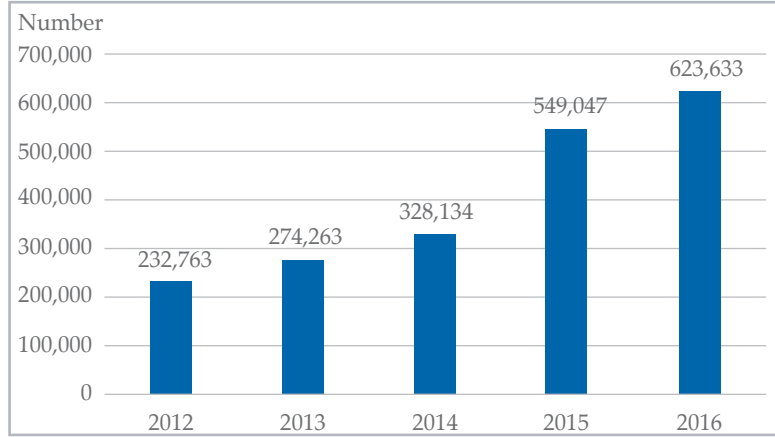


خام سپریڈ کا رجحان



## بینک کی پہنچ:

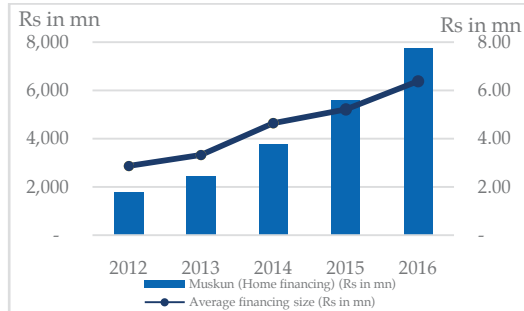
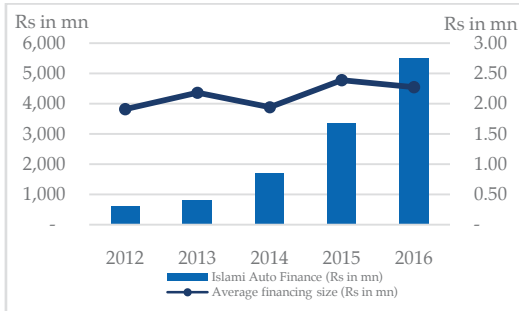
بینک نے 74,586 نئے کسٹمرز بڑھائے جس سے بینک کے کسٹمرز کی تعداد 623,633 تک بڑھ گئی ہے جو پچھلے سال کے مقابلے میں %13.58 فیصد بڑھ چکا۔ بینک 2017 میں اپنے نیٹ ورک کو مزید منظم کرنے کے ساتھ ساتھ ڈپازٹ 600 ملین روپے فی شاخ تک بہتر بنانے کا ارادہ رکھتا ہے۔



ڈپازٹ اکاؤنٹ کی تعداد

## صارفین کو تمویل:

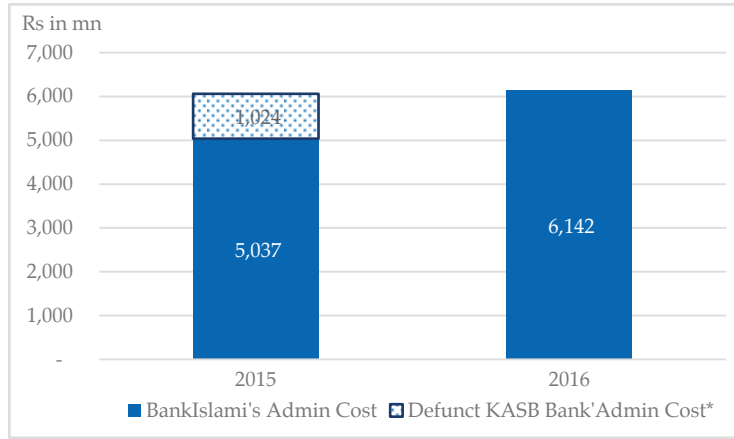
BIPL نے صارفین کو تمویل کے کاروبار پر توجہ دی جس کے نتیجے میں کل تمویل میں صارفین کو تمویل کا حصہ %10.88 سے بڑھ کر %14.75 ہو گیا ہے۔ ہم نے سال کے دوران شرکت متناقصہ کی بنیاد پر گاڑیوں کی تمویل متعارف کروائی، اس کے ساتھ ساتھ الحاح FAW موٹرز، ہنڈا پاکستان اور آڈی پاکستان کے ساتھ اتحادی معاہدے کئے جو بینک اسلامی کے صارفین کو ترجیحی بنیاد پر ڈیلیوری دیں گے۔ صارفین کی تمویل میں کل اضافہ %47.69 رہا جس میں پھیلاؤ 2017 اور اس کے بعد بھی اضافہ متوقع ہے۔ بینک اسلامی کی صارفین کو تمویل کی ایک اہم خصوصیت ”کراس سیلنگ“ ہے جس میں اکثر فروخت بینک کی شاخوں کے موجودہ کسٹمرز کو ہوتی ہیں۔ ہم نئے کسٹمرز کے اضافے سے زیادہ اپنے موجودہ کسٹمرز کے ساتھ تعلقات بڑھانے پر توجہ مرکوز رکھتے ہیں۔



صارفین کی تمویل کی ترقی کا رجحان

وسائل کے استعمال اور اخراجات میں بہتری:

بڑھتے ہوئے نیٹ ورک، نئی شاخوں کے کھولنے، کچھ برانچوں کو دوسری جگہ منتقل کرنے اور ہنرمند انسانی وسائل کے انتخاب نے انتظامی اخراجات کو %21.94 تک بڑھا دیا۔ اگر جنوری سے 7 مئی 2015ء کے کالعدم KASB بینک کے خرچوں کو مد نظر رکھتے ہوئے دیکھا جائے تو بینک کے اخراجات سال بہ سال صرف %1.35 بڑھی ہے جو کہ حوصلہ افزاء بات ہے۔ اس میں 50 سے زائد شاخوں کی نئی جگہ پر منتقلی کے اخراجات شامل ہیں۔ بینک کی بہتر ہوتی ہوئی کارکردگی کے باوجود کالعدم KASB بینک سے منتقل ہوا ڈھانچہ مسلسل نفع پر دباؤ ڈالے ہوئے ہے۔ ہمیں امید ہے کہ یہ بتدریج بہتر ہو جائے گا۔



لاگتوں میں بہتری

الحمد للہ، آمدنی میں اضافہ، لاگت کو مناسب حد میں لانا اور نادر ہندہ قوم کی واپسی کے نتیجے میں بینک، بعد از ٹیکس 452 ملین روپے کا نفع کا اعلان کر رہا ہے جو پچھلے سال 196 ملین روپے کا نقصان تھا۔

مالیاتی کارکردگی پر سیر حاصل بحث انتظامی تبصرے اور جائزے کے حصے میں ملاحظہ فرمائیں۔

احسن کارکردگی:

سال کے دوران "CFFA" سوسائٹی پاکستان کی جانب سے بینک کو "2015 کی دوسری اہم ترین ٹرانزیکشن" کے ایوارڈ سے نوازا گیا جو کالعدم KASB بینک کے انضمام کے سلسلے میں دیا گیا۔

اسلامی فائننس نیوز کی جانب سے بینک کو "ڈیل آف دی ایئر کا ایوارڈ" دیا گیا جو پاور ہولڈنگ کے لئے 25 ملین روپے کی اجتماعی تمویل کی طویل مدتی تمویلی سہولت کے معاملے کا تھا جس کے انتظام میں بینک اسلامی بھی شامل تھا۔

نئے اقدامات:

بینک کے بینکنگ کو تمویلی خدمات کی فراہمی کے لئے ایک اور پروڈکٹ فراہم کرنا شروع کی ہے جس کی بنیاد وکالت الاستثمار کے طریقے پر ہے۔ اس پروڈکٹ کی بدولت بینک ان جگہوں پر بھی شریعت کے مطابق مالیات فراہم کرنے کے قابل ہو جائے گا جہاں دیگر تمویلی طریقے مثالی نہیں ہیں جیسے سوڈ ویئر بنانا، بجلی کی پیداوار وغیرہ۔ نیشنل کلیرنگ کمپنی آف پاکستان لمیٹڈ (NCCPL) سے رابطہ کے ساتھ بینک نے اپنے ذیلی ادارے BIPL سیکورٹیز کے صارفین کو شریعت کے مطابق مارجن فنانسنگ کا حل پیش کیا۔ بینک کا BIPL سیکورٹیز کے ساتھ تعاون کو جاری رکھنے کا منصوبہ ہے جس کے نتیجے میں کسٹمرز کے لئے مشترکہ ڈپازٹری اکاؤنٹ متعارف کروایا جائے گا۔



- ☆ بینک نے اخوت فاؤنڈیشن کو اپنی بائیو میٹرک اے ٹی ایم کے ذریعے قرض حسنہ کی رقم تقسیم کرنے کے انتظام کا عمل فراہم کرنے کے لئے معاہدہ کیا۔
- ☆ بینک نے "mBankIslami" کے نام سے موبائل ایپ متعارف کروائی ہے جس کی خصوصیات میں مزید اضافہ کیا جائے گا۔
- ☆ بینک کی ملک بھر میں موجود شاخوں کے ذریعے رقم کی منتقلی کے لئے "Ria" انٹرنیشنل کے ساتھ معاہدہ کیا گیا ہے۔
- ☆ بینک نے بینک آف آزاد کشمیر کے ساتھ بھی رقم کی ترسیل میں معاونت کے لئے معاہدہ کیا۔
- ☆ غنی گیسز لمیٹڈ کو اس کے صلوک کے معاملے میں بینک نے شرعی رہنمائی کی خدمات فراہم کیں۔ اس کے علاوہ الفلاح جی ایچ پی نے بھی اپنے نئے شریعہ کمپلائنس فنڈ کی شرعی رہنمائی کے لئے بینک کو منتخب کیا۔

عملی کامیا بیاں:

سال کے دوران بینک نے متبادل ذرائع تقسیم کے لئے باقاعدہ شعبہ بنایا تاکہ بینک کی جانب سے بائیو میٹرک نظام میں کی گئی بھاری سرمایہ کاری سے بھرپور سے مستفید ہو سکے۔

بینک کے بنیادی ڈیٹا بیس کے نظام کو بہتر بنایا تاکہ معاملات کے منعقد ہونے کے وقت کو کم سے کم کیا جاسکے۔ خود کار نفع کے حساب کے نظام کو بھی نافذ کیا۔ شاخوں کی رپورٹنگ کا نظام بھی خود کار کر دیا گیا ہے تاکہ رپورٹیں بنانے کے وقت میں کمی لائی جاسکے۔

ماحول دوستی کو یقینی بناتے ہوئے بینک نے 111 شاخیں سٹمپی توانائی پر منتقل کر لی ہیں جس سے توانائی کی لاگت میں کمی آئے گی۔

مارکیٹنگ اور تشریحی اقدامات:

اپنے ڈیجیٹل کارڈ کے حاملین کے لئے بینک نے "سوئپ اینڈون" مہم متعارف کروائی جس کے نتیجے میں کارڈ ہولڈرز نے بہت سے انعامات جیتے۔ بہت سے اعلیٰ سطحی اتحادی معاہدات مشہور کمپنیوں کے ساتھ ہوئے تاکہ اس سے ڈیجیٹل کارڈ ہولڈرز کو رعایتی قیمتوں کا فائدہ ہو سکے۔ علاوہ ازیں بہت سے نئے اقدامات ابھی زیر بحث ہیں جن میں بہت سی لوہلی اسکیمز، ہسٹری کارڈ کاؤنٹ ہولڈرز کے کارڈز، اور ٹائٹینیم ماسٹر کارڈ شامل ہیں۔

سال کے دوران بینک نے "360 ڈگری" میڈیا مہم چلائی جو ٹی وی، ریڈیو، پرنٹ، آڈیو ویڈیو اور ڈیجیٹل مارکیٹنگ پر نشر کی گئی۔ اس کے علاوہ شاخوں کے بورڈرز کو بھی مزید اجاگر کیا گیا جس سے بینک کی مارکیٹ میں موجودگی اور برانڈ کی آگاہی میں بہتری آئی۔

انسانی وسائل اور تربیتی اقدامات:

سال کے دوران کل 1,311 مختلف عہدوں پر نئے ملازمین بھرتی کیے گئے۔ ملازمین کی استعداد میں بہتری کے لئے 5,869 شرکاء کے لئے تقریباً 172 تربیتی مجالس کا انعقاد کیا گیا۔ "اسٹریٹیجک برنس ڈیولپمنٹ" کے موضوع پر برنس اور آپریشن کے ناظمین کے لئے چھ ٹاؤن ہال سیمینار، کراچی، حیدرآباد، ملتان، لاہور، اسلام آباد اور کوئٹہ میں منعقد کئے گئے۔ ایک جامع اور مفید لیڈرشپ کورس کو برنس منجرج کے لئے تیار کر کے متعارف کروایا گیا۔ نیز تربیتی مجالس کے ایک سلسلہ جس میں اسلامی بینکاری، اورینٹیشن پروگرام، اور نیوٹریٹی انڈکشن پروگرام شامل ہیں سارا سال جاری رہا۔

ایک مکمل خود کار شخصی حاضری کا نظام بھی کامیابی کے ساتھ نافذ العمل کر دیا گیا۔ بینک کے ملک بھر میں پھیلی ہوئی شاخوں میں اس سے انسانی وسائل کی مینجمنٹ اور کسٹمر سروسز کے معیار میں بہتری آئے گی۔

مستقبل کی حکمت عملی:

بینک اسلامی بینکنگ انڈسٹری میں بالعموم اور اسلامی بینکنگ انڈسٹری میں بالخصوص اپنی پوزیشن کو مستحکم بنانا چاہتا ہے۔ ہم سمجھتے ہیں کہ بینک اسلامی، معیشت کی بہتر ہوتی ہوئی صورتحال سے پیدا شدہ مواقع سے فائدہ اٹھانے کے لیے تیار ہے۔ ہم مالیاتی شعبے میں اس سلسلے میں صارفین، انفراسٹرکچر اور فن فیک میں خصوصاً کام کرنے کا ارادہ رکھتے ہیں۔

کارپوریٹ اور مالیاتی رپورٹنگ کا طریقہ کار:

بورڈ آف ڈائریکٹرز سیکورٹی اینڈ ایکسچینج کمیشن آف پاکستان کی جانب سے جاری کردہ اور اسٹیٹ بینک آف پاکستان کا اپنایا ہوا، کوڈ آف کارپوریٹ گورننس کے تحت اپنی ذمہ داریوں سے بخوبی آگاہ ہیں۔ مندرجہ ذیل بیانات کارپوریٹ گورننس اور مسلسل تنظیمی بہتری کے اعلیٰ معیار کے لئے عہد کی ایک مثال ہیں:

(۱) بینک کی انتظامیہ کی جانب سے تیار کئے گئے مالیاتی گوشوارے، معاملات کی درست پوزیشن، عمل کے نتائج، پیسے کے بہاؤ، اور سرمائے میں تبدیلی کی بالکل درست تصویر پیش کر رہی ہے۔

(۲) بینک میں مناسب اکاؤنٹری کتا میں بنائی گئی ہیں۔

(۳) مناسب اکاؤنٹنگ پالیسیز، تسلسل کے ساتھ مالیاتی گوشوارے بنانے کے لئے اطلاق کی گئی ہیں اور حسابی تخمینے مناسب اور دانشمندانہ فیصلوں پر مبنی ہیں۔

(۴) بین الاقوامی مالیاتی رپورٹنگ کے معیارات، جو کہ پاکستان میں قابل اطلاق ہیں، مالیاتی گوشوارے بنانے میں اپنائے گئے ہیں اور ان سے انحراف مناسب انداز میں واضح کیا گیا ہے۔

(۵) اندرونی نگرانی کا نظام مضبوط ہے اور اس پر موثر انداز میں عملدرآمد اور نگرانی کی جاتی ہے۔

(۶) بینک کی اپنے امور جاری رکھنے کی صلاحیت پر کسی طرح کے بھی شک و شبہات نہیں ہیں۔

(۷) کارپوریٹ گورننس میں تفصیلی فہرست شدہ ہدایات سے کوئی بڑا انحراف نہیں ہے۔

(۸) بینک کی پروڈیونٹ فنڈ اور گریجویٹ فنڈ میں سرمایہ کاری 31 دسمبر 2016 کے غیر آڈٹ شدہ اکاؤنٹس کے مطابق 453.441 ملین روپے اور 306.437 ملین روپے بالترتیب ہیں۔

(۹) سال کے دوران ڈائریکٹرز اور چیف ایگزیکٹو آفیسر کی جانب سے بینک کے حصص کی خرید و فروخت کی تفصیلات، دس سالہ آپریٹنگ اور مالیاتی اعداد و شمار اور سال کے دوران بورڈ مینٹنگ، آڈٹ اور انسانی وسائل اور کیونٹیکیشن کمیٹی کی میٹنگز کے اعداد و شمار اور ان میں ڈائریکٹرز کی شمولیت کی تفصیلات منسلک ضمیمہ میں ہے۔

کوڈ آف کارپوریٹ گورننس سے مطابقت:

اسٹاک ایکسچینج کی جاری کردہ ہدایات کی فہرست میں طے کردہ کوڈ آف کارپوریٹ گورننس اختتام پذیر سال 31 دسمبر 2016 کے لئے اپنایا گیا اور اس سے مطابقت کی گئی۔ اس حوالہ سے ضمیمہ رپورٹ کے ساتھ منسلک ہے۔

رسک مینجمنٹ:

بینک اسلامی میں رسک مینجمنٹ سے متعلقہ کمیٹی نے رسک مینجمنٹ کے طریقہ کار کی تہہ بنائی؛ معلومات کی آمد اور روانگی خصوصی رسک مینجمنٹ یونٹ کے ذریعے ہوتا ہے۔ کریڈٹ، رسک مینجمنٹ، آپریشن، مالیات، ٹریڈری، اور دیگر متعلقہ شعبوں کے سربراہان، آپریشن، کریڈٹ اور مارکیٹ رسک اسی طرح دیگر رسک کا جائزہ لینے کے ساتھ ساتھ اس کے حجم اور اثرات اور اس کے ہونے کے امکان کا جائزہ لیتے ہیں۔

بینک اسلامی رسک مینجمنٹ کسی ڈپارٹمنٹ یا فنکشن کے ساتھ خاص نہیں سمجھتا بلکہ اسے روزمرہ کے کاروبار کا حصہ سمجھتا ہے۔ خیالات اور فیصلہ رسک اور رپورٹ کے ساتھ منسلک ہیں کچھ آئیڈیاز ہوتے ہیں جو دن کی روشنی میں دکھائی نہیں دیتے اکثر ناقابل قبول رسک کی وجہ سے ایک طرف رکھ دیے جاتے ہیں۔ رسک کا جب جائزہ لینے کے بعد اس کو قابل قبول رسک کی حیثیت سے پرکھا جائے تو اس کے اثرات مدتی بنیادوں پر ہوتے ہیں۔ رسک کے حوالے سے اقدامی طریقہ بینک کے قابل برداشت رسک لیول معلوم کرنے میں مدد کرتا ہے۔ اس کے ساتھ ساتھ اس کی مقدار، اس کا بینک کے موجودہ لیول سے تعلق، مارکیٹ اسٹینڈنگ سے تعلق، اور اس کے نتیجے میں پروسس، کنٹرول اور ہدایات کو بہتر بنایا جاتا ہے اس سے ناصرف رسک کم ہو جاتا ہے بلکہ منبج بھی ہو جاتا ہے۔





کریڈٹ ریٹنگ

پاکستان کریڈٹ ریٹنگ ایجنسی لمیٹڈ کی جانب سے بینک کے طویل مدت کے لئے ریٹنگ "A+" اور قلیل مدتی ریٹنگ "A1" مقرر کی گئی ہے۔

حصص کا پیٹرن:

31 دسمبر 2016 پر حصہ داران کی تفصیلات ضمیمہ کے طور پر منسلک ہے۔

آڈٹرز:

موجودہ آڈٹرز EY فورڈر ہوڈز چارٹرڈ اکاؤنٹینٹس کی مدت پوری ہوگئی اور وہ دوبارہ رکھے جانے کے اہل ہیں۔ کوڈ آف کارپوریٹ گورننس کے تحت آڈٹ کمیٹی نے EY فورڈر ہوڈز کو 31 دسمبر 2017 کو اختتام پذیر ہونے والے سال کے لئے آڈٹ مقرر کرنے کی سفارش کی ہے۔

اظہار تشکر:

بورڈ اسٹیٹ بینک آف پاکستان کی مسلسل مدد اور رہنمائی پر اپنی انتہائی تحسین کو ریکارڈ کا حصہ بنانا چاہتا ہے۔ اس کے ساتھ ساتھ سیکورٹی ایڈجسٹمنٹ کمیٹی آف پاکستان اور دیگر انتظامی نگران اداروں کا بھی ان کی معاونت پر شکریہ ادا کرتا ہے۔ ہم اپنے قابل قدر صارفین، کاروباری شراکت دار، اور حصے داران کا ہم پر مسلسل حمایت اور بھروسے پر انتہائی شکر گزار ہیں۔ اس کے ساتھ ساتھ ہم اپنی انتظامی جماعت، عملے کے افراد کی لگن، وابستگی، اور محنت کو تسلیم کرتے ہیں جس کے نتیجے میں ہی بینک اسلامی کو بینکنگ انڈسٹری میں بالعموم اور اسلامی بینکنگ انڈسٹری میں بالخصوص امتیازی مقام حاصل کرنے کے قابل ہوا۔

منجانب بورڈ

حسن اے بلگرامی

سربراہ اعلیٰ

۱۰ مارچ، ۲۰۱۷



## Annexure To Directors' Report

The purchase and sale of shares by Directors and Chief Executive Officer during the year are given below:

Name	Designation	No. of Shares as at Jan. 01, 2016	Shares subscribed during the Year ***	No. of Shares as at Dec. 31, 2016
Mr. Ali Hussain	Chairman	158,967,492	0	158,967,492
Mr. Ali Raza Siddiqui	Director	9,544	0	9,544
Mr. Fawad Anwar	Director	1,750	0	1,750
Mr. Hasan A. Bilgrami	CEO	939,697	0	939,697
Mr. Shabir Ahmed Randeree*	Director	99,023,638	0	99,023,638
Mr. Kamal Afsar	Director	1,000	0	1,000
Mr. Siraj Ahmed Dadabhoy **	Director	0	5,000	5,000

### Attendance of Board of Directors for the Year 2016:

Director Name	Total	Attended	Leave of Absence
Mr. Ali Hussain	5	5	0
Mr. Ali Raza Siddiqui	5	5	0
Mr. Ali Mohd Hussain Ali Al Shamali	5	3	2
Mr. Fawad Anwar	5	5	0
Mr. Hasan A. Bilgrami	5	5	0
Mr. Kamal Afsar	5	2	3
Mr. Shabir Ahmed Randeree *	2	1	1
Mr. Siraj Ahmed Dadabhoy **	3	0	3

\* resigned effective from June 4, 2016

\*\* co-opted from June 4, 2016 subject to SBP approval, SBP approval is awaited.

\*\*\* The Bank has reported purchases as well under this head in the financial statements of the previous year

## Annexure to Directors' Report

### Attendance of members of Board Committees for the Year 2016:

#### Audit Committee

Name	Total	Attended	Leave of Absence
Mr. Fawad Anwar	5	5	0
Mr. Ali Raza Siddiqui	5	5	0
Mr. Shabir Ahmed Randeree	2	1	1
Mr. Ali Mohd Hussain Ali Al Shamali	2	2	0

#### Human Resource & Compensation Committee

Name	Total	Attended	Leave of Absence
Mr. Ali Hussain	2	2	0
Mr. Ali Raza Siddiqui	2	2	0
Mr. Ali Mohd Hussain Ali Al Shamali	2	2	0
Mr. Hasan A. Bilgrami	2	2	0
Mr. Kamal Afsar	2	0	2
Mr. Fawad Anwar	1	1	0
Mr. Shabir Ahmed Randeree	1	1	0



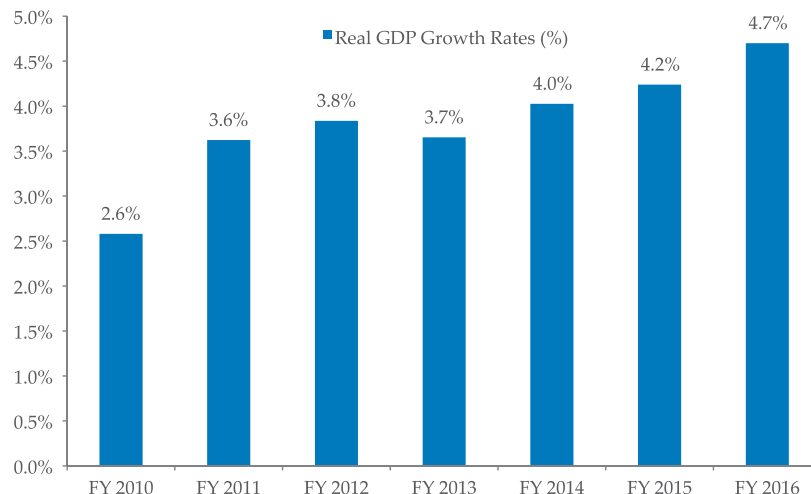
## Management Discussion and Analysis

### BUSINESS ENVIRONMENT<sup>1</sup>:

The year 2016 remarked many improvements in macroeconomic indicators as compared to the year 2015. The improvement in the law and order situation continued and, despite of slight increase, inflation remained within a reasonable band. Following this, the excellent performance of the Pakistan Stock Exchange ('PSX') and CPEC<sup>2</sup> related investment initiatives resulted in increased confidence, leading to improvement in the business environment of the country. The following gives a brief synopsis of the business environment during the year 2016:

### Gross Domestic Product:

Pakistan's economy managed to grow by 4.7% in FY16 in real terms, which is the highest ever during last 8 years. This was in comparison to 4.0% in FY15, a 67 basis points increase on a year on year basis. However, it fell short of the budgeted target of 5.7% for the year 2016. For the period FY10-15, GDP growth had an average growth rate of around 3.6%, signifying that the economy is moving along its growth trajectory amid challenges, which is a positive sign.



The agricultural sector witnessed a contraction of 0.19% in FY16 versus a positive growth of 2.5% in FY15, a decrease in growth by 272 basis points on a year on year basis. Since FY13, the sector has observed a reducing growth trend, however, this year the sector has actually seen a contraction. While in previous years, the lowering growth has been attributed to adverse weather inflicted damages, in FY16 it seems to have been caused by insects and pest attacks on cotton crop supplemented by a decline in commodity prices, particularly in cotton prices, which lead to a 28% decline in cotton output in the year. The performance of other crops was also not encouraging. As a result, a decline of 0.19% in the overall agricultural sector was reported for the first time since FY01.

1. All economic data, unless otherwise stated, are taken from various reports of the State Bank of Pakistan.
2. CPEC: China Pakistan Economic Corridor

The industrial sector hit a record growth since FY08 at 6.8% as compared to 4.8% in FY15. The growth was achieved despite global economic uncertainty and a lowering of external demand. Factors contributing to this achievement have been an improved law and order situation, macroeconomic stability and an improvement in the availability of energy. It is expected that this sector will witness further improvement as a result of investments under CPEC in the future.

The services sector recorded a strong growth in FY16 of 5.7%, the highest in 10 years, as opposed to 4.3% in the previous year. This record growth contributed over 70% to the overall GDP growth. The major sub-sector contributors were the wholesale and retail trade along with general government services, although all sub-sectors performed well. The World Bank has forecasted that Pakistan will achieve a 5.2% GDP growth rate for FY17 whereas the government has forecasted a target GDP growth rate of 5.7%.

#### **Large Scale Manufacturing Growth:**

Large Scale Manufacturing ('LSM') showed a significant improvement in growth of 4.6% in FY16 against 3.3% in FY15. Encouragingly, a number of industries posted a healthy growth during FY16 such as fertilizer sector, cement sector, auto sector and edible oil sector. Moreover, pharmaceuticals, leather, and chemicals also saw a reasonable growth during the year. Meanwhile, the performance of the textile sector, which is the biggest sub-sector of LSM, remained subdued; the sector grew by only 0.4 percent in FY16, which is less than half of last year's growth.

#### **Inflation:**

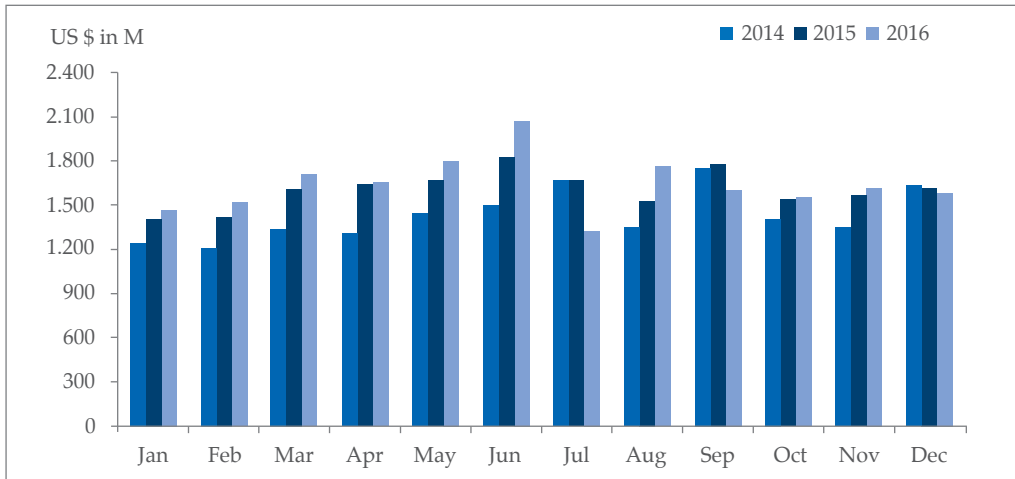
Consumer Price Index ('CPI'), a measure to gauge inflation, remained within comfortable levels in 2016. In FY16, CPI inflation reached 2.9%, lowest in 47 years and significantly lower than the 6% target set at the start of FY16. However, by December 2016, the CPI moved upward to 3.7% compared to 3.2% in December 2015 on a year-on-year basis. The increase was a result of various seasonal and supply-side factors such as shortage in supply of perishable food items, increase in some key global commodity prices (e.g. palm and soybean oil, crude oil, sugar, iron, coal, copper) and marginal depreciation of the rupee, against the US Dollar. The State Bank estimates inflation to remain between 4.5% and 5.5% in FY17, lower than the government target of 6.0%.

#### **Forex Reserves:**

The foreign exchange reserves achieved a record high level of US\$ 23.2 billion at the end of December 2016 as compared to US\$ 20.8 billion in December 2015. The surplus current account position, as well as inflows from IFIs, resulted in an increase in FX reserves of the country. Moreover, SBP's net foreign exchange purchases from the interbank market as well as financial inflows, particularly from China in the form of long term commercial loans led to a buildup of FX reserves. It is, therefore, important that CPEC-related projects continue at their scheduled pace, so that associated inflows from China are available to offset debt payments and the rise in import bill going forward.

#### **Foreign Remittances:**

Remittance flows lately started to weaken, as they are not completely immune to adverse global developments. Overall remittances increased albeit with a reduced growth of 2.3% percent in CY16, significantly less than the growth rate of 11.8% in CY15 and 17.0% in CY14. High dependence on the oil-rich GCC for remittances emerged as a challenge in an era of low oil prices. Inflows from the GCC region declined by 0.5% in CY16, against the increase of 17.5% in CY15. The tightening of AML/CFT and consumer protection regulations in the US has increased costs for global money transfer from US hence there was a decline of 8.3% in the amount remitted from USA in CY16. Similarly, remittances from the UK fell mainly due to the sharp depreciation of the pound against the US dollar following Brexit. Hence, remittance inflows are expected to remain tepid going forward.



**US\$ Pak Rupee parity:**

The Rupee depreciated marginally by 0.02% against the US Dollar in the inter-bank market to Rs.104.91/US\$ on December 31, 2016 from Rs.104.70/US\$ on December 31, 2015. Despite a volatile environment in the global currency market during CY16, the Rupee has remained relatively stable vis-à-vis the US Dollar. This stability has been attributed to a good FX reserve position along with an improvement in the external sector following a sharp decline in oil prices. Pressure may befall the parity due to widening trade deficit (with rising imports and declining exports) and fall in remittances in a period post completion of the IMF program. This stabilization program has been a key element of Balance of Payments comfort over the past three years. Hence, concern remains for the stability of exchange rate going forward.



**US\$ Pak Rupee parity Movement**

**Foreign Direct Investment:**

The net Foreign Direct Investment ('FDI') was US\$ 2,003.4 million in CY16 in comparison with US\$ 1,289.0 million in CY15, an increase of 55.4%. Despite a weak and albeit recovering global economy; improvement in internal conditions such as improved energy supply to businesses and an improved law and order situation as a result of various army and intelligence operations have helped bringing in FDI. The sectors which attracted FDI were Power (25.2%), Food (22%), Oil & Gas exploration business (9.2%), Communications (7.8%) and Financial services (7.8%). Largest contributor to the FDI was the Netherlands with 23.2% share (US\$ 464.1 million), followed by the China with 19.3% share (US\$ 386.4 million) and UAE with 7.0% share (US\$ 129.9 million). China is still the second largest investor in Pakistan and the main beneficiary of the Chinese investments is the Power sector as a result of CPEC projects.

**Debt Situation:**

The Fiscal Responsibility and Debt Limitation ('FRDL') Act, 2005 requires the federal government to maintain total public debt as a percentage of GDP at 60 percent, whereas it stood at 66.5% at FY16 year end.

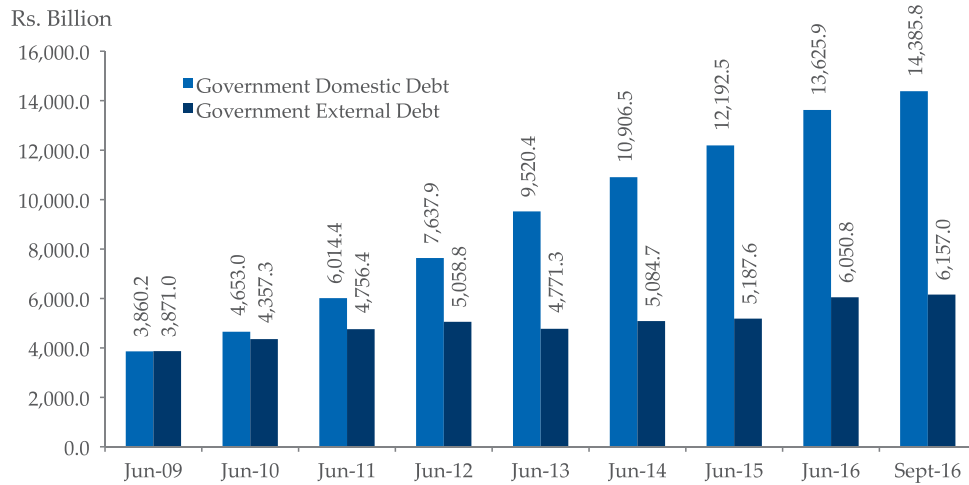
The domestic debts of Pakistan increased by Rs. 772 billion during the period July to September 2016. Domestic interest payments were about 72% of total debt servicing. The large portion of debt servicing was against PIBs, treasury bills and savings certificates. It stood at 61.3% of GDP suggesting a significant improvement in debt management. The government aims to reduce the debt-to-GDP ratio to the recommended 60% by 2017-18 followed by reducing it further to 50% over a 15 year period.

Pakistan's external debts stood at Rs. 6,157 billion by Sept 2016. It increased by Rs. 106.2 billion (about US\$ 1 billion) during July to September 2016 period, although around US\$ 1.08 billion was paid during the same period. The table below highlights the public debt situation of Pakistan:

Rs. billions	June'15	June'16	Sept'16
I. Public Domestic Debt	12,192.5	13,625.9	14,385.8
II. Public External Debt	4,770.0	5,417.7	5,515.0
III. Debt from IMF	417.6	633.1	642.0
Sub-total (II+III)	5,187.6	6,050.8	6,157.0
<b>Gross Public Debt (Sum I to III)</b>	<b>17,380.9</b>	<b>19,676.7</b>	<b>20,542.8</b>
<b>Net Public Debt</b>	<b>15,986.7</b>	<b>17,823.2</b>	<b>18,282.1</b>
<b>As percent of GDP (%)</b>	<b>June'15</b>	<b>June'16</b>	<b>Sept'16</b>
Gross Public Debt	63.2	66.5	61.3
Net Public Debt	58.1	60.2	54.6
Public Domestic Debt	44.3	46.0	42.9
Public External Debt	18.9	20.4	18.4

Various causes are attributed to this increase in public debt such as increase in the government credit balances with the SBP and other commercial banks, the fiscal deficit and the debt from the IMF.

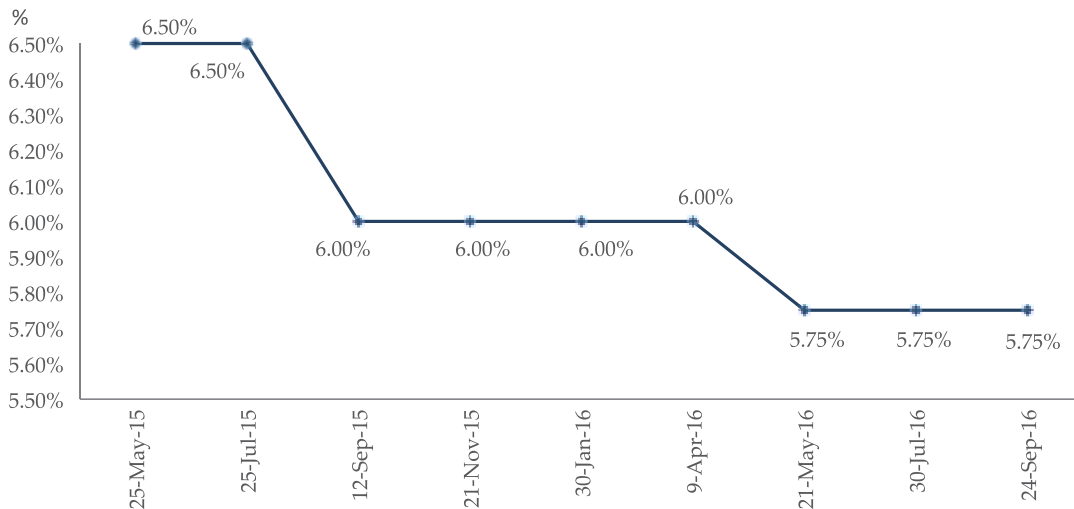
Furthermore, Pakistan needs to pay back international loans of US\$ 11.5 billion within the next year and a half. These includes payments to the IMF, ADB, Islamic Development Bank, World Bank and the Paris Club.



### Public Debt Situation

#### Monetary Policy:

The good performance of key macroeconomic factors like low inflation and overall external surplus continued during 2016. This led SBP to make no change to the policy rate which was introduced in May 2015 as 6%. A cut of 25 basis points in the policy rate was made by SBP in May 2016. Following this, SBP adopted cautious approach due to a slowly increasing inflation rate and current account deficit keeping the policy rate intact at 5.75%. The historic low interest rates have resulted in some modest gains such as increased credit to the private sector especially for imports of machinery and industrial raw materials. However, once the inflationary pressures intensify, SBP would be pushed to re-tighten the interest rates.



### Policy Rate Trend



**Stock market:**

KSE-100 index has witnessed an upward trajectory in the year 2016 that still continues. The index reached 47,806.97 points at the end of CY16 from 32,811.89 at the end of CY15, a growth of 45.7% on year-on-year basis. The peak for CY16 was 47,938.65 points achieved on December 30, 2016.

At the beginning of 2016, the index showed significant dip following a rift between brokers and government officials and a steep decline in crude oil prices. However, from the end of February, situation improved. The KSE-100 become one of the best performing stock indexes in the region. The Morgan Stanley Capital International (‘MSCI’) reclassified the Pakistan Stock Market in the Emerging Markets (‘EM’) Index in mid-June 2016 which added further momentum to the already bullish market. But the landmark in the bourse’s 70 years history, which will serve as game-changer for the further development of Pakistan’s capital markets, is that a consortium of China Financial Futures Exchange, Shanghai Stock Exchange, Shenzhen Stock Exchange, Pak China Investment Company Limited and Pakistan’s Habib Bank Limited were the highest bidders for the PSX strategic sale, acquiring a 40% stake (320 million shares) for a consideration of US\$ 85 million (i.e. Rs. 28/share) along with management control. The divestment of PSX is expected to open up a plethora of positives for the stock market which include a faster product rollout that will increase the depth of the market and opening of Pakistan to Chinese institutional investors that would lend further visibility and transparency for foreign investors. PSX’s inclusion in MSCI EM Index scheduled in May-17 is likely to support further re-rating of market valuation as well.

**KSE-100 Index Performance**

**Future Outlook:**

Pakistan’s economy has embarked on a moment of opportunity to leverage its growth momentum. The GDP growth is expected to strengthen further going forward. Supportive economic policies such as low interest rates, increase in foreign investments and reduced cost of energy will help speed up growth. An increase in the momentum on infrastructural development and CPEC-related projects will also serve as a catalyst to the private business investment and boost productivity. It will also have spillover effects on a number of sectors, especially the transport, wholesale and retail sectors. Private sector credit is already gaining traction and is expected to generate substantial economic activity. The PSX is expected to continue to go strong and attract local and foreign investments.

Challenges posed to the economy are still prevalent such as exports being small in relation to GDP and have been declining; private investment including foreign direct investment is too low to support higher growth; public debt is still too high; fiscal revenue, while having increased significantly, remains insufficient to support much needed spending on public investment, health and education.

With the implementation of prudent economic policies and growth supporting structural reforms, the Pakistan economy is expected to continue its macro-economic stability and remain resilient in the year 2017 as well.

**ISLAMIC BANKING:**

The Islamic Banking Industry consists of 21 players, with 5 full-fledged Islamic Banks and 16 Window Operations of conventional banks. At the end of 2016, AlBaraka Bank (Pakistan) Limited acquired Burj Bank Limited.

The Islamic Banking industry has 11.8%<sup>3</sup> share in assets and 13.3%<sup>4</sup> share in deposits of the overall Banking industry. The Islamic Banking network has spread across the country with the total number of branches being 2,226 in more than 150 Cities of Pakistan.

3 As of Sept 2016

4 As of Sept 2016



During the year, SBP reduced Statutory Liquidity Requirement ('SLR') for Islamic banks and Islamic banking branches by 5 percent to fix at 14 percent. This step was taken due to lack of Shariah Complaint SLR eligible assets. The SBP helps Islamic banks to maintain SLR ratio through purchase and sale of government of Pakistan's Ijara Sukuk ('GIS') either on deferred payment basis (Bai-Muajjal) or on ready payment basis through open market operations based on competitive bidding.

The last Sukuk issued by SBP was on March 24, 2016 against the asset of M-1 Peshawar to Islamabad Motorway. Since then, 6 Sukuks have matured generating maturity of Rs.225 billion and there has been no new issuance of Sukuks.

SBP also allowed Islamic Banks to delink the pricing of financing provided on the basis of participatory (Musharakah & Mudarabah) and Wakalah (Agency) modes from the KIBOR. This development should pave the way for development of Shariah compliant pricing benchmark by Islamic Banking sector in the near future.

Islamic banking has recorded a robust growth in the past and can further expand tremendously with the enhanced support from the regulator by removing bottlenecks faced by the sector.

#### **STANDALONE FINANCIAL ANALYSIS**

A detailed analysis of the operating performance of the Bank is provided as follows:

##### **Financial Condition:**

The following table sets forth, for the year indicated, the **Financial Position** of the Bank and its comparison with the previous reporting periods:

**Table A**  
**Financial Position**

Rs in millions

<b>Assets</b>	<b>2016</b>	<b>2015</b>	<b>% change</b>	<b>2014</b>	<b>% change</b>
Cash and balances with treasury banks	8,921	9,036	-1.3%	6,361	42.0%
Balances with other banks	1,140	1,781	-36.0%	734	142.8%
Due from financial institutions - net	27,218	39,824	-31.7%	18,144	119.5%
<b>Investments</b>	<b>46,317</b>	<b>35,886</b>	<b>29.1%</b>	<b>30,655</b>	<b>17.1%</b>
Federal Govt Securities	38,853	32,291	20.3%	28,347	13.9%
Unlisted Sukuks	4,523	1,454	211.1%	2,155	-32.5%
Other Investments	7,831	7,268	7.7%	191	3704.6%
Provision for diminution in value investment	(4,890)	(5,127)	-4.6%	(39)	12977.0%
<b>Financing</b>	<b>77,817</b>	<b>68,709</b>	<b>13.3%</b>	<b>41,097</b>	<b>67.2%</b>
Operating Fixed Assets	9,348	8,829	5.9%	3,380	161.2%
Deferred Tax Assets	5,918	6,591	-10.2%	-	100.0%
Other Assets	4,167	3,575	16.6%	1,614	121.5%
<b>Total Assets</b>	<b>180,846</b>	<b>174,231</b>	<b>3.8%</b>	<b>101,984</b>	<b>70.8%</b>
<b>Equity &amp; Liabilities</b>					
<b>Equity Share Capital</b>	<b>10,079</b>	<b>10,079</b>	<b>0.0%</b>	<b>5,759</b>	<b>75.0%</b>
Discount on issue of shares	(79)	(79)	-0.1%	(79)	0.0%
Reserves	614	523	17.4%	273	91.5%
Unappropriated profit / (Accumulated losses) before transfers	213	(171)	224.2%	267	-164.2%
	<b>10,827</b>	<b>10,352</b>	<b>4.6%</b>	<b>6,220</b>	<b>66.4%</b>
Surplus on revaluation of Assets-net of Taxes	1,618	834	93.9%	647	28.9%
<b>Total Equity</b>	<b>12,445</b>	<b>11,186</b>	<b>11.3%</b>	<b>6,867</b>	<b>62.9%</b>
Deposits	154,400	153,058	0.9%	90,331	69.4%
Current	49,038	45,065	8.8%	17,052	164.3%
Saving	61,484	57,035	7.8%	38,030	50.0%
Term	43,362	50,567	-14.2%	35,097	44.1%
Others	516	391	31.9%	152	157.3%
Due to financial institutions	6,066	3,198	89.7%	561	470.0%
Bills payable	2,274	1,524	49.2%	918	65.9%
Deferred Tax Liabilities	-	-	-	200	-100.0%
Other Liabilities	5,661	5,265	7.5%	3,107	69.5%
<b>Total Liabilities</b>	<b>168,401</b>	<b>163,044</b>	<b>3.3%</b>	<b>95,117</b>	<b>71.4%</b>
<b>Total Equity and Liabilities</b>	<b>180,846</b>	<b>174,231</b>	<b>3.8%</b>	<b>101,984</b>	<b>70.8%</b>



The year 2016 was the year of consolidation where Bank focused to improve the balance sheet mix. Hence, the Balance sheet of the Bank grew by 3.8% in 2016. Increase in Operating Fixed Assets was 5.9% due to branch expansion.

Due from financial institutions decreased by 31.7% as surplus liquidity was deployed in Investments and Financing which increased by 13.3%.

Deferred Tax Assets (net) on the balance sheet has decreased mainly due to increase in Deferred Tax Liability on account of surplus on revaluation of available for sale securities, fair value adjustments relating to net assets acquired upon amalgamation and increased profitability. An amount of Rs. 2.2 billion is recognized as deferred tax debit balance, based on future taxable profits it will be realized in future. Increase in Other Assets was 16.6% mainly on account of increase in profit accrued on SLR and non-SLR Sukuks together with Istisna & Salam financing. There was an increase in Bills payable by 49.2%. Due to financial institutions increased by 89.7% on account of increase in SBP Export Refinance and Musharaka acceptances.

The Bank's Equity increased by 11.3% due to profitability, surplus on revaluation of non-banking assets and investments which the Bank decided to retain.

There was a marginal growth of 0.9% in Deposits on the back of re-composition of deposits with increase in Current Accounts and Saving Accounts by 8.8% and 7.8% respectively and decrease in Term Deposits by 14.2%.

#### Operating Results Data:

The following table sets forth, for the periods indicated, the Operating Results Data:

**Table B**  
**Operating Results Data**

	<i>Rs in millions</i>				
	<b>2016</b>	<b>2015</b>	<b>% change</b>	<b>2014</b>	<b>% change</b>
Profit Earned	10,127	8,834	14.6%	7,812	13.1%
Profit Expensed	5,791	5,119	13.1%	4,459	14.8%
<b>Net Spread Earned</b>	<b>4,336</b>	<b>3,715</b>	<b>16.7%</b>	<b>3,353</b>	<b>10.8%</b>
Other Income	638	570	11.9%	632	-9.8%
-Fee income	362	408	-11.3%	387	5.3%
-Dividend Income	24	3	746.6%	-	-
-Income from foreign currencies dealing	43	82	-47.8%	172	-52.2%
-Gain on sale of securities	98	12	716.5%	32	-62.7%
-Unrealised gain on revaluation of investment classified as HFT	1	-	-	-	-
-Others	110	65	69.8%	40	61.6%
<b>Operating Income</b>	<b>4,974</b>	<b>4,285</b>	<b>16.1%</b>	<b>3,985</b>	<b>7.5%</b>
Operating Expenses	6,160	5,188	18.7%	3,498	48.3%
<b>Operating Profit/ (Loss)</b>	<b>(1,186)</b>	<b>(903)</b>	<b>31.3%</b>	<b>487</b>	<b>-285.4%</b>
Total (Reversals of Provisions) / Provisions	(2,030)	(631)	221.9%	17	-3810.1%
<b>Profit Before Tax</b>	<b>844</b>	<b>(272)</b>	<b>409.9%</b>	<b>470</b>	<b>-157.9%</b>
Tax, including Deferred Tax	392	(76)	613.2%	156	-148.9%
<b>Profit After Tax</b>	<b>452</b>	<b>(196)</b>	<b>330.6%</b>	<b>314</b>	<b>-162.4%</b>

Despite the low discount rate environment where the policy rate reduced further from 6.0% to 5.75% in May 2016, the Bank's profit earned increased by 14.6% mainly due to improvement in financing to deposit ratio ('FDR') from 44.9% to 50.4%, as well as improvement in investment to deposit ratio ('IDR') from 23.4% to 30.0%. Decrease in cost of funds, change in deposit composition by focusing towards CASA accounts and shedding expensive deposits resulted in increase in net spread margin to 42.8% from 42.1% in 2015, an improvement by 76bps.

Other income grew by 11.9% compared to decline of 9.8% last year. This increase was supported by increase in dividend income and gain on sale of securities.

Operating Income increased by 16.1% while Operating Expenses increased by 18.7% because of branch expansion & renovation, advertisement & publicity etc. Increase in Reversals of provisions of doubtful debts by Rs. 2bn resulted in increase in profitability of the Bank by 330.6%.

#### Key Financial Ratios:

The following table sets forth, for the periods indicated, the Key Financial Ratios:

**Table C**  
**Key Financial Ratios**

	2016	2015	% change	2014	% change
Return on Average Equity (%)	4.27%	-2.37%	280.4%	5.35%	-144.2%
Return on Average Assets (%)	0.2%	-0.1%	279.4%	0.3%	-142.7%
Earnings per share (Rs.)	0.45	-0.24	284.1%	0.58	-142.2%
Book value per share (Rs.)	12.35	11.10	11.3%	11.92	-6.9%
Fee to Income (%)	7.3%	9.5%	-23.6%	9.7%	-2.0%
Cost to Income (%)	111.0%	109.6%	1.3%	94.2%	16.3%
Branch Network	321	317	1.3%	213	48.8%
Cities covered	105	93	12.9%	80	16.3%

Return on Average Equity, Return on Average Assets and EPS, all improved in 2016 because the Bank was able to post profit despite challenges like low spread environment. Book value per share increased largely on account of surplus on revaluation of Sukuk portfolio in the balance sheet. Decrease in Fee to Income ratio was due to increase in Profit Earned as well as drop in Fee Income. Cost to income ratio saw a rise to 111% as number of branches were re-located as well as renovated during the last two years due to re-alignment of the distribution network post amalgamation with defunct KASB Bank. The Bank has the 13th largest branch network in the Banking Industry. It plans to grow its network to 9 more Cities across Pakistan in the year 2017.



### Net Profit Earned and Spread Analysis:

The following table sets forth, for the periods indicated, the Net Profit Earned and Spread Analysis:

**Table D**  
**Net Profit Earned and Spread Analysis**

*Rs in millions*

	2016	2015	% change	2014	% change
Profit Earned	10,127	8,834	14.6%	7,812	13.1%
Profit Expensed	5,791	5,119	13.1%	4,459	14.8%
Net Spread Earned	4,336	3,715	16.7%	3,353	10.8%
Profit Earning Assets	151,352	144,419	4.8%	89,895	60.7%
Profit Bearing Liabilities	160,466	156,256	2.7%	90,892	71.9%
Net Spread Margin (%)	2.86%	2.57%	11.4%	3.73%	-31.0%
Yield on Profit Earning Assets (%)	6.69%	6.12%	9.4%	8.69%	-29.6%
Cost of Profit Bearing Liabilities (%)	3.61%	3.28%	10.2%	4.91%	-33.2%
Spread (%)	3.08%	2.84%	8.5%	3.78%	-24.9%

Increase in Profit Earning Assets by (4.8%) was more than increase in Profit Bearing Liabilities (2.7%) bringing efficiency in the balance sheet. The rise in Yield on Profit Earning Assets (9.4%) was nearly the same as the rise in Cost of Profit Bearing Liabilities (10.2%). The net impact was increase in Spread by 8.5% or 90bps. The Bank is focused on growing its earning assets in areas with higher yield which would further improve the overall spreads in future.

### Yields, Cost, Spreads and Margins:

The following table sets forth, for the period indicated, further analysis of Yields, Costs, Spreads and Margins:

**Table E**  
**Yields, Cost, Spreads and Margins**

	2016	2015	% change	2014	% change
<b>Yield on Profit Earning Assets (%)</b>	<b>6.69%</b>	<b>6.12%</b>	<b>9.38%</b>	<b>8.69%</b>	<b>-29.61%</b>
- on Financing	7.24%	7.98%	-9.27%	11.57%	-31.03%
-on Investments	5.82%	6.70%	-13.13%	9.80%	-31.63%
-On SLR Investments	5.73%	6.23%	-8.03%	9.72%	-35.91%
-On Other Investments	6.11%	7.10%	-13.94%	10.02%	-29.14%
<b>Cost of Profit Bearing Liabilities (%)</b>	<b>3.61%</b>	<b>3.28%</b>	<b>10.16%</b>	<b>4.91%</b>	<b>-33.22%</b>
-Cost of Deposits	3.26%	3.53%	-7.65%	5.44%	-35.11%
-Cost of Borrowings	5.80%	5.95%	-2.52%	9.56%	-37.76%
<b>Spread (%)</b>	<b>3.08%</b>	<b>2.84%</b>	<b>8.48%</b>	<b>3.78%</b>	<b>-24.93%</b>
Net Spread Margin (%)	2.86%	2.57%	11.36%	3.73%	-31.03%

There was a rise in Yield on Profit Earning Asset. Yield on Financing dropped by 9.27% due to fall in KIBOR by 15.9%. However it was contained due to increase in Consumer Financing portfolio by 47.7%. The Yield on Investment improved largely due to dividend income and gain on sale of securities. Cost of Profit Bearing Liabilities declined due to rate reduction. Cost of Deposits reduced as the Bank shed expensive deposits and improved its composition of Current Accounts, which now constitutes 31.8% of the total Deposits as against 29.4% last year. As a result, improvement in Spread and Net Spread Margin were recorded as 27bps and 30bps respectively.

**Other Income Components:**

The following table sets forth, for the periods indicated, details of Other Income Components:

**Table F**  
**Other Income Components**

Rs in millions

	2016	2015	% change	2014	% change
-Fee Income	362	408	-11.3%	387	5.3%
-Dividend Income	24	3	746.6%	-	100.0%
-Income from foreign currencies dealing	43	82	-47.8%	172	-52.2%
-Gain on sale of securities	98	12	716.5%	32	-62.7%
-Unrealised gain on revaluation of investment	1	-	-	-	0.0%
-Other	110	65	69.8%	40	61.6%
<b>Total Other Income</b>	<b>638</b>	<b>570</b>	<b>11.9%</b>	<b>632</b>	<b>-9.8%</b>

Majority of the Other Income accrued from Fee Income but it witnessed a decline this year. Nevertheless, the Bank plans to focus more on trade finance & investment banking business and therefore expects healthy growth going forward. The Bank has also revised its schedule of charges in-order to remain competitive and earn a sustainable amount of fee & commission income on its value added services. Dividend income improved on the back of purchase of dividend yielding stocks. The Bank through secondary market traded Sukuk portfolio to earn a capital gain. Overall, there was an increase in Other Income by 11.9%. Other Income as a percentage of Total Operating Income was 12.8% as against 13.3% for last year.

**Operating Expenses:**

The following table sets forth, for the period indicated, further analysis of Operating Expenses:

**Table G**  
**Operating Expenses**

Rs in millions

	2016	2015	% change	2014	% change
Payments to Employees	2,702	2,182	23.8%	1,509	44.6%
Depreciation on own property (including non-banking assets)	641	507	26.4%	330	53.8%
Other Administrative Expenses	2,799	2,349	19.2%	1,623	44.7%
<b>Total Administrative Expenses</b>	<b>6,142</b>	<b>5,038</b>	<b>21.9%</b>	<b>3,462</b>	<b>45.5%</b>
Other Operating Expenses - others	18	150	-0.12%	36	316.7%
<b>Total Operating Expenses</b>	<b>6,160</b>	<b>5,188</b>	<b>18.7%</b>	<b>3,498</b>	<b>48.3%</b>



Total Administrative Expenses grew by 21.9% while overall Operating Expenses grew by 18.7% as compared to last year. The main contributor to the increase was payments to Employees which increased by 23.8%. 53.6% of the growth in Operating Expenses also came from increased employees' remuneration which grew on back of annual increments and hiring of 312 new employees.

**Provisions:**

The following table sets forth, for the period indicated, further analysis of Provisions:

**Table H**  
**(Reversal of Provisions) / Provisions**

Rs in millions

	2016	2015	% change	2014	% change
Reversal of Provisions for Non performing Financing	(1,724)	(640)	169.6%	(22)	2773.6%
Provision for Other Assets	-	-	-	23	-100.0%
(Reversal of Provisions) / Provisions for Investments	(338)	8,774	-3947.1%	39	-77.6%
Bad Debts written off directly	32	-	-	-	0.0%
<b>Total (Reversal of Provisions) / Provisions [excluding Provisions for Tax]</b>	<b>(2,030)</b>	<b>(631)</b>	<b>221.8%</b>	<b>40</b>	<b>-1677.3%</b>
<b>Coverage Ratio (%)</b>	<b>82.1%</b>	<b>86.2%</b>	<b>-4.7%</b>	<b>49.4%</b>	<b>74.6%</b>

The Bank focused on recovering from its doubtful portfolio which resulted in reversal of provisioning (net) of Rs. 1.7bn whereas Investment portfolio recorded reversals of Rs. 338mn. The coverage ratio, a percentage of total provisions over non-performing financing portfolio, was 82.1% as compared to 86.2% in 2015.

**Classification of Financing:**

The following table sets forth, for the period indicated, further analysis of Classification of Financing:

**Table I**  
**Classification of Financing**

Rs in millions

	2016	2015	% change	2014	% change
OAEM	693	159	-	95	67.3%
Substandard Assets	886	1,312	-32.4%	76	1635.7%
Doubtful Assets	868	383	126.6%	57	572.4%
Loss Assets	12,087	13,830	-12.6%	834	1557.6%
<b>Total Non-performing Financing</b>	<b>14,534</b>	<b>15,684</b>	<b>-7.3%</b>	<b>1,062</b>	<b>1376.9%</b>



The Bank was able to improve its non-performing financing portfolio which reduced by 7.3%. Loss Assets constitutes 83.2% of the total Classified Portfolio as against 88.2% last year. Infection ratio, classified portfolio as a percentage of Gross Financing, was 16.2% in comparison to 19% last year. This ratio included the inherited doubtful debts of defunct KASB Bank. The Bank expects the Non-performing Portfolio to further decline going forward.

**Composition of Financing Portfolio:**

The following table sets forth, for the period indicated, further analysis of the Financing Portfolio:

**Table J**  
**Composition of Financing Portfolio (including provided portion)**

Rs in millions

	2016	% of total financing	2015	% change	% of total financing
<b>Consumer Banking</b>	<b>13,248</b>	<b>14.8%</b>	<b>8,970</b>	<b>47.7%</b>	<b>10.9%</b>
Muskun (Home financing)	7,735	8.6%	5,601	38.1%	6.8%
Islami Auto Financing	5,513	6.1%	3,369	63.6%	4.1%
<b>Corporate &amp; SME Financing</b>	<b>63,366</b>	<b>70.6%</b>	<b>58,033</b>	<b>9.2%</b>	<b>70.4%</b>
Corporate financing	60,232	67.1%	53,821	11.9%	65.3%
SME financing	3,134	3.5%	4,212	-25.6%	5.1%
Conventional portfolio	11,110	12.4%	13,596	-18.3%	16.5%
Staff Financing	2,062	2.3%	1,847	11.7%	2.2%
<b>Gross Financing</b>	<b>89,787</b>	<b>100.0%</b>	<b>82,446</b>	<b>8.9%</b>	<b>83.5%</b>

The Bank grew its financing portfolio with special focus on Consumer financing that includes house and auto financing which grew by 47.7%. Its proportion in total financing portfolio also grew from 10.9% to 14.8%. 48.3% of the growth in Financing came from incremental disbursements of Home & Auto financing. The Bank booked 473 cases of houses and 2,424 cases of autos this year compared to 433 houses and 1,411 autos last year. It continues to have a healthy demand and expected to grow its consumer financing book further in coming year as well.

The Corporate financing portfolio grew by 11.9%, however, with the uptick in the economy, the Private sector offtake is expected to improve further providing more impetus to the Bank's financing portfolio. SME financing and agricultural financing are new initiatives by the Bank and are expected to grow too. Diminishing Musharaka (22.2%), Istisna (17.8%) and Murabaha (17.5%) were the most popular modes of Islamic financing.

As of December 31, 2016, the conversion/adjustment percentages of regular portfolios of Corporate and SME stood at 94.21% and 98.92% respectively leaving behind a small portion of advances (regular) of defunct KASB Bank remained un-converted to Shariah compliant mode. All income from this portfolio is taken to the separate account which is not part of the Profit and Loss Account of the Bank and that will be used for allowable purposes as per Shariah Board of the Bank. 91.2% of total Conventional financing are non-performing loans inherited from defunct KASB Bank.



### Financing Concentration:

The following table sets forth, for the period indicated, further analysis of the Financing Portfolio:

**Table K**  
**Financing Concentration**

Rs in millions

	2016	% of total financing	2015	% of total financing	% change
Agriculture, Forestry, Hunting and Fishing	1,921	2.1%	1,916	2.3%	0.3%
Mining and Quarrying	3	0.0%	4	0.0%	-13.6%
Textile	9,197	10.2%	8,195	9.9%	12.2%
Chemical and Pharmaceuticals	4,013	4.5%	5,095	6.2%	-21.2%
Cement	1,776	2.0%	1,744	2.1%	1.9%
Sugar	3,642	4.1%	3,598	4.4%	1.2%
Footwear and Leather garments	254	0.3%	28	0.0%	790.2%
Automobile and transportation equipment	1,309	1.5%	1,316	1.6%	-0.5%
Education	15	0.0%	4	0.0%	290.2%
Production and transmission of energy	-	0.0%	-	0.0%	-
Construction	6,103	6.8%	4,900	5.9%	24.5%
Power (electricity), Gas, Water, Sanitary	10,621	11.8%	2,462	3.0%	331.5%
Wholesale and Retail Trade	12,226	13.6%	6,516	7.9%	87.6%
Exports/Imports	694	0.8%	2,172	2.6%	-68.1%
Transport, Storage and Communication	627	0.7%	636	0.8%	-1.4%
Financial	2,736	3.0%	3,784	4.6%	-27.7%
Insurance	5	0.0%	10	0.0%	-45.1%
Services	4,321	4.8%	4,864	5.9%	-11.2%
Individuals	18,709	20.8%	12,589	15.3%	48.6%
Food and beverages	5,441	6.1%	13,423	16.3%	-59.5%
Private Trust & NGO	23	0.0%	1,514	1.8%	-98.5%
Packing and Paper products	767	0.9%	292	0.4%	163.0%
Others*	2,898	3.2%	2,897	3.5%	0.0%
<b>Total</b>	<b>89,787</b>	<b>100.0%</b>	<b>82,446</b>	<b>100.0%</b>	<b>8.9%</b>

\* Others include Sole Proprietors, fund accounts & Govt deposits etc.

Around 48.5% of the Bank's financing portfolio was provided to Trade, Power & Gas, Textile, Construction and Food & Beverages sectors of the economy. These sectors have attracted substantial financing from banking sector as a whole and have been a driving force behind industrial growth in 2016. The exposure to Individuals was 20.8%, up from 15.3% last year.

**Regulatory Capital:**

The following table sets forth, for the period indicated, further analysis of the Regulatory Capital and the efficiency with which it is used:

**Table L**  
**Regulatory Capital**

	Rs in millions		
	2016	2015	2014
Tier 1 Capital	10,194	7,893	6,067
Tier 2 Capital	3,629	2,653	378
<b>Total Capital</b>	<b>13,824</b>	<b>10,546</b>	<b>6,446</b>
Credit risk- Risk Weighted Assets (RWA)	91,158	77,731	32,361
Market risk-RWA	3,588	718	178
Operational risk- RWA	8,189	6,983	6,063
<b>Total RWA</b>	<b>102,935</b>	<b>85,432</b>	<b>38,601</b>
<b>Total Capital Adequacy Ratio</b>	<b>13.43%</b>	<b>12.34%</b>	<b>16.70%</b>
Total eligible regulatory Capital held	13,824	10,546	6,446
Total RWA	102,935	85,432	38,601
<b>Risk Capital per branch</b>	<b>43.1</b>	<b>33.3</b>	<b>30.3</b>
Net Equity	12,445	11,186	6,867
<b>Net Equity per branch</b>	<b>38.8</b>	<b>35.3</b>	<b>32.2</b>

The Capital Adequacy Ratio ('CAR') of the Bank was 13.43% against 12.34% last year and against the requirement of 10.65%. The Risk Weighted Assets ('RWA') increased by 20.5%, while Market risk RWA and Operational risk RWA increased by 399.9% & 17.3% respectively. The Risk Capital per branch and Net Equity per branch was Rs.43.1mn and Rs.38.8mn respectively which signifies that Capital has been used efficiently by the Bank.



## Statement of Internal Control

### Statement of Management's Responsibility

It is the responsibility of the Bank's management to:

- Establish and maintain an adequate and effective system of internal controls and procedures for an efficient working environment for obtaining desired objectives.
- Evaluate the effectiveness of the Bank's internal control system that encompasses material matters by identifying control objective, reviewing significant policies and procedures and establishing relevant control procedures.

### Management Evaluation of the Effectiveness of the Bank Internal Control System

During the year under review efforts have been made for an effective and efficient internal control system. In accordance with SBP-BSD Circular No. 7 of 2004, the Bank formulated all the key policies and procedures for its different lines of business. While formulating such policies clear line of authority and responsibility have been established in order to ensure an effective internal control system. The Bank has established an audit function independent of line management. The control activities are being closely monitored across the Bank through audit group / compliance & control / risk management function, which covers all banking activities in general and key risk areas in particular. The Audit Committee of the Board reviews the audit function quarterly which includes program as well as surprise audits.

Internal control system in the Bank is designed to manage, rather than to eliminate the risk of failure to achieve the business objective, and can only provide reasonable and not absolute assurance against material misstatement or loss. However, it is an ongoing process that includes identification, evaluation and management of significant risks faced by the Bank.

The Bank initiated process of implementation of Internal Control Guidelines as required by State Bank of Pakistan vide BSD Circular Number 07, of 2004 and had completed a detailed exercise through Consultants, documenting and benchmarking existing internal processes and controls relating to financial reporting. The Bank has a dedicated function responsible for reviewing and identifying new processes, control gaps and updating related control documentation.

Long Form Report was issued by the external auditors of BankIslami Pakistan Limited based on December 31, 2015 period. The Management is in the process of implementing the gaps and suggestions given by the external auditors.

The Management had prepared Road Map for the completion of all stages in accordance with the SBP OSED Circular Number 01, of 2014 dated February 07, 2014, "Instructions on Internal Controls over Financial Reporting (ICFR)" which was approved by the Audit Committee. Alhamdulillah, the Bank has completed all its stages of ICFR in accordance with the Road Map.

“Problem free and timely deliverance of core service drives customer satisfaction. Sometimes this path gets few of the patches which need to be revamped instantly. In order to address the grievances of our customers, bank has a Centralized Complaint Investigation and Management Unit that welcomes complaints of our valuable customers, investigates them from all aspects, resolve them with sheer excellence and within the minimum possible time. Which ultimately helps us out in retrieval of the lost confidence of our customers in our quality service delivery. During the year 2016, we received 15,675 formal complaints and those were resolved in a satisfactory manner, where our average complaints resolution time was 2.4 days.”

The Board of Directors is ultimately responsible for the internal control system and the Board endorses the above management evaluation.

For and On Behalf of the Board



**Hasan A Bilgrami**  
President & CEO

March 10, 2017



## Statement of Compliance With The Code Of Corporate Governance

FOR THE YEAR ENDED DECEMBER 31, 2016

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 5.19 of Rule Book of Pakistan Stock Exchange Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Bank has applied the principles contained in the CCG in the following manner:

1. The Bank encourages representation of independent, non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

Category	Names
Independent Directors	Mr. Ali Mohd Hussain Ali Al Shamali Mr. Fawad Anwar
Executive Directors	Mr. Hasan A Bilgrami
Non- Executive Directors	Mr. Ali Hussain Mr. Ali Raza Siddiqui Mr. Shabir Ahmed Randeree * Mr. Kamal Afsar Mr. Siraj Ahmed Dadabhoy **

\* resigned effective June 4, 2016

\*\*co-opted effective June 4, 2016, subject to SBP approval, SBP approval is awaited.

The independent director meets the criteria of independence under clause 5.19.1 (b) of the CCG.

2. The Directors have confirmed that none of them is serving as a director on more than seven listed companies including this Bank.
3. All the resident directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a Broker of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurred on August 25, 2014 that is pending to fill up as Bank has not received nomination from shareholder whose nominee director had resigned. Another casual vacancy occurring on the board on June 7, 2016 was filled up by the directors within same day.
5. The Bank has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Bank along with its supporting policies and procedures.
6. The board has developed a vision / mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board/shareholders.
8. The meetings of the Board were presided over by the Chairman and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. Directors training has already been performed by three directors. It is expected that remaining directors will attend the course by June 30, 2018.
10. During the year ended December 31, 2016, Company Secretary and Chief Financial Officer were appointed there was no new appointment of Head of Internal Audit.
11. The Directors' Report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by CEO and CFO before approval of the board.
13. The directors, CEO and executives do not hold any interest in the shares of the company other than that disclosed in the pattern of shareholding.
14. The Bank has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has formed an Audit Committee. It comprises of three members, of whom all are non-executive directors and the chairman of the Committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Bank and as required by the CCG. The term of reference of the committee have been formed and advised to the committee for compliance.
17. The board has formed an HR and Remuneration Committee. It comprises of five members, of whom four are non-executive directors and the chairman of the committee is a independent director.
18. The board has set up an effective internal audit function comprising of professionals, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Bank.
19. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program at the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Regulations of Stock Exchange and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim / final results and business decisions, which may materially affect the market price of Bank's securities, was determined and intimated to directors, employees and the stock exchange.
22. Material / price sensitive information has been disseminated among all market participants at once through Stock Exchange.
23. The company has complied with the requirements relating to maintenance of register of persons having access to inside information by designated senior management officer in a timely manner and maintained proper record including basis for inclusion or exclusion of names of persons from the said list
24. We confirm that all other material principles included in the Code have been complied.



Hasan A Bilgrami  
Chief Executive Officer

March 10, 2017



## Auditors' Review Report To The Members On Statement Of Compliance With Best Practices Of Code Of Corporate Governance

We have reviewed the Statement of Compliance (the Statement) with the best practices contained in the Code of Corporate Governance (the Code) for the year ended 31 December 2016 prepared by the Board of Directors of BankIslami Pakistan Limited (the Bank) to comply with the Rule Book of the Pakistan Stock Exchange, where the Bank is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement reflects the status of the Bank's compliance with the provisions of the Code and

report if it does not. A review is limited primarily to inquiries of the Bank's personnel and review of various documents prepared by the Bank to comply with the Code.

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

The Code requires the Bank to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance, effective for the year ended 31 December 2016.

Chartered Accountants  
Audit Engagement Partner: Omer Chughtai  
EY Ford Rhodes, Chartered Accountants

Date: March 10, 2017

Karachi



# Commitment to Excellence

At BankIslami, we like to keep the spark of motivation alive. We are committed to our goals and vision for the Bank, and believe in the potential of our services that we offer. With an open mind that welcomes new ideas and technology, we are committed to stick to values embedded in Shariah with a special commitment to authenticity, quality, excellence, continuous improvement and above all integrity.





MARRIAGE  
PLAN



EDUCATION  
PLAN



RETIREMENT  
PLAN

## Be Safe & Secure For as low as Rs. 2,500/- per month

BankIslami Takaful\* provides you with the most reliable and convenient way of keeping yourself and your family protected, the Sharia'h Compliant way.

Visit your nearest BankIslami branch today or call 111-ISLAMI (111-475264) for further assistance.

Serving you, the Right way

BankIslami Pakistan  
www.bankislami.com.pk



24/7 Phone Banking  
111-ISLAMI (111-475264)

\* BankIslami is the authorized Bancal Takaful Agent of Pak Qatar Family Takaful Limited and the Takaful Plans offered by the bank are the products of Pak Qatar Family Takaful Limited.

## Report of Shariah Board

بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ

الحمد لله رب العالمين، والصلاة والسلام على سيد الانبياء والمرسلين وعلى آله واصحابه اجمعين، وبعد

Shariah Supervisory Board hereby presents its opinion on the affairs of the Bank through this 13th annual report. During the year, four meetings of the Shariah Board were held in which different matters such as Shariah Compliance Review Reports, Internal Shariah Audit Reports, new products and Shariah aspects of the conversion of defunct KASB Bank were discussed in detail and guidelines were issued accordingly.

In the following sections, the Report discusses the state of affairs of the Bank and the developments that took place during the period:

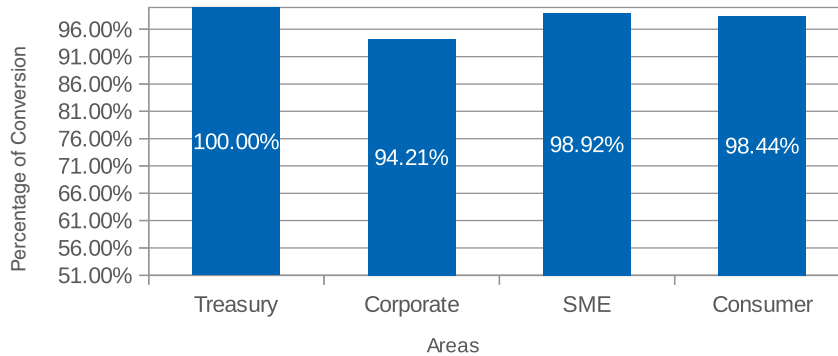
### Conversion of defunct KASB Bank's portfolio:

BankIslami continued its efforts to convert the operations of defunct KASB Bank on a priority basis. As of December 31, 2016, the conversion/adjustment percentages of regular portfolios of Corporate and SME stood at 94.21% and 98.92% respectively. Shariah Advisory & Structuring team closely coordinated with Corporate team and Clients to understand and develop Shariah compliant process flows before conversion of each Client, which were reviewed by Shariah Compliance team before approval from Resident Shariah Board Member (RSBM) and Shariah Board.

Over 98% of the regular Consumer portfolio has been converted/adjusted as of December 31, 2016. The unconverted regular portfolio comprised a number of Clients who were availing Cash Assan Revolving facility (which was a running finance facility for individuals). Since BankIslami has discontinued offering this product, therefore, these cases will be adjusted/settled by the Clients over the period. The management has also assured that negotiations are being held with Clients to ensure conversion of outstanding cases at the earliest. It is worth mentioning that regular Treasury portfolio has already been fully converted/adjusted.

### Defunct KASB Bank's Conversion Status

As on 31st December 2016





BIPL Securities (formerly KASB Securities) is a subsidiary of the Bank which it acquired as a result of acquisition of the defunct KASB Bank Limited. During the year, Shariah team of BankIslami worked closely with the management of BIPL Securities to provide Shariah compliant solutions for share financing to the Clients of BIPL Securities. In this regard, the team also coordinated with National Clearing Company of Pakistan Limited ('NCCPL') to develop Shariah Compliant solutions through NCCPL's system.

During the year, discussions were held at length with the management of BIPL Securities regarding the conversion. Although the conversion plan has been discussed, however, the Shariah Board has asked the management to submit a concrete plan of conversion with milestones. The slow pace of conversion of BIPL Securities remains a matter of concern for the Shariah Board.

### **Shariah Compliance:**

To ensure Shariah compliance in its transactions, Shariah Compliance Review is carried out at two stages i.e. initially in the 'Pre Transaction execution' stage and later at 'Post transaction execution' stage.

In the Pre transaction execution stage, to ensure that all financing transactions are done according to guidelines issued by Shariah Board and SBP - Islamic Banking Department (IBD), the Bank prepares detailed Policies and Procedure Manuals for products and services. Since each Corporate/SME financing transaction (done under Murabahah, Istisna, Karobar Financing/Musawamah, Salam and Running Musharakah products) can differ, therefore, separate process flows are developed for each Client booked under each of the above mentioned products. During 2016 approximately 158 detailed process flows were reviewed/approved and almost all of them were also acknowledged by the Clients themselves. Depending upon the case, Shariah department personnel also visits Client's premises to have a better understanding of its procurement/sale processes. These Client-specific process flows help concerned Relationship Managers to execute the transactions in a Shariah compliant manner. It has also helped the Bank to avoid potential mistakes in execution of the transactions.

In the Post transaction execution stage, the Shariah Compliance department, under guidance of RSBM, conducts Shariah Compliance Reviews of departments/branches to check if the approved manual and process flows have been complied with. These Shariah Compliance Review Reports are then presented in Shariah Board meetings for determination of corrective actions by the Shariah Board. As a separate check, Internal Shariah Audit is conducted by the Internal Audit department. Accordingly the Internal Shariah Audit Reports are also presented in the Shariah Board meetings for determination of corrective actions by the Shariah Board.

The above mentioned multi-tier mechanisms ensure that any errors in execution of transactions are identified and income of the Bank is free from any impermissible element.

### **Product Development:**

Running Musharakah product was approved by Shariah Board of the Bank during the year. The product has been developed by Shariah Advisory & Structuring team of the Bank after detailed research. The Bank has tried its level best to ensure sanctity of Islamic mode of Musharakah while ensuring that the product remains market competitive. The product is a Shariah compliant alternative to the conventional Running finance facility. Through this product, the Bank is now able to offer financing to those Clients to whom offering of standard products like Murabahah, Istisna, etc. is not feasible.

The Bank's Auto financing product, which was initially based on Ijarah mode, was shifted to Diminishing Musharakah. As discussed above, the Shariah Advisory & Structuring team also developed Shariah Compliant Margin Financing solutions for Clients of BIPL Securities.

**Shariah Advisory Services:**

The Bank provided Shariah Advisory services to four Islamic Funds. Shariah Advisory services were also provided for a few Sukuk/syndicate financing transactions.

**Islamic Banking Training:**

Trained human resource is extremely important for success of Islamic Banking Industry. During the year under review, 62 training sessions of "Basic Islamic Banking Concepts" and Product Trainings were conducted which trained 1,576 employees.

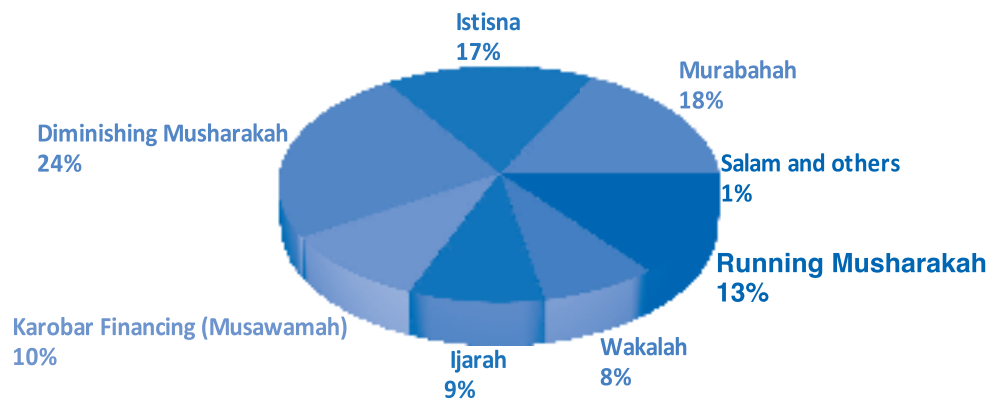
The Bank, since its inception, has an Islamic Banking Training manual which is shared with each new employee. Keeping in view the developments in the industry over the last few years, the manual was revised and a comprehensive manual was launched during the year.

The Bank also supports other institutions such as National Institute of Banking and Finance (NIBAF), Centre for Islamic Economics (CIE), IBA-Centre for Excellence in Islamic Finance (IBA-CEIF), The Institute of Bankers Pakistan (IBP), Sheikh Zayed Islamic Centre and Iqra University for imparting training courses in Islamic Banking & Finance and other capacity building activities.

**Composition of the Bank's portfolio:**

The Bank used variety of Islamic modes of finance to provide financing to its customers. As mentioned earlier Running Musharakah product has been launched during the year which is a new induction in overall financing portfolio. It should be noted that share of Murabahah has declined from 45% to 17.5% as compared to last year's financing composition and Running Musharakah has now more than 10% share in overall financing portfolio. Following is the mode wise breakup of the Bank's Financing portfolio as of December 31, 2016:

**Financing Portfolio Composition**





### **Charity:**

An amount of Rs. 7.16 mn was received from the Clients in respect of charity on delays in payments and credited to charity account. As the charity funds are kept under investment accounts at the Bank, Mudarabah profit of Rs. 238,462 has been credited to the charity account.

Disbursements during the year from the charity fund amounted to Rs. 9.21 mn. Details of charity disbursed are available in note number 18.3.1 of the accounts.

### **Recommendations:**

Based on the observations made through Shariah reviews, reports and feedback from various stakeholders, we recommend the following:

- i. Conversion process of BIPL Securities needs to be expedited. Till the time the conversion process is completed, any Shariah non-compliant income received from BIPL Securities shall not form part of Bank's income. It has also been reported separately in the Financial Statement of the Bank.
- ii. Rapid growth of Islamic Banking in the country has also brought challenges in hiring and retention of trained Human Resources. The Bank should focus on achieving right balance of commitment to Islamic Banking and competence while hiring of new staff.
- iii. For further capacity building of Bank's personnel, the Bank should conduct more specialized product training sessions.
- iv. The Bank should work towards developing, in consultation with other stakeholders of the Industry, other options for liquidity management so as to reduce its reliance on Commodity Murabahah product.

### **Conclusion:**

Based on the Shariah Compliance Review Reports, Internal Shariah Audit Reports and different Shariah compliance checks carried out from time to time and according to best of our knowledge, we are of the view that:

- i. The Bank has complied with Shariah rules and principles in the light of fatawa, rulings and guidelines issued by the Shariah Board.
- ii. The Bank has complied with directives, regulations, instructions and guidelines related to Shariah compliance issued by SBP in accordance with the ruling of SBP's Shariah Board.
- iii. The Bank has a comprehensive mechanism in place to ensure Shariah compliance in their overall operations.
- iv. The Bank has a well-defined system in place which is sound enough to ensure that any earnings realized from sources or by means prohibited by Shariah have been credited to charity account and are being properly utilized.
- v. The Bank has complied with the SBP's instructions on profit and loss distribution and pool management.

- vi. The level of awareness, capacity and sensitization of the staff, management and the BOD in appreciating the importance of Shariah compliance in the products and processes of the Bank is found to be satisfactory. However, the management should continue to take measures to further improve the level of awareness.
- vii. The Shariah Board has been provided adequate resources enabling it to discharge its duties effectively.

We end this report with best wishes to the Islamic finance industry.

وصلى الله على نبينا محمد و بارك وسلم



**Mufti Javed Ahmad**  
Resident Shariah Board Member



**Mufti Muhammad Hussain Khaleel Khail**  
Member, Shariah Supervisory Board



**Mufti Irshad Ahmad Aijaz**  
Chairman, Shariah Supervisory Board

بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ

## مجلس امور شرعیہ کی رپورٹ\*

الحمد لله رب العالمين، والصلاة والسلام على سيد الانبياء والمرسلين وعلى آله واصحابه اجمعين، وبعد

بینک اسلامی کے معاملات کے بارے میں مجلس امور شرعیہ کی تیرہویں سالانہ رپورٹ پیش خدمت ہے۔ اس سال مجلس امور شرعیہ کی چار مجالس کا انعقاد ہوا جن میں امور شرعیہ کا جائزہ اور آڈٹ رپورٹیں، نئی مصنوعات اور کالعدم KASB بینک کے شرعی اصولوں کے مطابق تبدیلی کے حوالے سے غور و خوض کیا گیا اور ان سے متعلق ہدایات جاری کی گئیں۔

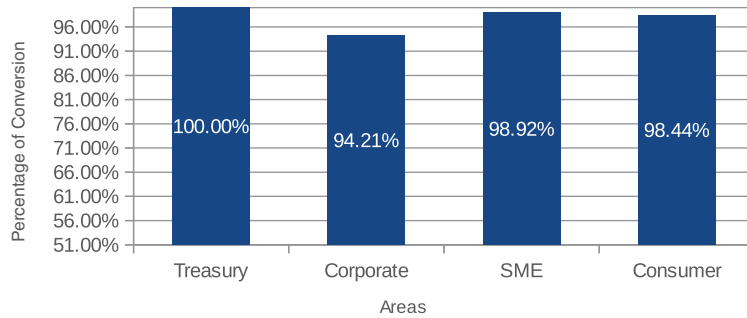
اس رپورٹ کے اگلے حصوں میں بینک کے معاملات اور مالیاتی سال کے دوران ہونے والی پیش رفت کے بارے میں معروضات پیش خدمت ہیں:

کالعدم KASB بینک کے معاملات کی شرعی اصولوں کے مطابق تبدیلی:

بینک اسلامی نے ترجیحی بنیادوں پر کالعدم KASB بینک کے معاملات کو شریعت کے مطابق تبدیل کرنے میں اپنی کوششوں کو جاری رکھا۔ 31 دسمبر 2016 کی صورتحال کا جائزہ لیں تو کارپوریٹ اور چھوٹے و درمیانے کاروبار (ایس ایم ایز) کے مجموعی مالی واجبات (ریگولر پورٹ فولیو) میں سے اسلامی طریقہ کار کے مطابق تبدیلی یا مکمل ادائیگی کا فیصدی حصہ بالترتیب 94.21% اور 98.92% ہے۔ شریعہ ایڈوائزی اینڈ اسٹریٹجک ڈپارٹمنٹ کا عملہ اس حوالے سے کارپوریٹ فنانس کے شعبے کے ساتھ مل کر صارفین کے ساتھ قریبی رابطے میں رہا تا کہ ان مالیاتی خدمات کا شریعت کے اصولوں کے مطابق کوئی متبادل اسلامی حل تجویز کیا جاسکے، اس دوران جو حل تجویز کئے گئے شریعہ کمپلائنس کے شعبے نے ان کا جائزہ لینے کے بعد، مقیم رکن مجلس امور شرعیہ اور مجلس امور شرعیہ سے منظور کروایا۔

31 دسمبر 2016ء تک صارفین کے ذمے مجموعی مالی واجبات (ریگولر پورٹ فولیو) میں سے 98% سے زائد اسلامی طریقہ کار کے مطابق تبدیل یا ان کے صارفین کو ادا ہو چکا ہے۔ جن صارفین کو شریعت کے مطابق تمویل میں تبدیل نہیں کیا جاسکا ان میں کئی ایک وہ صارفین ہیں جنہوں نے ”کیش آسان“ کی سہولت (جو کہ انفرادی صارفین کے لئے رنگ فنانس کی سہولت تھی) حاصل کر رکھی تھی۔ چونکہ بینک اسلامی نے اس سہولت کو جاری نہیں رکھا، لہذا وقت کے گزرنے کے ساتھ صارفین کے ذمے مالی واجبات ادا ہوتے چلے جائیں گے۔ انتظامیہ نے کالعدم KASB بینک باقی ماندہ معاملات کی جلد از جلد شریعت کے مطابق تبدیلی کے لئے صارفین سے ملاقاتوں اور مذاکرات کی یقین دہانی کروائی ہے۔ یہ بات بھی قابل ذکر ہے کہ ٹریڈری کے پورٹ فولیو کو پہلے ہی سو فیصد شرعی اصولوں کے مطابق تبدیل کر دیا گیا تھا۔

کالعدم KASB بینک کی تبدیلی کی صورتحال  
31 دسمبر 2016ء کے مطابق



\* زیر نظر رپورٹ مجلس امور شرعیہ کی رپورٹ کا خلاصہ ہے۔ اصل رپورٹ جس پر آرکین نے دستخط کیے وہ انگلش میں ہے۔





BIPL سیکورٹیز (سابقہ KASB سیکورٹیز) بینک کا ذیلی ادارہ ہے جو کا عدم KASB بینک کے خریدنے کے نتیجے میں حاصل ہوا تھا۔ سال کے دوران شریعہ ڈپارٹمنٹ کا عملہ BIPL سیکورٹیز کی انتظامیہ کے ساتھ قریبی رابطے میں رہا تاکہ حصص کی تمویل کے لئے BIPL سیکورٹیز کے صارفین کو شریعت سے کے مطابق حل پیش کیا جاسکے۔ اس حوالے سے عملہ نیشنل کلیرنگ کمپنی آف پاکستان لمیٹڈ (NCCPL) سے بھی رابطے میں رہا تاکہ NCCPL کے سسٹم کے ذریعے شریعت کے مطابق حل تیار کیا جاسکے۔

سال کے دوران شریعت کے مطابق تبدیلی کے حوالے سے BIPL سیکورٹیز کی انتظامیہ کے ساتھ مستقل بنیادوں پر گفتگو ہوتی رہی۔ اس دورانیے میں تبدیلی کی منصوبہ بندی اور تجاویز زیر بحث رہیں۔ ان تمام امور پر مجلس امور شرعیہ نے عملی اقدامات کے ساتھ ایک جامع منصوبہ جمع کروانے کا کہا ہے۔ BIPL سیکورٹیز کو شریعت کے مطابق تبدیل کرنے میں سست روی شریعہ بورڈ کے لئے ایک اہم نوعیت کا معاملہ ہے۔

معاملات کی شریعت سے ہم آہنگی:

روزمرہ کے معاملات کو شریعت کے مطابق رکھنے کے لئے شریعت سے مطابقت کا دو مرحلہ پر جائزہ لیا جاتا ہے، یعنی شروع میں معاملہ انجام دینے سے پہلے کا مرحلہ اور پھر معاملہ انجام دینے کے بعد کا مرحلہ۔

معاملے کے منعقد ہونے سے پہلے کے مرحلے پر معاملات کی شریعت کے مطابق انجام دہی کو یقینی بنانے کے لئے بینک نے تفصیلی ضابطہ کار اور عملی ہدایات پر مشتمل دستاویزات تیار کر رکھی ہیں تاکہ معاملات مجلس امور شرعیہ کی جاری کردہ ہدایات اور اسٹیٹ بینک کے اسلامی بینکاری کے شعبہ کی جاری کردہ قواعد و ضوابط کے مطابق انجام پاتے رہیں۔ البتہ مراہجہ، کاروبار فائننس (مساومہ)، مسلم اور استھناغ کے تحت ہونے والے کاروباری معاملات کاروبار کی نوعیت کے حوالے سے چونکہ ایک دوسرے سے مختلف ہوتے ہیں لہذا ان مالیاتی طریقوں کے تحت صارف کو مالیات کی فراہم کرنے کا طریقہ کار انفرادی طور پر طے کیا جاتا ہے اور اسے دستاویزی شکل دی جاتی ہے۔ جسے پروسس فلوکےتے ہیں۔ 2016ء کے دوران 158 تفصیلی پروسس فلوز تیار کئے گئے جن میں سے تقریباً تمام کو ہی صارفین نے باقاعدہ سمجھ کر قبول کیا۔ کیس کی نوعیت کو دیکھتے ہوئے شریعہ ڈپارٹمنٹ کے عمل نے صارف کے کاروبار کی بہتر سمجھ بوجھ کے لئے صارف سے ملاقات بھی کرتا ہے۔ یہ ہر صارف کے لئے الگ ترتیب وار طریقہ کار (پروسس فلو)، متعلقہ برانچ اور تنظیم تعلقات صارفین (ریلیشن شپ مینجر) کو درست انداز میں معاملے کو تکمیل تک پہنچانے میں مدد فراہم کرتا ہے۔ یہ معاملات کی انجام دہی میں ہوجانے والی متوقع غلطیوں سے بچنے میں بھی انتظامیہ کی مدد کرتا ہے۔

معاملات کے انجام پانے کے بعد کے مرحلے میں منظور شدہ طریقہ کار اور ہدایات کے نفاذ کو یقینی بنانے کے لئے شعبہ تعمیل امور شرعیہ، مقیم رکن مجلس امور شرعیہ کی ہدایات کو سامنے رکھتے ہوئے، بینک کے شعبہ جات اور شاخوں کا شرعی جائزہ (شریعی کمپلائنس ریویو) کرتا ہے۔ یہ شریعہ کمپلائنس جائزہ رپورٹس، درستگی/بہتری کی تجاویز کے لئے شریعہ بورڈ کے اجلاسوں میں پیش کی جاتی رہی ہیں۔ ایک علیحدہ جانچ کے لئے انٹرنل آڈٹ ڈپارٹمنٹ شریعہ آڈٹ کرتا ہے اور شریعہ آڈٹ رپورٹوں میں قابل توجہ امور کی درستگی کے لئے اقدامات تجویز کرنے کے لئے مجلس امور شرعیہ کے اجلاسوں میں پیش کی جاتی ہیں۔

اوپر ذکر کردہ کثیر المراحل جانچ کا نظام اس بات کو یقینی بناتا ہے کہ معاملات کے انعقاد میں ہونے والی کسی بھی غلطی کا تعین ہو سکے اور ساتھ ساتھ اس بات کو بھی یقینی بنایا جاتا ہے کہ بینک کی آمدنی کسی بھی قسم کی ناجائز عنصر سے پاک ہے۔

فروغ مصنوعات:

دوران سال مجلس امور شرعیہ نے "رنگ مشارکہ" کی پروڈکٹ کی منظوری دی۔ یہ پروڈکٹ تفصیلی تحقیق کے بعد شریعہ ایڈوائزرز ری ایڈ اسٹرکچرنگ کے عمل نے تیار کی ہے۔ اس سلسلے میں بینک نے پوری کوشش کی کہ اسلامی طریق تمویل کے اصول و ضوابط کو مد نظر رکھتے ہوئے مارکیٹ میں مقابلے کی پروڈکٹ تیار کی جائے۔ یہ پروڈکٹ روایتی جاری تمویل کا شرعی متبادل ہے۔ اس پروڈکٹ کے نتیجے میں اب بینک ان صارفین کو بھی مالی سہولیات فراہم کرنے کے قابل ہو گیا ہے جنہیں موجودہ رائج مصنوعات جیسے مراہجہ، استھناغ وغیرہ فراہم کرنا مشکل تھا۔

گاڑیوں کے لیے موجود پروڈکٹ جو پہلے اجارہ کی بنیاد پر تھی، اس کو شرکت متناقصہ کے طریقے کی طرف منتقل کر دیا گیا ہے۔ علاوہ ازیں شریعہ ایڈوائزری اینڈ اسٹرکچرنگ کے عملے نے BIPL سیکورٹیز کے صارفین کے لئے مارجن فنانسنگ کا شرعی متبادل بھی تیار کر کے دیا ہے۔

شرعی رہنمائی کی خدمات:

بینک نے چار اسلامی فنڈز کو شرعی رہنمائی فراہم کی۔ اس کے ساتھ ساتھ شعبے نے صلوک / اجتماعی سرمایہ کاری (سینڈیکیٹ) کے کچھ معاملات میں بھی شرعی رہنمائی فراہم کی۔

اسلامی بینکاری کی تربیت:

تربیت یافتہ عملہ کسی بھی شعبہ کی طرح اسلامی بینکاری کے شعبے کی ترقی کے لئے بھی کلیدی حیثیت رکھتا ہے۔ زیر جائزہ سال کے دوران "اسلامی بینکاری کے بنیادی تصورات" اور پروڈکٹ کی 62 تربیتی نشستیں منعقد ہوئیں جس میں 1,576 ملازمین کو تربیت دی گئی۔

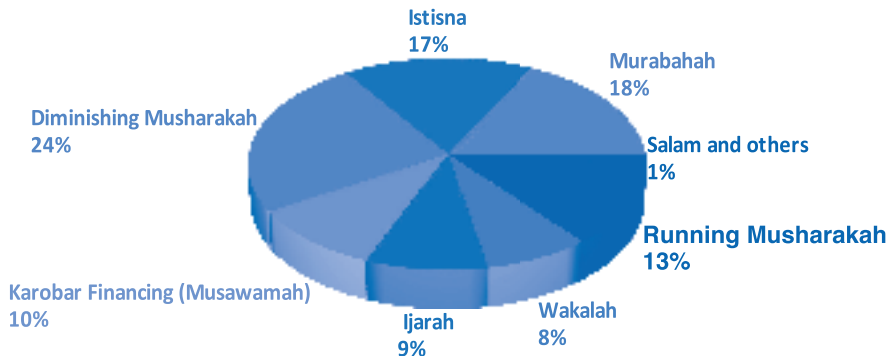
بینک کی ابتداء سے ہی اسلامی بینکاری کی تربیت کے لئے خود مطالعاتی کتابچہ (اسٹڈی مینول) تیار کیا گیا تھا۔ یہ راہنما دستاویز ہر نئے ملازم کو دی جاتی ہے۔ اسلامی بینکاری کی صنعت میں ترقی کو دیکھتے ہوئے اس خود مطالعاتی کتابچہ (اسٹڈی مینول) پر نظر ثانی کی گئی اور ایک جامع مطالعاتی کتابچہ (اسٹڈی مینول) سال کے دوران متعارف کروایا گیا۔

بینک نے دیگر اداروں کو بھی اسلامی بینکاری و مالیاتی نظام سے متعلق استعداد بڑھانے والے تربیتی پروگراموں میں معاونت فراہم کی جن میں نیشنل انسٹی ٹیوٹ آف بینکنگ اینڈ فنانس (NIBAF)، سینٹر فار اسلامک اکنامکس (CIE)، سینٹر آف ایکسی لینس فار اسلامک فنانس۔ انسٹی ٹیوٹ آف بزنس اینڈ انسٹریشن (IBA-CEIF)، انسٹی ٹیوٹ آف بینکرز پاکستان (IBP)، شیخ زید اسلامک سینٹر اور اقراء یونیورسٹی (IU) جیسے ادارے شامل ہیں۔

بینک کی سرمایہ کاری کا تجزیہ:

بینک اسلامی اپنے صارفین کو مالیاتی خدمات مختلف اسلامی مالیاتی طریقوں کے تحت فراہم کرتا ہے۔ جیسا کہ اس بات کا تذکرہ ہوا تھا کہ سال کے دوران رنگ مشارکہ کی پروڈکٹ متعارف کروائی گئی جو بینک کے تمویلی مجموعے میں نیا اضافہ ہے۔ یہ بات بھی ملحوظ رہے کہ پچھلے سال کے مقابلہ میں مراہجہ کا حصہ %45 سے کم ہو کر %17.5 ہو گیا ہے اور رنگ مشارکہ کا حصہ اس وقت کل تمویلی مجموعے میں %10 سے زیادہ ہے۔ ان مالیاتی طریقوں کے تحت فراہم کی جانے والی سرمایہ کاری 31 دسمبر 2016ء کی تاریخ میں مندرجہ ذیل تفصیل کے مطابق رہی:

## بینک کی سرمایہ کاری کا تجزیہ





## خیرات:

صارفین سے واجبات کی ادائیگی میں تاخیر کی مد میں مبلغ 7.16 بلین روپے وصول ہوئے اور خیراتی کھاتے میں ڈالے گئے۔ چونکہ خیراتی فنڈ مضاربہ کی بنیاد پر چلنے والے کھاتے میں رکھا گیا تھا لہذا مبلغ 238.46 ہزار روپے مضاربہ کے نفع کے طور پر خیراتی کھاتے میں مزید جمع کئے گئے۔ سال کے دوران مبلغ 9.21 بلین روپے خیراتی فنڈ میں سے خیرات کی مد میں ادا کئے گئے۔ ان ادائیگیوں کی تفصیلات نوٹ نمبر 18.3.1 میں موجود ہیں۔

## تجاویز:

- شریعت جوازہ رپورٹوں اور مختلف لوگوں کی جانب سے پیش کی گئی آراء کی روشنی میں ہم درج ذیل باتیں تجویز کرتے ہیں:
- (۱) BIPL سیکورٹیز کو شریعت کے مطابق تبدیلی کے عمل میں تیزی لائی جائے۔ جب تک اس تبدیلی کا عمل مکمل نہیں ہو جاتا BIPL سیکورٹیز کی جانب سے آنے والی کسی بھی غیر شرعی آمدن کو بینک کی آمدن کا حصہ نہیں بنانا جائے گا۔ اسے بینک کے مالیاتی رپورٹ میں بھی بیان کیا گیا ہے۔
  - (۲) ملک میں تیزی سے ترقی کرتی اسلامی بینکاری نے تربیت یافتہ انسانی وسائل کے حصول اور بقا کو ایک مشکل مسئلہ بنا دیا ہے۔ بینک کو نئے عملے کے حصول کے وقت اسلامی بینکاری سے مناسب وابستگی اور استعداد پر خصوصی توجہ دینی چاہئے۔
  - (۳) بینک کے عملے کی استعداد بڑھانے کے لئے خصوصی پروڈکٹ کی تربیتی نشستوں میں اضافہ کرنا چاہئے۔
  - (۴) بینک کو چاہئے کہ انڈسٹری کے دیگر متعلقہ اداروں کی مشاورت سے نقدیت کی انتظام کاری (Liquidity Management) کی دیگر صورتوں کی تیاری کے لئے کام کرے۔ تاکہ اجناس کے مراحہ (Commodity Murabaha) پر اپنا انحصار کم کیا جاسکے۔

## خلاصہ:

- ہم شریعت جوازہ رپورٹوں، داخلی شریعت آڈٹ رپورٹوں اور مختلف شرعی تجزیوں کی بنیاد اور اپنی بہترین معلومات کے مطابق یہ رائے دیتے ہیں کہ:
- (۱) بینک مجموعی طور پر شریعت بورڈ کی جانب سے جاری کردہ فتاویٰ، ہدایات اور راہنمائی پر عمل پیرا رہا ہے۔
  - (۲) بینک اسٹیٹ بینک کی ہدایات، احکامات، راہنمائی جو شریعت کی پاسداری کے سلسلے میں اسٹیٹ بینک کے شعبہ اسلامی بینکاری کی جانب سے جاری کی گئی ہیں ان پر عمل پیرا رہا ہے۔
  - (۳) مجموعی طور پر بینک میں شرعی ضوابط کے نفاذ اور تعمیل کے حوالے سے ایک جامع نظام موجود ہے۔
  - (۴) بینک کے پاس ایک واضح نظام موجود ہے جو اس بات کی یقین دہانی کرواتا ہے کہ شریعت میں ممنوع آمدنی خیراتی کھاتے میں ڈال دی جائے اور اسے متعین مصرف میں لگا جائے۔
  - (۵) بینک نفع و نقصان کی تقسیم اور پول پیچمنٹ کے حوالے سے اسٹیٹ بینک کی جانب سے جاری کردہ ہدایات پر عمل پیرا رہا ہے۔
  - (۶) شرعی ضوابط کے نفاذ اور ان کی تعمیل کے حوالے سے آگاہی، قابلیت، اور جستجو عملے، انتظامیہ اور بورڈ آف ڈائریکٹرز میں اطمینان کی حد تک ہے تاہم ان میں اضافے کی کوششیں جاری رہنی چاہئیں۔
  - (۷) شریعت بورڈ کو اپنا کام کرنے کے لئے مناسب وسائل فراہم کئے جاتے ہیں۔
- ہم اسلامی بینکاری کے لئے اپنی نیک تمناؤں اور بہترین خواہشات کے ساتھ اس رپورٹ کا اختتام کرتے ہیں۔
- وصلی اللہ علی نبینا محمد و بارک وسلم

مفتی ارشاد احمد اعجاز  
سربراہ، مجلس امور شریعت

مفتی محمد حسین خلیل خیل  
رکن، مجلس امور شریعت

مفتی جاوید احمد  
مقیم رکن، مجلس امور شریعت



## Charity Funds Utilization Report

Islamic Banks cannot charge late payment penalty to their customers since it falls under the ambit of Riba. However, to maintain financial discipline and to prevent deliberate delinquencies they use Charity imposition as a tool of deterrence. Amount given by the customers in Charity Account against their delays is utilized by Islamic Banks purely for charitable purpose. Islamic Banks receive this charity fund amount as Trustee and cannot benefit themselves from the fund. The Bank is entrusted the responsibility to distribute the Charity funds as it seems appropriate. This report provides a brief detail of the major institutions which have been beneficiaries of the Charity funds.

### Utilization of Charity

During the year 2016, BankIslami received a total of Rs. 7.16 Mn as Charity amount from its customers. Disbursements during the year from the Charity Fund amounted to Rs. 9.21 Mn. The amount was utilized to provide assistance to recognized and renowned charitable institutions working primarily in the areas of Health and Education. The profile of these institutions are given below:

#### Indus Hospital

Indus Hospital came as a joint venture of the Ruffaydah Foundation and the Islamic Mission Hospital Trust in 2005. Indus Hospital provides free of cost health care to the common man. The Hospital started its operations in July 2007. It is spread over 20 acres of land and located in the densely populated Korangi area.



The facilities at the Indus Hospital include Community Health Center, Consulting Clinics, In-patient Services, Day Care Services, Emergency Services, Critical Care, Invasive Cardiology, Physiotherapy Services, Endoscopy, Lithotripsy, Hemodialysis, Radiology, Clinical Laboratories, Pharmacy Services, Nutrition and Food Services, Continuing Medical Education (CME), etc.

#### Alamgir Welfare Trust International

Alamgir Welfare Trust International (AWT) has been providing social welfare services in Pakistan since 1993. The Trust provides services to needy and deprived class of the society in a wide range of areas which include health, education, marriage assistance, funeral services, rescue centers, food and Ramadan services.



#### Shaukat Khanum Memorial Hospital

Shaukat Khanum Memorial Cancer Hospital and Research Centre (SKMCH&RC) is a state-of-the-art cancer centre located in Lahore, Pakistan. It is a project of the Shaukat Khanum Memorial Trust, which is a charitable organization established under the Societies Registration Act XXI of 1860 of Pakistan.



Over the past decade, Shaukat Khanum Memorial Cancer Hospital and Research Centre has established itself as a Centre of Excellence, providing free of cost comprehensive care to thousands of indigent cancer patients. It has recently opened a new facility centre in Peshawar and construction of another facility in Karachi has also started.

#### The Citizens Foundation (TCF)

The Citizens Foundation (TCF) is one of the largest non-profit organization in the field of education. It was established in 1995. The vision of this non profit organization is to bring a positive change in Pakistan by providing quality education to the less privileged youth. The organization provides primary and secondary level education at a nominal fee. As of 2015, TCF has established 1,202 purpose-built school units with an enrollment of 175,000 students.



# Strengthening Relationships

Honesty, Integrity and Care are essential for building and strengthening relationships. At BankIslami, we make sure to build sustaining relationships with all our stakeholders be it customers or shareholders. It is the strong relationship that they have with us that makes them choose us all the time.



## Islami Amadni Certificate



## Save Savings, Halal Profit

With **Islami Amadni Certificate**, you get the best of both the worlds in a safe, secure and flexible package to perfectly meet your needs. **Islami Amadni Certificate** provides you with the following features:

- Investment with as low as Rs.10,000/-
- Profit payment at maturity
- Nationwide network of 321\* branches in 105 cities
- Internet Banking Facility
- Tenure of investment from 1 month to 5 years
- No penalty on premature encashment of investment

\* Including sub-branches

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TCF is registered in Pakistan as a Company limited by guarantee under Section 42 of the Companies Ordinance, 1984 . It is ranked amongst the top scoring organizations certified by the Pakistan Centre for Philanthropy (PCP) and has received high non-profit organization (NPO) governance rating of GR8+ by JCR-VIS Credit Rating Co Ltd.

## Diya Pakistan

Diya Pakistan is a registered, non-Profit tax exempt organization which is led by a team of prominent Pakistanis from Middle East and Pakistan. Since 1988, Diya Pakistan has reached out to more than 181,500 students with more than Rs. 232 million in financial assistance. Its primary focus is to reach out to financially distressed students across rural and urban Pakistan, enabling them to continue their education.



## Qindeel Academy

Qindeel Academy is an early education full time school, located in the Gulshan-e-Hadeed vicinity, on the outskirts of Karachi. This institution is dedicated to providing quality education to the most under privileged children in that locality. The children enrolled have no other resources to a formal education and come from families, which also have usually no background in formal education. The school runs entirely on charity basis with no burden of tuition fee on the parents/guardians.

## Infaq Memorial Trust

Infaq Memorial Trust is a non-profit based organization. It serves families of under-privileged areas and provides them free treatment, medicine, food, school fees and fulfills their basic living necessities. Infaq Trust is providing financial assistance to various families of under-privileged areas of Hilal-e-Ahmer society of Gujranwala. It is planning to launch free of cost ambulance services from Gujranwala to Lahore Ganga Ram Hospital and Jinnah hospital for the poor and needy patients.



## Koohi Goth Hospital

Koohi Goth Hospital is a 200 bed Not-for-profit General Hospital situated in Deh Landi, Karachi. Most of their patients are under-privileged who are provided free treatment, medicine and food. The Hospital is run from donations by philanthropic people and organizations.



## Kharadar General Hospital (KGH)

KGH is a not for profit 250 bedded tertiary care hospital with post graduate teaching and training facilities. It is rendering services since 1936 and offering quality health services at highly subsidized rates to under-privileged socio-economically and educationally deprived population of 3-4 million people of low lying areas of Karachi.



## Akhuwat

Akhuwat was established with the objective of providing interest free micro credit to the poor so as to enhance their standard of living. Akhuwat started its operations in Lahore and to date has fifteen branches in this city. It has also expanded to Rawalpindi and Faisalabad in collaboration with the Chambers of Commerce and Industry and philanthropists of these two cities. Besides these big cities it has opened branches in other cities like Bahawalpur, Multan, Gujarat, Dera Ghazi Khan, Khanewal, Rajanpur, Nowshera, Peshawar, and Karachi.





## Auditors' Report To The Members

We have audited the annexed statement of financial position of BankIslami Pakistan Limited (the Bank) as at 31 December 2016, 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 twenty five 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 applied except for the changes as stated in note 6.1 to the financial statements, with which we concur;
  - (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;
- (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 2016 and its true balance of the income, comprehensive income, 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.

The financial statements of the Bank for the year ended 31 December 2015 were audited by another firm of chartered accountants who expressed an unmodified opinion thereon dated 06 June 2016.

EY Ford Rhodes

Chartered Accountants  
Audit Engagement Partner: Omer Chughtai  
EY Ford Rhodes, Chartered Accountants

Date: March 10, 2017

Karachi



## Statement of Financial Position

AS AT DECEMBER 31, 2016

	Note	2016 ----- Rupees in '000 -----	Restated 2015
<b>ASSETS</b>			
Cash and balances with treasury banks	7	8,921,433	9,035,886
Balances with other banks	8	1,140,150	1,780,710
Due from financial institutions - net	9	27,218,665	39,824,221
Investments - net	10	46,316,927	35,885,958
Islamic financing and related assets and Advances (net)	11	77,816,802	68,709,048
Operating fixed assets	12	9,347,525	8,828,540
Deferred tax assets	13	5,918,460	6,591,439
Other assets - net	14	4,166,208	3,574,943
		<u>180,846,170</u>	<u>174,230,745</u>
<b>LIABILITIES</b>			
Bills payable	15	2,273,934	1,523,933
Due to financial institutions	16	6,066,307	3,197,770
Deposits and other accounts	17	154,399,657	153,058,102
Sub-ordinated loans		-	-
Deferred tax liabilities		-	-
Other liabilities	18	5,661,606	5,264,670
		<u>168,401,504</u>	<u>163,044,475</u>
<b>NET ASSETS</b>		<u>12,444,666</u>	<u>11,186,270</u>
<b>REPRESENTED BY</b>			
Share capital	19	10,079,121	10,079,121
Discount on issue of shares		(79,042)	(79,042)
Reserves	20	613,636	523,176
Unappropriated profit / (loss)		212,553	(171,453)
		<u>10,826,268</u>	<u>10,351,802</u>
Surplus on revaluation of assets - net of tax	21	1,618,398	834,468
		<u>12,444,666</u>	<u>11,186,270</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	22		

The annexed notes 1 to 44 and Annexures I and II form an integral part of these financial statements.

  
CHAIRMAN

  
PRESIDENT / CHIEF EXECUTIVE

  
DIRECTOR

  
DIRECTOR

## Profit and Loss Account

FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	2016 ----- Rupees in '000 -----	2015 ----- Rupees in '000 -----
Profit / return earned	23	10,127,616	8,834,160
Profit / return expensed	24	5,791,252	5,118,822
Net spread earned		4,336,364	3,715,338
Reversal of provision against non-performing Islamic financing and related assets and advances - net (Reversal of provision ) / provision for diminution in the value of investments and placements - net	11.16.2	(1,724,387)	(639,523)
Bad debts written off directly	9 & 10.5	(337,547) 32,008	8,774 25
		(2,029,926)	(630,724)
Net spread after provisions		6,366,290	4,346,062
<b>OTHER INCOME</b>			
Fee, commission and brokerage income		361,536	408,018
Dividend Income		23,777	2,835
Income from dealing in foreign currencies		42,808	82,403
Gain on sale of securities	25	97,772	12,003
Unrealised gain on revaluation of investments classified as held for trading		678	-
Other income	26	111,041	64,769
Total other income		637,612	570,028
		7,003,902	4,916,090
<b>OTHER EXPENSES</b>			
Administrative expenses	27	6,142,395	5,037,198
Other provisions		-	149,145
Other charges	28	17,750	2,134
Total other expenses		6,160,145	5,188,477
		843,757	(272,387)
Extraordinary / unusual items		-	-
<b>PROFIT / (LOSS) BEFORE TAXATION</b>		843,757	(272,387)
Taxation			
- Current	29	107,661	99,299
- Prior year	29	-	21,437
- Deferred	29	283,796	(197,119)
		391,457	(76,383)
<b>PROFIT / (LOSS) AFTER TAXATION</b>		452,300	(196,004)
----- Rupees in '000 -----			
<b>Basic earnings / (loss) per share</b>	30	0.4487	(0.2437)
<b>Diluted earnings / (loss) per share</b>	30	0.4487	(0.2437)

The annexed notes 1 to 44 and Annexures I and II form an integral part of these financial statements.

  
CHAIRMAN

  
PRESIDENT / CHIEF EXECUTIVE

  
DIRECTOR

  
DIRECTOR



## Statement of Comprehensive Income

FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	2016 ----- Rupees in '000 -----	2015 -----
Profit / (loss) after taxation for the year		452,300	(196,004)
<b>Other Comprehensive Income</b>			
Items that may not be reclassified to profit and loss account in subsequent periods			
Remeasurement gain / (loss) on defined benefit plan	33.5	17,870	(7,764)
Tax on remeasurement of defined benefit plan		(6,253)	2,717
		11,617	(5,047)
<b>Comprehensive income / (loss) transferred to statement of changes in equity</b>		<u>463,917</u>	<u>(201,051)</u>
<b>Components of comprehensive income not reflected in equity</b>			
Surplus on revaluation of available for sale investments		1,117,448	112,791
Related deferred tax liability		(391,105)	(39,477)
		726,343	73,314
<b>Total comprehensive income / (loss) for the year</b>		<u><u>1,190,260</u></u>	<u><u>(127,737)</u></u>

The annexed notes 1 to 44 and Annexures I and II form an integral part of these financial statements.

  
CHAIRMAN

  
PRESIDENT / CHIEF EXECUTIVE

  
DIRECTOR

  
DIRECTOR

## Cash Flow Statement

FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	2016 ----- Rupees in '000	2015 -----
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit / (loss) before taxation		843,757	(272,387)
Less: Dividend Income		(23,777)	(19,473)
		<u>819,980</u>	<u>(291,860)</u>
<b>Adjustments for non-cash charges and other items:</b>			
Depreciation on operating fixed assets	27	634,929	506,960
Depreciation on non banking assets	27	6,533	-
Amortisation	27	60,927	30,196
Depreciation on operating Ijarah assets	11.14	1,239,614	837,018
Reversal of provision against non-performing Islamic financing and related assets - net	11.16.2	(1,724,387)	(639,523)
(Reversal of provision ) / provision for diminution in the value of investments and placements - net	9 & 10.5	(337,547)	8,774
Bad debts written off directly		32,008	25
Other provisions		-	149,145
Unrealised gain on revaluation of investments classified as held for trading		(678)	-
Charge for defined benefit plan	27	72,753	49,959
Gain on sale of property and equipment	26	(29,855)	(3,604)
		<u>(45,703)</u>	<u>938,950</u>
		<u>774,277</u>	<u>647,090</u>
<b>(Increase) / decrease in operating assets</b>			
Due from financial institutions		12,610,905	(21,679,578)
Islamic financing and related assets		(8,654,989)	(18,247,006)
Others assets (excluding defined benefit assets)		(516,278)	86,221
		<u>3,439,638</u>	<u>(39,840,363)</u>
<b>Increase in operating liabilities</b>			
Bills payable		750,001	441,578
Due to financial institutions		2,868,537	5,276,100
Deposits and other accounts		1,341,555	5,388,841
Other liabilities (excluding current taxation and unrealised loss on forward sale promises)		364,269	90,120
		<u>5,324,362</u>	<u>11,196,639</u>
		<u>9,538,277</u>	<u>(27,996,634)</u>
Payments against defined benefit plan	33	(63,545)	(72,654)
Income tax paid		(120,579)	(102,818)
<b>Net cash generated from / (used in) operating activities</b>		<u>9,354,153</u>	<u>(28,172,106)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net investments in securities		(8,950,665)	23,536,813
Dividend received		23,777	19,473
Investments in operating fixed assets		(1,213,635)	(547,648)
Net cash inflow on acquisition		-	4,560,601
Proceeds from disposal of operating fixed assets		31,357	4,096
Net cash (used in) / generated from investing activities		<u>(10,109,166)</u>	<u>27,573,335</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Issue of right shares		-	4,320,400
Net cash generated from financing activities		-	4,320,400
<b>(Decrease) / Increase in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year	31	(755,013)	3,721,629
		<u>10,816,596</u>	<u>7,094,967</u>
<b>Cash and cash equivalents at the end of the year</b>	31	<u>10,061,583</u>	<u>10,816,596</u>

The annexed notes 1 to 44 and Annexures I and II form an integral part of these financial statements.

  
CHAIRMAN

  
PRESIDENT / CHIEF EXECUTIVE

  
DIRECTOR

  
DIRECTOR



## Statement of Changes In Equity

FOR THE YEAR ENDED DECEMBER 31, 2016

	Share Capital	Discount on issue of shares	Statutory reserve	Reserve for bad debts & contingen- cies	(Accumulated loss)/ Unappropriated profit	Total
----- Rupees in '000 -----						
<b>Balance as at January 1, 2015</b>	5,758,721	(79,042)	273,176	-	266,946	6,219,801
Loss after taxation for the year transferred from Statement of Comprehensive Income	-	-	-	-	(196,004)	(196,004)
Transfer to reserve for bad debts and contingencies	-	-	-	250,000	(250,000)	-
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	12,652	12,652
Issue of right shares at par	4,320,400	-	-	-	-	4,320,400
Remeasurements of the net defined benefit liability / asset - net of tax	-	-	-	-	(5,047)	(5,047)
<b>Balance as at December 31, 2015</b>	10,079,121	(79,042)	273,176	250,000	(171,453)	10,351,802
Profit after taxation for the year transferred from Statement of Comprehensive Income	-	-	-	-	452,300	452,300
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	10,381	10,381
Transfer from surplus on revaluation of non banking assets - net of tax	-	-	-	-	168	168
Transfer to statutory reserve	-	-	90,460	-	(90,460)	-
Remeasurements of the net defined benefit liability / asset - net of tax	-	-	-	-	11,617	11,617
<b>Balance as at December 31, 2016</b>	<u>10,079,121</u>	<u>(79,042)</u>	<u>363,636</u>	<u>250,000</u>	<u>212,553</u>	<u>10,826,268</u>

The annexed notes 1 to 44 and Annexures I and II form an integral part of these financial statements.

  
CHAIRMAN

  
PRESIDENT / CHIEF EXECUTIVE

  
DIRECTOR

  
DIRECTOR

## Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2016

### 1 STATUS AND NATURE OF BUSINESS

- 1.1** BankIslami Pakistan Limited (the Bank) was incorporated in Pakistan as a public limited company on October 18, 2004 under the Companies Ordinance, 1984 to carry out the business of an Islamic Commercial Bank in accordance with the principles of Islamic Shariah.

The State Bank of Pakistan (SBP) granted a 'Scheduled Islamic Commercial Bank' license to the Bank on March 18, 2005. The Bank commenced its operations as a Scheduled Islamic Commercial Bank with effect from April 07, 2006, on receiving Certificate of Commencement of Business from the State Bank of Pakistan (SBP) under section 37 of the State Bank of Pakistan Act, 1956. The Bank is principally engaged in corporate, commercial, consumer, retail banking and investment activities.

The Bank is operating through 321 branches including 118 sub branches as at December 31, 2016 (2015: 317 branches including 124 sub branches). The registered office of the Bank is situated at 11th Floor, Dolmen City, Marine Drive, Block-4, Clifton, Karachi. The shares of the Bank are quoted on the Pakistan Stock Exchange Limited (formerly Karachi Stock Exchange Limited).

The Pakistan Credit Rating Agency (Private) Limited (PACRA) has maintained the Bank's long-term rating as 'A+' and the short-term rating as 'A1'.

- 1.2** As mentioned in note 4 below, during the previous year on 07 May 2015 KASB Bank Undertakings have been acquired and amalgamated with the Bank under a scheme sanctioned under section 47 of the Banking Companies Ordinance, 1962.

### 2 BASIS OF PRESENTATION

- 2.1** The Bank provides financing mainly through Murabahah, Ijarah, Istisna, Diminishing Musharakah, Muswammah and other Islamic modes as briefly explained in note 11.1.1 to these financial statements.

The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of profit thereon. The income on such financing is recognised in accordance with the principles of Islamic Shariah. However, income, if any, received which does not comply with the principles of Islamic Shariah is recognised as charity payable as directed by the Shariah Board of the Bank.

- 2.2** These financial statements are the separate financial statements of the Bank in which investments in subsidiaries are carried at cost less accumulated impairment losses, if any, and are not consolidated. The consolidated financial statements of the Group are being issued separately.



### 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 under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, and the directives issued by the SECP and the SBP. Wherever the requirements of the provisions and directives issued under the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, the IFAS notified under the Companies Ordinances, 1984 and the directives issued by the SECP and the SBP differ from the requirements of IFRS, the provisions of and the directives issued under the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, IFAS notified under the Companies Ordinance, 1984 and the directives issued by the SECP and the SBP shall prevail.
- 3.2** The SBP through its BSD Circular No. 10 dated August 26, 2002, has deferred the implementation of International Accounting Standard (IAS) 39 - "Financial Instruments: Recognition and Measurement" and IAS 40 - "Investment Property" for Banking Companies in Pakistan, till further instructions. Accordingly, the requirements of these Standards have not been considered in the preparation of these financial statements. Further, the SECP has deferred the applicability of International Financial Reporting Standard (IFRS) 7 "Financial Instruments: Disclosures" through its S.R.O. 411(I)/2008 dated April 28, 2008. Accordingly, the requirements of this standard have also not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.
- 3.3** IFRS 8 "Operating Segments" was effective for the Bank's accounting period beginning on or after January 1, 2009. All Banking Companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, 'Revised Forms of Annual Financial Statements', effective from the accounting year ended December 31, 2006. The management of the Bank believes that as the SBP has defined the segment categorisation in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these financial statements is based on the requirements laid down by the SBP.
- 3.4** The SBP vide its BPRD Circular No. 04 dated February 25, 2015 has clarified that the reporting requirements of IFAS-3 for Islamic Banking Institutions (IBIs) relating to annual, half yearly and quarterly financial statements would be notified by SBP through issuance of specific instructions and uniform disclosure formats in consultation with IBIs. These reporting requirements have not been ratified to date. Accordingly, the disclosures requirements under IFAS 3 have not been considered in these financial statements.



**3.5 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year:**

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as describe below:

**New Standards, Interpretations and Amendments**

The Bank has adopted the following accounting standard and the amendments and interpretation of IFRSs which became effective for the current year:

**Standard or Interpretation**

IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – Investment Entities: Applying the Consolidation Exception (Amendment)

IFRS 11 Joint Arrangements - Accounting for Acquisition of Interest in Joint Operation (Amendment)

IAS 1 – Presentation of Financial Statements - Disclosure Initiative (Amendment)

IAS 16 Property, Plant and Equipment and IAS 38 intangible assets - Clarification of Acceptable Method of Depreciation and Amortization (Amendment)

IAS 41 Agriculture - Agriculture: Bearer Plants (Amendment)

IAS 27 – Separate Financial Statements – Equity Method in Separate Financial Statements (Amendment)

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

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal

IFRS 7 Financial Instruments: Disclosures - Servicing contracts

IFRS 7 Financial Instruments: Disclosures - Applicability of the offsetting disclosures to condensed interim financial statements

IAS 19 Employee Benefits - Discount rate: regional market issue

IAS 34 Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'

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



### 3.6 Standards, interpretations and amendments to published approved accounting standards that are not yet effective:

3.6.1 The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 1, 2017:

	<b>Effective date (accounting periods beginning on or after)</b>
- Amendments to IFRS 2 Share-based Payments – Classification and Measurement of Share-based Payments Transactions	01 January 2018
- Amendments to 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	Not yet finalized
- Amendments to IAS 7 Financial Instruments: Disclosure Initiative	01 January 2017
- Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for unrealised losses	01 January 2017
- Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	01 January 2018
- Amendments to IAS 40 Investment Property: Transfers of Investment Property	01 January 2018
- IFRIC 22 Foreign Currency Transactions and Advance Consideration	01 January 2018

There are certain other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2017 but are considered not to be relevant or will not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

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.

	<b>IASB Effective date (annual periods beginning on or after)</b>
IFRS 14 – Regulatory Deferral Accounts	01 January 2016
IFRS 9 – Financial Instruments: Classification and Measurement	01 January 2018
IFRS 15 – Revenue from Contracts with Customers	01 January 2018
IFRS 16 – Leases	01 January 2019

#### 3.6.2 Early adoption of standards

The Bank has not early adopted any new or amended standard in 2016.

## 4 BUSINESS COMBINATION

### 4.1 Acquisition of KASB Bank Limited

During the previous year, under the 'Scheme of Amalgamation of KASB Bank Limited with and into BankIslami Pakistan Limited under Section 47 of the Banking Companies Ordinance, 1962', hereinafter referred to as 'The Scheme', KASB Bank Undertakings have been acquired and amalgamated with the Bank. The Scheme was effective from May 7, 2015.

KASB Bank Undertakings as per the Scheme means the business and all assets and liabilities, of the then KASB Bank Limited of whatsoever nature and wherever situated.

The aforementioned scheme was prepared by the State Bank of Pakistan (SBP) and placed before the Federal Government of Pakistan for its approval. The Federal Government of Pakistan in terms of the powers conferred to it under section 47 of the Banking Companies Ordinance, 1962 sanctioned the scheme of amalgamation of KASB Bank Undertakings with and into BankIslami Pakistan Limited on May 7, 2015 with immediate effect.

As required under International Financial Reporting Standard 3, (IFRS 3) 'Business Combination', the balances of KASB Bank undertakings have been incorporated at their fair values as determined by an independent firm. Their valuation has been carried out using the audited balances as appearing in the financial statements of KASB Bank Limited as at May 7, 2015. The reconciliation between audited balances and the fair values is given in note 4.4 below.

Subsequent to the above amalgamation, the operations of the defunct KASB Bank Limited have been amalgamated and vested into the Bank with effect from May 7, 2015. Consequently, the entire undertaking of the KASB Bank Limited including all the properties, assets and liabilities and the rights and obligations as defined in the aforesaid scheme stand amalgamated with and vested into the Bank as at May 7, 2015. Accordingly, the assets and liabilities included in the statement of financial position also include balances of the defunct KASB Bank Limited.

The KASB Bank Limited at the time of acquisition by the Bank had the following three subsidiaries (both direct and indirect) which by virtue of amalgamation have now become subsidiaries of the Bank:

Name of Entity	Percentage of holding	Nature of relationship
1 My Solutions Corporation Limited	100.00%	Direct
2 BIPL Securities Limited (Formerly KASB Securities Limited)	77.12%	Direct
3 Structured Ventures (Private) Limited	77.12%	Indirect



- 4.2 The Bank accounted for the amalgamation by applying acquisition method of accounting as prescribed by the International Financial Reporting Standard 3, "Business Combination" (IFRS 3).

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the combination. At the time of acquisition, the management carried out a detailed exercise for the identification and valuation of assets acquired (including intangible assets) for the purpose of the initial accounting for the acquisition. According to the requirements of IFRS 3, 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.

- 4.3 The fair valuation exercise for assets and liabilities acquired has been completed by the management in the current period with the assistance of an independent valuer and the accounting treatment of fair valuation of KASB Bank Undertaking's assets and liabilities (including the contingent liabilities) in the books has been finalised and accounted for in these financial statements and comparative figures have been restated accordingly. Details of the fair values of the assets acquired, liabilities assumed and purchase consideration and the resultant goodwill recognised are as follows:

	Note	Restated May 7, 2015 Rupees in '000
Fair value of assets acquired		53,993,354
Fair value of liabilities assumed		(59,890,186)
Net liabilities assumed		<u>(5,896,832)</u>
<b>Purchase Consideration:</b>		
Cash payable		(1)
Fair value benefit of financing from SBP	4.3.1	<u>2,952,536</u>
		2,952,535
Excess of purchase consideration over net assets	4.3.2	<u><u>(2,944,297)</u></u>

- 4.3.1 This represents the fair value benefit of the subsidised financing received by the Bank from the State Bank of Pakistan for the financial assistance (refer note 16.1.2).

- 4.3.2 The SBP vide its letter no. BPRD(R&P-02)/625-112/2017/4089 dated February 24, 2017 has allowed the Bank exemption from "Goodwill impairment" under the applicable accounting standards till December 30, 2018.

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

	Note	Provisional fair value as at May 7, 2015 (based on audited financial statements as at December 31, 2015)	Fair value adjustments recognised during the year (as per Consultant's report)	Fair values as at May 7, 2015 (as per Consultant's report) Restated
-----Rupees in '000-----				
<b>ASSETS</b>				
Cash and balances with treasury banks		3,703,800	-	3,703,800
Balances with other banks		856,801	-	856,801
Investments		28,665,255	-	28,665,255
Advances		11,098,985	(636,506)	10,462,479
Operating fixed assets		2,157,083	-	2,157,083
Intangible recognised on acquisition	4.4.1	40,600	-	40,600
Deferred tax assets - net		6,111,811	583,779	6,695,590
Other assets - net		1,411,746	-	1,411,746
		54,046,081	(52,727)	53,993,354
<b>LIABILITIES</b>				
Bills payable		163,920	-	163,920
Borrowings		313,206	-	313,206
Deposits and other accounts		57,338,264	-	57,338,264
Other liabilities		1,973,937	100,859	2,074,796
		59,789,327	100,859	59,890,186
<b>Fair Value of Net liabilities acquired</b>		<b>(5,743,246)</b>	<b>(153,586)</b>	<b>(5,896,832)</b>

In addition, the audited financial statements of the defunct KASB Bank Limited as at May 7, 2015 include a sum of Rs. 981,410,000 representing advance against issue of right shares which had been treated and disclosed as a part of equity. This amount does not form part of the KASB Bank Undertakings acquired and amalgamated with the Bank as per the Scheme. A case has been filed in respect of this matter, details of which are disclosed in note 22.5 to these financial statements.

#### 4.4.1 Intangible recognised on acquisition

Consequent to the amalgamation of the defunct KASB Bank Limited with and into the Bank, the Bank has recognised the following intangible asset as at the acquisition date of May 7, 2015:

**May 7, 2015**  
**Rupees in '000**

##### **Core deposit intangible**

40,600

This intangible asset relates to core deposits of the defunct KASB Bank Limited and represents the funding benefit that would be available to the Bank on account of availability of funding through deposit customers rather than from the wholesale or inter-bank markets. This benefit also considers the fact that the economic lifetime of these deposits is longer than their 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.

- 4.5 The fair value of the gross contractual receivables representing advances as at the acquisition date amounts to Rs. 10,462 million. Gross contractual amounts for the aforementioned receivables due is Rs. 24,255 million. The management believes that out of the total gross contractual receivables, a gross contractual amount of Rs. 13,793 million is expected to be uncollectable. The uncollectable amounts of receivables and impairment of investments arising on account of fair valuation exercise have been disclosed as "Provisions transferred from amalgamated entity" in the respective notes.



## 5 BASIS OF MEASUREMENT

### 5.1 Accounting convention

These financial statements have been prepared under the historical cost convention, except that certain fixed assets, certain investments, foreign currency balances and commitments in respect of foreign exchange contracts have been marked to market and are carried at fair value. Further, staff retirement benefits as discussed in notes 6.8 and 33 to the financial statements have been carried at present values as determined under the International Accounting Standards (IAS) 19 (revised) 'Employee Benefits' .

### 5.2 Functional and Presentation Currency

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

### 5.3 Rounding off

Figures have been rounded off to the nearest thousand rupees unless otherwise stated.

### 5.4 Critical accounting estimates and judgments

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 management to exercise its judgment in the process of applying the Bank's accounting policies. The significant accounting areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in the application of the accounting policies are as follows:

- (a) Classification and valuation of investments in accordance with the Bank's policy (notes 6.4 and 10).
- (b) Fair values of assets acquired and liabilities assumed in a business combination (note 4).
- (c) Provision for non-performing Islamic financing and related assets and Advances (notes 6.5 and 11.16).
- (d) Determination of forced sales value of underlying securities of non performing Islamic financing and related assets (note 11.16.3.2).
- (e) Impairment of investments in equity instruments of subsidiary, associates and non associate entities (notes 6.4.5 and 10).
- (f) Staff retirement benefits (notes 6.8 and 33).
- (g) Revaluation and depreciation / amortization of operating fixed assets (notes 6.6 and 12).
- (h) Valuation of non-banking assets acquired in satisfaction of claims (note 6.20)
- (i) Assumption and estimation in recognition of provision for taxation (current and prior years) and deferred taxation (notes 6.7, 13 and 29).

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

## 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 6.1 Change in accounting policy

In line with the requirements of the Debt Property Swap Regulations issued by the SBP on January 1, 2016, the Bank has changed its accounting policy for recording of non-banking assets acquired in satisfaction of claims. These were previously recorded at the lower of cost or market value. These are now initially recorded at cost and subsequently stated at revalued amount less accumulated depreciation / impairment. Increase in market value over the acquisition cost is recorded as surplus on revaluation. A decline in the market value is initially used to reduce the surplus account, if any, or if no surplus exists, is charged to the profit and loss account. Had there been no change in accounting policy, other assets, surplus on revaluation of assets (net of tax) and deferred tax liability would have been lower by Rs. 66.325 million, Rs. 67.968 million and Rs. 4.632 million respectively, whereas the profit after tax would have been higher by Rs. 4.246 million.

### 6.2 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.

### 6.3 Due to / from financial and other institutions

#### 6.3.1 Bai Muajjal

In Bai Muajjal, the Bank sells sukuk on deferred payment basis to financial institutions. The credit price is agreed at the time of sale and such proceeds are received at the end of the credit period. The difference between the deferred payment amount receivable and the carrying value at the time of sale is accrued and recorded as income over the credit period.

#### Musharakah / 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 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.

#### Acceptances from State Bank of Pakistan for financial assistance

The Bank has recorded Acceptances from State Bank of Pakistan for financial assistance at its fair value which is amortised over the period of the financing.



## **6.4 Investments**

### **6.4.1 Classification**

Investments of the Bank, other than investments in associates and subsidiaries are classified as follows:

#### **(a) Held-for-trading**

These are investments which are either acquired for generating profits from short-term fluctuations in market prices or are securities included in a portfolio for which there is evidence of a recent actual pattern of short-term profit taking.

#### **(b) Held- to-maturity**

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

#### **(c) Available-for-sale**

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

### **6.4.2 Regular way contracts**

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

### **6.4.3 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 investment. Investments classified as 'held for trading' are initially recognised at fair value and transaction costs are expensed in the profit and loss account.

Premium or discount on debt securities classified as available for sale is amortised using the effective profit rate method and taken to the profit and loss account.

### **6.4.4 Subsequent measurement**

Subsequent to initial recognition investments are valued as follows:

#### **(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 recognized to reflect irrecoverable amount.



**(c) Available for sale**

Quoted / Government securities are measured at fair value. Surplus / (deficit) arising on remeasurement is included in the statement of comprehensive income but is kept in a separate account shown in the statement of financial position below equity. The surplus / (deficit) arising on these securities is taken to the profit and loss account when actually realised upon disposal.

Unquoted equity securities are valued at the lower of cost (which in the case of business acquisition would be the fair value at the acquisition date) 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 audited financial statements. Investments in other unquoted securities are valued at cost less impairment losses, if any.

**(d) Investments in associates**

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

**(e) Investments in subsidiaries**

Subsidiaries are all entities over which the Bank has significant control. Investments in subsidiary is carried at cost less accumulated impairment losses, if any.

**6.4.5 Impairment**

**Available for sale and Held to maturity investments**

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

**Investment in associates and subsidiaries**

In respect of investment in associates and subsidiaries, the Bank reviews their carrying values at each reporting date to assess whether there is an indication of impairment. Such indication may include significant and prolonged decline in the market value, significant changes with an adverse impact on the entity, carrying amount of net assets in excess of market capitalisation etc. Any basis applied in this respect should be justifiable in view of other factors present for the entity. The amount of impairment is determined based on the higher of value in use and fair value less cost to sell. Impairment loss is recognised in the profit and loss account.



**6.4.6** Gains or losses on sale of investments are included in profit and loss for the year.

## **6.5 Islamic financing and related assets**

**6.5.1** Islamic financing and related assets are financial products originated by the Bank and principally comprise of Murabahah, Istisna, Ijarah, Salam, Muswammah, Diminishing Musharakah and other Islamic modes of financing and the related assets.

As a general rule, funds disbursed, under financing arrangements for purchase of goods / assets are recorded as advance. On culmination, financing are recorded at the deferred sale price net of profit. Goods purchased but remaining unsold at the statement of financial position date are recorded as inventories.

**6.5.2** Islamic financing and related assets are stated net of general provisions and specific provisions against non-performing Islamic financing and related assets which are charged to the profit and loss account.

### **Specific provision**

The Bank maintains specific provision for doubtful debts based on the requirements specified in the Prudential Regulations issued by the SBP.

### **General provision**

#### ***Consumer Financing***

The SBP vide circular 10 of 2016 has revised the Prudential Regulations for consumer financing.

In the revised Regulations, SBP has specified that general provision against consumer financing should be maintained at varying percentages based on the non-performing loan ratio present in the portfolio. These percentages range from 1% to 2.5% for secured and 4% to 7% for unsecured portfolio.

Previously, the Regulations required provision to be maintained at 1.5% for secured portfolio and 5% for unsecured portfolio. As a consequence of the above change, the Bank's general provisioning requirement against consumer portfolio has been reduced by Rs 6.794 million.

#### ***Small Enterprise Financing***

The Bank maintains general provision in respect of small enterprise financing at the rate of 1 percent for secured portfolio and 2 percent for unsecured portfolio.

The net provision made / reversed during the year is charged to the profit and loss account and accumulated provision is netted off against Islamic financing and related assets. Islamic financing and related assets are written off when there are no realistic prospects of recovery.

### 6.5.3 Ijarah Financing

Ijarah financing executed on or before December 31, 2008 have been accounted for under finance method, thereafter all Ijarah financing are accounted for under IFAS-2.

- (a) Under finance method, the present value of minimum Ijarah payments have been recognised and shown under Islamic financing and related assets. The unearned income i.e. the excess of aggregate Ijarah rentals over the cost of the asset and documentation charges under Ijarah facility is deferred and then amortised over the term of the Ijarah, so as to produce a constant rate of return on net investment in the Ijarah. Gains / losses on termination of Ijarah contracts are recognised as income on a receipt basis. Income on Ijarah is recognised from the date of delivery of the respective assets to the mustajir (lessee).
- (b) Under IFAS-2 method, assets underlying Ijarah financing have been carried at cost less accumulated depreciation and impairment, if any, and are shown under Islamic financing and related assets. Rentals accrued from Ijarah financing net of depreciation charge are taken to the profit and loss account. Depreciation on Ijarah assets is charged by applying the straight line method over the Ijarah period which is from the date of delivery of respective assets to mustajir up to the date of maturity / termination of Ijarah agreement.

## 6.6 Operating fixed assets and depreciation

### 6.6.1 Property and equipment

Fixed assets other than freehold land and building on leasehold land are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Freehold land and building on leasehold land are carried at revalued amount less any accumulated depreciation and subsequent impairment losses. The revaluation exercise is carried out on periodic basis.

Depreciation is computed using the straight-line method by taking into consideration the estimated useful life of the related assets at the rates specified in note 12.2 to the financial statements. Depreciation on additions / deletions during the year is charged for the proportionate period for which the asset remained in use.

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

An item of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

Residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each reporting date.

Gains and losses on disposal of property and equipment, if any, are taken to the profit and loss account.



### **6.6.2 Capital work in progress**

These are stated at cost less accumulated impairment losses, if any.

### **6.6.3 Intangible assets**

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

Amortization on additions / deletions during the year is charged for the proportionate period for which the asset remained in use.

Software and other development costs are only capitalised to the extent that future economic benefits are expected to be derived by the Bank.

### **6.6.4 Impairment**

At each reporting date, the Bank reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. Recoverable amount is the greater of net selling price and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately in the financial statements except for impairment loss on revalued assets, which is adjusted against related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

Where an impairment loss reverses subsequently, the carrying amount of the asset is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognized as income immediately except for impairment loss on revalued assets which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of assets.

## **6.7 Taxation**

### **6.7.1 Current**

The provision for current taxation is based on taxable income for the year at current rates of taxation, after taking into consideration available tax credits, rebates and tax losses as allowed under the seventh schedule to the Income Tax Ordinance, 2001. The charge for current tax also includes adjustments, where considered necessary relating to prior years, which arises from assessments / developments made during the year. Currently, the Bank provides for minimum tax in accordance with the requirements of section 113 of the Income Tax Ordinance, 2001.

## 6.7.2 Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the carrying amounts of assets and liabilities used 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 using the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the reporting 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 the deferred tax asset is reviewed at each reporting 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 deferred tax asset / liability on deficit / surplus on revaluation of securities and operating fixed assets which is adjusted against the related deficit / surplus in accordance with the requirements of the International Accounting Standard 12 - Income Taxes.

## 6.8 Staff retirement benefits

### 6.8.1 Defined benefit plan

The Bank operates an approved funded gratuity scheme for its permanent employees. The liability recognised in the statement of financial position in respect of defined benefit gratuity scheme, is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets. Contributions to the fund are made on the basis of actuarial recommendations. The defined benefit obligation is calculated periodically by an independent actuary using the projected unit credit method. The last valuation was conducted as on December 31, 2016.

Amounts arising as a result of "Remeasurements", representing the actuarial gains and losses and the difference between the actual investment returns and the return implied by the net interest cost are recognised in the statement of financial position immediately, with a charge or credit to "Other Comprehensive Income" in the periods in which they occur.

### 6.8.2 Defined contribution plan

The Bank operates a recognised contributory provident fund for all the permanent employees. Equal monthly contributions are made both by the Bank and the employees at the rate of 10 % of the basic salary. The Bank has no further payment obligations once the contributions have been paid. The contributions made by the Bank are recognised as employee benefit expense when they are due.

## 6.9 Revenue recognition

**6.9.1** Profit on Murabahah and Commodity Murabahah is recognised over the life of Murabahah on an accrual basis. Profit on Murabahah transactions for the period from the date of disbursement to the date of culmination of Murabahah is recognised immediately on the culmination date.



- 6.9.2** Profit from Istisna is recorded on an accrual basis commencing from the time of sale of goods till the realisation of proceeds by the Bank. Profit from Diminishing Musharakah, Salam and Muswammah are recognised on a time proportionate basis.
- 6.9.3** The Bank follows the finance method in recognising income on Ijarah contracts written up to December 31, 2008. Under this method the unearned income i.e. excess of aggregate Ijarah rentals over the cost of the asset and documentation charges under Ijarah facility is deferred and then amortised over the term of the Ijarah, so as to produce a constant rate of return on net investment in the Ijarah. Gains / losses on termination of Ijarah contracts are recognised as income on a receipt basis. Income on Ijarah is recognised from the date of delivery of the respective assets to the mustajir (lessee).
- Rental from Ijarah contracts entered on or after January 01, 2009 is recognized in the profit and loss account over the term of the contract net of depreciation expense relating to the Ijarah assets.
- 6.9.4** Provisional profit of Musharakah / Mudarabah financing is recognised on an accrual basis. Actual profit / loss on Musharakah and Mudarabah financing is adjusted after declaration of profit by Musharakah partner / mudarib or on liquidation of Musharakah / Mudarabah.
- 6.9.5** Profit on Wakalah–tul–Istismar financings is booked on an accrual basis.
- 6.9.6** Profit on Running Musharakah financings is booked on an accrual basis and is adjusted upon declaration of profit by Musharakah partners.
- 6.9.7** Profit on classified financing is recognised on a receipt basis.
- 6.9.8** Dividend income is recognised when the right to receive the dividend is established.
- 6.9.9** Gains and losses on sale of investments are recognised in the profit and loss account.
- 6.9.10** Fee on issuance of letter of credit and acceptance is recognised on receipt basis as generally the transactions consummate within an accounting period. Fee on guarantees, if considered material, is recognised over the period of guarantee.
- 6.9.11** Profit on Sukuks is recognised on an accrual basis. Where Sukuks (excluding held for trading securities) are purchased at a premium or discount, the premiums / discounts are amortised through the profit and loss account over the remaining life of Sukuk, using the effective yield method.
- 6.9.12** Income earned from revenues that are not Shariah complaint are 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.

#### **6.10 Accounting of Conventional portfolio**

As more fully explained in note 4 to these financial statements, during the previous year the Bank has acquired the operations of the defunct KASB Bank Limited effective from May 7, 2015 (close of business). The defunct KASB Bank Limited was operating as a conventional Bank in Pakistan.

Keeping in view the Shariah Compliance, following policy has been adopted by the Bank with the approval of its Shariah Board.

Income accruing on conventional products is not transferred to profit and loss statement and is classified as liability under the head of "Surplus income of quarantined entity held for future admissible expenses" in other liabilities till 30 June 2016, and there after in "Receipt appropriation account" in other liabilities.

## 6.11 Financial Instruments

### 6.11.1 Financial assets and financial liabilities

All financial assets and financial liabilities are recognised at the time when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Bank loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any loss on derecognition of the financial assets and financial liabilities is taken to income directly. Financial assets carried on the statement of financial position include cash and balances with treasury banks, balances with other banks, due from financial institutions, investments, Islamic financing and related assets and certain receivables and financial liabilities include bills payable, due to financial institutions, deposits and other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

### 6.11.2 Offsetting of financial instruments

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

### 6.11.3 Derivatives

Derivative financial instruments are recognised at fair value. In case of equity futures, the fair value is calculated with reference to quoted market price. Derivatives with positive market values (i.e. unrealised gains) are included in other receivables and derivatives with negative market values (i.e. unrealised losses) are included in other liabilities in the statement of financial position. The resultant gains and losses are taken to the profit and loss account.

## 6.12 Foreign currencies

### Functional and presentation currency

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 Rupee, which is the Bank's functional and presentation currency.

### Foreign currency transactions

Foreign currency transactions are translated into local currency at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the statement of financial position date. Forward exchange promises are revalued using forward exchange rates applicable to their respective remaining maturities.



### **Translation gains and losses**

Translation gains and losses are included in the profit and loss account.

### **Commitments**

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

### **6.13 Acceptances**

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

### **6.14 Fiduciary assets**

Assets held in a fiduciary capacity are not treated as assets of the Bank in the financial statements.

### **6.15 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 deposits' and 'Fixed deposits'. 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 any profit earned / loss incurred on those funds are allocated to the equity of the Bank. No profit or loss is passed on to current account depositors. While the product features of each product differ, there is usually no restriction on withdrawals or number of transactions in current and saving accounts. In case of fixed deposits, pre-mature withdrawals can be made as per approved terms only.

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

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

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



## 6.16 Pool Management

The Bank operates general and specific pools for deposits and inter-bank funds accepted / acquired under Mudaraba, Musharakah and Wakalah modes.

Under the general deposits pools, 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 financings, investments and placements. When utilising investing funds, the Bank prioritizes the funds received from depositors over the funds generated from own sources after meeting the regulatory requirement relating to such deposits.

Specific pools are operated for funds acquired / accepted from the State Bank of Pakistan and other banks for Islamic Export Refinance to Bank's customers and liquidity management respectively under the Musharakah / Mudaraba modes. The profit of each deposit pool is calculated on all the remunerative assets booked by utilising the funds from the pool after deduction of expenses directly incurred in earning the income of such pool alongwith related fee income, if any. The directly related costs comprise of depreciation on ijarah assets, takaful premium, documentation charges etc. No expense of general or administrative nature of expense is charged to the pools. No provisions against any non-performing asset of the pool is passed on to the pool except on the actual loss / write-off of such non-performing asset. The profit of the pool is shared between equity and other members of the pool on the basis of Musharakah at gross level (before charging of mudarib fee) as per the investment ratio of the equity. 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 after charging of mudarib share.

The risk characteristic of each pool mainly depends on the assets and liability profile of each pool. As per Bank's policy, relatively low risk / secured financing transactions and assets are allocated to general depositors pool of PKR, USD, GBP and Euro. The Bank maintains General Pools, FI Pools, IERS pool and Equity pool. The general pools are exposed to general credit risk, asset ownership risk and profit rate risk of the underlying assets involved.

### General Pool

For General Pools, the Bank allocates PKR financing to Corporate, SME and Consumer Finance customers in diversified sectors and avenues of the economy / business as mentioned in the note 40.1.1.1. Investments in Sovereign Guarantee Sukuk, Bai Muajjal with State Bank of Pakistan, Bai Muajjal with Government of Pakistan are also done through General Pools. All remunerative deposits are tagged to these general pools and their funds generated from the depositors are invested on priority basis. Due to limited investment options in USD, GBP and EURO pool, funds from FCY pools are invested in available International Sukuk, Shariah Complaint Nostro accounts and remaining funds are taken out and invested in PKR general pool as part of equity. In such cases return from PKR General pool is given back to FCY pools, so that returns can be passed on to FCY pool customers accordingly.

### Islamic export refinance scheme Pool

The IERS pool assets comprise of Sovereign Guarantee Sukuks, and financings to / sukuks of blue chip companies and exporters as allowed under the applicable laws and regulations, and as such are exposed to lower credit risk. The Musharakah with SBP under IERS is tagged to the IERS pool.



### **Financial Institution (FI) Pool**

The FI pool assets generally comprise of Sovereign Guarantee Sukuks only and the related liability of the FI pool comprise of Musharakah/Mudarabah from other banks and financial institutions. These pools are created to meet the liquidity requirements of the Bank.

#### **6.17 Provisions and contingent assets and liabilities**

Provisions are recognized 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 reporting date and are adjusted to reflect the current best estimates.

Contingent assets are not recognised, and are also not disclosed unless an inflow of economic benefits is probable. Contingent liabilities are disclosed unless the probability of an outflow of resources embodying economic benefit is remote.

Provisions for guarantee claims and other off balance sheet obligations are recognised when intimated and reasonable certainty exists for the Bank to settle the obligation. Charge to the profit and loss account is stated net of expected recoveries.

#### **6.18 Business Combination**

Business combinations 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 Bank's share of 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 the profit and loss account.

Goodwill acquired in a business combination is measured, subsequent to initial recognition, at its cost less accumulated impairment losses, if any. However, the SBP vide its letter no. BPRD(R&P-02)/625-112/2017/4089 dated February 24, 2017 has allowed the Bank exemption from "Goodwill impairment" under the applicable accounting standards till December 30, 2018.

Acquisition of non-controlling interests (NCI) is measured at the proportionate share of the NCI in the fair value of the net assets acquired by the Bank. The excess of fair value of consideration transferred over the proportionate share of the NCI in the fair value of the net assets acquired is recognised in equity.

#### **6.19 Segment reporting**

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

### 6.19.1 Business segments

#### Trading and sales

It includes equity, foreign exchanges, commodities, credit, funding, own position securities, placements and Islamic financing and related assets.

#### Retail banking

It includes retail Islamic financing and related assets, deposits and banking services offered to its retail customers and small and medium enterprises.

#### Commercial banking

It includes project finance, export finance, trade finance, Ijarah, guarantees and bills of exchange relating to its corporate customers.

#### Support Centre

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

### 6.19.2 Geographical segment

The Bank operates only in Pakistan.

### 6.20 Assets acquired in satisfaction of claims

Assets acquired in satisfaction of claims are initially recorded at cost and revalued at each year-end date of the statement of financial position. An increase in market value over the acquisition cost is recorded as a surplus on revaluation. A decline in the market value is initially used to reduce the surplus account, if any, or if no surplus exists, is charged to the profit and loss account as an impairment. A subsequent increase in the market value of an impaired asset is reversed through the profit and loss account up to the extent of the original impairment. All direct costs of acquiring title to the asset are charged immediately to the profit and loss account.

Depreciation on assets acquired in satisfaction of claims is charged to the profit and loss account in line with depreciation charged on operating fixed assets.

These assets are generally intended for sale. Gains and losses realised on the sale of such assets are disclosed separately from gains and losses realised on the sale of operating fixed assets in the notes to these financial statements. If such asset is subsequently used by the Bank for its own operations, the asset, along with any related surplus, is transferred to operating fixed assets.

### 6.21 Earnings per share

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



7	CASH AND BALANCES WITH TREASURY BANKS	Note	2016 ----- Rupees in '000 -----	2015 ----- Rupees in '000 -----
	In hand			
	- local currency		3,154,686	2,304,599
	- foreign currency		410,919	347,816
			3,565,605	2,652,415
	With the State Bank of Pakistan in			
	- local currency current account	7.1	3,646,460	4,615,510
	- foreign currency deposit accounts			
	Cash Reserve Account	7.2	241,958	141,716
	Special Cash Reserve Account	7.3	78,950	228,335
	US Dollar Clearing Account		11,421	48,066
			332,329	418,117
	With National Bank of Pakistan in			
	- local currency current account		1,377,039	1,349,844
			8,921,433	9,035,886

**7.1** This represents Rs. 3,646.460 million (2015: 4,615.510 million) held against Cash Reserve Requirement and Statutory Liquidity Requirement.

**7.2** As per BSD Circular No. 15 dated June 21, 2008, cash reserve of 5% is required to be maintained with the State Bank of Pakistan on deposits held under the New Foreign Currency Accounts Scheme (FE-25 deposits).

**7.3** Special cash reserve of 6% is required to be maintained with SBP on FE-25 deposits as specified in BSD Circular No. 15 dated June 21, 2008. Balance held under this account is non-remunerative.

8	BALANCES WITH OTHER BANKS	Note	2016 ----- Rupees in '000 -----	2015 ----- Rupees in '000 -----
	In Pakistan			
	- on current accounts		2,407	4,544
	- on deposit accounts	8.1	95	93
			2,502	4,637
	Outside Pakistan			
	- on current accounts		1,137,648	1,776,073
			1,140,150	1,780,710

**8.1** These represent deposits with various Islamic commercial banks under Musharakah and Mudarabah arrangements. The expected profit rate on these arrangements is 3.5% (2015: 3.5%) per annum.

	Note	2016 ----- Rupees in '000 -----	2015
<b>9 DUE FROM FINANCIAL INSTITUTIONS</b>			
Sukuk Murabahah	9.1	-	5,349
Wakalah Placement	9.2	993,686	-
Commodity Murabahah - local currency	9.3	26,224,979	39,824,221
		<u>27,218,665</u>	<u>39,829,570</u>
Other placements		32,400	32,400
		<u>27,251,065</u>	<u>39,861,970</u>
Provision against Sukuk Murabahah	9.1	-	(5,349)
Provision against placements - transferred from the amalgamated entity		(32,400)	(32,400)
		<u>27,218,665</u>	<u>39,824,221</u>
<b>9.1</b>	In prior years, the Bank entered into Sukuk Murabahah arrangement under which the Bank appointed its client as an agent under asset purchase agreements to purchase the underlying sukuk from open market on its behalf and later sell them on deferred Murabahah basis. The maturity date of the deal was February 08, 2009. The Bank had recovered an amount of Rs. 1.069 million during the prior year, while the remaining balance of Rs 5.349 million has been recovered in the current year.		
<b>9.2</b>	The profit rates on the agreements range between 0.95% to 1.20% (2015: Nil) per annum and the agreements have maturities ranging from 18 days to 184 days (2015: Nil).		
<b>9.3</b>	The Bank has entered into Commodity Murabahah agreements under which the Bank purchases an underlying commodity from open market through an agent and sells it to a financial institution on credit with profit. The profit rates on the agreements range between 5.80% to 6.40% (2015: 6.02% to 6.70%) per annum and the agreements have maturities ranging from 3 days to 160 days (2015: 4 days to 185 days).		
<b>9.4</b>	<b>Particulars of amounts due from financial institutions with respect to currencies:</b>		
- In local currency		26,257,379	39,861,970
- In foreign currency		993,686	-
		<u>27,251,065</u>	<u>39,861,970</u>
<b>10 INVESTMENTS</b>			
Investments - Islamic	10.1	44,239,990	34,126,388
Investments - Conventional (relating to defunct KASB Bank Limited)	10.2	2,076,937	1,759,570
		<u>46,316,927</u>	<u>35,885,958</u>



### 10.1 Islamic Investments by types

Note	-----2016-----			-----2015-----			
	Held by the Bank	Given as collateral	Total	Held by the Bank	Given as collateral	Total	
----- (Rupees in '000) -----							
<b>Available for sale securities</b>							
Sukuk / Certificates	10.6	42,281,922	-	42,281,922	10,805,042	-	10,805,042
Units of Open-end mutual funds	10.6	21	-	21	21	-	21
Ordinary Shares of listed companies	10.6	242,645	-	242,645	242,645	-	242,645
Bai Muajjal	10.6	-	-	-	22,959,292	-	22,959,292
		42,524,588		42,524,588	34,007,000		34,007,000
<b>Held for trading securities</b>							
Ordinary Shares of listed companies	10.8	447,908	-	447,908	-	-	-
<b>Subsidiary</b>							
	10.9	191,015	-	191,015	191,015	-	191,015
<b>Total investments at cost</b>							
Less: Provision for diminution in value of investments	10.5	(46,125)	-	(46,125)	(46,125)	-	(46,125)
Investments - net of Provisions		43,117,386	-	43,117,386	34,151,890	-	34,151,890
Surplus on revaluation of held for trading securities	10.8	30,658	-	30,658	-	-	-
Surplus / (deficit) on revaluation of available-for-sale securities	21.3	1,091,946	-	1,091,946	(25,502)	-	(25,502)
<b>Total investments at market value</b>		<u>44,239,990</u>	<u>-</u>	<u>44,239,990</u>	<u>34,126,388</u>	<u>-</u>	<u>34,126,388</u>

### 10.2 Conventional Investments by type (relating to defunct KASB Bank Limited) \*

Note	-----2016-----			-----2015-----			
	Held by the Bank	Given as collateral	Total	Held by the Bank	Given as collateral	Total	
----- (Rupees in '000) -----							
<b>Available for sale securities</b>							
Ordinary Shares of listed companies	10.6	967,706	-	967,706	841,950	-	841,950
Ordinary Shares of unlisted companies	10.6	1,189,030	-	1,189,030	1,189,030	-	1,189,030
Listed Term Finance Certificates	10.6	105,092	-	105,092	105,312	-	105,312
Unlisted Term Finance Certificates	10.6	177,822	-	177,822	222,821	-	222,821
		2,439,650		2,439,650	2,359,113		2,359,113
<b>Held to maturity securities</b>							
Unlisted Term Finance Certificates	10.7	321,601	-	321,601	321,601	-	321,601
<b>Associates</b>							
	10.10	1,660,111	-	1,660,111	1,660,111	-	1,660,111
<b>Subsidiaries</b>							
	10.9	2,499,708	-	2,499,708	2,499,708	-	2,499,708
<b>Total investments at cost</b>							
Less: Provision for diminution in the value of investments	10.5	(4,844,133)	-	(4,844,133)	(5,080,963)	-	(5,080,963)
<b>Total investments at market value</b>		<u>2,076,937</u>	<u>-</u>	<u>2,076,937</u>	<u>1,759,570</u>	<u>-</u>	<u>1,759,570</u>

\* These investments are under process of conversion / liquidation / disposal.

	Note	2016	2015
		----- Rupees in '000 -----	
<b>10.3 Islamic Investments by segments</b>			
<b>Federal Government Securities</b>			
GOP Ijarah Sukuks	10.6	37,756,627	9,330,423
<b>Other Federal Government Securities</b>			
Bai Muajjal with Government of Pakistan (through State Bank of Pakistan)	10.6	-	22,959,292
<b>Sukuk certificates</b>			
Sukuks - Unlisted	10.6	4,525,295	1,474,619
<b>Fully paid up ordinary shares / Units</b>			
Ordinary shares of listed companies	10.6 & 10.8	690,553	242,645
Units of Open-End mutual funds	10.6	21	21
<b>Subsidiaries</b>			
BankIslami Modaraba Investments Limited	10.9	191,015	191,015
<b>Total investments at cost</b>		<u>43,163,511</u>	<u>34,198,015</u>
Less: Provision for diminution in value of investments	10.5.1	(46,125)	(46,125)
<b>Investments - net of provisions</b>		<u>43,117,386</u>	<u>34,151,890</u>
Surplus on revaluation of held for trading securities	10.8	30,658	-
Surplus / (deficit) on revaluation of available-for-sale securities	21.3	1,091,946	(25,502)
<b>Total investments at market value</b>		<u><u>44,239,990</u></u>	<u><u>34,126,388</u></u>
<b>10.4 Conventional Investments by segments</b>			
<b>Fully paid up ordinary shares</b>			
Listed Companies	10.6	967,706	841,950
Unlisted Companies	10.6	1,189,030	1,189,030
<b>Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:</b>			
Listed Companies	10.6	105,092	105,312
Unlisted Companies	10.6 & 10.7	499,423	544,422
<b>Subsidiaries</b>			
BIPL Securities Limited (Formerly KASB Securities Limited)	10.9	2,394,937	2,394,937
My Solutions Corporation Limited	10.9	104,771	104,771
<b>Associates - Unlisted</b>			
KASB Capital Limited	10.10	41,867	41,867
KASB Funds Limited	10.10	432,302	432,302
New Horizon Exploration & Production Limited	10.10	558,000	558,000
Shakarganj Food Products Limited	10.10	627,942	627,942
<b>Total investments at cost</b>		<u>6,921,070</u>	<u>6,840,533</u>
Less: Provision for diminution in value of investments	10.5.1	(4,844,133)	(5,080,963)
<b>Total investments at market value</b>		<u><u>2,076,937</u></u>	<u><u>1,759,570</u></u>



	Note	2016 ----- Rupees in '000 -----	2015
<b>10.5 Particular of provision for diminution in the value of investments</b>			
Opening balance		5,127,088	39,207
(Reversal) / charge for the year		<u>(332,198)</u>	<u>9,843</u>
		4,794,890	49,050
Transfer from the amalgamated entity		-	5,170,540
Transfer from other liability		95,368	-
Reversal on disposal		-	<u>(92,502)</u>
Closing balance	10.5.1	<u><u>4,890,258</u></u>	<u><u>5,127,088</u></u>
<b>10.5.1 Break up of provision for diminution in the value of investments is as follows:</b>			
Investments - Islamic		46,125	46,125
Investments - Conventional (relating to defunct KASB Bank Limited)		<u>4,844,133</u>	<u>5,080,963</u>
		<u><u>4,890,258</u></u>	<u><u>5,127,088</u></u>
<b>10.5.2 Particulars of provision in respect of type and segment</b>			
<b>Available for sale investments</b>			
Listed Term Finance Certificates		105,092	105,312
Unlisted Term Finance Certificates		177,822	222,821
Ordinary shares of listed companies		558,644	750,255
Ordinary shares of KASB Modaraba (related party)		60,543	60,543
Ordinary shares of unlisted companies		611,355	611,355
		1,513,456	1,750,286
<b>Held to maturity securities</b>			
Unlisted Term Finance Certificates		321,601	321,601
<b>Associates</b>			
New Horizon Exploration & Production Limited		558,000	558,000
KASB Funds Limited		432,302	432,302
KASB Capital Limited		41,867	41,867
		1,032,169	1,032,169
<b>Subsidiaries</b>			
BankIslami Modaraba Investments Limited		46,125	46,125
BIPL Securities Limited (Formerly KASB Securities Limited)		1,872,136	1,872,136
My Solutions Corporation Limited		104,771	104,771
		2,023,032	2,023,032
		<u><u>4,890,258</u></u>	<u><u>5,127,088</u></u>



## 10.6 Quality of Available for Sale Securities

Name of the investee company	Note	2016	2015	2016	2015	Face Value	2016	2015	2016	2015
		Number of Certificates / Shares / Units	Long / Medium Term Rating (where applicable)*	Cost	Carrying Value					
----- Rupees in '000 -----										
<b>Sukuk Certificates</b>										
<b>Federal Government</b>										
Ijarah GOP Sukuk - 14**	10.6.1	-	15,000	N/A	-	Rs 100,000	-	1,500,907	-	1,506,000
Ijarah GOP Sukuk - 15**	10.6.2	14,246	78,256	-	-	Rs 100,000	1,425,911	7,829,516	1,425,455	7,825,600
Ijarah GOP Sukuk - Fixed Rental Rate 02**	10.6.3	3,000	-	-	N/A	Rs 100,000	304,090	-	304,090	-
Ijarah GOP Sukuk - Fixed Rental Rate 01**	10.6.4	359,500	-	-	N/A	Rs 100,000	36,026,626	-	37,123,909	-
							37,756,627	9,330,423	38,853,454	9,331,600
<b>Others</b>										
WAPDA Second Sukuk Certificates**	10.6.5	134,000	134,000	-	-	Rs 5,000	111,646	223,333	110,295	216,932
WAPDA Third Sukuk Certificates**	10.6.6	32,600	32,600	-	-	Rs 5,000	126,068	150,979	123,636	134,600
Pak Elektron Sukuk	10.6.7	-	60,000	N/A	A	Rs 5,000	-	85,715	-	85,715
Amtex Sukuk	10.6.8	59,000	59,000	Unrated	Unrated	Rs 5,000	221,250	221,250	221,250	221,250
Security Leasing Sukuk	10.6.9	2,000	2,000	Unrated	Unrated	Rs 5,000	3,080	3,080	3,080	3,080
New Allied Electronics (LG) - Sukuk	10.6.10	11,000	11,000	Unrated	Unrated	Rs 5,000	55,000	55,000	55,000	55,000
Sui Southern Gas Company Sukuk	10.6.11	120,000	120,000	Unrated	Unrated	Rs 5,000	150,000	450,000	150,000	450,000
Eden Housing Sukuk	10.6.12	50,000	50,000	Unrated	Unrated	Rs 5,000	32,800	32,800	32,800	32,800
Neelum Jehlum Hydro Power 1	10.6.13	16,500	-	AAA	N/A	Rs 100,000	1,650,000	-	1,650,000	-
Neelum Jehlum Hydro Power 2	10.6.13	19,250	-	AAA	N/A	Rs 100,000	1,925,000	-	1,925,000	-
K-Electric Azm Sukuk 2	10.6.14	50,000	50,000	AA	AA	Rs 5,000	250,451	252,462	252,172	254,484
							4,525,295	1,474,619	4,523,233	1,453,861
<b>Other Federal Government Securities</b>										
Bai Muajjal with Government of Pakistan** (through State Bank of Pakistan)	10.6.15	Not Applicable	Not Applicable	N/A	-	Not Applicable	-	22,959,292	-	22,959,292
<b>Units of Open-end mutual funds</b>										
Meezan Cash Fund		176	168	AA(f)	AA(f)	Rs 28.22***	5	5	9	9
Meezan Islamic Fund		347	332	Unrated	Unrated	Rs 14.41***	5	5	29	20
Meezan Islamic Income Fund		177	169	A-(f)	A-(f)	Rs 28.28***	5	5	9	9
Meezan Balanced Fund		1,281	1,235	Unrated	Unrated	Rs 4.77***	6	6	23	18
							21	21	70	56
<b>Ordinary shares - Listed</b>										
Dolmen City REIT		22,058,602	22,058,602	RR1	RR1	Rs 10	242,645	242,645	239,777	236,689
KASB Modarba Limited ****		10,446,767	10,446,767	Unrated	Unrated	Rs 10	91,675	91,675	31,132	31,132
Agritech Limited ****		25,028,879	21,435,858	D	D	Rs 10	876,011	750,255	317,367	-
K-Electric ****		2,928	2,928	AA-	AA-	Rs 10	20	20	20	20
							1,210,351	1,084,595	588,296	267,841
<b>Ordinary shares - Unlisted ****</b>										
Evolve Capital Limited - Incorporated in British Virgin Islands		5,400,000	5,400,000	Unrated	Unrated	USD 0.0845	1,155,350	1,155,350	577,675	577,675
Pakistan Export Finance Guarantee Agency Limited		568,044	568,044	Unrated	Unrated	Rs 10	5,680	5,680	-	-
KASB Invest (Private) Limited*****		3,985,000	3,985,000	Unrated	Unrated	Rs 10	28,000	28,000	-	-
							1,189,030	1,189,030	577,675	577,675
<b>Term Finance Certificates - Listed ****</b>										
Telecard Limited	10.6.16	3,000	3,000			Rs 5,000	3,461	3,681	-	-
Trust Investment Bank Limited	10.6.17	9,000	9,000			Rs 5,000	22,491	22,491	-	-
World Call Telecom Limited	10.6.18	39,348	39,348			Rs 5,000	79,140	79,140	-	-
							105,092	105,312	-	-
<b>Term Finance Certificates - Unlisted ****</b>										
Agritech Limited	10.6.19	30,000	30,000			Rs 5,000	149,861	149,861	-	-
Azgard Nine Limited (3rd Issue)	10.6.20	5,600	5,600			Rs 5,000	27,961	27,960	-	-
Shakarganj Mills Limited	10.6.21	-	20,000			Rs 5,000	-	45,000	-	-
							177,822	222,821	-	-
							44,964,238	36,366,113	44,542,728	34,590,325

\* Entity's rating was used where sukuk and shares rating were not available.

\*\* Their ratings are not mentioned, being Government guaranteed securities.

\*\*\* These represents average price of units held.

\*\*\*\* These represent investments acquired from KASB Bank Undertakings.

\*\*\*\*\* The Chief Executive of KASB Invest (Private) Limited is Mr. Rashid K. Siddiqui.



- 10.6.1** The profit rate on these Sukuks comprises of six months weighted average yield of six month market treasury bills minus 30 basis points. The principal has been redeemed on maturity in March 2016. These were backed by Government of Pakistan's Sovereign Guarantee.
- 10.6.2** The profit rate on these Sukuks comprises of six months weighted average yield of six month market treasury bills minus 200 basis points. The principal is redeemable on maturity in June 2017. These are backed by Government of Pakistan's Sovereign Guarantee.
- 10.6.3** The profit rate on these Sukuks comprised of Fixed Rental Rate (FRR) basis i.e. 5.59%. The principal is redeemable on maturity in March 2019. These are backed by Government of Pakistan's Sovereign Guarantee.
- 10.6.4** The profit rate on these Sukuks comprised of Fixed Rental Rate (FRR) basis i.e. 6.10%. The principal is redeemable on maturity in February 2019. These are backed by Government of Pakistan's Sovereign Guarantee.
- 10.6.5** These carry profit at the rate of six months KIBOR minus 25 basis points (2015: six months KIBOR minus 25 basis points) receivable on semi-annual basis with maturity in July 2017. The principal is repayable in 12 equal semi-annual installments with first installment falling due in the 54th month from the first drawdown date. The issue amount and rentals are backed by Government of Pakistan's Sovereign Guarantee.
- 10.6.6** These carry profit at the rate of six months KIBOR plus 100 basis points (2015: six months KIBOR plus 100 basis points) receivable on semi-annual basis with maturity in October 2021. The principal is repayable in 14 equal semi-annual installments with first installment falling due in the 18th month from the first drawdown date. The issue amount and rentals are backed by Government of Pakistan's Sovereign Guarantee.
- 10.6.7** These Sukuks carried profit at the rate of three months KIBOR plus 175 basis points (2015: three months KIBOR plus 175 basis points) receivable quarterly based on Diminishing Musharakah mechanism and had been matured in September 2016. The outstanding principal started its redemption in 6 equal quarterly installments from June 2015. These Sukuks have been fully settled during the current year.
- 10.6.8** The Sukuks have been matured in October 2012. As per the terms, principal was due to be redeemed in 12 consecutive quarterly installments with the first such installment falling due not later than the end of 27 months from the last draw down. These Sukuks are backed by guarantee of Rs. 740 million from the Bank of Punjab (BoP). During 2010, Amtex defaulted in its principal repayment. Consequently, the Bank suspended the accrual of profit on the Sukuk. In 2011, the Bank called the guarantee given by the BoP which was stayed by Lahore High Court in a case filed by Amtex. In 2014, the Court has ordered BoP to deposit the amount of guarantee with the Court till the disposal of the case. The Bank has also filed recovery case against Amtex and BoP, however, in view of BoP guarantee no provision has been made against the sukuk.
- 10.6.9** Since last restructuring, these Sukuks carry profit at the rate of 0%, (2015: 0%). The accrued profit amount will be repaid in six equal monthly installments starting from 43rd month. Principal to be repaid in 48 months starting from April 2010. As per the restructured plan, principal will be repaid in 36 monthly installments and the accrued portion of profit up to March 2011 has been waived.

However, the issuer was unable to comply with the above restructuring plan and has executed a revised restructuring plan which has been approved by the minority sukuk holders. Currently, the customer is not making any payment as per the restructuring plan approved by the minority sukuk holders.

- 10.6.10** These carry profit at the rate of three months KIBOR plus 220 basis points (2015: three months KIBOR plus 220 basis points) receivable semi-annually with the maturity in December 2012. The principal was to be repaid in 6 consecutive semi-annual installments, the first such installment falling not later than the end of 30th month from the date of issue. As a security first pari passu charge over all present and future fixed assets amounting to Rs. 800 million of the company, irrevocable guarantee of a Financial Institution and Personal Guarantee of sponsoring directors has been provided. The customer has defaulted in its payments towards the Bank. An amount of Rs. 55 million has been deposited with the Bank over which lien in favour of the Bank has been marked. Hence, no provision has been recognised by the Bank.
- 10.6.11** These carry profit at the rate of three months KIBOR plus 75 basis points (2015: three months KIBOR plus 75 basis points) receivable on quarterly basis. The purchase price and rentals are backed by Government of Pakistan's Sovereign Guarantee. As a security first pari passu charge over fixed assets of the company and equitable mortgage on selected land and building with 25% margin had been provided.
- 10.6.12** These Sukuks carry profit at the rate of three months KIBOR plus 300 basis points for the period between June 30, 2013 and June 29, 2014 (2015: three months KIBOR plus 300 basis points for the period between June 30, 2013 and June 29, 2014) receivable quarterly based on Diminishing Musharakah mechanism with maturity in June 2014. The customer has defaulted in its payment towards the Bank. As a security, charge over hypothecated assets amounting to Rs. 2,433 million (inclusive of approximately 33.5% margin) and a charge over the mortgaged property of the company amounting to Rs. 1,820 million (inclusive of 10% margin) has been created by the issuer in favour of the trustee.
- 10.6.13** These carry profit at the rate of six months KIBOR plus 113 basis points (2015: 113 basis points) receivable half yearly with maturity in June 2026. The sukuk will be redeemed in 16 equal semi-annual installments starting from the end of 30th month from the first disbursement. As a security, unconditional and irrevocable first Demand Guarantee(s) of the President of Islamic Republic of Pakistan covering issue amount of respective facilities along with profit payments and all unencumbered present and future assets of NJHP under Sukuk arrangement for Shariah compliance has been provided. Further exclusive lien over Debt payment Account for the benefit of the investors has also been provided as security.
- 10.6.14** These carry profit at the rate of three months KIBOR plus 225 basis points (2015: three months KIBOR plus 225 basis points) receivable quarterly with maturity in March 2017. The principal is fully redeemable on maturity. As a security exclusive hypothecation charge has been provided on the assets of the company.
- 10.6.15** This represented Bai Muajjal agreements entered into with SBP on behalf of Government of Pakistan whereby the Bank sold Sukuks having carrying value of Rs. Nil (2015: Rs. 21,225 million) to SBP on deferred payment basis. The average return on these transactions is Nil (2015: 6.12%) per annum. The balance was due on November 17, 2016 which has been settled.



- 10.6.16** These carry profit at the rate of six months KIBOR minus 375 basis points receivable on semi-annual basis with maturity in May 2015. The principal was repayable in 13 unequal semi-annual installments. The customer had defaulted in its payment and the amount had been fully provided. However, during the current year an amount of Rs 0.220 million has been received which has resulted in a decrease of provision by the same amount.
- 10.6.17** These carry profit at the rate of six months KIBOR minus 185 basis points receivable on semi-annual basis with maturity in May 2015. The principal was repayable in 13 unequal semi-annual installments. The customer has defaulted in its payment and the amount has been fully provided.
- 10.6.18** These carry profit at a fixed rate 1.6% receivable on semi-annual basis with maturity in October 2021. The principal is repayable in 14 equal semi-annual installments. The customer has defaulted in its payment and the amount has been fully provided.
- 10.6.19** These carry profit at the rate of six months KIBOR minus 175 basis points receivable on semi-annual basis with maturity in November 2014. The principal was repayable in 13 unequal semi-annual installments. The customer has defaulted in its payment and the amount has been fully provided.
- 10.6.20** These carry profit at the rate of six months KIBOR minus 225 basis points receivable on semi-annual basis with maturity in November 2014. The instrument was structured to redeem 0.08% of principal in the first 24 months and the remaining principal in 10 equal semi annual installments of 9.992% each of the issue amount respectively. The customer has defaulted in its payment and the amount has been fully provided.
- 10.6.21** These carried profit at the rate of six months KIBOR minus 225 basis points receivable on semi-annual basis with maturity in September 2016. The principal was repayable in 10 equal installments of Rs. 500 per certificate. The customer had defaulted in its payment and the amount had been fully provided in the previous years. However, the customer has fully settled the amount during the current year.

## 10.7 Held to maturity securities

Name of the investee company	Note	Face Value	2016	2015	2016	2015
			Number of Certificates	Cost		
-----Rupees in '000-----						
<b>Term finance certificates *</b>						
Azgard Nine Limited (3rd Issue)	10.7.1	Rs 5,000	35,000	35,000	60,041	60,041
Agritech Limited (4th Issue)	10.7.2	Rs 5,000	18,429	18,429	92,145	92,145
Azgard Nine Limited (5th Issue)	10.7.3	Rs 5,000	33,883	33,883	169,415	169,415
					<u>321,601</u>	<u>321,601</u>

\* These represent investments acquired from defunct KASB Bank Limited upon amalgamation of KASB Bank undertaking with and into BankIslami Pakistan Limited.

- 10.7.1** These carry profit at the rate of six months KIBOR plus 225 basis point receivable on semi annual basis with maturity in December 2014. The principal is repayable in fourteen installments with first four installments of Rs. 1 per certificate and subsequent ten installments of Rs. 499.6 per certificate. The customer has defaulted in its payment and the amount has been fully provided.

**10.7.2** These carry profit at the rate of six months KIBOR plus 225 basis point receivable on semi-annual basis with maturity in December 2014. The principal is repayable in 14 installments with first 4 installments of Rs. 1 per certificate and subsequent ten installments of Rs. 499.6 per certificate. The customer has defaulted in its payment and the amount has been fully provided.

**10.7.3** These carry profit at the rate of zero percent coupon with maturity in December 2016. The principal is repayable in 7 semi unequal installments in 5 years inclusive of 1.5 years grace period. The customer has defaulted in its payment and the amount has been fully provided.

## 10.8 Held for trading securities

The Bank holds investments in ordinary shares (nominal value of Rs 10 each, unless stated otherwise) in the following investees:

Name of the investee company	2016				2015			
	Entity Rating Long term / Short term	Number of shares	Cost	Carrying Value	Entity Rating Long term / Short term	Number of shares	Cost	Carrying Value
	-----Rupees in '000-----				-----Rupees in '000-----			
<b>Ordinary shares of listed company</b>								
<b>CEMENT</b>								
D.G. Khan Cement Company Limited	Unrated	262,500	50,327	58,204	N/A	-	-	-
Cherat Cement Company Limited	A / A1	58,000	9,797	10,094	N/A	-	-	-
Maple Leaf Cement Factory Limited	A+ / A1	462,500	51,340	59,006	N/A	-	-	-
Fauji Cement Company Limited	Unrated	126,000	5,216	5,680	N/A	-	-	-
<b>REFINERY</b>								
Attock Refinery Limited	AA / A1+	84,000	31,816	35,725	N/A	-	-	-
<b>FERTILIZER</b>								
Engro Corporation Limited	AA / A1+	13,500	4,282	4,267	N/A	-	-	-
Engro Fertilizers Limited	AA- / A1+	18,000	1,228	1,224	N/A	-	-	-
<b>ENGINEERING</b>								
Amreli Steels Limited	A / A1	338,500	23,125	22,541	N/A	-	-	-
International Steels Limited	A+ / A-1	623,500	56,266	60,935	N/A	-	-	-
<b>OIL &amp; GAS MARKETING COMPANIES</b>								
Hascol Petroleum Limited	A+ / A-1	4,500	1,479	1,519	N/A	-	-	-
Pakistan State Oil Company Limited	AA / A1+	161,500	64,929	70,125	N/A	-	-	-
<b>POWER GENERATION &amp; DISTRIBUTION</b>								
K-Electric Limited	AA / A-1	669,500	6,250	6,273	N/A	-	-	-
Kot Addu Power Company Limited	AA+ / A-1+	3,000	237	236	N/A	-	-	-
<b>CABLE &amp; ELECTRICAL GOODS</b>								
Pak Elektron Limited	A+ / A1	1,060,000	75,406	75,557	N/A	-	-	-
<b>OIL &amp; GAS EXPLORATION COMPANIES</b>								
Pakistan Oilfields Limited	Unrated	91,500	48,080	48,918	N/A	-	-	-
Pakistan Petroleum Limited	Unrated	18,500	3,297	3,481	N/A	-	-	-
Oil & Gas Development Company Limited	Unrated	32,500	5,376	5,374	N/A	-	-	-
<b>FOOD &amp; PERSONAL CARE PRODUCTS</b>								
Engro Foods Limited	Unrated	32,000	6,004	6,142	N/A	-	-	-
<b>TECHNOLOGY &amp; COMMUNICATION</b>								
Pakistan Telecommunication Company Limited	Unrated	190,000	3,453	3,265	N/A	-	-	-
			<u>447,908</u>	<u>478,566</u>			<u>-</u>	<u>-</u>



	Holding %	Break up value per share	Cost	
			2016	2015
----- Rupees in '000 -----				
<b>10.9 Details of investment in subsidiaries</b>				
<b>Listed</b>				
B IPL Securities Limited (Formerly KASB Securities Limited) Chief Executive: Mr. Anwar Sheikh 10,446,767 Ordinary shares of Rs. 10/- each Break up value per share is based on the audited financial statements for the year ended December 31, 2016.	77.12	10.81	2,394,937	2,394,937
<b>Unlisted</b>				
BankIslami Modaraba Investments Limited Chief Executive: Mr. Aziz Adil 8,000,000 (2014: 8,000,000) Ordinary shares of Rs.10/- each Break up value per share is based on the unaudited financial statements for the half year ended December 31, 2016.	100	18.31	191,015	191,015
My Solutions Corporation Limited Chief Executive: Mr. Fazal Mahmood 25,000,000 Ordinary shares of Rs. 10/- each Break up value per share is based on the unaudited financial statements for the year ended December 31, 2016.	100		104,771	104,771
			<u>2,690,723</u>	<u>2,690,723</u>

	Holding %	Number of Shares	Cost	
			2016	2015
----- Rupees in '000 -----				
<b>10.10 Details of investment in associates</b>				
<b>Unlisted</b>				
KASB Capital Limited - incorporated in Mauritius Face value per share: USD 1 /- Break-up value per share: Rs. 41.65 /- [based on unaudited financial statements for the year ended 31 December 2016] Chief Executive: Mr. Muzaffar Ali Shah Bukhari	21.78	283,000	41,867	41,867
KASB Funds Limited Face value per share: Rs. 10 /- Break-up value per share: Rs. 0.44/- [based on unaudited financial statements for the year ended 31 Dec 2015] Chief Executive: Information not available	43.89	14,123,622	432,302	432,302
New Horizon Exploration and Production Limited Face value per share: Rs. 1 /- and Rs. 10 /- Break-up value per share: Rs. 1.08/- [based on unaudited financial statements for the year ended 30 June 2015] Chief Executive: Information not available	20	61,600,000	558,000	558,000
Shakarganj Food Products Limited Face value per share: Rs. 10 /- Break-up value per share: Rs. 12.23/- [based on unaudited financial statements for the period ended 31 Dec 2016] Chief Executive: Mr. Ahsan M. Saleem	40.2	60,950,000	627,942	627,942
			<u>1,660,111</u>	<u>1,660,111</u>

	Note	2016 ----- Rupees in '000 -----	Restated 2015 ----- Rupees in '000 -----
<b>11 ISLAMIC FINANCING AND RELATED ASSETS AND ADVANCES</b>			
Islamic financing and related assets - net	11.1	76,826,353	66,260,609
Advances (relating to defunct KASB Bank Limited) - net	11.2	990,449	2,448,439
		<u>77,816,802</u>	<u>68,709,048</u>
<b>11.1 ISLAMIC FINANCING AND RELATED ASSETS</b>			
In Pakistan			
- Murabahah financing and related assets	11.3 ,11.9 & 11.11	13,798,029	30,966,858
- Istisna financing and related assets	11.4 & 11.10	13,973,015	11,951,754
- Diminishing Musharakah - Housing		7,661,273	5,516,984
- Diminishing Musharakah - Auto		877,758	-
- Diminishing Musharakah financing and related assets			
Others	11.6	8,950,359	6,464,608
- Against Bills - Murabahah		12,310	62,512
- Post Due Acceptance		25,073	11,556
- Salam	11.5	75,000	2,000,000
- Muswammah financing and related assets / Karobar financing	11.7	7,918,202	5,465,376
- Financing to employees	11.19	2,061,846	1,847,139
- FBP Against Bai Salam		50,577	-
- Running Musharakah		10,000,000	-
- Investment Agency Wakalah		6,250,000	-
- Housing finance portfolio - others		73,761	83,980
- Net investment in Ijarah financing in Pakistan	11.13	39,829	64,445
- Ijarah financing under IFAS 2 and related assets	11.8	6,910,162	4,414,721
<b>Gross financing and related assets</b>		<u>78,677,194</u>	<u>68,849,933</u>
Less: Provision against non-performing Islamic financing and related assets			
- Specific	11.15 & 11.16	(1,658,774)	(2,455,621)
- General	11.15 & 11.16	(192,067)	(133,703)
<b>Islamic financing and related assets – net of provisions</b>		<u>76,826,353</u>	<u>66,260,609</u>



### 11.1.1 Brief description of Islamic Financing arrangements

#### **Murabahah**

Murabahah to the purchase orderer is a sale transaction wherein the first party (the Bank) sells to the client / customer Shariah compliant assets / goods for cost plus a pre-agreed profit after getting title and possession of the same. In principle, on the basis of an undertaking (Promise-to-Purchase) from the client (the purchase orderer), the Bank purchases the assets / goods subject of the Murabahah from a third party and takes the possession thereof. However, the Bank can appoint the client as its agent to purchase and take possession of the assets / goods on its behalf. Thereafter, it sells it to the client at cost plus the profit agreed upon in the promise.

#### **Import Murabahah**

Import Murabahah is a product, used to finance a commercial transaction which consists of purchase by the Bank (generally through an undisclosed agent) the goods from the foreign supplier and selling them to the client after getting the title to and possession of the goods. Murabahah financing is extended to all types of trade transactions i.e., under Documentary Credits (LCs), Documentary Collections and Open Accounts.

#### **Istisna**

Istisna is a contract where the buyer (the Bank) orders the client (seller / manufacturer) to manufacture and deliver specified goods at an agreed contract price upon completion. Istisna is used with Wakalah agreement to provide financing mainly to manufacturers. Thus the transaction consists of two stages: (i) Bai Istisna whereby the Bank purchases goods from the client and (ii) Wakalah whereby the Bank after receipt / possession of goods, appoints the client its agent to sell the goods in the market.

#### **Ijarah**

Ijarah is a contract where the owner of an asset transfers its usufruct (i.e. the usage right) to another person for an agreed period, at an agreed consideration. The rentals received / receivable on Ijarah are recorded as income / revenue. Depreciation on Ijarah assets is charged to profit and loss account by applying the accounting policy consistent with the policy for depreciation of operating fixed assets.

#### **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.

#### **Muswammah / Karobar Financing**

Muswammah is a contract where the Bank purchases tangible identified goods from client at an agreed purchase price. The Bank then sells the goods in the market through agent (Client) at a higher price to earn its desired profit.

#### **Diminishing Musharakah**

Diminishing Musharakah represents an asset in joint ownership whereby a partner promises to buy the equity share of the other partner until the title to the equity is totally transferred to him. The partner using the asset pays the proportionate rental of such asset to the other partner (the Bank).



### Musharakah / Mudarabah

Musharakah / Mudarabah are different types of partnerships in business with distribution of profit in agreed ratio and distribution of loss in the ratio of capital invested.

### Wakalah–tul–Istismar (Investment Agency Wakalah)

Wakalah–tul–Istismar means appointing another person to invest and grow one's wealth, with or without a fee. It covers contract for acquisition of services of a person or institution (Wakeel) for making investments of Wakalah Funds, and accomplishment of certain task on behalf of another person or institution (Muwakkil).

### Running Musharakah

In Running Musharakah financing, the Bank enters into financing with the customer based on Shirkat-ul-Aqd or Business Partnership in customers operating business. Under this mechanism the customer can withdraw and return funds to the Bank subject to his Running Musharakah Financing limit during the Musharakah Period. At the end of each quarter / half year the customer pays the provisional profit as per the desired profit rate which is subject to final settlement based on the relevant quarterly / half yearly / annual accounts of the customer.

11.2 ADVANCES	Note	2016	Restated 2015
		----- Rupees in '000 -----	
Loans, cash credits, running finances, etc.			
In Pakistan		9,780,050	12,092,129
Outside Pakistan		-	-
		<u>9,780,050</u>	<u>12,092,129</u>
Net investment in finance lease			
In Pakistan	11.13	608,712	660,149
Outside Pakistan		-	-
		<u>608,712</u>	<u>660,149</u>
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		720,973	843,557
Payable outside Pakistan		-	-
		<u>720,973</u>	<u>843,557</u>
<b>Advances - gross</b>		<u>11,109,735</u>	<u>13,595,835</u>
Less: Provision for non-performing Financings			
- Specific	11.15 & 11.16	(10,280,583)	(11,060,885)
- General	11.15 & 11.16	(860)	(1,890)
<b>Advances - net of provision</b>		<u>828,292</u>	<u>2,533,060</u>
Fair value adjustment	11.17	162,157	(84,621)
<b>Advances - net of provision and fair value adjustment</b>		<u><u>990,449</u></u>	<u><u>2,448,439</u></u>
		<b>2016</b>	<b>2015</b>
		----- Rupees in '000 -----	
<b>11.3 Murabahah financing and related assets</b>			
Murabahah financing		11,568,440	19,658,149
Advance against Murabahah financing		644,052	11,308,709
Murabahah inventories		1,585,537	-
		<u>13,798,029</u>	<u>30,966,858</u>



	Note	2016 ----- Rupees in '000 -----	2015 ----- Rupees in '000 -----
<b>11.4 Istisna financing and related assets</b>			
Istisna financing		8,207,253	4,476,496
Advance against Istisna financing		759,934	5,672,724
Istisna inventories		5,005,828	1,802,534
		<u>13,973,015</u>	<u>11,951,754</u>
<b>11.5 Salam</b>			
Salam financing		12,002	-
Advance against Salam		-	2,000,000
Salam inventories		62,998	-
		<u>75,000</u>	<u>2,000,000</u>
<b>11.6 Diminishing Musharakah financing and related assets - Others</b>			
Diminishing Musharakah financing		8,881,608	6,096,950
Advance against Diminishing Musharakah financing		68,751	367,658
		<u>8,950,359</u>	<u>6,464,608</u>
<b>11.7 Muswammah financing and related assets / Karobar financing</b>			
Muswammah financing		6,884,913	1,846,665
Muswammah inventories		1,033,289	3,618,711
		<u>7,918,202</u>	<u>5,465,376</u>
<b>11.8 Ijarah financing under IFAS 2 and related assets</b>			
Net book value of assets under IFAS 2	11.14	6,382,270	3,905,102
Advance against Ijarah financing		527,892	509,619
		<u>6,910,162</u>	<u>4,414,721</u>
<b>11.9 Murabahah financing and related assets includes financing amounting to Rs. 700 million (2015: Rs.50 million) and advance amounting to Rs. 611.550 million (2015: Rs 189.1 million) under Islamic Export Refinance Scheme.</b>			
<b>11.10 Istisna financing and related assets includes financing amounting to Rs. 223.5 million (2015: Rs. 150 million) and advance amounting to Rs. 763.2 million (2015: Rs. 831.25 million) under Islamic Export Refinance Scheme.</b>			
		<b>2016</b>	<b>2015</b>
		<b>-----Rupees in '000-----</b>	
<b>11.11 Murabahah sale price (for transactions during the year)</b>		90,044,556	48,134,052
<b>Purchase price (for transactions during the year)</b>		<u>(88,461,554)</u>	<u>(46,872,896)</u>
		<u>1,583,002</u>	<u>1,261,156</u>
<b>11.11.1 Deferred Murabahah income</b>			
Opening balance		249,323	323,516
Arising during the year		1,583,002	1,261,156
Recognised during the year		<u>(1,697,835)</u>	<u>(1,335,349)</u>
		<u>134,490</u>	<u>249,323</u>

	2016	2015
	-----Rupees in '000-----	
<b>11.11.2 Murabahah receivable</b>		
Opening balance	19,658,149	13,004,733
Sales during the year	90,044,556	48,134,052
Received during the year	(98,886,206)	(41,480,636)
	<u>10,816,499</u>	<u>19,658,149</u>

**11.12 Particulars of Islamic financing and related assets and advances - gross**

<b>11.12.1</b> In local currency	89,786,929	82,445,768
In foreign currency	-	-
	<u>89,786,929</u>	<u>82,445,768</u>
<b>11.12.2</b> Short-term ( for upto one year)	<u>46,771,304</u>	<u>63,361,761</u>
Long-term ( for over one year)	<u>43,015,625</u>	<u>19,084,007</u>
	<u>89,786,929</u>	<u>82,445,768</u>

**11.13 Net investment in Ijarah financing in Pakistan and finance lease**

	2016				2015			
	Not later than one year	Later than one and less then five years	Over five years	Total	Not later than one year	Later than one and less then five years	Over five years	Total
	-----Rupees in '000-----							
Ijarah rentals receivable	619,480	-	-	619,480	645,337	2,023	-	647,360
Residual value	33,841	-	-	33,841	124,685	5,992	-	130,677
Minimum Ijarah payments	653,321	-	-	653,321	770,022	8,015	-	778,037
Profit for future periods	(4,780)	-	-	(4,780)	(53,400)	(43)	-	(53,443)
Present value of minimum Ijarah payments	648,541	-	-	648,541	716,622	7,972	-	724,594

	2016	2015
	-----Rupees in '000-----	
<b>11.13.1 Break up of net investment in Ijarah financing and Finance lease</b>		
Islamic financing and related assets - net	39,829	64,445
Advances (relating to defunct KASB Bank Limited) - net	608,712	660,149
	<u>648,541</u>	<u>724,594</u>

**11.14 Ijarah Assets**

	2016							
	Cost			Accumulated depreciation			Book value as at December 31, 2016	Rate of Depreciation %
	As at January 01, 2016	Addition / (deletions)	As at December 31, 2016	As at January 01, 2016	Charge / (deletions)	As at December 31, 2016		
	-----Rupees in '000-----							
Plant and Machinery	958,417	868,527 (9,838)	1,817,106	565,626	264,571 (6,665)	823,532	993,574	20-33.33
Vehicles	4,774,960	3,182,103 (635,387)	7,321,676	1,262,649	975,043 (304,712)	1,932,980	5,388,696	20-33.33
	<u>5,733,377</u>	<u>4,050,630</u> (645,225)	<u>9,138,782</u>	<u>1,828,275</u>	<u>1,239,614</u> (311,377)	<u>2,756,512</u>	<u>6,382,270</u>	



	2015							Rate of Depreciation %
	Cost			Accumulated depreciation			Book value as at December 31, 2015	
	As at January 01, 2015	Addition / (deletions)	As at December 31, 2015	As at January 01, 2015	Charge / (deletions)	As at December 31, 2015		
Rupees in '000								
Plant and Machinery	874,000	115,939 (31,522)	958,417	381,899	207,532 (23,805)	565,626	392,791	20-33.33
Vehicles	2,794,404	2,370,923 (390,367)	4,774,960	819,138	629,486 (185,975)	1,262,649	3,512,311	20-33.33
	3,668,404	2,486,862 (421,889)	5,733,377	1,201,037	837,018 (209,780)	1,828,275	3,905,102	

#### 11.14.1 Net investment in Ijarah financing - IFAS 2

	2016				2015			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
Rupees in '000								
Ijarah rentals receivable	2,113,168	3,271,090	1,336	5,385,594	1,531,050	3,195,774	-	4,726,824

11.15 Islamic financing and related assets and advances include Rs. 14,533.967 million (2015: Rs 15,683.583 million) which have been placed under non-performing status as follows:

Category of Classification	2016								
	Classified Islamic financing and related assets and advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees in '000									
Other Assets especially mentioned (OAE M)	692,569	-	692,569	-	-	-	-	-	-
Substandard	886,389	-	886,389	188,467	-	188,467	188,467	-	188,467
Doubtful	867,928	-	867,928	296,471	-	296,471	296,471	-	296,471
Loss	12,087,081	-	12,087,081	11,454,419	-	11,454,419	11,454,419	-	11,454,419
	14,533,967	-	14,533,967	11,939,357	-	11,939,357	11,939,357	-	11,939,357

Category of Classification	2015 (Restated)								
	Classified Islamic financing and related assets and advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees in '000									
Other Assets especially mentioned (OAE M)	159,355	-	159,355	-	-	-	-	-	-
Substandard	1,311,903	-	1,311,903	273,064	-	273,064	273,064	-	273,064
Doubtful	382,990	-	382,990	135,009	-	135,009	135,009	-	135,009
Loss	13,829,335	-	13,829,335	13,108,433	-	13,108,433	13,108,433	-	13,108,433
	15,683,583	-	15,683,583	13,516,506	-	13,516,506	13,516,506	-	13,516,506

11.16 Particulars of provision against non-performing Islamic financing and related assets and advances:

	2016			2015 (Restated)		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
Opening balance	13,516,506	135,593	13,652,099	524,414	76,644	601,058
Transfer from the amalgamated entity	-	-	-	13,932,612	6,238	13,938,850
Charge for the year	790,178	57,334	847,512	324,602	52,711	377,313
Reversals	(2,309,561)	-	(2,309,561)	(1,247,551)	-	(1,247,551)
	(1,519,383)	57,334	(1,462,049)	(922,949)	52,711	(870,238)
Amount written off	(57,766)	-	(57,766)	(93,662)	-	(93,662)
Transferred from provision against off - balance sheet obligations (note 18.1)	-	-	-	76,091	-	76,091
Closing balance	11,939,357	192,927	12,132,284	13,516,506	135,593	13,652,099

11.16.1

	2016			2015 (Restated)		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
Islamic	1,658,774	192,067	1,850,841	2,455,621	133,703	2,589,324
Conventional	10,280,583	860	10,281,443	11,060,885	1,890	11,062,775
	11,939,357	192,927	12,132,284	13,516,506	135,593	13,652,099

	2016	2015
	----- (Rupees in '000) -----	
11.16.2 Reversals net of fair value adjustment taken to the profit and loss account		
Gross reversals	2,309,561	1,247,551
Charge for the year	(847,512)	(377,313)
	<u>1,462,049</u>	<u>870,238</u>
Fair value adjusted - net	262,338	(230,715)
Net reversals taken to the profit and loss account	<u>1,724,387</u>	<u>639,523</u>

11.16.3 Particulars of provision against non-performing Islamic financing and related assets and advances:

	2016			2015 (Restated)		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
In local currency	11,939,357	192,927	12,132,284	13,516,506	135,593	13,652,099
In foreign currency	-	-	-	-	-	-
	<u>11,939,357</u>	<u>192,927</u>	<u>12,132,284</u>	<u>13,516,506</u>	<u>135,593</u>	<u>13,652,099</u>

11.16.3.1 The Bank maintains general reserve (provision) in accordance with the applicable requirements of the Prudential Regulations for Consumer Financing and Prudential Regulations for Small and Medium Enterprise Financing issued by the SBP.

11.16.3.2 In accordance with BSD Circular No. 2 dated January 27, 2009 issued by the SBP, the Bank has availed the benefit of Forced Sale Value (FSV) of collaterals against the non-performing financings. The benefit availed as at December 31, 2016 amounts to Rs. 468.585 million (2015: Rs. 238.542 million). The additional profit arising from availing the FSV benefit - net of tax as at December 31, 2016 amounts to Rs. 304.580 million (2015: Rs. 155.052 million). The increase in profit, due to availing of the benefit, is not available for distribution of cash and stock dividend to share holders.

11.17 Provision in respect of acquired loans have been determined after taking into considerations of the fair values of such loans on the basis of valuation exercise performed by the Independent consultant.

	2016	2015
	----- (Rupees in '000) -----	
11.18 <b>Particulars of write offs</b>		
Against provisions	57,766	93,662
Directly charged to the profit and loss account	32,008	25
	<u>89,774</u>	<u>93,687</u>
Write offs Rs. 500,000 and above	89,220	93,662
Write offs below Rs. 500,000	554	25
	<u>89,774</u>	<u>93,687</u>

11.18.1 **Details of financings written off of Rs. 500,000 and above**

In term of sub-section(3) of section 33 A of the Banking Companies Ordinance, 1962, the statement in respect of written off financings or any other financial relief of five hundred thousand rupees or above allowed to any person is required to be disclosed. The details of financial relief allowed during the year is given as Annexure - II.

11.19 **Particulars of financing to directors, executives or officers of the Bank**

Financing due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons.

	Note	2016	2015
		----- (Rupees in '000) -----	
Balance at the beginning of the year		1,847,139	1,159,060
Financing granted during the year		846,751	1,198,922
Repayments made during the year		(632,044)	(510,843)
Balance at the end of the year	11.19.1	<u>2,061,846</u>	<u>1,847,139</u>

11.19.1 This includes Rs. 4.653 million (2015: Rs. 3.586 million) mark up free financing to employees given under the Bank's Human Resource Policy.

	Note	2016	Restated 2015
		----- (Rupees in '000) -----	
12 <b>OPERATING FIXED ASSETS</b>			
Capital work-in-progress	12.1	38,362	101,463
Property and equipment	12.2	6,147,897	5,619,807
Intangible assets	12.3	3,161,266	3,107,270
		<u>9,347,525</u>	<u>8,828,540</u>
12.1 <b>Capital work-in-progress</b>			
Advances to suppliers and contractors		38,362	92,707
Civil works (relating to defunct KASB Bank Limited)		-	3,597
Advance for acquiring properties (relating to defunct KASB Bank Limited):			
- Office premises		721,903	721,903
- Computer software		-	5,159
		<u>760,265</u>	<u>823,366</u>
Provision for impairment against advance for acquiring floor / office premises (relating to defunct KASB Bank Limited)		(721,903)	(721,903)
		<u>38,362</u>	<u>101,463</u>



## 12.2 Property and equipment

	2016								Net book value as at December 31, 2016	Rate of Depreciation %
	COST / REVALUATIONS				DEPRECIATION					
	As at January 01, 2016	Additions / transfers / adjustments	(Disposals / write offs)	As at December 31, 2016	As at January 01, 2016	Charge for the year / (disposals) / adjustments	As at December 31, 2016			
-----Rupees in '000-----										
<b>At revalued amounts</b>										
Freehold / Leasehold Land	831,847	-	-	1,016,199	-	-	-	1,016,199	-	
		171,956	-			-	-			
		12,396	-			-	-			
Building on leasehold land	3,076,592	-	-	2,904,636	-	85,826	80,980	2,823,656	2	
		(171,956)	-			(4,865)				
		-	-			19				
<b>At cost</b>										
Furniture and fixture	2,162,519	744,147	(2,457)	2,904,209	1,069,647	242,794	1,328,191	1,576,018	10	
		-	-			(1,788)				
		-	-			17,538				
Electrical, office and computer equipment	2,603,565	404,000	(77,549)	2,930,016	1,990,161	302,047	2,206,343	723,673	15-25	
		-	-			(71,896)				
		-	-			(13,969)				
Vehicles	34,806	7,566	(4,221)	38,151	29,714	4,262	29,800	8,351	20	
		-	-			(4,176)				
		-	-			-				
	8,709,329	1,155,713	(84,227)	9,793,211	3,089,522	634,929	3,645,314	6,147,897		
		-	-			(82,725)				
		12,396	-			3,588				

	2015 (Restated)										Net book value as at December 31, 2015	Rate of Depreciation %
	COST / REVALUATIONS					DEPRECIATION						
	As at January 01, 2015	Additions / transfers / revaluation surplus	Transfer from amalgamated entity **	(Disposals / write offs)	As at December 31, 2015	As at January 01, 2015	Charge for the year / (disposals) / adjustments	Transfer from amalgamated entity **	As at December 31, 2015			
-----Rupees in '000-----												
<b>At revalued amounts</b>												
Freehold / Leasehold Land	486,748	-	345,232	-	831,847	-	-	-	-	831,847	-	
		(133) *										
Building on leasehold land	1,549,416	251,733	1,151,048	-	3,076,592	-	70,251	-	-	3,076,592	2	
		(70,251)					-					
		194,646 *					(70,251) *					
<b>At cost</b>												
Furniture and fixture	1,382,366	157,291	809,383	-	2,162,519	579,792	192,083	335,148	1,069,647	1,092,872	10	
		-		(186,521)			-					
		-					(37,376)					
Electrical, office and computer equipment	1,585,671	289,574	736,187	(7,867)	2,603,565	1,095,747	237,485	664,304	1,990,161	613,404	15-25	
		-		-			(7,375)					
		-					-					
Vehicles	2,934	208	31,730	(66)	34,806	2,339	7,141	20,300	29,714	5,092	20	
		-		-			(66)					
		-					-					
	5,007,135	698,806	3,073,580	(7,933)	8,709,329	1,677,878	506,960	1,019,752	3,089,522	5,619,807		
		(70,251)		(186,521)			(7,441)					
		194,513					(70,251)					

\* This represents revaluation surplus (see note 12.6)

\*\* This represents assets acquired upon amalgamation of KASB undertaking with and into BankIslami Pakistan Limited.

### 12.2.1 Details of property and equipment disposed-off

The details of property and equipment disposed-off during the year are disclosed in 'Annexure I'.

### 12.3 Intangible asset

	2016								Net book value as at December 31, 2016	Rate of amortization %
	COST			AMORTISATION						
	As at January 01, 2016	Additions / (disposals)	As at December 31, 2016	As at January 01, 2016	Charge for the year / (disposals) / adjustment	As at December 31, 2016				
-----Rupees in '000-----										
Computer software	545,443	121,023	666,466	427,316	55,522	488,938	177,528	20		
		-			6,100					
Core deposits	40,600	-	40,600	1,554	2,371	3,925	36,675	5.5% - 20%		
		-			-					
Customer list	30,735	-	30,735	24,935	3,034	27,969	2,766	10		
		-			-					
Goodwill (Note 12.4)	2,944,297	-	2,944,297	-	-	-	2,944,297	-		
		-			-					
		-			-					
	3,561,075	121,023	3,682,098	453,805	60,927	520,832	3,161,266			
		-			-					
		-			6,100					

	2015 (Restated)									
	COST				AMORTISATION				Net book value as at December 31, 2015	Rate of amortization %
	As at January 01, 2015	Additions / (disposals)	Transfer from amalgamated entity*	As at December 31, 2015	As at January 01, 2015	Charge for the year / transfers / (disposals)	Transfer from amalgamated entity *	As at December 31, 2015		
	Rupees in '000									
Computer software	204,104	19,825	321,514	545,443	164,907	26,643	235,766	427,316	118,127	20
Core deposits	-	-	40,600	40,600	-	1,554	-	1,554	39,046	5.5% - 20%
Customer list	-	-	30,735	30,735	-	1,999	22,936	24,935	5,800	10
Goodwill (Note 12.4)	-	2,944,297	-	2,944,297	-	-	-	-	2,944,297	-
	204,104	2,964,122	392,849	3,561,075	164,907	30,196	258,702	453,805	3,107,270	

\* This represents assets acquired upon amalgamation of KASB undertaking with and into BankIslami Pakistan Limited.

## 12.4 Goodwill

	2016	Restated 2015
	-----Rupees in '000-----	
Goodwill recognised on the amalgamation of defunct KASB Bank Limited	<u>2,944,297</u>	<u>2,944,297</u>

**12.4.1** This represents goodwill recognised upon acquisition of KASB Bank Undertakings based on fair values of assets and liabilities as more fully explained in note 4 to these financial statements. The SBP vide its letter no. BPRD(R&P-02)/625-112/2017/4089 dated February 24, 2017 has allowed the Bank exemption from "Goodwill impairment" under the applicable accounting standards till December 30, 2018.

**12.4.2** The amount of goodwill that will be deductible for taxable purposes is Rs. 5,896.832 million as mentioned in note 4 to these financial statements.

**12.5** Cost of fully depreciated properties and equipment that are still in the Bank's use, as at December 31, 2016, amounted to Rs. 1,051.133 million (2015: Rs. 785.225 million). The cost of fully amortised intangible assets that are still in the Bank's use, as at December 31, 2016 amounted to Rs. 156.176 million (2015: Rs. 146.284 million).

**12.6** During the year 2015, the Bank's freehold land and buildings on leasehold land were revalued by M/s Akbani & Javed, Harvesters Services and Ghandhara Consultants on the basis of their professional assessment of the present market value. As a result of revaluation the market value of freehold land and buildings on leasehold land were determined at Rs. 3,796.573 million.

Had there been no revaluation, the carrying amount of revalued assets at December 31, 2016 would have been as follows:

	COST			DEPRECIATION			Net book value as at December 31, 2016
	As at January 01, 2016	Additions	(Disposals)	As at December 31, 2016	As at January 01, 2016	Charge for the year	
	Rupees in '000						
Freehold Land	374,528	-	-	374,528	-	-	374,528
Building on lease hold land	2,509,952	-	-	2,509,952	236,875	41,853	2,231,224
	2,884,480	-	-	2,884,480	236,875	41,853	2,605,752



13 DEFERRED TAX ASSET	Note	2016	Restated 2015
----- Rupees in '000 -----			
<b>Deferred tax debits arising in respect of:</b>			
Accumulated tax losses		1,869,423	1,949,348
Tax credit against minimum tax	13.1 & 13.2	354,905	315,488
Deficit on revaluation of available for sale securities		-	8,925
Provision for diminution in the value of investments		507,551	590,441
Provision against non-performing Islamic financing and related assets and advances		3,834,711	3,832,981
Provision for gratuity		21,253	21,253
Impairment of goodwill		74,118	92,240
Ijarah financing and related assets		1,018	-
Fair value adjustments relating to net assets acquired upon amalgamation		-	81,726
Others		606,561	638,953
		<u>7,269,540</u>	<u>7,531,355</u>
<b>Deferred tax credits arising due to:</b>			
Fair value adjustments relating to net assets acquired upon amalgamation		(38,157)	-
Accelerated tax depreciation		(193,708)	(201,923)
Surplus on revaluation of fixed assets		(650,800)	(656,390)
Surplus on revaluation of non-banking assets		(4,632)	-
Surplus on revaluation of available for sale securities		(382,180)	-
Net investment in finance lease		(81,603)	(81,603)
		<u>(1,351,080)</u>	<u>(939,916)</u>
		<u>5,918,460</u>	<u>6,591,439</u>

**13.1** The Bank has aggregate tax losses of Rs. 9,901.591 million as at December 31, 2016 which includes tax losses of defunct KASB Bank Limited (now amalgamated with and into the Bank). The management has carried out an assessment for estimating the benefit of these losses, the Bank would be able to set off from the profit earned in future years against these carry forward losses. Based on this assessment the management has recognised deferred tax debit balance amounting to Rs. 2,224.328 million [including deferred tax on minimum tax amounting to Rs. 354.905 million (2015: Rs. 315.488 million – representing deferred tax asset on minimum tax)]. The amount of this benefit has been determined based on the projected financial statements for the future periods as approved by the Board of Directors. The determination of future taxable profit is most sensitive to certain key assumptions such as cost to income ratio of the Bank, deposit's composition, kibar rates, growth of deposits and financing, investment returns, product mix of financing, potential provision against assets / financings, recoveries from non-performing loans and branch expansion plan. Any significant change in the key assumptions may have an effect on the realisability of the deferred tax asset.

**13.2** In case of another company the Division Bench of the Sindh High Court in its decision dated May 7, 2013 on carry forward of minimum tax in the cases of taxable loss for the year has held by interpreting Section 113(2)(c) of the Income tax Ordinance, 2001 that the benefit of carry forward of minimum tax paid by a company is only available if the tax paid in a particular year is less than minimum tax payable. Accordingly, if no tax is paid / payable by the company due to taxable loss the right to carry forward the minimum tax does not arise. However, the management based on the advice of its legal counsel is of the view that this matter is subject to appeal in larger bench of the High Courts as well as the Supreme Court and valid legal grounds are available to substantiate the Bank's case for carry forward of minimum tax, therefore, minimum tax of Rs.354.905 million (2015: Rs. 315.488 million) has been recognised as 'Deferred tax' in these financial statements.



14	OTHER ASSETS	Note	Restated	
			2016	2015
			----- Rupees in '000 -----	
	Profit / return accrued in local currency		2,204,926	868,969
	Profit / return accrued in foreign currency		1,093	10
	Advances, deposits, advance rent and other prepayments		418,451	300,652
	Non-banking assets acquired in satisfaction of claims	14.1	1,665,910	1,599,587
	Branch Adjustment Account		53,761	151,637
	Defined Benefit Plan assets	33.3	35,175	26,513
	Insurance claim receivable		13,250	11,321
	Car Ijarah repossession		-	3,170
	Receivable against First WAPDA Sukuk	14.2	50,000	50,000
	Lease rental receivable		44,641	44,641
	Receivable against Mutual Funds		16,041	542,970
	Unrealized gain on forward foreign exchange contracts		1,541	-
	Other receivables		322,709	641,905
			<u>4,827,498</u>	<u>4,241,375</u>
	Less: Provision held against other assets	14.3	(661,290)	(666,432)
	Other assets (net of provisions)		<u>4,166,208</u>	<u>3,574,943</u>

14.1 The market value of Non-Banking assets acquired in satisfaction of claims is Rs. 1,149.336 million (2015: Rs. 1,110.490 million).

14.2 The Bank had purchased 10,000 certificates on June 25, 2009 of first WAPDA sukuk through a negotiated transaction for a cash consideration of Rs. 50.228 million having face value of Rs. 50 million. These certificates were available in the seller's Central Depository Company (CDC) account and on completion of the transaction were transferred to the Bank's CDC account. However, the periodic Ijarah Rental dues were not paid to the Bank on the plea that there exists certain discrepancy with respect to ownership of the asset. The amount has been shown under "other assets" as the certificates were matured in 2012 as per the terms of the sukuk issue. The Bank has not recognised any provision in respect of the above amount as it is fully secured through a lien over a deposit account.

14.3	Provision held against other assets	Note	Restated	
			2016	2015
			----- Rupees in '000 -----	
	Opening balance		666,432	58,063
	Charge for the year		-	-
	Reversals during the year		(5,142)	-
			<u>(5,142)</u>	<u>-</u>
	Provision transferred from the amalgamated entity	14.3.1	-	608,369
	Closing balance		<u>661,290</u>	<u>666,432</u>

14.3.1 This includes Rs 523.106 million pertaining to impairment recorded against non banking assets.

15	BILLS PAYABLE	Restated	
		2016	2015
		----- Rupees in '000 -----	
	In Pakistan	2,273,934	1,523,933
	Outside Pakistan	-	-
		<u>2,273,934</u>	<u>1,523,933</u>



	Note	2016	2015
		----- Rupees in '000 -----	
<b>16 DUE TO FINANCIAL INSTITUTIONS</b>			
In Pakistan		6,066,307	3,197,770
Outside Pakistan		-	-
		<u>6,066,307</u>	<u>3,197,770</u>
<b>16.1 Details of due to financial institutions secured / unsecured</b>			
<b>Secured</b>			
Acceptances from State Bank of Pakistan under Islamic Export Refinance Scheme	16.1.1	2,205,550	1,039,350
Acceptances from State Bank of Pakistan for financial assistance	16.1.2	2,360,757	2,158,420
<b>Unsecured</b>			
Musharakah Acceptance	16.1.3	1,500,000	-
		<u>6,066,307</u>	<u>3,197,770</u>
<b>16.1.1</b>	The acceptances are on a profit and loss sharing basis and are secured against demand promissory notes executed in favour of the State Bank of Pakistan (SBP). A limit of Rs. 5,000 million (2015: Rs. 5,000 million) was allocated to the Bank by the SBP under Islamic Export Refinance Scheme for the financial year ended December 31, 2016.		
<b>16.1.2</b>	This represents amortised cost of a 10 year financing facility of Rs.5,000 million extended by the State Bank of Pakistan (SBP). The facility is secured against Government of Pakistan Ijarah Sukuk. The 10 year facility was provided on the basis of Mudarabah to be remunerated at profit sharing ratio declared by the Bank on its remunerative current accounts on monthly basis (the last declared rate in this respect is 0.01% per annum).		
<b>16.1.3</b>	The profit rates on the agreements range between 5% to 5.25% (2015: Nil) per annum and the agreements have maturities ranging from 30 days to 51 days (2015: Nil).		
<b>16.2 Particulars of due to financial institutions with respect to currencies</b>		2016	2015
		----- Rupees in '000 -----	
In local currency		6,066,307	3,197,770
In foreign currencies		-	-
		<u>6,066,307</u>	<u>3,197,770</u>
<b>17 DEPOSITS AND OTHER ACCOUNTS</b>			
<b>Customers</b>			
Fixed deposits		41,134,961	47,405,448
Savings deposits		47,774,326	51,231,874
Current accounts - non-remunerative		48,557,422	44,844,739
Margin accounts - non-remunerative		516,032	391,114
		<u>137,982,741</u>	<u>143,873,175</u>
<b>Financial Institutions</b>			
Remunerative deposits		15,935,998	8,964,444
Non-remunerative deposits		480,918	220,483
		<u>154,399,657</u>	<u>153,058,102</u>
<b>17.1 Particulars of deposits</b>			
In			
- local currency		151,622,917	150,404,887
- foreign currencies		2,776,740	2,653,215
		<u>154,399,657</u>	<u>153,058,102</u>

	Note	2016	Restated 2015
		----- Rupees in '000 -----	
<b>18 OTHER LIABILITIES</b>			
Profit / return payable in local currency		663,840	795,755
Profit / return payable in foreign currencies		2,037	3,283
Accrued expenses		400,374	449,825
Deferred Murabahah Income - Financing and IERS		138,308	249,323
Deferred Murabahah Income - Bai Muajjal		-	1,141,581
Deferred Murabahah Income - Commodity Murabahah		396,149	78,179
Payable to defined contribution plan		1,899	1,560
Security deposits against Ijarah		2,608,397	1,610,960
Provision against off-balance sheet obligations	18.1	299,093	394,456
Surplus income of quarantined entity held for future admissible expenses		133,693	78,573
Receipt appropriation account		87,538	9,620
Current taxation (provisions less payments)		223,900	221,213
Provision against other tax liabilities	18.2	176,069	32,286
Sundry creditors		59,106	32,329
Payable to brokers against purchase of shares - net		184,568	8,565
Unrealized loss on forward foreign exchange contracts		-	13,817
Unrealized loss on forward sale contracts		29,980	-
Charity payable	18.3	2,145	3,956
Retention money payable		27,611	12,917
Workers' Welfare Fund payable		23,723	-
Others		203,176	126,472
		<u>5,661,606</u>	<u>5,264,670</u>
<b>18.1 Provision against off-balance sheet obligations</b>			
Opening balance		394,456	-
Transfer from the amalgamated entity		-	470,547
Transferred to provision against Islamic financing and related assets and Advances	11.16	-	(76,091)
Transferred to provision against Investment		(95,363)	-
Closing balance		<u>299,093</u>	<u>394,456</u>
<b>18.2 Provision against other tax liabilities</b>			
This balance represents provision against certain outstanding tax matters.			
<b>18.3 Charity payable</b>			
Opening balance		3,956	6,212
Additions during the year		7,158	6,804
Payments during the year	18.3.1	(9,207)	(9,060)
Accrual of profit on charity account		238	-
Closing balance		<u>2,145</u>	<u>3,956</u>



	Note	2016	2015
		----- Rupees in '000 -----	
<b>20 RESERVES</b>			
Statutory Reserves	20.1	363,636	273,176
Reserve for bad debts and contingencies	20.2	250,000	250,000
		<u>613,636</u>	<u>523,176</u>

**20.1** Under section 21 of the Banking Companies Ordinance, 1962 an amount of not less than 20% of the profit is to be transferred to create a reserve fund till such time the reserve fund and the share premium account equal the amount of the paid up capital. Thereafter, an amount of not less than 10% of the profit is required to be transferred to such reserve fund.

**20.2** The Board of Directors in its meeting held on March 6, 2015 had approved transfer of an amount of Rs. 250 million out of "unappropriated profit" to "reserve for bad debts and contingencies".

	Note	2016	2015
		----- Rupees in '000 -----	
<b>21 SURPLUS ON REVALUATION OF ASSETS</b>			
<b>Surplus / (Deficit) arising on revaluation of:</b>			
Fixed Assets	21.1	840,664	851,045
Non Banking Assets	21.2	67,968	-
Available for sale securities	21.3	709,766	(16,577)
		<u>1,618,398</u>	<u>834,468</u>

**21.1 Surplus on revaluation of fixed assets**

<b>Freehold Land</b>		112,087	112,087
<b>Building on lease hold land</b>			
Surplus on revaluation of fixed assets at January 1		1,136,858	961,677
Surplus recognised during the year		-	194,646
Transferred to un-appropriated profit / (accumulated loss) in respect of incremental depreciation charged during the year		(10,381)	(12,652)
Related deferred tax liability in respect of incremental depreciation charged during the year		(5,590)	(6,813)
		<u>(15,971)</u>	<u>(19,465)</u>
		1,120,887	1,136,858
Related deferred tax liability on surplus as at January 1		(397,900)	(336,587)
Related deferred tax liability on surplus arising during the year		-	(68,126)
Related deferred tax liability in respect of incremental depreciation charged during the year		5,590	6,813
		<u>(392,310)</u>	<u>(397,900)</u>
		<u>728,577</u>	<u>738,958</u>
		<u>840,664</u>	<u>851,045</u>



	2016	2015
	----- Rupees in '000 -----	
<b>21.2 Surplus on revaluation of Non Banking Assets</b>		
<b>Freehold Land</b>		
Surplus on revaluation of Non Banking Assets at January 1	-	-
Surplus recognised during the year	59,367	-
	<u>59,367</u>	<u>-</u>
<b>Building on lease hold land</b>		
Surplus on revaluation of Non Banking Assets at January 1	-	-
Surplus recognised during the year	13,491	-
Transferred to un-appropriated profit / (accumulated loss) in respect of incremental depreciation charged during the year	(168)	-
Related deferred tax liability in respect of incremental depreciation charged during the year	(90)	-
	<u>(258)</u>	<u>-</u>
	13,233	-
Related deferred tax liability on surplus as at January 1	-	-
Related deferred tax liability on surplus arising during the year	(4,722)	-
Related deferred tax liability in respect of incremental depreciation charged during the year	90	-
	<u>(4,632)</u>	<u>-</u>
	8,601	-
	<u>67,968</u>	<u>-</u>
<b>21.3 Surplus / (deficit) on revaluation of available for sale securities</b>		
<b>Federal Government Securities</b>		
- GOP Ijarah Sukuks	1,096,826	1,177
<b>Sukuk certificates</b>		
- Sukuks listed	1,721	-
- Sukuks unlisted	(3,783)	(20,758)
<b>Fully paid up ordinary shares / Units</b>		
- Ordinary shares of listed companies	(2,868)	(5,956)
- Units of Open end Mutual Funds	50	35
	<u>1,091,946</u>	<u>(25,502)</u>
Related deferred tax (liability) / asset	(382,180)	8,925
	<u>709,766</u>	<u>(16,577)</u>
<b>22 CONTINGENCIES AND COMMITMENTS</b>		
<b>22.1 Transaction-related contingent liabilities</b>		
Contingent liabilities in respect of performance bonds, bid bonds, warranties, etc. given favouring		
- Government	875,950	452,948
- Others	11,828,695	10,707,081
	<u>12,704,645</u>	<u>11,160,029</u>
<b>22.2 Trade-related contingent liabilities</b>		
Import letter of Credit	4,348,098	4,624,374
Acceptances	1,983,434	1,618,343
	<u>6,331,532</u>	<u>6,242,717</u>
<b>22.3 Suit filed by customers for recovery of alleged losses suffered, pending in the High Court, which the Bank has not acknowledged as debt</b>	150,000	150,000

**22.3.1** These mainly represent counter claims filed by the borrowers for restricting the Bank for disposal of assets (such as mortgaged / pledged assets kept as security), cases where the Bank was proforma defendant for defending its interest in the underlying collateral kept by it at the time of financing.

**22.3.2** Consequent to the amalgamation of KASB Bank Limited with and into BankIslami Pakistan Limited as at May 7, 2015 certain cases have been filed by individuals pertaining to amalgamation in which the Bank has been made a party. The management based on the advice of its legal counsel is confident that there will be no financial loss to the Bank in respect of these cases.

**22.4** The Deputy Commissioner Inland Revenue (DCIR) passed certain assessment orders against the Bank vide letter no 06/97/2012, 07/97/2012 and 08/97/2012, all dated September 25, 2012 under Section 33 of the Federal Excise Duty Act 2005, wherein aggregate demand of federal excise duty of Rs. 69.431 million was raised against the Bank mainly in respect of income from dealing in foreign currencies and certain dispute regarding deposit of the amount amongst Federal and Provincial government.

The Bank filed an appeal for the stay of the above demand before the Appellate Tribunal Inland Revenue (ATIR) after the assessment order were confirmed by the Commissioner Inland Revenue (Appeals). The stay application was heard on February 23, 2013. The ATIR accepted the stay application of the Bank and had verbally directed that no recovery of demand should be initiated against the Bank till the decision of the main case by the ATIR. The Bank initially deposited an amount of Rs. 10.4 million for filing appeal against the said case. During the year 2014, the Bank had further deposited an additional amount of Rs. 8 million on the verbal instructions of the authorities. The ATIR has set aside the stay appeal in respect of income from dealing in foreign currencies and remanded back the case to the Commissioner Inland Revenue for fresh reassessment proceedings. The management of the Bank is confident that the above matter will be decided in favour of the Bank and therefore, no provision for any liability which may arise in this respect has been made in these financial statements.

**22.5** As referred to in note 4.4, an amount of Rs. 981.410 million was appearing as advance against issue of right shares being received by the defunct KASB Bank Limited from Mr. Nasir Ali Shah Bukhari, a former sponsor of the defunct KASB Bank Limited and other shareholders. The defunct KASB Bank Limited, when it was under the management and control of Mr. Bukhari, did not issue shares against the said advance, amongst other reasons, due to default on the part of the sponsors for meeting the minimum capital requirement. The amount was reported by the defunct KASB Bank Limited as a part of the shareholders equity in the financial statements with the permission of SBP consistent with the practice followed by other Banks in Pakistan. The defunct KASB Bank Limited is now amalgamated with and into the BIPL, with effect from May 7, 2015, as per the Scheme of Amalgamation sanctioned by the Federal Government. The KASB Corporation Limited and one of its sponsors has filed a suit no: 1102/2015 in the Honorable High Court of Sindh, wherein, they prayed for restraining the BIPL from using or transferring the amount of advance for any purpose whatsoever during the pendency of the instant proceedings. Pursuant to the said suit, an order has been passed by the Honorable High Court of Sindh on July 1, 2015, whereby, the Bank has been asked to submit a statement of financial position and keep the amount in the same position. The Bank is of the view that, in addition to other reasons, as Advance against future issue of right shares appeared as shareholders equity in the financial statements prepared by the defunct KASB Bank Limited itself, it did not form part of the assets and liabilities of the defunct Bank transferred to the Bank under the scheme of amalgamation. The same position has been maintained.



**22.6** As disclosed in first para of note 4.1, after the acquisition of defunct KASB Bank, the Bank came to know about certain transactions, identified by SBP, that were carried out by the ex-sponsors of defunct KASB Bank including but not limited to siphoning of money, fraudulent agreements and account opening for their personal benefit. SBP instructed the Bank to initiate legal actions to recover the siphoned amounts from the alleged defaulters as per law. Separate complaints for the recovery of Rs. 3,114 million and Rs. 103.501 million have been lodged by the Bank with National Accountability Bureau (the Bureau) which were later converted into formal inquiries by the Bureau. It may be noted without prejudice to the Bank's claim, the aforesaid amounts have not been recorded in these financial statements as a matter of prudence.

<b>22.7</b>	<b>2016</b>	<b>2015</b>
<b>Commitments in respect of contracts</b>	----- Rupees in '000 -----	
Purchases	<u>5,974,455</u>	<u>4,971,841</u>
Sales	<u>6,336,881</u>	<u>4,808,264</u>
<b>22.8</b>		
<b>Commitments for the acquisition of operating fixed assets</b>	<u>217,107</u>	<u>61,451</u>

**22.9 Commitments in respect of financing facilities**

The Bank makes commitments to extend financing in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

**22.10 Taxation**

**22.10.1** The income tax returns of the Bank have been filed and tax assessments have been made by the tax authorities upto tax year 2016. The returns filed for the tax year 2014 to tax year 2016 are treated to be deemed assessment order under section 120 of the Income Tax Ordinance, 2001.

**22.10.2** During the year 2014 (relating to defunct KASB Bank Limited), the learned Additional Commissioner Inland Revenue (ACIR) passed amended assessments order under section 122(5A) of the Income Tax Ordinance, 2001 for tax Years 2011 and 2013 by imposing minimum tax on turnover disregarding gross loss position of the bank. ACIR has also amended taxability of capital gain and dividend income. The aggregate tax impact comes to Rs.116.002 million. Against the said order, the bank filed appeal before the Commissioner Inland Revenue - Appeals (CIRA). During the year the learned CIRA issued order under section 129 of the Ordinance by deleting the tax charged on capital gain and dividend income and upheld the levy of minimum tax. The learned ACIR has passed appeal effect order under section 124 of the Ordinance. After appeal effect order the aforesaid demand has now been reduced to Rs.89.928 million. Against the order of the learned CIRA, the Bank has filed an appeal before the Honorable Appellate Tribunal Inland Revenue (ATIR). However, the department has filed appeal against the CIRA Order on the issue of capital gain and dividend income. Therefore, cross appeal for the tax year 2011 and 2013 is pending before ATIR.

**22.10.3** During the year 2014 (relating to defunct KASB Bank Limited), in respect of Income tax assessments of International Housing Finance Limited (amalgamated into the defunct KASB Bank Limited during the year ended 31 December 2007) for tax year 2005, CIR Appeals has maintained the order of the Taxation Officer to the extent of disallowances relating to income from carry over transactions and gain on sale of property having an aggregate tax impact of Rs 12.997 million. The defunct KASB Bank Limited has preferred appeals before the ATIR for tax year 2005.

**22.10.4** The income tax returns of the Bank (relating to defunct KASB Bank Limited) for Azad Jammu Kashmir (AJK) region have been filed and tax assessments have been made by the tax authorities upto and including tax year 2014.



- 22.10.5** During the year 2013 (relating to defunct KASB Bank Limited), the Appellate Tribunal Inland Revenue (ATIR) passed an order for the tax years 2005 to 2009 in favour of the defunct KASB Bank Limited by allowing certain deductions including provision for non-performing advances, impairment on investments, other provisions, amortization of goodwill and allocation of expenses having an aggregate tax impact of Rs. 712.550 million. However, the ATIR has disallowed deductions relating to carry over transactions having tax impact of Rs. 86.377 million for the tax years 2005 to 2008. The defunct KASB Bank Limited has preferred an appeal before the Honorable High Court of Sindh against the said decision of the ATIR. No development has taken place during the current period 2015.
- 22.10.6** During the year 2013 (relating to defunct KASB Bank Limited), the Income tax assessments of KASB Capital Limited (amalgamated into the defunct KASB Bank Limited during the year ended 31 December 2008) for tax years 2008 and 2009 were amended by the Taxation Officer to the extent of apportionment of expenses having an aggregate tax impact of Rs 125.880 million. The Bank has preferred an appeal before the Honorable High Court of Sindh against the said decision of tax authorities. No development has taken placed till the current period end.
- 22.10.7** For tax years 2003 and 2004 (relating to defunct KASB Bank Limited), the Commissioner Inland Revenue Appeals (CIR Appeals) has passed appellate orders on account of certain disallowances in respect of income from carry over transactions, provision against non performing advances, bad debts and certain other items having an aggregate tax impact of Rs. 33.748 million. The defunct KASB Bank Limited has preferred appeal before the Appellate Tribunal Inland Revenue (ATIR) against the above referred orders of the CIR Appeals. No development has taken place during the current period.
- 22.10.8** For assessment years 2001-2002 and 2002-2003 and tax years 2003, 2004 and 2005 (relating to defunct KASB Bank Limited) the income tax authorities of AJK region have passed appellate orders by adding interest on surplus funds transferred to head office, resulting in an additional tax demand of Rs. 14.587 million. The defunct KASB Bank Limited has filed reference with the Azad Kashmir High Court against such additions for the above mentioned assessment/ tax years upto 2004. For tax year 2005, the Commissioner Income Tax (Appeals) - AJK has passed order in favour of the defunct KASB Bank Limited . However, the tax department has preferred appeal before the Appellate Tribunal Inland Revenue (ATIR) - AJK against interest on surplus head office funds, having tax impact of Rs. 5.337 million. For tax years 2006 and 2008, AJK tax department passed orders under section 122(5A) of the Ordinance. As a result of these orders , aggregate demand of Rs 19.178 million was raised against the defunct KASB Bank Limited . However, the order for the tax year 2008 has subsequently rectified under section 221 of the Ordinance. Thereby aggregate demand for tax year 2006 and 2008 reduced to Rs.13.304 million. During the year the learned Commissioner Income Tax (Appeals) - AJK has passed orders under section 129 of the Ordinance for the tax year 2006 and 2008 whereby he has confirmed all additions. Therefore, the defunct KASB Bank Limited has preferred an appeal before the ITAT - AJK . An appeal against the order of CIRA for the tax year 2006 and 2008 has been filed by the Bank before the Appellate Tribunal Inland Revenue (ATIR) - AJK.
- 22.10.9** During the year 2014 (relating to defunct KASB Bank Limited), the Commissioner Inland Revenue (Appeals) has given decision in favour of the defunct KASB Bank Limited relating to tax periods from 2007 to 2011 for payment of Federal Excise Duty and annulling default surcharge and penalty. However, the tax department has preferred appeal before the Appellate Tribunal against annulment of default surcharge and penalty amounting to Rs. 33.208 million.

The management, based on the opinion of its tax advisor, is confident about the favourable outcome of the above matters and consequently no additional provision has been made in these financial statements.



	Note	2016 ----- Rupees in '000 -----	2015
<b>22.11 Other commitments</b>			
Bills for collection		1,806,470	1,627,426
<b>23 PROFIT / RETURN EARNED</b>			
On financing to:			
- Customers		5,401,723	3,800,018
- Financial institutions		2,256,974	2,670,306
		7,658,697	6,470,324
On investments in available for sale securities		2,386,777	2,295,166
On deposits / placements with financial institutions		7,451	11,848
Others		74,691	56,822
		10,127,616	8,834,160
<b>24 PROFIT / RETURN EXPENSED</b>			
Deposits		4,863,314	4,574,209
Due to financial institutions		927,938	544,613
		5,791,252	5,118,822
<b>25 GAIN ON SALE OF SECURITIES</b>			
<b>Unlisted Securities</b>			
Sukuk certificates		97,772	12,003
		97,772	12,003
<b>26 OTHER INCOME</b>			
Rent on property		13,719	2,421
Gain on termination of financing		29,274	35,528
Gain on sale of property and equipment	12.2.1	29,855	3,604
Income from tracker charges		24,503	13,083
Amount recovered from staff		6,263	10,133
Others		7,427	-
		111,041	64,769
<b>27 ADMINISTRATIVE EXPENSES</b>			
Salaries, allowances, and other benefits	27.1	2,554,419	2,063,986
Charge for defined benefit plan	33	72,753	49,959
Contribution to defined contribution plan	34	74,415	67,805
Non-executive directors' fees, allowances and other expenses	35	1,550	1,550
Remuneration to Shariah Board Members		900	900
Takaful and tracker charges on consumer car ljarah		179,805	79,374
Rent, taxes, insurance, electricity, etc.		1,160,185	1,095,000
Legal and professional charges		44,110	41,980
Communications		233,755	243,859
Repairs and maintenance		148,492	221,386
Stationery and printing		78,914	73,737
Advertisement and publicity		141,830	96,798
Auditors' remuneration	27.2	8,202	26,471
Depreciation on operating fixed assets	12.2	634,929	506,960
Amortisation	12.3	60,927	30,196
Depreciation on non banking assets		6,533	-
CDC and share registrar services		18,178	18,794
Entertainment expense		49,497	40,568
Security service charges		305,532	238,644
Brokerage and commission		28,256	23,089
Travelling and conveyance		33,961	25,487
Fees and subscription		158,225	136,033
Vehicle running and maintenance		53,487	56,053
Others		93,540	107,086
		6,142,395	5,245,715
Allowable administrative expenses of the quarantined entity for the period as per the Shariah Board's approval		-	(208,517)
		6,142,395	5,037,198

27.1 This includes Rs. 142.411 million (2015: Rs. 105.023 million) paid to employees in respect of car monetisation allowance.

	2016	2015
	----- Rupees in '000 -----	
<b>27.2 Auditors' remuneration</b>		
Audit fee	4,000	3,200
Fee for the review of half yearly financial statements	1,500	1,000
Special audit due to amalgamation	-	18,000
Special certifications and sundry advisory services	1,650	2,935
Out-of-pocket expenses	1,052	1,336
	<u>8,202</u>	<u>26,471</u>
<b>28 OTHER CHARGES</b>		
Penalties imposed by the State Bank of Pakistan	1,044	2,134
Worker's Welfare Fund	16,706	-
	<u>17,750</u>	<u>2,134</u>
<b>29 TAXATION</b>		
- Current year	107,661	99,299
- Prior years	-	21,437
- Deferred	283,796	(197,119)
	<u>391,457</u>	<u>(76,383)</u>

The numerical reconciliation between average tax rate and the applicable tax rate has not been presented in these financial statements as the provision for current year income tax has been made under section 113 of the Income Tax Ordinance, 2001 (minimum tax on turnover) due to available tax losses brought forward from prior years and transferred from the defunct KASB Bank Limited.

Under Section 114 of the Income Tax Ordinance, 2001 (Ordinance), the Bank has filed the return of income for the tax years 2006 to 2016 on due dates. These returns were deemed completed under the provisions of the prevailing income tax laws as applicable in Pakistan during the relevant accounting years.

In respect of tax year 2007, the Additional Commissioner (Inland Revenue) under section 122(5A) of the Income Tax Ordinance, 2001 amended the return submitted by the Bank by adding / disallowing certain expenses / deductions resulting in reduction of losses claimed by the Bank by Rs. 117.505 million. The Bank filed an appeal against the said decision with the Commissioner (Inland Revenue Appeals). The Commissioner (Inland Revenue Appeals) has revised the order of Additional Commissioner and has restricted the amount of disallowance / add back to Rs. 47.867 million. The Bank has filed appeal before the Appellate Tribunal against these disallowances / add backs.

	Note	2016	2015
		----- Rupees in '000 -----	
<b>30 BASIC AND DILUTED EARNINGS / (LOSS) PER SHARE</b>			
Profit / (loss) after taxation for the year		<u>452,300</u>	<u>(196,004)</u>
		----- Number of shares -----	
Weighted average number of ordinary shares in issue		<u>1,007,912,090</u>	<u>804,320,638</u>
		----- Rupees -----	
Earnings / (Loss) per share - basic / diluted	30.1	<u>0.4487</u>	<u>(0.2437)</u>

30.1 There were no convertible / dilutive potential ordinary shares outstanding as at December 31, 2016 and December 31, 2015.



31	CASH AND CASH EQUIVALENTS	Note	2016	2015
			----- Rupees in '000 -----	
	Cash and balances with treasury banks	7	8,921,433	9,035,886
	Balances with other banks	8	1,140,150	1,780,710
			<u>10,061,583</u>	<u>10,816,596</u>

32	STAFF STRENGTH	2016	2015
		Number of employees	
	Permanent	2,370	2,224
	Contractual basis	836	705
	Bank's own staff strength at the end of the year	<u>3,206</u>	<u>2,929</u>
	Outsourced	643	608
	Total staff strength	<u>3,849</u>	<u>3,537</u>

### 33 DEFINED BENEFIT PLAN

#### 33.1 General description

The Bank operates a gratuity fund for its employees (members of the fund). The fund entitles the members to lump sum payment at the time of retirement, resignation or death. Permanent staff are eligible for such benefits after three years of service.

The number of employees covered under the defined scheme are 2,388 (2015: 2,224). The latest actuarial valuation of the Bank's gratuity scheme was carried out as at December 31, 2016. Projected unit credit method, using the following significant assumptions, was used for the valuation of the defined benefit plan:

#### 33.2 Actuarial assumption

	2016	2015
- Valuation Discount rate	9.50%	10.50%
- Salary Increase Rate	9.00%	10.00%
- Expected Return on Plan Assets	9.50%	10.50%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in Pakistan. The rates assumed are based on the adjusted SLIC 2001 - 2005 mortality tables with one year age set back.

#### 33.3 Reconciliation of receivable from defined benefit plan

	2016	2015
	-----Rupees in '000-----	
Present value of defined benefit obligations	271,262	215,613
Fair value of plan assets	<u>(306,437)</u>	<u>(242,126)</u>
Asset recognised in the statement of financial position	<u>(35,175)</u>	<u>(26,513)</u>

#### 33.4 Plan assets consist of the following:

	2016		2015	
	(Rupees in '000)	%	(Rupees in '000)	%
Bank balance	245,040	80%	242,126	100%
Units of Mutual Funds	61,397	20%	-	0%
	<u>306,437</u>	<u>100%</u>	<u>242,126</u>	<u>100%</u>

**33.5 The movement in the defined benefit obligation over the year is as follows:**

	2016		
	Present value of obligation	Fair value of plan assets	Total
	----- (Rupees in '000) -----		
At January 1	215,613	(242,126)	(26,513)
Current service cost	78,874	-	78,874
Return expense / (income)	21,525	(27,646)	(6,121)
	<u>316,012</u>	<u>(269,772)</u>	<u>46,240</u>
Remeasurements:			
- Experience (gains) / losses	(23,533)	5,663	(17,870)
	<u>292,479</u>	<u>(264,109)</u>	<u>28,370</u>
Contribution	-	(63,545)	(63,545)
Benefit payments	(21,217)	21,217	-
At December 31	<u>271,262</u>	<u>(306,437)</u>	<u>(35,175)</u>

	2015		
	Present value of obligation	Fair value of plan assets	Total
	----- (Rupees in '000) -----		
At January 1	162,595	(174,177)	(11,582)
Current service cost	47,175	-	47,175
Return expense / (income)	17,265	(14,481)	2,784
	<u>227,035</u>	<u>(188,658)</u>	<u>38,377</u>
Remeasurements:			
- Experience losses	6,841	923	7,764
	<u>233,876</u>	<u>(187,735)</u>	<u>46,141</u>
Contribution	-	(72,654)	(72,654)
Benefit payments	(18,263)	18,263	-
At December 31	<u>215,613</u>	<u>(242,126)</u>	<u>(26,513)</u>

**33.6 Charge for the Defined Benefit Plan**

	2016	2015
	----- Rupees in '000 -----	
Current service cost	78,874	47,175
Net financial charges	(6,121)	2,784
	<u>72,753</u>	<u>49,959</u>

**33.7 The plan assets and defined benefit obligations are based in Pakistan.**



33.8 The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation - Increase / (Decrease)		
	Change in assumption	Increase in assumption	Decrease in assumption
	------(Rupees in '000)-----		
Discount rate	1.0%	306,516	(241,821)
Salary growth rate	1.0%	307,740	(240,341)
		<b>Increase by</b>	<b>Decrease</b>
		<b>1 year in</b>	<b>by 1 year in</b>
		<b>assumption</b>	<b>assumption</b>
Life expectancy / Withdrawal rate		271,308	271,214

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the gratuity liability recognised within the Statement of Financial Position.

33.9 The weighted average duration of the defined benefit obligation is 11.92 years.

33.10 Expected maturity analysis of undiscounted defined benefit obligation for the gratuity scheme is as follows:

At December 31, 2016	Less than a year	Between 1-2 years	Between 2-5 years	Over 5 years	Total
	----- Rupees '000 -----				
Gratuity	20,872	14,288	13,691	1,148,209	1,197,060

33.11 Historical information	2016	2015	2014	2013	2012
	----- (Rupees in '000) -----				
As at December 31					
Present value of defined benefit obligation	271,262	268,631	162,595	124,699	87,240
Fair value of plan assets	(306,437)	(310,075)	(174,177)	(151,477)	(107,104)
Surplus	(35,175)	(41,444)	(11,582)	(26,778)	(19,864)
Experience adjustments on plan liabilities	(23,533)	6,841	20,337	8,590	(1,962)

33.12 Funding levels are monitored on an annual basis and are based on actuarial recommendations. Expected Gratuity Expense for the next year works out to Rs. 69.204 million as per the actuarial valuation report of the Bank as of December 31, 2016.

33.13 Through its defined benefit gratuity plan, the Fund is exposed to a number of risks, the most significant of which are detailed below:

<b>Investment Risks</b>	The risk arises when the actual performance of the investments is lower than expectation and thus creating a shortfall in the funding objectives.
<b>Longevity Risks</b>	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.
<b>Salary Increase Risk</b>	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.
<b>Withdrawal Risk</b>	The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

33.14 The disclosures made in notes 33.1 to 33.13 are based on the information included in the actuarial valuation report of the Bank as of December 31, 2016.

### 34 DEFINED CONTRIBUTION PLAN (PROVIDENT FUND)

The Bank operates a contributory provident fund for all permanent employees. The employer and employee both contribute 10% of basic salary to the fund every month. Equal monthly contributions by employer and employees during the year amounted to Rs. 74.415 million (2015: Rs. 67.805 million) each.

### 35 COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2016	2015	2016	2015	2016	2015
	Rupees in '000					
Fees	-	-	1,550	1,550	-	-
Managerial remuneration	27,406	25,550	-	-	431,708	247,848
Charge for defined benefit plan	-	-	-	-	18,265	21,528
Salary in lieu of provident fund	2,741	2,555	-	-	-	-
Contribution to defined contribution plan	-	-	-	-	31,280	21,967
Rent and house maintenance	757	705	-	-	194,269	111,531
Utilities	2,741	2,555	-	-	43,170	24,785
Medical	2,741	2,555	-	-	43,174	24,785
Others	-	-	-	-	49,454	50,605
	<u>36,386</u>	<u>33,920</u>	<u>1,550</u>	<u>1,550</u>	<u>811,320</u>	<u>503,049</u>
Number of persons	<u>1</u>	<u>1</u>	<u>7</u>	<u>7</u>	<u>478</u>	<u>262</u>

**35.1** The Bank's President / Chief Executive is also provided with car allowance of Rs. 5.419 million (2015: Rs. 5.419 million) as per the policy of the Bank.

**35.2** In addition to above, the Executives have also been given car allowance amounting to Rs. 119.685 million (2015: Rs. 98.993 million) during the current year.

### 36 FAIR VALUE OF FINANCIAL INSTRUMENTS

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 quoted investments is based on quoted market prices. Unquoted equity securities are valued at cost less impairment losses. The provision for impairment in the value of investments has been determined in accordance with the accounting policy as stated in note 6.4.5 to these financial statements.

Fair values of all other financial assets and liabilities cannot be calculated with sufficient accuracy as active market does not exist for these instruments. In the opinion of the management, fair value of these assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short term in nature and in case of financing and deposits these are frequently repriced.



### 36.1 Off-balance sheet financial instruments

	2016		2015	
	Cost	Fair value	Cost	Fair value
----- Rupees in '000 -----				
Forward purchase of foreign currencies	5,974,735	5,974,455	5,001,768	4,971,841
Forward sale of foreign currencies	5,857,020	5,855,003	4,824,374	4,808,264
Forward sale of shares	447,908	481,878	-	-

36.2 The table below analyses financial and non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the assets or liabilities that are not based on observable market data (i.e. unobservable inputs e.g. estimated future cash flows) (Level 3).

Items carried at fair value	2016			Total
	Level 1	Level 2	Level 3	
----- (Rupees in '000) -----				
<b>Financial Assets and Liabilities</b>				
<b>Available for sale securities</b>				
Ordinary shares - listed	588,296	-	-	588,296
GOP Sukuks	-	38,853,454	-	38,853,454
WAPDA Sukuks	-	233,931	-	233,931
Units of open ended mutual funds	71	-	-	71
<b>Held for trading securities</b>				
Ordinary shares - listed	478,566	-	-	478,566
<b>Commitments in respect of forward exchange contracts</b>				
Forward purchase of foreign exchange contracts	-	5,974,455	-	5,974,455
Forward sale of foreign exchange contracts	-	5,855,003	-	5,855,003
Future sale of listed ordinary shares	481,878	-	-	481,878
<b>Non-Financial Assets</b>				
Operating fixed assets - Land and building	-	-	3,839,855	3,839,855
Non Banking Asset	-	-	1,149,336	1,149,336
<b>Items for which fair value is disclosed</b>				
Ordinary shares - unlisted	-	-	577,675	577,675
Subsidiaries	-	-	522,801	522,801
Associates	-	-	627,942	627,942



	2015 (Restated)			Total
	Level 1	Level 2	Level 3	
------(Rupees in '000)-----				
<b>Items carried at fair value</b>				
<b>Financial Assets and Liabilities</b>				
<b>Available for sale securities</b>				
Ordinary shares - listed	267,841	-	-	267,841
GOP Sukuks	-	9,331,600	-	9,331,600
WAPDA Sukuks	-	606,016	-	606,016
Units of open ended mutual funds	56	-	-	56
<b>Commitments in respect of forward exchange contracts</b>				
Forward purchase of foreign exchange contracts	-	4,971,841	-	4,971,841
Forward sale of foreign exchange contracts	-	4,808,264	-	4,808,264
<b>Non-Financial Assets</b>				
Operating fixed assets - Land and building	-	-	3,657,415	3,657,415
<b>Items for which fair value is disclosed</b>				
Ordinary shares - unlisted	-	-	577,675	577,675
Subsidiaries	-	-	522,801	522,801
Associates	-	-	627,942	627,942

The Bank's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred.

There were no transfers between levels 1 and 2 during the year.

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

Item	Valuation approach and input used
GOP Sukuks	The fair value of GOP Ijarah Sukuks are revalued using PKISRV rates. The PKISRV rates are announced by FMA (Financial Market Association) through Reuters. The rates announced are simple average of quotes received from 6 different pre-defined / approved dealers / brokers.
WAPDA Sukuks	Investment in WAPDA Sukuks are valued on the basis of the rates announced by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the methodology prescribed by the Securities and Exchange Commission of Pakistan.
Forward foreign exchange contracts	The valuation has been determined by interpolating the mid rates announced by State Bank of Pakistan.

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

Operating fixed assets - Land and building	Land and buildings are revalued by professionally qualified valuers as per the accounting policy disclosed in note 6.6.1. The valuers are listed on the panel of the Pakistan Bank's Association. The valuation is based on their assessment of market value of the properties.
Non Banking Assets	Non banking assets are revalued by professionally qualified valuers as per the accounting policy disclosed in note 6.20. The valuers are listed on the panel of the Pakistan Bank's Association. The valuation is based on their assessment of market value of the properties.



## 37 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Trading & Sales	Retail Banking	Commercial Banking	Support Centre	Total
-----Rupees in '000-----					
<b>2016</b>					
Total income	1,685,841	5,269,232	3,669,389	140,766	10,765,228
Total expenses	633,929	5,273,469	1,683,841	2,330,232	9,921,471
Net income / (loss)	1,051,912	(4,237)	1,985,548	(2,189,466)	843,757
Segment assets (gross)	79,575,010	17,351,038	94,809,632	6,826,722	198,562,402
Segment non - performing assets	6,735,949	1,817,128	13,363,597	587,228	22,503,902
Segment provision required	4,899,185	1,422,227	10,835,010	559,810	17,716,232
Segment liabilities	7,191,550	91,817,563	65,856,893	3,535,498	168,401,504
Segment return on assets (ROA) (%)	1.32%	-0.02%	2.09%	-	-
Segment cost of funds (%)	5.94%	3.42%	4.40%	-	-
	Trading & Sales	Retail Banking	Commercial Banking	Support Centre	Total
-----Rupees in '000-----					
<b>2015 (Restated)</b>					
Total income	2,127,287	3,814,313	3,206,087	256,501	9,404,188
Total expenses	462,156	4,417,897	2,761,837	2,034,685	9,676,575
Net income / (loss)	1,665,131	(603,584)	444,250	(1,778,184)	(272,387)
Segment assets (gross)	81,728,963	41,278,972	67,762,187	2,830,644	193,600,766
Segment non - performing assets	7,271,484	1,723,915	14,099,002	36,468	23,130,869
Segment provision required	7,292,107	1,712,282	10,329,396	36,236	19,370,021
Segment liabilities	3,206,205	80,030,354	77,223,056	2,584,860	163,044,475
Segment return on assets (ROA) (%)	2.04%	-1.46%	0.66%	-	-
Segment cost of funds (%)	5.14%	4.35%	4.01%	-	-

## 38 RELATED PARTY TRANSACTIONS

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

The related parties of the Bank comprise related group companies, principal shareholders, key management personnel, companies where directors of the Bank also hold directorship, directors and their close family members and staff retirement funds.

A number of banking transactions are entered into with related parties in the normal course of business. These include financing and deposit transactions. These transactions are executed substantially on the same terms including profit rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk.

Contributions to staff retirement benefit plan are made in accordance with the terms of the contribution plan. Remuneration to the executives are determined in accordance with the terms of their appointment.

Transactions with related parties other than remuneration and benefits to key management personnel including Chief Executive Officer under the terms of the employment as disclosed in note 35 are as follows:

<b>Subsidiary</b>	<b>2016</b>	<b>2015</b>
	----- Rupees '000 -----	
<b>Islamic Financing and related assets</b>		
At beginning of the year	150,000	150,000
Accrued during the year	-	-
Repayments during the year	-	-
At the end of the year	<u>150,000</u>	<u>150,000</u>
<b>Deposits</b>		
At beginning of the year	445,099 *	385,653
Deposits during the year	44,606,848	22,536,195
Withdrawals during the year	(44,478,638)	(22,477,592)
At the end of the year	<u>573,309</u>	<u>444,256</u>
<b>Transactions, income and expenses</b>		
Profit earned on financing	14,265	9,364
Return on deposit expensed	28,370	17,671
Receivable on financing	1,152	3,482
Payable on deposits	1,555	-
Other receivables	1,578	-
Administrative expense	3	2,913
Other income	980	-
Contingencies and commitments	1,978	-
<b>Associates</b>		
<b>Islamic Financing and related assets</b>		
At beginning of the year	93,314 *	93,750
Disbursements during the year	687,850	90,000
Repayments during the year	(14,089)	(93,750)
At the end of the year	<u>767,075</u>	<u>90,000</u>
<b>Prepayments</b>		
At beginning of the year	27,691 *	12,733
Additions during the year	56,562	29,126
Amortised during the year	(46,966)	(22,476)
At the end of the year	<u>37,287</u>	<u>19,383</u>
<b>Deposits</b>		
At beginning of the year	878,909 *	664,636
Deposits during the year	16,639,616	3,931,438
Withdrawals during the year	(17,122,864)	(3,178,596)
Balance transferred during the period	-	(551,377)
At the end of the year	<u>395,661</u>	<u>866,101</u>

\* Balances pertaining to parties that were related at the beginning of the year but ceased to be related during any part of the current period are not reflected as part of the opening balance of the current year, and parties became related parties during the year have been added in opening balances.



	2016	2015
	----- Rupees '000 -----	
<b>Transactions, income and expenses</b>		
Profit earned on financing	51,790	3,200
Return on deposits expensed	60,627	135,977
Administrative expense	-	24,833
Payable on deposits	4,259	-
Receivable on financing	10,118	1,626
Administrative expenses	20,667	-
Dividend Income	-	16,638
Contingencies and commitments	362,650	-

**Key management personnel / Directors**

**Islamic financing and related assets**

At beginning of the year	217,412	111,354
Disbursements during the year	30,375	92,249
Repaid during the year	(52,557)	(68,493)
At the end of the year	195,230	135,110

**Deposits**

At beginning of the year	19,079	15,330
Deposits during the year	285,149	89,163
Withdrawals during the year	(271,132)	(88,979)
At the end of the year	33,096	15,514

**Transactions, income and expenses**

Profit earned on financing	7,907	2,935
Return on deposits expensed	236	197
Remuneration	130,351	51,979
Administrative expenses	6	-
Payable on deposits	9	-

**Other related parties**

**(related to defunct KASB Bank Limited)**

**Deposits**

At beginning of the year	648,644	212,369
Deposits during the year	1,010,654	596,139
Withdrawals during the year	(907,581)	(714,459)
Balance transferred during the period	-	551,377
At the end of the year	751,717	645,426

\* Balances pertaining to parties that were related at the beginning of the year but ceased to be related during any part of the current period are not reflected as part of the opening balance of the current year, and parties became related parties during the year have been added in opening balances.

	2016	2015
	----- Rupees '000 -----	
<b>Transactions, income and expenses</b>		
Other receivable	17,880	17,880
Payable on deposits	93	-
Return on deposits expensed	5,160	4,556
Dividend income	-	1,149
Other income	-	185
<b>Employee benefit plans</b>		
Contribution to employees gratuity fund	<u>63,545</u>	<u>72,654</u>
Charge for defined benefit plan	<u>72,753</u>	<u>49,959</u>
Contribution to employees provident fund	<u>74,415</u>	<u>67,805</u>

### 39 CAPITAL MANAGEMENT

Capital Management aims to safeguard bank's ability to continue as a going concern so that it could continue to provide adequate returns to the shareholders by pricing products and services commensurately with the level of risk. For this the Bank ensures strong capital position and efficient use of capital as determined by the underlying business strategy i.e. maximizing growth on continuing basis. The Bank maintains a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

This process is managed by the Asset Liability Committee (ALCO) of the Bank. The objective of ALCO is to derive the most appropriate strategy in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movement, liquidity constraints and capital adequacy and its implication on risk management policies.

The Bank prepares Annual Budget and Projections outlining its future growth and direction keeping in consideration the economic and political factors in the country and region. Adequacy of capital to support the expected growth in balance sheet is also ascertained.

Stress testing of the Bank is regularly performed to ensure that the Bank remains well capitalised and able to sustain any shocks under any of the specified risk factors.

The State Bank of Pakistan (SBP) introduced guidelines with respect to disclosure of capital adequacy related information in the financial statements of banks vide its communication dated February 4, 2014. These guidelines are based on the requirements of Basel III which were introduced by the SBP in August 2013 for implementation by the banks in Pakistan. The SBP has specified a transitional period till 2018 for implementation of Basel III. The SBP vide its BPRD Circular No. 11 of 2014 dated November 5, 2014 has specified the disclosure requirements with respect to capital adequacy related information. The disclosures below have been prepared on the basis of the SBP's circular.



### 39.1 Goals of managing capital

The goals of managing capital of the Bank are as follows:

- To be an appropriately capitalised institution, considering the requirements set by the regulators of the banking markets where the Bank operates;
- Maintain strong ratings and to protect the Bank against unexpected events; and
- Availability of adequate capital at a reasonable cost so as to enable the Bank to operate adequately and provide reasonable value addition for the shareholders.

### 39.2 Capital Structure

Under Basel III framework, Bank's regulatory capital has been analysed into two tiers as follows:

- Tier 1 capital (going concern capital) which is sub divided into:
  - a) Common Equity Tier 1 (CET1), which includes fully paid up capital, reserve for bonus issue, general reserves and un-appropriated profits (net of losses), etc. after deductions for investments in the equity of subsidiary companies engaged in banking and financial activities (to the extent of 50% after incorporating transitional provisions), reciprocal crossholdings and deficit on revaluation of available for sale investments and deduction for book value of intangibles. The State Bank of Pakistan vide its letter no BPRD(R&P-02)/625-112/2017/4809 dated February 24, 2017 has given relaxation to the Bank for non-deduction of goodwill and deferred tax assets pertaining to defunct KASB Bank Limited portfolio from CET 1 capital till December 30, 2018 for the purpose of calculating the Capital Adequacy Ratio (CAR) of the Bank. Accordingly, the amounts of goodwill and deferred tax asset have not been deducted from CET 1 capital. Instead, the amount of goodwill and deferred tax assets pertaining to defunct KASB Bank Limited portfolio have been risk weighted at 100% for CAR purposes.
  - b) Additional Tier 1 capital (AT1), which includes instruments issued by the Bank which meet the specified criteria after regulatory deduction for investments in the equity of subsidiary companies engaged in banking and financial activities and other specified deductions.

Presently, the Bank does not have any AT1 capital.

- Tier II capital, which includes general provisions for loan losses (upto a maximum of 1.25% of credit risk weighted assets), reserves on revaluation of fixed assets after deduction of deficit on available for sale investments (upto a maximum of 78%), and any balance specifically allowed by the regulator.

Banking operations are categorised in either the trading book or the banking book and risk weighted assets are determined according to the specified requirements that seek to reflect the varying levels of risk attached to assets and off balance sheet exposures.

### 39.3 Capital adequacy ratio

The capital to risk weighted assets ratio, calculated in accordance with the SBP guidelines on capital adequacy, under Basel III and Pre-Basel III treatment using Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk is presented below:

Particulars	2016	2015
	Amount	
	----- Rupees in '000 -----	
<b>Common Equity Tier 1 capital (CET1): Instruments and reserves</b>		
Fully paid-up capital / capital deposited with the SBP	10,079,121	10,079,121
Balance in share premium account	-	-
Reserve for issue of bonus shares	-	-
Discount on issue of shares	(79,042)	(79,042)
General / Statutory Reserves	613,636	523,176
Gains / (Losses) on derivatives held as Cash Flow Hedge	-	-
Unappropriated profits / (Accumulated loss)	212,553	(171,453)
Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	-
<b>CET 1 before Regulatory Adjustments</b>	<b>10,826,268</b>	<b>10,351,802</b>
<b>Total regulatory adjustments applied to CET1 (Note 39.3.1)</b>	<b>(631,947)</b>	<b>(2,458,621)</b>
<b>Common Equity Tier 1</b>	<b>10,194,321</b>	<b>7,893,181</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	-	-
- classified as liabilities	-	-
Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties	-	-
- of which: instrument issued by subsidiaries subject to phase out	-	-
<b>AT1 before regulatory adjustments</b>	<b>-</b>	<b>-</b>
<b>Total of Regulatory Adjustment applied to AT1 capital (Note 39.3.2)</b>	<b>(133,538)</b>	<b>(200,308)</b>
<b>Additional Tier 1 capital after regulatory adjustments</b>	<b>-</b>	<b>-</b>
<b>Tier 1 Capital (CET1 + admissible AT1)</b>	<b>10,194,321</b>	<b>7,893,181</b>
<b>Tier 2 Capital</b>		
Qualifying Tier 2 capital instruments under Basel III plus any related share premium *	2,360,757	2,158,420
Capital instruments subject to phase out arrangement issued	-	-
Tier 2 capital instruments issued to third parties by consolidated subsidiaries	-	-
- 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	192,927	135,593
Revaluation Reserves (net of taxes)		
of which:		
- Revaluation reserves on fixed assets	655,718	570,200
- Unrealized gains/losses on AFS	553,617	(11,107)
Foreign Exchange Translation Reserves	-	-
Undisclosed/Other Reserves (if any)	-	-
<b>T2 before regulatory adjustments</b>	<b>3,763,019</b>	<b>2,853,106</b>
<b>Total regulatory adjustment applied to T2 capital (Note 39.3.3)</b>	<b>(133,538)</b>	<b>(200,308)</b>
<b>Tier 2 capital (T2) after regulatory adjustments</b>	<b>3,629,481</b>	<b>2,652,798</b>
Tier 2 capital recognized for capital adequacy	3,629,481	2,652,798
Portion of Additional Tier 1 capital recognized in Tier 2 capital	-	-
<b>Total Tier 2 capital admissible for capital adequacy</b>	<b>3,629,481</b>	<b>2,652,798</b>
<b>TOTAL CAPITAL (T1 + admissible T2)</b>	<b>13,823,802</b>	<b>10,545,979</b>
<b>Total Risk Weighted Assets (RWA) (for details refer Note 39.6)</b>	<b>102,935,253</b>	<b>85,431,513</b>

\* Considered as Tier II capital as per the SBP's approval vide letter no BPRD(R&P-02)/625-112/2017/4809 dated February 24, 2017.



Particulars	2016	2015
	Amount	
	Rupees in '000	
<b>Capital Ratios and buffers (in percentage of risk weighted assets)</b>		
CET1 to total RWA	9.90%	9.24%
Tier-1 capital to total RWA	9.90%	9.24%
Total capital to total RWA	13.43%	12.34%
Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement) of which:		
- capital conservation buffer requirement	-	-
- countercyclical buffer requirement	-	-
- D-SIB or G-SIB buffer requirement	-	-
CET1 available to meet buffers (as a percentage of risk weighted assets)	3.90%	3.24%
<b>Notional 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	10.00%	10.00%
CCB (Consisting of CET 1 only)	0.65%	0.25%
Total Capital plus CCB	10.65%	10.25%

Particulars	2016		2015	
	Amount	Pre-Basel III treatment*	Amount	Pre-Basel III treatment*
	Rupees in '000			

### 39.3.1 Common Equity Tier 1 capital: Regulatory adjustments

Goodwill (net of related deferred tax liability)	-	-	-	-
All other intangibles (net of any associated deferred tax liability)	216,969	216,969	173,301	173,301
Shortfall of provisions against classified assets	-	-	-	-
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	260,335	433,891	774,223	1,935,558
Defined-benefit pension fund net assets	21,105	35,175	10,605	26,513
Reciprocal cross holdings in CET1 capital instruments	-	-	-	-
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 property / AFS	-	-	-	-
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)	-	-	1,300,184	3,250,459
Amount exceeding 15% threshold of which:	-	-	-	-
- significant investments in the common stocks of financial entities	-	-	-	-
- deferred tax assets arising from temporary differences	-	-	-	-
Notional specific regulatory adjustments applied to CET1 capital	-	-	-	-
Investment in TFCs of other banks exceeding the prescribed limit	-	-	-	-
Any other deduction specified by SBP	-	-	-	-
Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	133,538	133,538	200,308	200,308
<b>Total regulatory adjustments applied to CET1</b>	<b>631,947</b>	<b>819,573</b>	<b>2,458,621</b>	<b>5,586,139</b>

### 39.3.2 Additional Tier 1 Capital: regulatory adjustments

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	-	-	-	-

\* This column highlights items that are still subject to Pre Basel III treatment during the transitional period



Particulars	2016		2015	
	Amount	Pre-BaseI III treatment*	Amount	Pre-BaseI III treatment*
	----- Rupees in '000 -----			
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	-	-	-	-
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-BaseI III treatment which, during transitional period, remain subject to deduction from tier-1 capital	133,538	133,538	200,308	200,308
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-	-	-
<b>Total of Regulatory Adjustment applied to AT1 capital</b>	<b>133,538</b>	<b>133,538</b>	<b>200,308</b>	<b>200,308</b>

### 39.3.3 Tier 2 Capital: regulatory adjustments

Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-BaseI III treatment which, during transitional period, remain subject to deduction from tier-2 capital	133,538	133,538	200,308	200,308
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)	-	-	-	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-	-
<b>Amount of Regulatory Adjustment applied to T2 capital</b>	<b>133,538</b>	<b>133,538</b>	<b>200,308</b>	<b>200,308</b>

\* This column highlights items that are still subject to Pre Basel III treatment during the transitional period

### 39.3.4 Risk Weighted Assets subject to pre-BaseI III treatment

	2016	2015
	----- Rupees in '000 -----	
Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-BaseI III Treatment)	-	-
of which: deferred tax assets	1,963,488	1,161,335
of which: Defined-benefit pension fund net assets	14,070	15,908
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	-	-
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
Non-significant investments in the capital of other financial entities	-	-
Significant investments in the common stock of financial entities	400,615	267,076
Deferred tax assets arising from temporary differences (net of related tax liability)	3,694,132	1,950,275
<b>Applicable caps on the inclusion of provisions in Tier 2</b>		
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	192,927	135,593
Cap on inclusion of provisions in Tier 2 under standardized approach	1,139,473	971,635
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	-	-



### 39.3.5 Leverage ratio

According to Basel III instructions issued by State Bank of Pakistan (BPRD circular # 06 dated August 15, 2013), it is mandatory for all the banks to calculate and report the Leverage Ratio on a quarterly basis with the minimum benchmark of 3%.

The reason for calculating leverage ratio is to avoid excessive On- and Off-balance sheet leverage in the banking system. A simple, transparent and non-risk based Ratio has been introduced with the following objectives:

- Constrain the build-up of leverage in the banking sector which can damage the broader financial system and the economy; and
- Reinforce the risk based requirements with an easy to understand and a non-risk based measure.

Particulars	2016	2015
	----- Rupees in '000 -----	
<b>On balance sheet exposures</b>		
1 On-balance sheet items (excluding unrealised gain on forward contracts)	180,214,223	171,671,272
2 Forward exchange commitments with positive fair values	35,174	40,340
Total on balance sheet exposures	<b>180,249,397</b>	<b>171,711,612</b>
<b>Off balance sheet exposures</b>		
3 Off-balance sheet items	22,107,012	21,643,603
4 Commitment in respect of forward exchange contracts	119,118	51,066
Total Off balance sheet exposures	<b>22,226,130</b>	<b>21,694,669</b>
<b>Capital and total exposures</b>		
5 Tier 1 capital (Note 39.3)	<b>10,194,321</b>	<b>7,893,181</b>
6 Total exposures	<b>202,475,527</b>	<b>193,406,281</b>
<b>Basel III leverage ratio</b>	<b>5.03%</b>	<b>4.08%</b>

The current year's leverage ratio is 5.03% (2015: 4.08%) whereas total tier 1 capital and total exposures are Rs. 10,194.321 million (2015: Rs. 7,893.181 million) and Rs. 202,475.527 million (2015: Rs. 193,406.281 million) respectively.

### 39.4 Capital Structure Reconciliation

#### 39.4.1 Reconciliation of each financial statement line item to item under regulatory scope of reporting - Step 1

Particulars	Balance sheet as in published financial statements	Under regulatory scope of reporting
	------(Rupees in '000)-----	
<b>Assets</b>		
Cash and balances with treasury banks	8,921,433	8,921,433
Balances with other banks	1,140,150	1,140,150
Due from financial institutions	27,218,665	27,218,665
Investments	46,316,927	46,316,927
Islamic financing and related assets	77,816,802	77,816,802
Operating fixed assets	9,347,525	9,347,525
Deferred tax assets	5,918,460	5,918,460
Other assets	4,166,208	4,166,208
<b>Total assets</b>	<b>180,846,170</b>	<b>180,846,170</b>
<b>Liabilities and Equity</b>		
Bills payable	2,273,934	2,273,934
Due to financial institutions	6,066,307	6,066,307
Deposits and other accounts	154,399,657	154,399,657
Sub-ordinated loans	-	-
Deferred tax liabilities	-	-
Other liabilities	5,661,606	5,661,606
<b>Total liabilities</b>	<b>168,401,504</b>	<b>168,401,504</b>
Share capital	10,079,121	10,079,121
Discount on issue of shares	(79,042)	(79,042)
Reserves	613,636	613,636
Accumulated profit	212,553	212,553
Minority Interest	-	-
Surplus on revaluation of investments - net of tax	1,618,398	1,618,398
<b>Total liabilities and equity</b>	<b>180,846,170</b>	<b>180,846,170</b>

### 39.4.2 Reconciliation of balance sheet to eligible regulatory capital - Step 2

Particulars	Reference	Balance sheet as in published financial statements	Under regulatory scope of reporting
------(Rupees in '000)-----			
<b>Assets</b>			
Cash and balances with treasury banks		8,921,433	8,921,433
Balances with other banks		1,140,150	1,140,150
Due from financial institutions		27,218,665	27,218,665
Investments		46,316,927	46,316,927
of which:			
- non-significant capital investments in capital of other financial institutions exceeding 10% threshold	a	-	-
- significant capital investments in financial sector entities exceeding regulatory threshold	b	-	-
- mutual Funds exceeding regulatory threshold	c	-	-
- reciprocal crossholding of capital instrument	d	-	-
- others	e	-	-
Islamic financing and related assets		77,816,802	77,654,645
- shortfall in provisions / excess of total EL amount over eligible provisions under IRB	f	-	-
- general provisions reflected in Tier 2 capital	g	192,927	192,927
Operating fixed assets		9,347,525	9,347,525
- of which: Intangibles	k	3,161,266	3,161,266
Deferred tax assets		5,918,460	5,918,460
of which:			
- DTAs that rely on future profitability excluding those arising from temporary differences	h	2,224,328	2,224,328
- DTAs arising from temporary differences exceeding regulatory threshold	i	3,694,132	3,694,132
Other assets		4,166,208	4,328,365
of which:			
- defined-benefit pension fund net assets	l	35,175	35,175
<b>Total assets</b>		<b>180,846,170</b>	<b>180,846,170</b>
<b>Liabilities and Equity</b>			
Bills payable		2,273,934	2,273,934
Due to financial institutions		6,066,307	6,066,307
Deposits and other accounts		154,399,657	154,399,657
Sub-ordinated loans of which:			
- eligible for inclusion in AT1	m	-	-
- eligible for inclusion in Tier 2	n	-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities of which:			
- DTLs related to goodwill	o	-	-
- DTLs related to intangible assets	p	-	-
- DTLs related to defined pension fund net assets	q	-	-
- other deferred tax liabilities	r	-	-
Other liabilities		5,661,606	5,661,606
<b>Total liabilities</b>		<b>168,401,504</b>	<b>168,401,504</b>
<b>Share capital</b>			
		10,079,121	10,079,121
- of which: amount eligible for CET1	s	10,079,121	10,079,121
- of which: amount eligible for AT1	t	-	-
Reserves of which:			
- portion eligible for inclusion in CET1 - Statutory reserve	u	613,636	613,636
- portion eligible for inclusion in CET1 - Gain on Bargain Purchase		-	-
- portion eligible for inclusion in CET1 - General reserve		-	-
- portion eligible for inclusion in Tier 2 General reserve	v	-	-
Discount on issue of shares		(79,042)	(79,042)
Accumulated profit	w	212,553	212,553
Minority Interest of which:			
- portion eligible for inclusion in CET1	x	-	-
- portion eligible for inclusion in AT1	y	-	-
- portion eligible for inclusion in Tier 2	z	-	-
Surplus on revaluation of assets of which:			
- Revaluation reserves on Property		1,618,398	1,618,398
- Unrealized Gains/Losses on AFS	aa	908,632	908,632
- In case of Deficit on revaluation (deduction from CET1)	ab	709,766	709,766
		-	-
<b>Total liabilities and Equity</b>		<b>180,846,170</b>	<b>180,846,170</b>



### 39.4.3 Basel III Disclosure (with added column) - Step 3

Particulars	Source based on reference number from step 2	Component of regulatory capital reported by bank
<b>(Rupees in '000)</b>		
<b>Common Equity Tier 1 capital (CET1): Instruments and reserves</b>		
1 Fully Paid-up Capital	(s)	10,079,121
2 Balance in share premium account		-
3 Discount on issue of shares		(79,042)
4 Reserve for issue of bonus shares		-
5 General / Statutory Reserves	(u)	613,636
6 Gain / (Losses) on derivatives held as Cash Flow Hedge		-
7 Unappropriated / unremitted profits	(w)	212,553
8 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)	-
<b>9 CET 1 before Regulatory Adjustments</b>		<b>10,826,268</b>
<b>Common Equity Tier 1 capital: Regulatory adjustments</b>		
10 Goodwill (net of related deferred tax liability)	(j) - (s)	-
11 All other intangibles (net of any associated deferred tax liability)	(k) - (p)	216,969
12 Shortfall of provisions against classified assets	(f)	-
13 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(h) - (r) * x%	260,335
14 Defined-benefit pension fund net assets	(l) - (q) * x%	21,105
15 Reciprocal cross holdings in CET1 capital instruments	(d)	-
16 Cash flow hedge reserve		-
17 Investment in own shares / CET1 instruments		-
18 Securitization gain on sale		-
19 Capital shortfall of regulated subsidiaries		-
20 Deficit on account of revaluation from bank's holdings of property / AFS	(ab)	-
21 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)	-
22 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)	-
23 Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	(i)	-
24 Amount exceeding 15% threshold of which:		
- significant investments in the common stocks of financial entities		-
- deferred tax assets arising from temporary differences		-
25 Notional specific regulatory adjustments applied to CET1 capital		-
26 Investment in TFCs of other banks exceeding the prescribed limit		-
27 Any other deduction specified by SBP (mention details)		-
28 Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions		133,538
<b>29 Total regulatory adjustments applied to CET1</b>		<b>631,947</b>
<b>Common Equity Tier 1</b>		<b>10,194,321</b>
<b>Additional Tier 1 (AT 1) Capital</b>		
30 Qualifying Additional Tier-1 instruments plus any related share premium of which:		
31 - Classified as equity	(t)	-
32 - Classified as liabilities	(m)	-
33 Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties	(y)	-
34 - of which: instrument issued by subsidiaries subject to phase out		-
<b>35 AT1 before regulatory adjustments</b>		<b>-</b>

Particulars	Source based on reference number from note 40.4.2	Component of regulatory capital reported by bank
(Rupees in '000)		
<b>Additional Tier 1 Capital: regulatory adjustments</b>		
36 Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)		-
37 Investment in own AT1 capital instruments		-
38 Reciprocal cross holdings in Additional Tier 1 capital instruments		-
39 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)	-
40 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	(ad)	-
41 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		133,538
42 Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		-
43 Total of Regulatory Adjustment applied to AT1 capital		133,538
44 Additional Tier 1 capital		-
45 <b>Additional Tier 1 capital recognised for capital adequacy</b>		-
<b>Tier 1 Capital (CET1 + admissible AT1)</b>		<b>10,194,321</b>
<b>Tier 2 Capital</b>		
46 Qualifying Tier 2 capital instruments under Basel III	(n)	2,360,757
47 Capital instruments subject to phase out arrangement from Tier 2		-
48 Tier 2 capital instruments issued to third party by consolidated subsidiaries - of which: instruments issued by subsidiaries subject to phase out	(z)	-
49 General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	(g)	192,927
50 Revaluation Reserves eligible for Tier 2 of which:		
51 - portion pertaining to Property		655,718
52 - portion pertaining to AFS securities	78% of (aa)	553,617
53 Foreign Exchange Translation Reserves	(v)	-
54 Undisclosed / Other Reserves (if any)		-
55 <b>T2 before regulatory adjustments</b>		<b>3,763,019</b>
<b>Tier 2 Capital: regulatory adjustments</b>		
56 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		133,538
57 Reciprocal cross holdings in Tier 2 instruments		-
58 Investment in own Tier 2 capital instrument		-
59 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)	-
60 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	(af)	-
61 Amount of Regulatory Adjustment applied to T2 capital		133,538
62 Tier 2 capital (T2)		3,629,481
63 Tier 2 capital recognised for capital adequacy		3,629,481
64 Excess Additional Tier 1 capital recognised in Tier 2 capital		-
65 Total Tier 2 capital admissible for capital adequacy		3,629,481
<b>TOTAL CAPITAL (T1 + admissible T2)</b>		<b>13,823,802</b>



### 39.5 Main features of regulatory capital instruments

	Main Features	Common Shares
1	Issuer	BankIslami Pakistan Limited
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	BIPL - CDC Symbol
3	Governing law(s) of the instrument	Listing Regulations of Pakistan Stock Exchange Limited
	<b>Regulatory treatment</b>	
4	Transitional Basel III rules	Common Equity Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1
6	Eligible at solo/ group / group & solo	Solo
7	Instrument type	Ordinary shares
8	Amount recognised in regulatory capital (Currency in PKR thousands, as of reporting date)	10,079,121
9	Par value of instrument	10
10	Accounting classification	Shareholders' equity
11	Original date of issuance	May 02, 2006
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	<b>Coupons / dividends</b>	
17	Fixed or floating dividend / coupon	N/A
18	coupon rate and any related index/ benchmark	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Residual interest
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

### 39.6 Risk-weighted exposures

	Capital requirements		Risk weighted assets	
	2016	2015	2016	2015
	------(Rupees in '000)-----			
<b>Credit Risk</b>				
<b>Portfolios subject to on-balance sheet exposure (Simple Approach)</b>				
Cash and cash equivalents	-	-	-	-
Sovereign	1,825	7,210	17,132	72,099
Public sector entities	6,983	80,029	65,564	800,290
Banks	633,623	864,223	5,949,508	8,642,234
Corporate	4,104,398	2,879,627	38,538,947	28,796,273
Retail	1,031,039	411,826	9,681,117	4,118,258
Residential mortgage	258,968	234,107	2,431,624	2,341,072
Past due loans	319,840	172,554	3,003,190	1,725,540
Operating fixed assets	658,837	545,992	6,186,259	5,459,918
All other assets	1,262,280	842,855	11,852,393	8,428,552
<b>Portfolios subject to off-balance sheet exposure - non market related (Simple approach)</b>				
Banks	146,181	364	1,372,589	3,638
Corporate	360,266	710,987	3,382,779	7,109,874
Retail	17,696	3,476	166,157	34,760
Others	32,967	28,408	309,547	284,081
<b>Portfolios subject to off-balance sheet exposures - market related (Current exposure method)</b>				
Banks	2,147	4,616	20,157	46,162
Customers	3,560	32	33,432	319
<b>Equity Exposure Risk in the Banking Book</b>				
Unlisted equity investments held in banking book	92,284	86,651	866,513	866,513
Investment in commercial entities	668,758	627,942	6,279,420	6,279,420
Recognised portion of significant investment	106,664	272,180	1,001,538	2,721,798
<b>Market Risk</b>				
<b>Capital Requirement for portfolios subject to Standardised Approach</b>				
Interest rate risk	24,224	8,546	302,799	106,824
Equity position risk	247,810	42,864	3,097,625	535,800
Foreign Exchange risk	15,029	6,011	187,863	75,138
<b>Operational Risk</b>				
Capital requirement for operational risk	655,128	558,636	8,189,100	6,982,950
<b>TOTAL</b>	<b>10,650,507</b>	<b>8,389,136</b>	<b>102,935,253</b>	<b>85,431,513</b>
<b>Capital Adequacy Ratio</b>				
	<b>Required</b>	<b>Actual</b>	<b>Required</b>	<b>Actual</b>
	<b>December-16</b>		<b>December-15</b>	
CET1 to total RWA	6.65%*	9.90%	6.25%*	9.24%
Tier-1 capital to total RWA	7.50%	9.90%	7.50%	9.24%
Total capital to total RWA	10.65%*	13.43%	10.25%*	12.34%

\* Capital adequacy requirement inclusive of Capital Conservation Buffer (CCB) requirement.



## 40 RISK MANAGEMENT

The objective of Risk Management is to effectively manage uncertainties that arise in the normal course of business activities. The risk management function is one of the most important areas of the banking business, and covers a wide spectrum of financial business risk class; including Credit, Market, Liquidity, Operational etc. The Bank follows effective risk governance which commensurate well with its current size and structure.

The implementation of Basel II (B2) provides for a risk-based capital requirement. Further, the SBP has decided to implement Basel III framework in a phased manner with effect from December 31, 2013 to December 31, 2019, to revise and update capital reforms and clarifications and further strengthen the existing capital adequacy framework prescribed under Basel II. The Bank adheres to the regulatory requirement in this respect, and conducts its business accordingly.

As a prelude to countering the financial debacle of the recent past, the Basel Committee (Internationally) is raising the resilience of the banking sector by strengthening the regulatory capital framework, essentially building on the three pillars of the Basel II structure. The reforms raise both the quality and quantity of the regulatory capital base and enhance the risk coverage of the capital framework. The SBP (State Bank of Pakistan) while being cognizant of the various reforms in the offing, is reviewing the impact of Basel III (B3) guidelines on the capital structure and CAR (Capital Adequacy Ratio) through quantitative impact studies. Accordingly, the SBP has implemented first phase of Basel III framework with effect from December 31, 2013.

### **RISK MANAGEMENT FRAMEWORK**

A well formulated policy and procedure is critical to an effective Risk Management framework; it then needs to be reinforced through a strong control culture that promotes sound risk governance. The Bank's Risk Management Framework has been developed keeping in mind, that:

- To be effective, control activities should be an integral part of the regular activities of the Bank;
- Every loss or near miss event should provide some Key Learning Outcome (KLO), helping and promoting a better risk identification and mitigation,
- While the reward may well commensurate the level of risk, it has to be viewed in entirety and not in isolation; and
- Critical decision making should be based on relevant research, proper analysis and effective communication within the Bank.

#### **Strategic Level**

At the strategic level, the risk related functions are approved by the senior management and the Board. These include: defining risks, setting parameters, ascertaining the institution's risk appetite, formulating strategy and policies for managing risks and establishing adequate systems and controls to ensure that overall risk remains within acceptable level and the reward compensates for the risk taken.



### Macro Level

It encompasses risk management within a business area or across business lines. Generally the risk management activities performed by middle management or units devoted to risk reviews fall into this category. Periodical review of various portfolios; stress test and scenario analysis for portfolio resilience; application of statistical tools and information in time series for developing strong inferences are all performed at this level.

### Micro Level

Risk management at micro level, is of critical importance. This function if performed with diligence and understanding, can be of maximum benefit to the organization. Micro level risk management includes:

- Business line acquisition, strong adherence to the credit and other related criteria.
- Middle Office monitoring function for a sound risk assessment of various risks inherent in treasury operations.
- Detailed review of various processes and operating procedures, for operational and other risk related assessments.

### Risk appetite of the bank

The risk appetite of the Bank is an outcome of its corporate goal, economic profitability, available resources (size and business life cycle) and most significantly; the controls. The Bank believes in a cautious yet steady approach towards its business objectives and takes a holistic view of its investment and financing requirement.

This approach is primarily based on a viable portfolio build-up with a long-term view; key consideration being the health of various portfolios.

### Risk organization

A strong organizational set-up, with clearly defined roles and responsibilities permits a higher level of articulation of the Banks risk mandate, establishment of a structure that provides for authority, delegation and accountability, and development of control framework. Risk management cannot live in a vacuum; in order to be effective, it has to be run at an enterprise level. Risk governance must involve all relevant parties and should be sanctioned by the bank's leadership.

The risk management function at the Bank, along with the different committees including ALCO (Asset Liability Committee) and MCC (Management Credit Committee), RMC (Risk Management Committee of the Board) manage and adhere to the risk management policies and procedures, with an explicit aim to mitigate/ manage risk in line with the Bank's objectives.



## **Business line accountability**

One of the most important features of the risk management process is the business line accountability. Business has to understand the risk implication of specific transaction on the business / portfolio. Some specific risks e.g. reputation risk affects the entire banking business and is not limited to one business line or the other. At BIPL, as in any other reputable organization, responsibility comes with accountability. Each business segment is responsible for the profit / loss of the business. The management of risk is as much a line function as it is supports.

Business lines are equally responsible for the risks they are taking. Because line personnel understand the risks of the business. Lack of an understanding of this by the line management may lead to risk management in isolation.

### **40.1 Credit Risk**

The Bank manages credit risk by effective credit appraisal mechanism, approving and reviewing authorities, limit structures, internal credit risk rating system, collateral management and post disbursement monitoring so as to ensure prudent financing activities and sound financing portfolio under the umbrella of a comprehensive Credit Policy approved by the Board of Directors. Credit Risk has certain sub-categories as follows:

#### **i) Price risk**

There is a risk that the asset repossessed due to default of the customer may be sold or leased out to another party at a price lower than the original contract price.

#### **ii) Counter party risk**

The risk that the counter-party defaults during the term of a transaction (Murabahah, Ijarah etc.).

#### **iii) Settlement risk**

The risk that the counter-party does not meet its commitments at the maturity of the transaction after the Bank has already met its commitments.

#### **iv) Country risk**

Country Risk can be defined as the risk of adverse impact of certain factors on a country's specific economic, political and social scenario which affects the ability of the country (or a borrower in that country) to repay its obligations. Country risk may be a combination of Transfer Risk and Sovereign Risk.

#### **40.1.1 Segmental information**

Segmental information is presented in respect of the class of business and geographical distribution of Islamic financing and related assets, Deposits, Contingencies and Commitments.

**40.1.1.1 Segments by class of business**

	2016					
	Islamic financing and related assets and Advances		Deposits		Contingencies and Commitments **	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	1,921,096	2.14%	6,326,370	4.10%	1,506,000	5.54%
Mining and Quarrying	3,183	0.00%	877,168	0.57%	55,474	0.20%
Textile	9,197,464	10.24%	742,689	0.48%	72,283	0.27%
Chemical and Pharmaceuticals	4,013,467	4.47%	1,453,263	0.94%	223,163	0.82%
Cement	1,776,221	1.98%	257,317	0.17%	326,248	1.20%
Sugar	3,642,141	4.06%	631,497	0.41%	-	0.00%
Footwear and Leather garments	253,631	0.28%	128,296	0.08%	18,645	0.07%
Automobile and transportation equipment	1,309,014	1.46%	2,476,085	1.60%	2,118,588	7.79%
Education	15,458	0.02%	1,603,708	1.04%	-	0.00%
Electronics and electrical appliances	2,484,160	2.77%	237,863	0.15%	810,040	2.98%
Production and transmission of energy	-	0.00%	20,136,016	13.04%	595,033	2.19%
Construction	6,103,179	6.80%	2,161,476	1.40%	1,394,743	5.13%
Power (electricity), Gas, Water, Sanitary	10,620,970	11.83%	24,708	0.02%	87,056	0.32%
Wholesale and Retail Trade	12,225,686	13.62%	30,084,018	19.48%	320,657	1.18%
Exports / Imports	693,663	0.77%	127,132	0.08%	19,230	0.07%
Transport, Storage and Communication	626,988	0.70%	875,802	0.57%	344,040	1.27%
Financial	2,735,597	3.05%	16,416,916	10.63%	10,989,090	40.42%
Insurance	5,227	0.01%	1,762,813	1.14%	-	0.00%
Services	4,321,401	4.81%	5,881,989	3.81%	104,651	0.38%
Individuals	18,709,243	20.84%	47,053,495	30.48%	291,434	1.07%
Food and beverages	5,441,174	6.06%	1,871,521	1.21%	764,236	2.81%
Private Trust & NGO	22,796	0.03%	5,312,842	3.44%	-	0.00%
Packing and Paper products	766,993	0.85%	14,805	0.01%	-	0.00%
Others*	2,898,177	3.23%	7,941,868	5.14%	7,143,598	26.28%
	<b>89,786,929</b>	<b>100%</b>	<b>154,399,657</b>	<b>100%</b>	<b>27,184,209</b>	<b>100%</b>
	<b>2015 (Restated)</b>					
	Islamic financing and related assets		Deposits		Contingencies and Commitments **	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	1,915,599	2.30%	6,076,036	3.97%	1,027,399	4.24%
Mining and Quarrying	3,683	0.00%	714,345	0.47%	107,972	0.45%
Textile	8,194,802	9.86%	789,787	0.52%	804,431	3.32%
Chemical and Pharmaceuticals	5,095,285	6.13%	2,095,720	1.37%	116,712	0.48%
Cement	1,743,669	2.10%	337,006	0.22%	114,651	0.47%
Sugar	3,597,585	4.33%	2,233,462	1.46%	300,010	1.24%
Footwear and Leather garments	28,493	0.03%	132,292	0.09%	3,467	0.01%
Automobile and transportation equipment	1,315,610	1.58%	1,965,002	1.28%	2,005,329	8.28%
Education	3,962	0.00%	2,683,204	1.75%	-	0.00%
Electronics and electrical appliances	4,488,012	5.40%	4,835,033	3.16%	863,425	3.57%
Production and transmission of energy	-	0.00%	21,368,252	13.96%	1,649,852	6.81%
Construction	4,900,371	5.90%	1,730,537	1.13%	1,798,276	7.43%
Power (electricity), Gas, Water, Sanitary	2,461,673	2.96%	30,688	0.02%	87,395	0.36%
Wholesale and Retail Trade	6,516,417	7.84%	26,419,522	17.26%	697,918	2.88%
Exports/Imports	2,171,847	2.61%	90,617	0.06%	46,515	0.19%
Transport, Storage and Communication	635,771	0.76%	1,974,619	1.29%	346,040	1.43%
Financial	3,784,231	4.55%	9,184,929	6.00%	10,796,746	44.59%
Insurance	9,529	0.01%	667,568	0.44%	-	0.00%
Services	4,864,288	5.85%	4,786,730	3.13%	83,591	0.35%
Individuals	12,589,149	15.95%	43,678,228	28.54%	173,937	0.72%
Food and beverages	13,422,734	16.15%	1,668,463	1.09%	1,065,992	4.40%
Private Trust & NGO	1,514,318	1.82%	4,891,072	3.20%	400	0.00%
Packing and Paper products	291,649	0.35%	11,979	0.01%	38,741	0.16%
Others*	2,897,091	3.49%	14,693,011	9.60%	2,084,665	8.61%
	<b>82,445,768</b>	<b>100%</b>	<b>153,058,102</b>	<b>100%</b>	<b>24,213,464</b>	<b>100%</b>

\* Others include sole proprietors, fund accounts and government deposits etc.

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

**40.1.1.2 Segment by sector**

	2016					
	Islamic financing and related assets		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	11,460,059	13%	7,110,306	5%	875,950	3%
Private	78,326,870	87%	147,289,351	95%	26,308,259	97%
	<b>89,786,929</b>	<b>100%</b>	<b>154,399,657</b>	<b>100%</b>	<b>27,184,209</b>	<b>100%</b>
	<b>2015 (Restated)</b>					
	Islamic financing and related assets		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	12,000,232	14%	17,899,005	12%	475,444	2%
Private	70,445,536	86%	135,159,097	88%	23,738,020	98%
	<b>82,445,768</b>	<b>100%</b>	<b>153,058,102</b>	<b>100%</b>	<b>24,213,464</b>	<b>100%</b>



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

	2016		2015 (Restated)	
	Classified financing and related assets	Specific provisions held	Classified financing and related assets	Specific provisions held
	----- Rupees in '000 -----			
Wholesale and Retail trade	818,087	629,640	236,887	149,140
Agriculture, Forestry, Hunting and Fishing	858,824	168,450	48,789	48,789
Textile	2,559,194	2,401,362	4,302,647	3,848,509
Chemical and Pharmaceuticals	170,230	38,102	140,164	132,670
Power (electricity), Gas, Water, Sanitary	649	51	292,430	291,832
Cement	3,183	3,183	563,250	563,250
Electronics and electrical appliances	4,231,623	4,214,866	30,215	30,215
Construction	1,050,182	983,859	1,106,996	1,108,416
Services	362,870	172,619	1,662,794	1,662,794
Financial	245,401	245,189	201,131	200,920
Paper Product	13,000	13,000	13,000	10,814
Food and Beverages	5,000	-	467,782	467,782
Individuals	1,994,522	1,322,902	3,103,979	2,429,093
Automobile and transportation equipment	-	-	100,359	100,359
Footwear and leather garments	2,459	2,459	162,361	162,361
Manufacturing	-	-	1,768,729	1,405,786
Sugar	782,195	309,049	352,125	352,125
Transport, storage and communication	467,864	467,864	368,289	368,134
Others	968,684	966,762	761,656	183,517
	<u>14,533,967</u>	<u>11,939,357</u>	<u>15,683,583</u>	<u>13,516,506</u>

#### 40.1.1.4 Details of non-performing Islamic financing related assets and specific provisions by sector:

	2016		2015 (Restated)	
	Classified financing and related assets	Specific provisions held	Classified financing and related assets	Specific provisions held
	----- Rupees in '000 -----			
Public / Government	-	-	-	-
Private	14,533,967	11,939,357	15,683,583	13,516,506
	<u>14,533,967</u>	<u>11,939,357</u>	<u>15,683,583</u>	<u>13,516,506</u>

#### 40.1.1.5 Geographical segment analysis

	2016			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- Rupees in '000 -----			
Pakistan	843,757	180,846,170	12,444,666	27,184,209
	----- Rupees in '000 -----			
	2015 (Restated)			
	Loss before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- Rupees in '000 -----			
Pakistan	(272,387)	174,230,745	11,186,270	24,213,464

#### 40.1.2 Credit risk - Standardized Approach

Credit risk arises due to the risk of a borrower defaulting on his commitment either in part or as a whole. The Bank has currently employed standardized approach for evaluation of credit risk. It uses CRM (Credit Risk Mitigation) technique where applicable. The Bank carries a strong desire to move towards the FIRB and Advanced approach.

##### 40.1.2.1 Credit Risk: Disclosures for portfolio subject to the Standardised Approach and supervisory risk weights in the IRB Approach

The Bank uses reputable and SBP approved rating agencies for deriving risk weight to specific credit exposures, where available. The Bank has still employed a credit rating model, which is compatible to the rating guidelines of SBP, which will support the Bank in internally rating the credit clients.

### Types of Exposures and ECAI's used

Exposures	2016			2015		
	JCR - VIS	PACRA	Others	JCR - VIS	PACRA	Others
Corporate	✓	✓	N/A	✓	✓	N/A
Banks	✓	✓	✓	✓	✓	✓

### Credit Exposures subject to Standardised approach

Exposures	SBP grade	Rating Category	2016			2015		
			Amount Outstanding Credit Equivalent	Deduction CRM	Net amount	Amount Outstanding Credit Equivalent	Deduction CRM	Net amount
----- Rupees in '000 -----								
Cash and cash equivalent		0%	3,565,605	-	3,565,605	2,652,415	-	2,652,415
Claims on Government of Pakistan (Federal or Provincial Governments) and SBP, denominated in PKR		0%	53,523,964	160,134	53,363,830	44,126,470	232	44,126,238
Foreign Currency claims on SBP arising out of statutory obligations of banks in Pakistan		0%	320,908	-	320,908	370,051	-	370,051
Claims on other sovereigns and on Government of Pakistan or provincial governments or SBP denominated in currencies other than PKR		0%	-	-	-	-	-	-
	1	20%	-	-	-	-	-	-
	2,3	50%	-	-	-	-	-	-
	4,5	100%	-	-	-	-	-	-
	6	150%	11,421	-	11,421	48,066	-	48,066
	Unrated	100%	-	-	-	-	-	-
Claims on Public Sector Entities in Pakistan		0%	-	-	-	-	-	-
	1	20%	1,827,818	1,500,000	327,818	709,086	453,884	255,202
	2,3	50%	-	-	-	-	-	-
	4,5	100%	-	-	-	-	-	-
	6	150%	-	-	-	-	-	-
	Unrated	50%	418,811	233,931	184,880	9,393,234	7,449,475	1,943,759
Claims on Banks		0%	-	-	-	-	-	-
	1	20%	1,475,213	-	1,475,213	1,356,572	-	1,356,572
	2,3	50%	2,496,858	-	2,496,858	57	-	57
	4,5	100%	-	-	-	-	-	-
	6	150%	-	-	-	-	-	-
	Unrated	50%	210,272	-	210,272	7,884	-	7,884
Claims, denominated in foreign currency, on banks with original maturity of 3 months or less		0%	-	-	-	-	-	-
	1,2,3	20%	249,939	-	249,939	1,096,342	-	1,096,342
	4,5	50%	7,420	-	7,420	168,425	-	168,425
	6	150%	-	-	-	-	-	-
	unrated	20%	1,873,976	-	1,873,976	511,306	-	511,306
Claims on banks with original maturity of 3 months or less denominated in PKR and funded in PKR		0%	-	-	-	-	-	-
	20%	26,224,979	-	26,224,979	39,824,221	-	-	39,824,221
Claims on Corporates (excluding equity exposures)		0%	-	-	-	-	-	-
	1	20%	11,031,404	3,575,000	7,456,404	7,110,008	2	7,110,006
	2	50%	1,389,451	150,000	1,239,451	1,627,882	4,691	1,623,191
	3,4	100%	54,853	53,081	1,772	2,853	1,085	1,768
	5,6	150%	-	-	-	-	-	-
	Unrated 1	100%	29,417,480	1,618,720	27,798,760	26,837,330	5,406,859	21,430,471
	Unrated 2	125%	9,612,741	4,591	9,608,150	11,655,286	1,863,039	9,792,247
Claims categorized as retail portfolio		0%	-	-	-	-	-	-
		20%	-	-	-	-	-	-
		50%	-	-	-	-	-	-
		75%	15,202,906	2,073,209	13,129,697	6,920,086	1,382,728	5,537,358
Claims fully secured by residential property (Residential Mortgage Finance as defined in Section 2.1)		35%	6,947,496	-	6,947,496	6,688,777	-	6,688,777
<b>Past Due loans:</b>								
1.1 where specific provisions are less than 20 percent of the outstanding amount of the past due claim.		150%	1,355,312	276,250	1,079,062	1,103,961	576,942	527,019
1.2 where specific provisions are no less than 20 percent of the outstanding amount of the past due claim.		100%	822,119	-	822,119	544,685	9,894	534,791
1.3 where specific provisions are more than 50 percent of the outstanding amount of the past due claim.		50%	253,918	-	253,918	81,381	62,526	18,855
2. Loans and claims fully secured against eligible residential mortgages that are past due for more than 90 days and/or impaired		100%	398,727	-	398,727	344,209	2,668	341,541
3. Loans and claims fully secured against eligible residential mortgage that are past due by 90 days and /or impaired and specific provision held there against is more than 20% of outstanding amount		50%	73,583	-	73,583	98,501	-	98,501
Investment in commercial entity (which exceeds 10% of the issued common share capital of the issuing entity) or where the entity is an unconsolidated associate.		1000%	627,942	-	627,942	627,942	-	627,942
Significant investment and DTAs above 15% threshold (refer to Section 2.4.10 of Basel III instructions)		250%	400,615	-	400,615	1,088,719	-	1,088,719
Unlisted equity investments (other than that deducted from capital) held in banking book		150%	577,675	-	577,675	577,675	-	577,675
Investments in premises, plant and equipment and all other fixed assets		100%	6,186,259	-	6,186,259	5,459,918	-	5,459,918
All other assets		100%	12,231,657	-	12,231,657	8,490,003	-	8,490,003



#### **40.1.2.2 Credit Risk Disclosures with respect to Credit Risk Mitigation for Standard and IRB Approaches**

The Bank obtains capital relief for both on and off-balance sheet non-market related exposures by using simple approach for Credit risk mitigation (CRM). Off-balance sheet items under the simplified standardized approach are converted into credit exposure equivalents through the use of credit conversion factors. Under the standardized approach the Bank has taken advantage of the cash collaterals available with the Bank in the form of security deposits and cash margins and lien on deposit accounts.

Valuation and management of eligible collaterals for CRM is being done in line with the conditions laid down by the SBP. Since eligible collaterals for CRM purposes are all in the form of cash collaterals, they generally do not pose risk to the Bank in terms of change in their valuation due to changes in the market conditions.

#### **40.2 Equity Position Risk in the Banking book**

Equity position includes the following:

- Strategic investments
- Investment in equities for generating revenue in short term

These equity investments are accounted for and disclosed as per the provisions and directives of SBP, SECP and the requirements of approved International Financial Reporting Standards as applicable in Pakistan.

Provision for diminution in the value of securities is made after considering impairment, if any, in their value and charged to the profit and loss account.

#### **40.3 Yield / Profit Rate Risk in the banking book**

It includes all material yield risk positions of the Bank taking into account all repricing and maturity data. It includes current balances and contractual yield rates, the Bank understands that its Islamic financing and related assets shall be repriced as per their respective contracts.

The Bank estimates changes in the economic value of equity due to changes in the yield rates on on-balance sheet positions by conducting duration gap analysis. It also assesses yield rate risk on earnings of the bank by applying upward and downward shocks.

#### **40.4 Market Risk**

Market risk is defined as the risk of losses in on-and-off balance sheet positions arising from movements in market prices e.g. fluctuations in values in tradable, marketable or leasable assets. The risks relate to the current and future volatility of market values of specific assets and of foreign exchange rates and benchmark yields.

The Bank uses various tools and techniques to assess market risk including but not limited to full valuation, stress testing, scenario analysis. These assessment methods enable the Bank to estimate changes in the value of the portfolio, if exposed to various risk factors.

Moreover, since the Bank does not deal in interest based products, the impact of the above risks will be very minimal. The Bank does not have positions or forward exchange contracts giving mismatches of maturity unless such risks have been taken care of through some other mechanism.

The VaR reports are complemented by various other position and sensitivity limit structures, including stress, sensitivity, gap and scenario analysis. The capital charge for market risk has been calculated by using Standardized Approach.

#### 40.4.1 Foreign Exchange Risk

Currency risk is the risk of loss arising from the fluctuations of exchange rates.

In the normal course of conducting commercial banking business, which ranges from intermediation only to taking on principal risk as dealer or as counterparty, the Bank purchases or sells currencies in today / ready and gives or receives unilateral promises for sale or purchase of FX at future dates in a long or short position in different currency pairs. These positions expose the Bank to foreign exchange risk. To control this risk, the Bank primarily uses notional principal limits at various levels to control the open position, and ultimately the residual foreign exchange risk of the Bank. The Bank also strictly adheres to all associated regulatory limits.

Following is the summary of the assets of the Bank subject to foreign exchange risk.

	2016			
	Assets	Liabilities	Off-balance Sheet	Net foreign currency exposure
----- Rupees in '000 -----				
Pakistan rupee	172,040,044	159,779,592	(6,197,348)	6,063,104
United States dollar	8,121,391	8,032,902	5,438,503	5,526,992
Great Britain pound	315,222	280,151	183,998	219,069
Japanese yen	18,887	6,107	-	12,780
Euro	297,758	298,682	574,847	573,923
UAE Dirham	3,301	6	-	3,295
Asian Currency Unit	41,841	-	-	41,841
CHF	3,574	-	-	3,574
Australian Dollar	3,242	1,223	-	2,019
Saudi Riyal	656	-	-	656
Canadian Dollar	116	2,841	-	(2,725)
Turkish Lira	138	-	-	138
	<u>180,846,170</u>	<u>168,401,504</u>	<u>-</u>	<u>12,444,666</u>
----- Rupees in '000 -----				
	2015 (Restated)			
	Assets	Liabilities	Off-balance Sheet	Net foreign currency exposure
----- Rupees in '000 -----				
Pakistan rupee	171,681,627	160,403,438	(163,577)	11,114,612
United States dollar	1,863,049	2,011,886	163,577	14,740
Great Britain pound	265,859	266,076	-	(217)
Japanese yen	6,664	279	-	6,385
Euro	358,429	361,520	-	(3,091)
UAE Dirham	4,258	-	-	4,258
Asian Currency Unit	33,690	-	-	33,690
CHF	3,779	-	-	3,779
Australian Dollar	3,645	1,276	-	2,369
Saudi Riyal	9,745	-	-	9,745
	<u>174,230,745</u>	<u>163,044,475</u>	<u>-</u>	<u>11,186,270</u>



#### 40.4.2 MISMATCH OF YIELD / PROFIT RATE SENSITIVE ASSETS AND LIABILITIES

		2016										
		Exposed to Yield / Profit risk										
Effective Yield / Profit rate	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 to 9 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	Non-profit bearing financial instruments
		Rupees in '000										
<b>On-balance sheet financial instruments</b>												
<i>Assets</i>												
	Cash and balances with Treasury Banks	-	-	-	-	-	-	-	-	-	-	8,921,433
3.50%	Balances with other Banks	95	-	-	-	-	-	-	-	-	-	1,140,055
6.11%	Due from financial institutions	5,722,557	9,135,008	-	-	12,361,100	-	-	-	-	-	-
5.82%	Investments	900,986	37,953,818	5,240,230	-	-	-	-	-	-	-	2,221,893
7.24%	Islamic financing and related assets and advances	77,816,802	12,872,093	8,133,853	2,697,061	12,736,431	1,153,956	2,858,048	10,067,761	8,729,206	6,337,980	2,083,846
	Other assets	3,795,464	-	-	-	-	-	-	-	-	-	3,795,464
		165,209,441	16,770,205	59,960,919	13,374,083	2,697,061	1,153,956	2,858,048	10,067,761	8,729,206	6,337,980	18,162,691
	<i>Liabilities</i>											
	Bills payable	-	-	-	-	-	-	-	-	-	-	-
5.80%	Due to financial institutions	1,030,000	634,000	2,041,550	-	-	-	-	-	2,360,757	-	2,273,934
3.26%	Deposits and other accounts	154,399,657	-	-	-	-	-	-	-	-	-	49,554,372
	Other liabilities	1,678,449	-	-	-	-	-	-	-	-	-	1,678,449
		164,418,347	105,875,285	634,000	2,041,550	-	-	-	-	2,360,757	-	53,506,755
	<b>On-balance sheet gap</b>	791,094	(89,105,080)	59,326,919	11,332,533	2,697,061	1,153,956	2,858,048	10,067,761	6,368,449	6,337,980	(35,344,064)
	<b>NON FINANCIAL ASSETS</b>											
	Operating fixed assets	9,347,525	-	-	-	-	-	-	-	-	-	-
	Deferred tax assets	5,918,460	-	-	-	-	-	-	-	-	-	-
	Other assets	370,744	-	-	-	-	-	-	-	-	-	-
		15,636,729	-	-	-	-	-	-	-	-	-	-
	<b>NON FINANCIAL LIABILITIES</b>											
	Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-
	Other liabilities	3,983,157	-	-	-	-	-	-	-	-	-	-
	<b>TOTAL NET ASSETS</b>	12,444,666	-	-	-	-	-	-	-	-	-	-
	Total Yield / Profit Risk Sensitivity Gap	(89,105,080)	(29,778,161)	59,326,919	11,332,533	2,697,061	1,153,956	2,858,048	10,067,761	6,368,449	6,337,980	(35,344,064)
	Cumulative Yield / Profit Risk Sensitivity Gap	(89,105,080)	(29,778,161)	(18,445,628)	(15,748,567)	9,348,964	(10,502,920)	13,360,968	23,428,729	29,797,178	36,135,158	(35,344,064)



2015 (Restated)													
Effective Yield / Profit rate	Total	Exposed to Yield / Profit risk										Non-profit bearing financial instruments	
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 to 9 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											
	9,035,886	-	-	-	-	-	-	-	-	-	-	-	9,035,886
	1,780,710	-	-	-	-	-	-	-	-	-	-	-	1,780,710
3.50%	39,824,221	35,774,221	4,050,000	-	-	-	-	-	-	-	-	-	-
6.13%	35,885,958	667,064	1,846,198	7,960,200	22,959,293	-	-	-	-	-	-	-	-
5.80%	68,709,048	4,012,901	14,881,852	1,926,547	39,832	1,860,979	5,487,593	1,015,852	7,521,070	-	-	-	2,453,203
7.98%	3,304,514	-	-	-	-	-	-	-	-	-	-	-	3,304,514
	158,540,337	40,454,186	20,778,050	36,724,109	1,926,547	22,999,125	3,198,513	1,860,979	5,487,593	1,015,852	7,521,070	-	16,574,313
	1,523,933	-	-	-	-	-	-	-	-	-	-	-	1,523,933
5.75%	3,197,770	671,000	40,000	328,350	-	-	-	-	-	-	-	-	-
3.53%	153,058,102	107,601,766	-	-	-	-	-	-	-	-	-	-	45,456,336
	4,916,350	-	-	-	-	-	-	-	-	-	-	-	4,916,350
	162,696,155	108,272,766	40,000	328,350	-	-	-	-	-	-	2,158,420	-	51,896,619
	(4,155,818)	(67,818,580)	20,738,050	36,395,759	1,926,547	22,999,125	3,198,513	1,860,979	5,487,593	(1,142,568)	7,521,070	-	(35,322,306)
	8,828,540	-	-	-	-	-	-	-	-	-	-	-	-
	6,591,439	-	-	-	-	-	-	-	-	-	-	-	-
	270,429	-	-	-	-	-	-	-	-	-	-	-	-
	15,690,408	-	-	-	-	-	-	-	-	-	-	-	-
	348,320	-	-	-	-	-	-	-	-	-	-	-	-
	11,186,270	-	-	-	-	-	-	-	-	-	-	-	-
	(67,818,580)	20,738,050	36,395,759	1,926,547	22,999,125	3,198,513	1,860,979	5,487,593	(1,142,568)	7,521,070	-	-	(35,322,306)
	(67,818,580)	(47,080,530)	(10,684,771)	(8,758,224)	14,240,901	17,439,414	19,300,393	24,787,986	23,645,418	31,166,488	-	-	(35,322,306)

**On-balance sheet financial instruments**

**Assets**

Cash and balances with Treasury Banks  
Balances with other Banks  
Due from financial institutions  
Investments  
Islamic financing and related assets  
Other assets

**Liabilities**

Bills payable  
Due to financial institutions  
Deposits and other accounts  
Other liabilities

**On-balance sheet gap**

**NON FINANCIAL ASSETS**

Operating fixed assets  
Deferred tax assets  
Other assets

**NON FINANCIAL LIABILITIES**

Deferred tax liabilities  
Other liabilities

**TOTAL NET ASSETS**

Total Yield / Profit Risk Sensitivity Gap

Cumulative Yield / Profit Risk Sensitivity Gap



**4.0.5 Liquidity Risk**

Liquidity risk is the potential loss to the Bank arising from its inability either to meet its obligations (financial) or to fund increases in assets as they fall due without incurring unacceptable costs or losses.

BPL's liquidity at various levels (day to day, short term, long term) is managed by the Treasury along with the Asset and Liability Management Committee (ALCO), which is one of the most important management level committees. Its role cannot be overemphasized here, it serves as a part of the critical trio with risk management and treasury department, monitoring and maintaining key liquidity ratios, a viable funding mix, depositor concentration, reviewing contingency plans etc.

**MATURITIES OF ASSETS AND LIABILITIES**

		2016																		
		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		
Total		Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	
Rupees in '000																				
<b>Assets</b>																				
Cash and balances with																				
treasury banks																				
	8,921,433	8,921,433	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks																				
	1,140,150	1,140,150	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from financial institutions																				
	27,218,665	5,722,558	9,135,007	12,361,100	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments																				
	46,316,927	1,108,064	-	1,989,073	-	-	-	-	-	-	-	-	37,428,000	-	123,635	-	-	-	-	5,688,155
Islamic financing and related																				
assets and advances																				
	77,816,802	11,429,106	12,875,161	8,134,121	15,298,280	-	-	-	-	1,358,237	3,241,341	-	10,106,651	-	8,989,563	-	-	-	6,384,342	-
Operating fixed assets																				
	9,347,525	-	-	53,851	-	-	-	-	-	62,716	-	-	886,318	-	1,565,353	-	-	-	6,779,287	-
Deferred tax assets																				
	5,918,480	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets																				
	4,166,208	2,694,712	-	-	453,626	-	-	-	-	-	-	-	-	-	1,004,620	-	-	-	-	-
	180,846,170	12,756,295	18,259,728	22,010,168	67,101	22,464,294	453,626	15,298,280	-	1,420,953	-	40,689,341	6,804,778	10,230,286	2,568,973	8,989,563	6,779,287	12,072,487	-	-
<b>Liabilities</b>																				
Bills payable																				
	2,273,934	2,273,934	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to financial institutions																				
	6,066,307	1,030,000	634,000	2,041,550	-	-	-	-	-	-	-	-	-	-	2,360,757	-	-	-	-	-
Deposits and other accounts																				
	154,389,657	55,702,654	8,443,415	6,379,652	-	-	-	11,074,028	27,667,270	2,689,381	27,667,270	2,612,425	4,196,889	-	66,888	-	-	-	-	-
Deferred tax liabilities																				
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities																				
	5,661,606	1,863,609	59,106	138,308	976,047	-	-	-	-	-	-	-	2,624,536	-	-	-	-	-	-	-
	188,401,504	59,840,197	8,920,895	59,106	9,077,415	138,308	8,421,202	976,047	11,074,028	27,667,270	2,689,381	27,667,270	2,612,425	4,196,889	2,360,757	8,989,563	6,779,287	12,072,487	-	-
<b>Net assets</b>																				
	12,444,666	(47,083,902)	9,338,923	(69,106)	12,932,753	(71,207)	14,043,092	(822,421)	4,224,252	(27,667,270)	(1,278,428)	(27,667,270)	38,056,916	4,180,242	6,033,387	209,216	8,923,705	6,779,287	12,072,487	-

Rupees in '000	
Share capital	10,079,121
Discount on issue of shares	(79,042)
Reserves	613,636
Unappropriated profit	212,553
Surplus on revaluation of assets	1,618,388
	<u>12,444,666</u>

2015 (Restated)																			
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		
	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	
	Rupees in '000																		
<b>Assets</b>																			
Cash and balances with																			
	9,035,886	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	1,780,710	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	39,824,221	35,774,221	4,050,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	35,885,958	1,006,672	1,506,000	-	22,959,293	-	8,080,084	-	-	-	450,000	-	-	588,409	-	-	-	1,295,500	
Islamic financing and related assets																			
	68,709,048	4,012,901	14,881,852	-	28,763,909	-	1,966,379	-	3,186,513	-	1,860,979	-	5,487,593	-	1,015,852	-	7,521,070	-	
	8,828,540	58,942	19,145	3,714	-	4,793	-	2,530	-	-	-	-	666,482	-	1,168,146	-	6,904,788	-	
	6,591,439	-	-	-	-	-	-	-	-	-	-	-	6,591,439	-	-	-	-	-	
	3,574,943	627,906	14,491	-	-	870,135	-	-	-	-	-	-	2,062,411	-	-	-	-	-	
	174,230,745	11,503,444	40,783,794	19,145	20,437,852	18,205	28,763,909	874,928	24,925,672	2,530	11,278,597	-	2,310,979	9,320,332	5,487,593	1,168,146	1,604,261	6,904,788	8,816,570
<b>Liabilities</b>																			
Bills payable																			
	1,523,833	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	3,197,770	671,000	-	328,350	-	-	-	-	-	-	-	-	-	-	2,158,420	-	-	-	-
	153,058,102	12,854,743	11,873,710	-	12,633,153	-	10,845,926	-	44,819,389	2,751,523	44,819,389	2,758,901	-	4,485,237	988,263	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	5,264,670	1,802,834	-	1,390,904	-	316,665	-	-	-	-	-	-	1,713,373	-	-	-	-	-	-
	163,044,475	16,852,510	4,247,868	80,894	11,973,710	1,719,254	12,633,153	316,865	10,845,926	44,819,389	2,751,523	44,819,389	2,758,901	1,713,373	4,485,237	3,126,683	-	-	-
	11,186,270	(5,349,066)	36,545,926	(61,749)	8,564,142	(1,701,049)	16,130,756	558,263	14,079,746	(44,816,859)	8,527,074	(44,819,389)	(447,922)	7,606,959	1,002,356	(1,958,537)	1,604,261	6,904,788	8,816,570
<b>Net assets</b>																			

Rupees in '000

Share capital	10,079,121
Discount on issue of shares	(79,042)
Reserves	351,723
Surplus on revaluation of assets	834,468
	11,186,270



#### **40.6 Operational Risk**

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external / internal events. The risk is different from the others, since it has a greater level of uncertainty and may be termed as a little difficult to measure. The Bank believes that prudence should be lived and breathed through the organizational culture.

At a more formal level, the Bank has strengthened its risk management framework by developing policies, guidelines and manuals. Operational and other risk assessment tool e.g. Risk Control and Self Assessment (RCSA) is being effectively used to assess, mitigate and monitor possible risk that may arise in any of the Bank's financial product or department. Operational Loss Database (OLD) records all the internal / external potential operational losses which helps the management understand the causes and impact of these risks.

#### **40.7 Strategic Risk**

Strategic risk arises due to wrong assumptions in strategic decision making or the failure to react correctly to long-term changes in strategic parameters.

The Bank follows a deliberate low-risk strategy. Within the general constraints of its niche market the Bank is aware of the need of reducing risk. The Bank has a well established strategic planning and evaluation process which involves all levels of management and which is subject to regular review.

#### **40.8 Systemic Risk**

Systemic risk is the risk of a total or partial collapse of the financial system.

Such a collapse could be due to technical factors or market driven (psychological reasons).

Systemic risk is reduced by the activities of both national and international regulatory authorities. The Bank actively supports these organizations through its membership of the relevant banking industry association i.e. Pakistan Banks Association ("PBA"). The Bank also takes account of systemic risk by means of careful management of counter party risks in the inter-bank market.

#### **40.9 Shariah Non-compliance Risk**

Shariah non-compliance risk is the risk that arises from an Islamic bank's failure to comply with the Shariah rules and principles prescribed by the State Bank of Pakistan and / or the Shariah Board of the Bank. It remains the most important operational risk for an Islamic bank. Compliance of Shariah guidelines must permeate throughout the organisation and its adherence should be reflected in the products and activities.

#### **41 TRUST ACTIVITIES**

Banks commonly act as trustees 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. These are not assets of the bank and, therefore, are not included in statement of financial position. Following is the list of assets held under trust:

Category	Type	No. of IPS account		Face Value	
		2016	2015	2016	2015
				-----Rupees in '000-----	
Insurance Companies	Sukuks	1	1	220,000	220,000
Asset Management Companies	Sukuks	24	24	1,426,240	1,452,165
Employee Funds / NGO's	Sukuks	5	5	138,250	79,500
Individuals	Sukuks	9	10	137,795	111,870
Others	Sukuks	21	21	4,537,715	4,596,465
		<u>60</u>	<u>61</u>	<u>6,460,000</u>	<u>6,460,000</u>

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

The Bank maintained the following pools for profit declaration and distribution during the year ended December 31, 2016:

- i) General Deposit Mudarabah Pool (PKR, USD, EUR & GBP);
- ii) Musharakah Pool under SBP's Islamic Export Refinance Scheme; and
- iii) Treasury Special Pools

The deposits and funds accepted under the General Deposit Mudarabah Pool is provided to different sectors of economy mainly to 'Textile and Allied', ' Energy', 'Fertilizer', 'Trading', ' Consumer Finance' and 'GOP Ijarah Sukuks'.

Musharakah investments from the SBP under Islamic Export Refinance Scheme (IERS) are channelled towards the export sector of the economy via different Islamic financing modes such as Murabahah, Istisna etc.

#### Key features and risk & reward characteristics of all pools

The 'General Deposit Mudarabah Pool' for both local and foreign currency is to cater all depositors of BIPL and provide profit / loss based on actual returns earned by the pool. Depositors are Rabb-ul-Maal as they are the provider of capital while the Bank acts as Mudarib by investing these funds in business. Since there are more than one Rabb-ul-Maal (depositor), their mutual relationship is that of Musharakah. Profit is shared among Mudarabah partners (Bank and depositors) as per pre-agreed profit sharing ratio. Whereas, profit sharing among the depositors is based on pre-assigned weightages. Loss, if any, is borne by Rabb-ul-Maal as per the principles of Mudarabah.

The IERS Pool caters to the 'Islamic Export Refinance Scheme' requirements based on the guidelines issued by the SBP. In this Scheme, SBP enters into a Musharakah arrangement with the Bank for onward financing to exporters and other blue chip companies on the basis of Shariah compliant modes such as Murabahah, Istisna, etc. Under the scheme, SBP is required to share in profit and loss of the Bank's IERS Musharakah pool. IERS pool consists of blue chip companies to whom the Bank has provided financing facilities on Shariah compliant modes including IERS facility. Profit is shared according to an agreed weightage and loss is shared according to the investment ratio.

Treasury Pools are managed on the basis of Musharakah, wherein BIPL and partner (Financial Institution) share actual return earned by the pool according to pre-defined profit sharing ratio.



The risk characteristic of each pool mainly depends on the asset and liability profile of each pool. The pool is exposed to following kinds of risks:

- 1 **Asset Risk:** The pool is exposed to Asset Risk which is the risk that is associated with Islamic mode of finance(s) applied / used under the transaction structure(s). The Bank has prepared detailed product manuals in order to identify and properly mitigate such risk. The Bank also analyses transaction structure of each customer to further ensure proper safeguard of depositors' interest. The review is done by experienced team of professionals having considerable experience in the field of Islamic banking and finance. Nevertheless since Islamic banking is a nascent industry, we believe that the process of further improvement will continue as the business grows.
- 2 **Credit Risk:** Financial Risk is the risk which is associated with financing that is mitigated through safeguards through available standards within Shariah guidelines as disclosed in note 40.1 to these financial statements.

**Parameters used for allocation of profit, charging expenses and provisions etc. along with a brief description of their major components:**

Gross income (Revenue less cost of goods sold and after deduction of other direct expenses), generated from relevant assets is calculated at the end of the month. The income is shared between the Bank and the depositors as per agreed profit sharing ratio after deduction of commingled Bank's equity share on pro rata basis. The residual is shared among depositors as per agreed weightages. These weightages and profit sharing ratios are declared by the Bank in compliance with the requirements of the SBP and Shariah.

The allocation of income and expenses to different pools is based on pre-defined basis and accounting principles / standards. Direct expenses are charged to respective pool, while indirect expenses are borne by the Bank as Mudarib. The direct expenses charged to the pool are direct cost in financing / investment transactions (i.e. Murabahah, Ijarah, Diminishing Musharakah, Istisna, Karobar Financing, Salam, etc.) and depreciation of Ijarah assets. The general and specific provisions created against non-performing Islamic financing and related assets and diminution in the value of investments as under prudential regulations and other SBP directives have been borne by the Bank as Mudarib.

General Deposit Mudarabah Pool	Profit rate and weightage announcement period	Profit rate return earned	Depositor Share %	Mudarib share %	Mudarib share	Profit rate return distributed to remunerative deposits (Savings and Term)	Percentage of Mudarib share transferred through Hiba	Amount of Mudarib Share transferred through Hiba
					(Rupees in '000)			(Rupees in '000)

PKR Pool	Monthly	7.45%	66.53%	33.47%	2,295,666	4.61%	0.00%	-
USD Pool	Monthly	0.20%	64.55%	35.45%	11	0.13%	0.00%	-

Specific Pool	Profit rate and weightage announcement period	Profit rate return earned	SBP Share %	Bank share %	Bank share	Profit rate return distributed	Percentage of Mudarib share transferred through Hiba	Amount of Mudarib Share transferred through Hiba
					(Rupees in '000)			(Rupees in '000)

- (i) Islamic Export Refinance (IERS) Pool

	Monthly	4.94%	46.33%	53.67%	1,717,393	2.57%	0.00%	-
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- (ii) In addition to the above, 167 short term Treasury Pools were created to meet liquidity management requirement of Treasury Department. The Pools were dissolved after maturity of respective Treasury transaction. The Pools were managed under the Shariah approved guidelines.

43 GENERAL

Captions, as prescribed by BSD Circular No. 04 of 2006 dated February 17, 2006 issued by the SBP, in respect of which there are no amounts, have not been reproduced in these financial statements, except for captions of the Statement of Financial Position and Profit and Loss Account.

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

43.1 Corresponding figures

Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate comparisons. There were no significant reclassifications / restatements during the year except as disclosed in note 4 and as disclosed below.

Reclassified from	Reclassified to	Rupees in '000
Other Assets	Operating fixed assets - Intangible assets	2,944,297
Other Assets	Operating fixed assets - Property and equipment	251,024

44 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on **March 10, 2017** by the Board of Directors of the Bank.

  
CHAIRMAN

  
PRESIDENT / CHIEF EXECUTIVE

  
DIRECTOR

  
DIRECTOR



## Annexure 1

Details of disposal of fixed assets to the Chief Executive Officer or to a Director or to Executives, irrespective of the value, and to any other person having cost more than Rs 1 million or net book value of Rs 250,000 or above are as follows:

Asset description	Asset Cost	Accumulated depreciation	WDV	Sale proceeds	Gain/ (loss) on disposal	Mode of disposal	Particulars of Buyer
----- Rupees in '000 -----							
Lenovo Thinkpad T410 Note book Pc Intel Core	98	98	-	5	5	Bank Policy	Imran Khursheed - Area Manager South
Lenovo Thinkpad T410 Note book Pc Intel Core	114	106	8	13	5	Bank Policy	Ms. Sheba Khan - HOD HR
Lenovo Think Pad Note Book PC	110	110	-	5	5	Bank Policy	Farooq Anwer HOD OPS
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Adeel Khan - Section Head Recon
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Muhammad Shoaib - Company Secretary
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Muhammad Furqan - HOD Credit Admin
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Faisal Sheikh - HOD Prod Dev
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Ahmed Mobeen - Corporate Finance
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Qazi Hamid - Area Manager
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Rehan Shujah - HOD Internal Audit
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Farhan Danish - Sec Head CAD
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Akhter Ausaf - HOD Risk Management
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Saad Madni - RGM South
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Ismail Khan - Reg Manager Ops
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Syed Haseen Raza Section Head Internal Audit
Interior works	1,506	1,112	394	1,506	1,112	Takaful Claim	EFU General Takaful Insurance Claim
Genset	1,232	1,232	-	171	171	Tender	M/s Adam Traders
Genset	1,214	1,214	-	171	171	Tender	M/s Adam Traders
Genset	1,146	1,146	-	171	171	Tender	M/s Adam Traders
Genset	1,008	1,007	1	171	170	Tender	M/s Adam Traders
Genset	1,149	1,149	-	171	171	Tender	M/s Adam Traders
Genset	1,808	1,808	-	171	171	Tender	M/s Adam Traders
Genset	1,060	1,060	-	171	171	Tender	M/s Adam Traders
<b>Total</b>	<b>11,813</b>	<b>11,410</b>	<b>403</b>	<b>2,786</b>	<b>2,383</b>		



ANNEXURE II

STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF RUPEES 500,000 OR ABOVE DURING THE YEAR ENDED DECEMBER 31, 2016

S. No	Name and address of the borrower	Name of individuals / partners / directors (with CNIC No.)	Father's / Husband's Name	Outstanding liabilities					Principal written off	Profit / Mark-up written off	Other financial	Total (9+10+11)
				Principal	Profit	Others	Total (5+6+7)	8				
1	2	3	4	5	6	7	8	9	10	11	12	
1	KONVA INDUSTRIES (PVT) LTD. 1) P.O. Box No. 474, Khuda Bukhsh Chambers, Water Works Road, Multan 2) Mill: 62-B, Industrial Estate Multan 3) Khawaja Mohammad Awaiz 36302-2970484-5 4) Khawaja Mazhar Hussain 36302-1955367-7	1) Khawaja Khuda Buksh 36302-2876484-5 2) Khawaja Mohammad Abdul Haque 36302-5476472-5 3) Khawaja Khuda Buksh 4) Khawaja Khuda Buksh	1) Manzoor Hussain 2) Khawaja Khuda Buksh 3) Khawaja Khuda Buksh 4) Khawaja Khuda Buksh	13,181	7,854	-	21,035	9,874	7,854	-	17,728	
2	A & S FOOD, 156 - N, Model Town (Ext.), Lahore	Sehar Adil 35201-1410445-0	Mr. Adil	3,311	3,339	-	6,650	-	2,654	-	2,654	
3	SHAN INDUSTRIES, 62-A, SIE No. 01, Model Town, Gujranwala	Zeeshan Abdul Rasheed 34101-7498664-3	Abdul Rasheed	498	932	-	1,430	-	932	-	932	
4	ALI COMMUNICATION SERVICES, 84-B, Iqbal Road, Westridge-1, Rawalpindi	Basharat Ali Bhatti 37405-400484-1	Hamid Ali Bhatti	1,454	755	-	2,209	-	755	-	755	
5	AMIN TEXTILE MILLS, 97 - B, Gulberg II, Lahore	1) Muhammad Rafi 35202-3244650-5 2) Tariq Rafi 42301-0838522-7 3) Arif Rafi 35202-1594108-3 4) Anjum Rafi 35202-2434949-9 5) Abdullah Rafi 35200-1416576-7	1) Haji Muhammad Ismail 2) Muhammad Rafi 3) Muhammad Rafi 4) Muhammad Rafi 5) Muhammad Rafi	250,762	38,106	-	288,868	71,508	38,106	-	109,614	
6	LAKHANI TRADERS, 603 - Business & Finance Centre, Opposite State Bank of Pakistan, I.I. Chundrigar Road, Karachi	Amin Muhammad Lakhani 42301-0857023-3	Noor Muhammad Lakhani	-	5,860	-	5,860	-	2,990	-	2,990	
7	NOVA INTERNATIONAL, Plot No. 81, Sector 7 / A, Korangi Industrial Area, Karachi	1) Asif Nazar 42301-6434483-1 2) Yousuf Nazar 42301-0811400-1 3) Mrs. Yasmeen Asif 42301-3481454-4 4) Mrs. Nazia Yousuf 42301-0847770-4	1) Mr. Nazar 2) Mr. Nazar 3) Mr. Asif 4) Mr. Yousuf	117,421	21,448	-	138,869	7,421	21,392	-	25,813	
8	DR. KHAN LABORATORIES & DIAGNOSTIC CENTRE, Office at A-57, Main City Shahrah-e-Faisal, Karachi	Shakeel Ahmed Khan 42201-9642358-1	Muhammad Ahmed Khan	3,372	993	-	4,365	-	865	-	865	
9	KENLUBES INTERNATIONAL, Plot No. 11, Sector 23, Korangi Industrial Area, Karachi	1) Mian Zahid Hussain 42301-1409960-7 2) Mian Zia ul Hassan 42301-1125516-9 3) Danish Ayub 42301-0751481-1	1) Haji Muhammad Ayub 2) Haji Muhammad Ayub 3) Mian Zahid Hussain	25,989	900	-	26,889	-	900	-	900	
10	BALOUCHISTAN GLASS LIMITED, 1) Head Office: 12 KM Sheikhpura Road, Kot Abdul Malik, Lahore. 2) Registered Office: Dime Center, 3rd Floor, Block-9, Clifton, Karachi 3) CHIPPA TEXTILES, 8 / 10, ST-5, Sector 12-C, North Karachi Industrial Area, Karachi	1) Muhammad Taiseef Paracha 35202-1524979-9 2) Tariq Siddiq Paracha 42301-4898864-7 3) Muhammad Rehman 42301-2597680-5 4) Muhammad Niaz Paracha 35202-2752828-7 5) Muhammad Ishaq Khokhar 35202-327680-3	1) Muhammad Siddiq Paracha 2) Muhammad Siddiq Paracha 3) Muhammad Amin 4) Muhammad Riaz Paracha 5) Muhammad Saleem Khokhar	5,500	4,232	-	9,732	-	4,232	-	4,232	
11	CHIPPA TEXTILES, 8 / 10, ST-5, Sector 12-C, North Karachi Industrial Area, Karachi	Muhammad Aslam Chippa 42101-1575109-7	Abdul Karim Chippa	2,850	503	-	3,353	-	503	-	503	
12	NAVEED INDUSTRIES, Plot No. 3/7, Sector 21, Korangi Industrial Area, Karachi	1) Mohammad Shafiq 42201-0164638-1 2) Mohammad Ashraf Khan 42201-4669294-1 3) Mohammad Anwar 42201-4401207-5 4) Mohammad Hanif Khan 42201-8352382-7	1) Faiz Mohammad 2) Mohammad Shafiq 3) Mohammad Shafiq 4) Mohammad Shafiq	1,299	1,116	-	2,415	-	1,116	-	1,116	



ANNEXURE II

STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF RUPEES 500,000 OR ABOVE DURING THE YEAR ENDED DECEMBER 31, 2016

S. No	Name and address of the borrower	Name of individuals / partners / directors (with CNIC No.)	Father's / Husband's Name	Outstanding liabilities			Principal written off	Profit / Mark-up written off	Other financial	Total (9+10+11)	
				Principal	Profit	Others					
1	2	3	4	5	6	7	8	9	10	11	12
13	IMANI TRADING, Apartment No. 303, 3rd Floor, Wali Heights, Plot No. J.M. 131, Jamshed Quarters, Karachi	Ali Akber Imani 42201-0377402-5	Ali Bhai Imani	2,499	785	-	3,284	-	785	-	785
14	Rehana Sultana Bulia35/1, 27TH STREET, PHASE-V, DHA NEAR KHY-E-SHAM SHEER, KARACHI.	Rehana Sultana Batla 4230142899444	Sultan Ahmed Batla	20,000	13,594	614	34,208	-	13,594	614	14,208
15	Muhammad Iqbal H No 757, Janipur, Ward No 4, Shahdadpur.	Muhammad Iqbal 4420499022827	Fateh Nasib	402	505	8	915	-	505	8	513
16	Shaikh M.Ehsan Ellahi Flat # C-2, Boat View Apartment, Boat Basin, Clifton, Bl-5, # 5, Karachi.	Shaikh M.Ehsan Ellahi 4230104331387	Shaikh M. Hasnaini	1,830	1,692	-	3,522	-	1,648	-	1,648
17	Mr.Abdul Naeem House # 469/6, Liaquatabad, Karachi.	Mr.Abdul Naeem 4210140868623	Abdul Ghani	555	1,190	-	1,745	-	1,227	-	1,227
18	Ghazala Nawaz HOUSE # 2, STREET # 7- A JAMSHAD COLONY, DR. QADEER KHAN ROAD, RAWALPINDI	Ghazala Nawaz 3740557336422	Ahmed Nawaz Niazi	513	558	-	1,071	-	558	-	558
19	Akhtar Bano House No A-914, Block No H, North Nazimabad, Karachi.	Akhtar Bano 4210134619712	Ghulam Mujtaba Saleem	2,025	1,205	-	3,230	-	1,205	-	1,205
20	Muhammad Iqbal Qazi BUNGLOW # 37 CIVIL LINES CANTONMENT HYDERABAD SINDH	Muhammad Iqbal Qazi 4230185874335	Ahmed Muhammad Qazi	30,749	16,138	1,293	48,180	-	16,138	1,293	17,431
21	Nadeem Ahmed H No E-468, Hafeez Street No 5, Muthallah Ali Muhammad, Lahore.	Nadeem Ahmed 3520164216349	Ghulam Muhammad	1,039	1,590	-	2,629	408	1,547	-	1,955
22	Mufid Mirza H# .105-B, STREET NO. 33, KHYE-SHAR PHASE-5, DHA, KARACHI.	Mufid Mirza 421018668393	Saeed Mirza	19,872	7,996	960	28,828	-	7,989	888	8,877
23	Nasreen Khalid H # 12-L BLOCK, MODEL TOWN, LAHORE.	Nasreen Khalid 3520226937832	Khalid Molyuddin	17,130	9,749	446	27,325	-	9,749	446	10,195
24	Naseem Akhtar HOUSE # A-188, BLOCK-10, GULSHAN-E-IQBAL KARACHI.	Naseem Akhtar 4220104344045	M.A. Razaque	3,199	3,455	242	6,896	-	3,454	233	3,687
25	Muhammad Latif P41, 42, 43, REHMANIA TOWN, JHANG ROAD, FAISALABAD.	Muhammad Latif 331009060675	Bashir Ahmed	13,700	19,743	704	34,147	-	19,740	646	20,386
26	Pak American Academic E-6, BLOCK F NORTH NAZIMABAD KARACHI.	Sultan Mahmood Ahmed 4210195473773	Manzoor Ahmed	33,550	7,503	490	41,543	-	7,503	490	7,993
				572,705	171,747	4,764	749,206	89,220	167,951	4,629	261,782

# Preserving Trust

With BankIslami's vision of "Serving you, the Right way", the indefinable trust of our customers empowers us to face challenges and fulfill their expectations. At BankIslami, we hope to maintain and increase that trust by fulfilling the customer's banking requirements as well as being able to facilitate them in their financial goals, whether they be immediate or long term.





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BankIslami's **MoneyGram®** service comes with the following features:

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- Bank account not required for receiving **MoneyGram®** payment from any BankIslami branch

\* Including sub-branches

Serving you, the Right way



## Directors Report

On behalf of the Board, I am pleased to present the consolidated Annual Results of the Group for the year ended December 31, 2016. Following are the highlights:

	Dec-16	Dec-15	Growth (%)
.....Rupees in 'millions' .....			
Total Deposits	153,826	152,661	0.76%
Total Assets	181,994	174,650	4.20%
Total Financing-net	77,667	68,561	13.28%
Total Investments	46,643	35,801	30.28%
Shareholder's Equity	13,066	11,484	13.78%
Profit After Tax	647	(87)	-843.68%
Branches	321	317	1.26%

Our Group performance remained satisfactory. While the growth in deposits was marginal, the Group has been able to post growth in its Financings by 13.28% and Total Assets by 4.20%.

We would like to place on record its deep appreciation to the State Bank of Pakistan and Securities and Exchange Commission of Pakistan for their continued support and guidance. Also, we would like to show our gratitude to the employees of the Group for their contribution towards the Group's progress through their hard work and commitment.

On behalf of the Board,



Hasan A Bilgrami  
Chief Executive Officer

March 10, 2017



## ڈائریکٹرز کی رپورٹ

میں بورڈ کی جانب سے گروپ کے 31 دسمبر 2016 کو اختتام پذیر ہونے والے سال کے مجموعی نتائج پیش کرتے ہوئے خوشی محسوس کر رہا ہوں۔ اس کے اہم نکات درج ذیل ہیں۔

نمبر (فیصد)	دسمبر-15	دسمبر-16	
			----- روپے ملین میں -----
0.76%	152,661	153,826	کل ڈپازٹ
4.20%	174,650	181,994	کل اثاثے
13.28%	68,561	77,667	کل خالص تمویل
30.28%	35,801	46,643	کل سرمایہ کاری
13.78%	11,484	13,066	حصہ داران کی سرمایہ کاری
-843.68	(87)	647	ٹیکس کے بعد نفع
1.26%	317	321	شاخیں

ہماری گروپ کی کارکردگی مجموعی طور پر قابل اطمینان رہی جبکہ ڈپازٹ میں معمولی اضافہ ہوا، مزید گروپ اپنی تمویل اور اثاثوں میں بالترتیب 13.28% اور 4.20% اضافہ کرنے میں کامیاب رہا۔

ہم اسٹیٹ بینک اور سیکورٹی ایڈجسٹمنٹ کمیشن آف پاکستان کی مسلسل مدد اور رہنمائی پر اپنی انتہائی تحسین کو ریکارڈ کا حصہ بنانا چاہتے ہیں۔ ہم اپنے گروپ کے ملازمین کی گروپ کی کارکردگی میں اپنی وابستگی، اور محنت کے ذریعے حصہ ڈالنے پر شکریہ ادا کرتے ہیں۔

منجانب بورڈ

حسن اے بلگرامی

افسر اعلیٰ

۱۰، مارچ، ۲۰۱۷

# Quality Service

BankIslami aims to attract new customers and retain the existing ones. Providing quality customer service is one sure way of achieving customer satisfaction. We have initiated communication channels with several options for contacting our customer care team when the need arises, while also ensuring quality service to our customers at all times.



## Islami Mahana Munafa Account



# Monthly Profit, Halal Returns

Enjoy the freedom of Halal monthly gains by opening **Islami Mahana Munafa Account**, with BankIslami for a prosperous present while building your wealth for a secure future.

**Islami Mahana Munafa Account** provides security, convenience and flexibility of investment tenures to suit your financial needs.

- Monthly Halal profit payment
- Investment tenure from 1– 5 years
- Minimum investment amount of Rs.10,000/-
- Early encashment facility with no penalty

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## Auditors' Report to the Members on Consolidated Financial Statements

We have audited the annexed consolidated financial statements comprising consolidated statement of financial position of BankIslami Pakistan Limited ("the Bank") and its subsidiary companies (the Group) as at 31 December 2016 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement together with the notes forming part thereof, for the year then ended. We have also expressed separate opinion on the financial statements of the Bank and have performed a limited scope review under the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the subsidiary company, namely BankIslami Modarba Investment Limited. The financial statements of subsidiary companies, namely BIPL Securities Limited (formerly KASB Securities Limited) and Structured Ventures (Private) Limited were audited by other firms of Chartered Accountants whose reports have been furnished to us and our opinion in so far as it relates to the amounts included for such companies, is based solely on the reports of such other auditors. The financial statements of another subsidiary company namely My Solutions Corporation Limited are consolidated by the Bank on the basis of unaudited financial statements. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of the Bank and its subsidiary companies as at 31 December 2016 and the results of their operations for the year then ended.



Chartered Accountants  
Audit Engagement Partner: Omer Chughtai  
EY Ford Rhodes, Chartered Accountants

Date: March 10, 2017

Karachi



## Consolidated Statement of Financial Position

AS AT DECEMBER 31, 2016

	Note	2016 ----- Rupees in '000 -----	Restated 2015
<b>ASSETS</b>			
Cash and balances with treasury banks	7	8,921,433	9,035,889
Balances with other banks	8	1,324,167	2,016,267
Due from financial institutions - net	9	27,218,665	39,855,525
Investments - net	10	46,643,174	35,801,058
Islamic financing and related assets and Advances (net)	11	77,667,276	68,560,851
Operating fixed assets	12	9,412,129	8,902,021
Deferred tax assets - net	13	5,820,956	6,530,948
Other assets - net	14	4,985,840	3,947,331
		181,993,640	174,649,890
<b>LIABILITIES</b>			
Bills payable	15	2,273,934	1,523,933
Due to financial institutions	16	6,066,307	3,197,770
Deposits and other accounts	17	153,826,348	152,661,140
Sub-ordinated loans		-	-
Deferred tax liabilities		-	-
Other liabilities	18	6,760,717	5,782,812
		168,927,306	163,165,655
<b>NET ASSETS</b>		<b>13,066,334</b>	<b>11,484,235</b>
<b>REPRESENTED BY:</b>			
Share capital	19	10,079,121	10,079,121
Discount on Issue of shares		(79,042)	(79,042)
Reserves	20	613,636	523,176
Unappropriated profit / (loss)		518,942	(57,295)
Total equity attributable to equity holders of the Bank		11,132,657	10,465,960
Non-controlling interest		192,350	189,855
		11,325,007	10,655,815
Surplus on revaluation of assets - net of tax	21	1,741,327	828,420
		13,066,334	11,484,235
<b>CONTINGENCIES AND COMMITMENTS</b>	22		

The annexed notes 1 to 45 and Annexures I and II form an integral part of these consolidated financial statements.

  
CHAIRMAN

  
PRESIDENT / CHIEF EXECUTIVE

  
DIRECTOR

  
DIRECTOR

## Consolidated Profit and Loss Account

FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	2016 ----- Rupees in '000 -----	2015 ----- Rupees in '000 -----
Profit / return earned	23	10,115,839	8,831,175
Profit / return expensed	24	5,764,188	5,098,501
Net spread earned		4,351,651	3,732,674
Reversal of provision against non-performing Islamic financing and related assets - net	11.16.2	(1,724,387)	(639,523)
(Reversal of provision ) / provision for diminution in the value of investments and placements - net	9 & 10.5	(337,547)	5,586
Bad debts written off directly		32,008	25
		(2,029,926)	(633,912)
Net spread after provisions		6,381,577	4,366,586
<b>OTHER INCOME</b>			
Fee, commission and brokerage income		361,536	410,112
Dividend Income		24,245	3,303
Income from dealing in foreign currencies		42,808	82,403
Gain on sale of securities	25	97,772	12,003
Unrealised gain on revaluation of investments classified as 'held for trading'		678	-
Other income	26	73,673	64,119
Total other income		600,712	571,940
		6,982,289	4,938,526
<b>OTHER EXPENSES</b>			
Administrative expenses	27	6,154,969	5,058,057
Other provisions		68	162,299
Other charges	28	17,736	2,148
Total other expenses		6,172,773	5,222,504
		809,516	(283,978)
Profit / (loss) for the period from BIPL Securities Limited - net of tax	29	11,179	(14,489)
Share of profit from associates	10.10	216,291	134,837
<b>PROFIT / (LOSS) BEFORE TAXATION</b>		1,036,986	(163,630)
Taxation			
- Current	30	106,229	99,469
- Prior years	30	(20)	21,384
- Deferred	30	283,779	(197,098)
		389,988	(76,245)
<b>PROFIT / (LOSS) AFTER TAXATION</b>		646,998	(87,385)
<b>ATTRIBUTABLE TO:</b>			
Equity shareholders of the Bank		644,503	(84,107)
Non-controlling interest		2,495	(3,278)
		646,998	(87,385)
		----- Rupees -----	
Basic earnings / (loss) per share	31	0.6394	(0.1046)
Diluted earnings / (loss) per share	31	0.6394	(0.1046)

The annexed notes 1 to 45 and Annexures I and II form an integral part of these consolidated financial statements.



CHAIRMAN



PRESIDENT / CHIEF EXECUTIVE



DIRECTOR



DIRECTOR



## Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED DECEMBER 31, 2016

	2016	2015
	----- Rupees in '000 -----	-----
<b>Profit / (loss) after taxation for the year attributable to:</b>		
Equity shareholders of the Bank	644,503	(84,107)
Non-controlling interest	<u>2,495</u>	<u>(3,278)</u>
	646,998	(87,385)
<b>Other Comprehensive Income</b>		
<b>Items that may not be reclassified to profit and loss account in subsequent periods</b>		
Remeasurement gain / (loss) on defined benefit plan	17,914	(7,973)
Tax on remeasurement of defined benefit plan	(6,269)	2,784
	11,645	(5,189)
<b>Comprehensive income / (loss) transferred to statement of changes in equity</b>	658,643	(92,574)
<b>Components of comprehensive income not reflected in equity</b>		
Surplus on revaluation of available for sale investments - net of tax		
Equity shareholders of the Bank	826,802	66,535
Non-controlling interest	28,518	(2,455)
	855,320	64,080
<b>Total comprehensive income / (loss) for the year</b>	1,513,963	(28,494)

The annexed notes 1 to 45 and Annexures I and II form an integral part of these consolidated financial statements.

  
CHAIRMAN

  
PRESIDENT / CHIEF EXECUTIVE

  
DIRECTOR

  
DIRECTOR

## Consolidated Cash Flow Statement

FOR THE YEAR ENDED DECEMBER 31, 2016

Note	2016 ----- Rupees in '000 -----	2015
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit / (loss) before taxation	1,036,986	(163,630)
Less: Dividend Income	(24,245)	(3,303)
Less: Share of profit from associates	(216,291)	(134,837)
	<u>796,450</u>	<u>(301,770)</u>
<b>Adjustments for non-cash charges and other items:</b>		
Depreciation on owned assets	27 634,381	507,444
Depreciation on non banking assets	27 6,533	-
Amortisation	27 60,927	30,196
Depreciation on operating Ijarah assets	11.14 1,239,614	837,018
Reversal of provision against non-performing Islamic financing and related assets - net	11.16.2 (1,724,387)	(639,523)
(Reversal of provision) / provision for diminution in the value of investments and placements - net	9 & 10.5 (337,547)	5,586
Bad debts written off directly	32,008	25
Other provisions	68	162,299
Unrealised gain on revaluation of investments classified as held for trading	(7,739)	-
Charge for defined benefit plan	27 73,126	50,227
Gain on sale of property and equipment	26 (29,855)	(3,583)
	<u>(52,871)</u>	<u>949,689</u>
	743,579	647,919
<b>(Increase) / decrease in operating assets</b>		
Due from financial institutions	12,642,209	(21,710,882)
Islamic financing and related assets	(8,653,660)	(17,429,555)
Others assets (excluding defined benefit assets)	(963,324)	(1,235,426)
	<u>3,025,225</u>	<u>(40,375,863)</u>
<b>Increase / (decrease) in operating liabilities</b>		
Bills payable	750,001	441,578
Due to financial institutions	2,868,537	5,126,100
Deposits and other accounts	1,165,208	4,992,006
Other liabilities	1,002,262	(164,693)
	<u>5,786,008</u>	<u>10,394,991</u>
Payments against defined benefit plan	34 9,554,812	(29,332,953)
Income tax paid	(64,088)	(72,654)
	<u>(158,392)</u>	<u>(151,891)</u>
<b>Net cash generated from / (used in) operating activities</b>	<u>9,332,332</u>	<u>(29,557,498)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net investments in securities	(8,987,572)	23,359,413
Dividend received	24,245	(41,338)
Investments in operating fixed assets	(1,208,368)	520,926
Net cash proceeds on acquisition	-	5,236,527
Proceeds from disposal of operating fixed assets	32,807	4,392
<b>Net cash (used in) / generated from investing activities</b>	<u>(10,138,888)</u>	<u>29,079,920</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Issue of right shares	-	4,320,400
<b>Net cash flow from financing activities</b>	<u>-</u>	<u>4,320,400</u>
<b>(Decrease) / Increase in cash and cash equivalents</b>		
Cash and cash equivalents at the beginning of the year	32 (806,556)	3,842,822
	<u>11,052,156</u>	<u>7,209,334</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>10,245,600</u>	<u>11,052,156</u>

The annexed notes 1 to 45 and Annexures I and II form an integral part of these consolidated financial statements



CHAIRMAN



PRESIDENT / CHIEF EXECUTIVE



DIRECTOR



DIRECTOR



## Statement of Changes In Equity

FOR THE YEAR ENDED DECEMBER 31, 2016

	Attributable to equity shareholders of the Bank					Non - controlling interest	Total	
	Share capital	Discount on Issue of shares	Statutory reserve	Reserve for bad debts & contingenci- es	(Accumulated loss) / Unappropri- ated profit			Sub total
	Rupees in '000							
<b>Balance as at January 01, 2015</b>	5,758,721	(79,042)	273,176	-	269,349	6,222,204	-	6,222,204
Issue of right shares at par	4,320,400	-	-	-	-	4,320,400	-	4,320,400
Non-controlling interest recognised during the year (upon business combination)	-	-	-	-	-	-	193,133	193,133
Loss after taxation for the year transferred from Statement of Comprehensive Income	-	-	-	-	(84,107)	(84,107)	(3,278)	(87,385)
Transfer to reserve for bad debts & contingencies	-	-	-	250,000	(250,000)	-	-	-
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	12,652	12,652	-	12,652
Remeasurements of the net defined benefit liability / asset - net of tax	-	-	-	-	(5,189)	(5,189)	-	(5,189)
<b>Balance as at December 31, 2015</b>	<u>10,079,121</u>	<u>(79,042)</u>	<u>273,176</u>	<u>250,000</u>	<u>(57,295)</u>	<u>10,465,960</u>	<u>189,855</u>	<u>10,655,815</u>
Profit after taxation for the year transferred from Statement of Comprehensive Income	-	-	-	-	644,503	644,503	2,495	646,998
Transfer to statutory reserve	-	-	90,460	-	(90,460)	-	-	-
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	10,381	10,381	-	10,381
Transfer from surplus on revaluation of non-banking assets - net of tax	-	-	-	-	168	168	-	168
Remeasurements of the net defined benefit liability / asset - net of tax	-	-	-	-	11,645	11,645	-	11,645
<b>Balance as at December 31, 2016</b>	<u>10,079,121</u>	<u>(79,042)</u>	<u>363,636</u>	<u>250,000</u>	<u>518,942</u>	<u>11,132,657</u>	<u>192,350</u>	<u>11,325,007</u>

The annexed notes 1 to 45 and Annexures I and II form an integral part of these consolidated financial statements.

  
CHAIRMAN

  
PRESIDENT / CHIEF EXECUTIVE

  
DIRECTOR

  
DIRECTOR

## Notes to and Forming Part of the Consolidated Financial Statements FOR THE YEAR ENDED DECEMBER 31, 2016

### 1 STATUS AND NATURE OF BUSINESS

#### The Group comprises of:

#### 1.1 BankIslami Pakistan Limited (Holding Company)

BankIslami Pakistan Limited (the Bank) was incorporated in Pakistan as a public limited company on October 18, 2004 under the Companies Ordinance, 1984 to carry out the business of an Islamic Commercial Bank in accordance with the principles of Islamic Shariah.

The State Bank of Pakistan granted a 'Scheduled Islamic Commercial Bank' license to the Bank on March 18, 2005. The Bank commenced its operations as a Scheduled Islamic Commercial Bank with effect from April 07, 2006, on receiving Certificate of Commencement of Business from the State Bank of Pakistan (SBP) under section 37 of the State Bank of Pakistan Act, 1956. The Bank is principally engaged in corporate, commercial, consumer, retail banking and investment activities.

The Bank is operating through 321 branches including 118 sub branches as at December 31, 2016 (2015: 317 branches including 124 sub branches). The registered office of the Bank is situated at 11th Floor, Dolmen City, Marine Drive, Block-4, Clifton, Karachi. The shares of the Bank are quoted on the Pakistan Stock Exchange Limited (formerly Karachi Stock Exchange Limited).

The Pakistan Credit Rating Agency (Private) Limited (PACRA) has maintained the Bank's long-term rating as 'A+' and the short-term rating as 'A1'.

- 1.2 As mentioned in note 4 below, during the previous year 2015 KASB Bank Undertakings have been acquired and amalgamated with the Bank under a scheme sanctioned under section 47 of the Banking Companies Ordinance, 1962.

#### 1.3 Subsidiary Companies

##### 1.3.1 BankIslami Modaraba Investments Limited - 100 percent holding

The subsidiary company was incorporated in Pakistan on January 22, 1986 under the Companies Ordinance, 1984 as a public limited company. Later on it was registered as a Modaraba Company with the Registrar of Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. The principal activity of the subsidiary company is to float and operate Modaraba. The subsidiary company is managing its Modaraba with the name of Modaraba-Al-Mali. The principal place of business of the subsidiary company is situated at 10th Floor, Progressive Square, Shariah-e-Faisal, Karachi.



The financial statements of the subsidiary company have been consolidated on the basis of reviewed condensed interim financial information for the half year ended December 31, 2016.

The financial statements of "Modaraba Al-Mali", a Modaraba floated by the subsidiary company in which it has 13 percent holding, have not been consolidated although the Group has control over Modaraba Al-Mali by virtue of management rights. The management of the Group is of the view that consolidated financial statements are required to be prepared only for subsidiaries as defined in the Companies Ordinance, 1984. "Modaraba Al-Mali" is a Modaraba floated under the Modaraba Companies and Modaraba (floatation and control) Ordinance, 1980 and does not fall under the definition of subsidiary as defined under the Companies Ordinance, 1984. Hence, the financial statements of "Modaraba Al-Mali" are not required to be consolidated in the Group's consolidated financial statements.

### **1.3.2 BIPL Securities Limited (Formerly KASB Securities Limited) - 77.12 percent holding**

BIPL Securities Limited was incorporated in Pakistan on October 24, 2000 under the Companies Ordinance, 1984 and commenced its operations effective January 01, 2003, on the transfer of assets and liabilities of the securities segment of the then Khadim Ali Shah Bukhari and Company Limited under a scheme of arrangement approved by the High Court of Sindh. The shares of the Company are listed on the Pakistan Stock Exchange Limited (PSX) (formerly Karachi Stock Exchange Limited). The registered office of the company is situated at 5th Floor, Trade Centre, I.I. Chundrigar Road, Karachi.

The Company is a TREC holder of the Pakistan Stock Exchange Limited (PSX) and Corporate member of Pakistan Mercantile Exchange Limited (PMEL) and is principally engaged in the business of stocks, money market, foreign exchange and commodity broking. Other activities include investment in listed and unlisted equity and debt securities, economic research and advisory services.

### **1.3.3 My Solutions Corporation Limited - 100 percent holding**

My Solutions Corporation Limited (the Company) was incorporated as a private limited company on November 05, 1995 and was converted into a public limited company on March 24, 2003. The Company is engaged in sale of IT equipment, providing internet connectivity and telecommunication services, networking services and electronic utility bill payment switch services (eUBS). Its registered office is situated at the 9th floor, Trade Centre, I.I Chundrigar Road, Karachi.

### **1.3.4 Structured Ventures (Private) Limited - 77.12 percent holding - (Sub-subsidiary)**

Structured Venture (Private) Limited was incorporated in Pakistan on June 25, 2010 under the Companies Ordinance, 1984. The registered office of the company is situated at 5th floor, Trade Centre, I. I. Chundrigar Road, Karachi. The company is a wholly owned subsidiary of KASB Securities Limited. The ultimate parent company is BankIslami Pakistan Limited.



#### 1.4 Material partly owned subsidiary

BIPL Securities Limited (Formerly KASB Securities Limited) is the only significant subsidiary of the holding company that has a non-controlling interest (2016: 22.88%, 2015: 22.88%). The following table summarises key information relevant to the BIPL Securities Limited.

	2016	2015
	-----Rupees in '000-----	
Operating fixed assets	38,231	46,940
Investments	693,049	502,750
Advances, deposits, prepayments and receivables	787,337	334,246
Deferred tax asset - net	40,201	51,131
Taxation -net	64,017	36,573
Cash and bank balances	644,614	547,174
Total Assets	2,267,449	1,518,814
Long-term loan	150,000	150,000
Trade and other payables	1,146,579	541,700
Total Liabilities	1,296,579	691,700
Net Assets	970,870	827,114
Accumulated non-controlling interests of the subsidiary	222,135	189,244
	<b>For the year ended Dec 31, 2016</b>	<b>For the period from May 8, 2015 to Dec 31, 2015</b>
	-----Rupees in '000-----	
Profit / (loss) after tax of the subsidiary company	19,115	(6,265)
Intragroup eliminations	(7,936)	(8,224)
	11,179	(14,489)
Profit / (loss) allocated to non-controlling interest	2,558	(3,315)



## 2 BASIS OF PRESENTATION

- 2.1 The Group provides financing mainly through Murabahah, Ijarah, Istisna, Diminishing Musharakah, Muswammah and other Islamic modes of financing as briefly explained in note 11.1.1 to these consolidated financial statements.

The purchases and sales arising under these arrangements are not reflected in these consolidated financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of profit thereon. The income on such financing is recognised in accordance with the principles of Islamic Shariah. However, income, if any, received which does not comply with the principles of Islamic Shariah is recognised as charity payable as directed by the Shariah Advisor of the holding company.

### 2.2 Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Bank and the financial statements of subsidiary companies from the date that control of the subsidiary by the Group commences until the date that control ceases. The financial statements of the subsidiary companies are incorporated on a line-by-line basis (except the profit and loss account of BIPL Securities Limited which is disclosed as a single line item in Consolidated Profit and Loss account as per letter No. BPRD(R&P-02)/625-112/2017/4911 dated February 27, 2017, see note 2.2.1) and the investment held by the Bank is eliminated against the corresponding share capital of subsidiaries in these consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Holding Company, using accounting policies that are generally consistent with those of the Holding Company, except for non-banking subsidiaries in Pakistan which follow the requirements of International Accounting Standard (IAS) 39, Financial Instruments Recognition and Measurement, IAS 40, Investment Property and IFRS - 7, Financial Instruments: Disclosures, and overseas subsidiaries which are required to comply with local regulations enforced within the respective jurisdictions.

Material Intra-group balances and transactions are eliminated.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control established by contractual agreement. Associates and joint ventures are accounted for using the equity method.

- 2.2.1 The SBP vide its letter No. BPRD(R&P-02)/625-112/2017/4911 dated February 27, 2017, has allowed the Group to disclose financial results (net) of BIPL Securities Limited (formerly KASB Securities Limited) as a single line item in the Consolidated Profit and Loss account as majority of the operations of BIPL Securities Limited are of conventional nature and line by line consolidation would result in non-compliance of Shariah requirements.

### 3 STATEMENT OF COMPLIANCE

- 3.1** These consolidated financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFASs) issued by the Institute of Chartered Accountants of Pakistan, as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, and the directives issued by the SECP and the SBP. Wherever the requirements of the provisions and directives issued under the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, the IFAS notified under the Companies Ordinances, 1984 and the directives issued by the SECP and the SBP differ from the requirements of IFRS, the provisions of and the directives issued under the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, IFAS notified under the Companies Ordinance, 1984 and the directives issued by the SECP and the SBP shall prevail.
- 3.2** The SBP through its BSD Circular No. 10 dated August 26, 2002, has deferred the implementation of International Accounting Standard (IAS) 39 - "Financial Instruments: Recognition and Measurement" and IAS 40 - "Investment Property" for Banking Companies in Pakistan, till further instructions. Accordingly, the requirements of these Standards have not been considered in the preparation of these consolidated financial statements. Further, the SECP has deferred the applicability of International Financial Reporting Standard (IFRS) 7 "Financial Instruments: Disclosures" through its S.R.O. 411(I)/2008 dated April 28, 2008. Accordingly, the requirements of this standard have also not been considered in the preparation of these consolidated financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.
- 3.3** IFRS 8 "Operating Segments" was effective for the Group's accounting period beginning on or after January 1, 2009. All Banking Companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, 'Revised Forms of Annual Financial Statements', effective from the accounting year ended December 31, 2006. The management of the Group believes that as the SBP has defined the segment categorisation in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these consolidated financial statements is based on the requirements laid down by the SBP.
- 3.4** The SBP vide its BPRD Circular No. 04 dated February 25, 2015 has clarified that the reporting requirements of IFAS-3 for Islamic Banking Institutions (IBIs) relating to annual, half yearly and quarterly financial statements would be notified by SBP through issuance of specific instructions and uniform disclosure formats in consultation with IBIs. These reporting requirements have not been ratified to date. Accordingly, the disclosures requirements under IFAS 3 have not been considered in these consolidated financial statements.



### **3.5 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year:**

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as describe below:

#### **New Standards, Interpretations and Amendments**

The Bank has adopted the following accounting standard and the amendments and interpretation of IFRSs which became effective for the current year:

#### **Standard or Interpretation**

IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – Investment Entities: Applying the Consolidation Exception (Amendment)

IFRS 11 Joint Arrangements - Accounting for Acquisition of Interest in Joint Operation (Amendment)

IAS 1 – Presentation of Financial Statements - Disclosure Initiative (Amendment)

IAS 16 Property, Plant and Equipment and IAS 38 intangible assets - Clarification of Acceptable Method of Depreciation and Amortization (Amendment)

IAS 41 Agriculture - Agriculture: Bearer Plants (Amendment)

IAS 27 – Separate Financial Statements – Equity Method in Separate Financial Statements (Amendment)

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

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal

IFRS 7 Financial Instruments: Disclosures - Servicing contracts

IFRS 7 Financial Instruments: Disclosures - Applicability of the offsetting disclosures to condensed interim financial statements

IAS 19 Employee Benefits - Discount rate: regional market issue

IAS 34 Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'

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

**3.6 Standards, interpretations and amendments to published approved accounting standards that are not yet effective:**

**3.6.1** The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 1, 2017:

	<b>Effective date (accounting periods beginning on or after)</b>
- Amendments to IFRS 2 Share-based Payments – Classification and Measurement of Share-based Payments Transactions	01 January 2018
- Amendments to 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	Not yet finalized
- Amendments to IAS 7 Financial Instruments: Disclosure Initiative	01 January 2017
- Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for unrealised losses	01 January 2017
- Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	01 January 2018
- Amendments to IAS 40 Investment Property: Transfers of Investment Property	01 January 2018
- IFRIC 22 Foreign Currency Transactions and Advance Consideration	01 January 2018

There are certain other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2017 but are considered not to be relevant or will not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

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.

	<b>IASB Effective date (annual periods beginning on or after)</b>
IFRS 14 – Regulatory Deferral Accounts	01 January 2016
IFRS 9 – Financial Instruments: Classification and Measurement	01 January 2018
IFRS 15 – Revenue from Contracts with Customers	01 January 2018
IFRS 16 – Leases	01 January 2019

**3.7 Early adoption of standards**

The Group has not early adopted any new or amended standard in 2016.



## 4 BUSINESS COMBINATION

### 4.1 Acquisition of KASB Bank Limited undertakings

During the previous year, under the 'Scheme of Amalgamation of KASB Bank Limited with and into BankIslami Pakistan Limited under Section 47 of the Banking Companies Ordinance, 1962', hereinafter referred to as 'The Scheme', KASB Bank Undertakings have been acquired and amalgamated and made part of the group. The Scheme is effective from May 7, 2015.

KASB Bank Undertakings, as per the Scheme, means the business and all assets and liabilities, of the then KASB Bank Limited of whatsoever nature and wherever situated.

The aforementioned scheme was prepared by the State Bank of Pakistan (SBP) and placed before the Federal Government of Pakistan for its approval. The Federal Government of Pakistan in terms of the powers conferred to it under section 47 of the Banking Companies Ordinance, 1962 sanctioned the scheme of amalgamation of KASB Bank Undertakings with and into BankIslami Pakistan Limited on May 7, 2015 with immediate effect.

As required under International Financial Reporting Standard 3, (IFRS 3) 'Business Combination', the balances of KASB Bank undertakings have been incorporated at their fair values as determined by an independent firm. Their valuation has been carried out using the audited balances as appearing in the financial statements of KASB Bank Limited as at May 7, 2015. The reconciliation between the provisional and final fair values is given in note 4.4 below.

Subsequent to the above amalgamation, the operations of the defunct KASB Bank Limited have been amalgamated and vested into the group with effect from May 7, 2015. Consequently, the entire undertaking of the KASB Bank Limited including all the properties, assets and liabilities and the rights and obligations as defined in the aforesaid scheme stand amalgamated with and vested into the group as at May 7, 2015. Accordingly, the assets and liabilities included in the consolidated statement of financial position also include balances of the defunct KASB Bank Limited.

The KASB Bank Limited at the time of acquisition by the Holding company had the following three subsidiaries (both direct and indirect) which by virtue of amalgamation have now become subsidiaries of the Holding company:

Name of Entity	Percentage of holding	Nature of relationship
1 My Solutions Corporation Limited	100.00%	Direct
2 BIPL Securities Limited (Formerly KASB Securities Limited)	77.12%	Direct
3 Structured Ventures (Private) Limited	77.12%	Indirect

4.2 The Holding Company accounted for the amalgamation by applying acquisition method of accounting as prescribed by the International Financial Reporting Standard 3, "Business Combination" (IFRS 3).

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the combination. At the time of acquisition, the management carried out a detailed exercise for the identification and valuation of assets acquired (including intangible assets) for the purpose of the initial accounting for the acquisition. According to the requirements of IFRS 3, 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.

- 4.3** The fair valuation exercise for assets and liabilities acquired has been completed by the management in the current year with the assistance of an independent valuer and the accounting treatment of fair valuation of KASB Bank Undertaking's assets and liabilities (including the contingent liabilities) in the books has been finalised and accounted for in these financial statements and comparative figures have been restated accordingly. Details of the fair values of the assets acquired, liabilities assumed and purchase consideration and the resultant goodwill recognised are as follows:

	Note	Restated May 7, 2015 Rupees in '000
Fair value of assets acquired		55,122,311
Fair value of liabilities assumed		(60,859,914)
Net liabilities assumed		<u>(5,737,603)</u>
Net liabilities pertaining to Non-controlling interest (pertaining to BIPL Securities Limited)		<u>(193,133)</u>
Parent's share of net liabilities assumed		(5,930,736)
<b>Purchase Consideration:</b>		
Cash payable		(1)
Fair value benefit of financing from SBP	4.3.1	<u>2,952,536</u>
		2,952,535
Excess of purchase consideration over net assets	4.3.2	<u><u>(2,978,201)</u></u>

- 4.3.1** This represents the fair value benefit of the subsidised financing received by the Group from the State Bank of Pakistan for the financial assistance (refer note 16.1.2).
- 4.3.2** The SBP vide its letter no. BPRD(R&P-02)/625-112/2017/4089 dated February 24, 2017 has allowed the Group exemption from "Goodwill impairment" under the applicable accounting standards till December 30, 2018.



**4.4** The final fair values of identifiable assets (including intangible assets) and liabilities of the defunct KASB Bank Limited at the date of acquisition are as follows:

	Provisional fair value as at May 7, 2015 (based on audited financial statements as at December 31, 2015)	Fair value adjustments recognised during the year (as per Consultant's report)	Fair values as at May 7, 2015 (as per Consultant's report) Restated
-----Rupees in '000-----			
<b><u>KASB Bank Limited (Other than BIPL Securities Limited and Structured Ventures (Private) Limited which are being consolidated on a line by line basis)</u></b>			
<b>ASSETS</b>			
Cash and balances with treasury banks	3,703,800	-	3,703,800
Balances with other banks	856,801	-	856,801
Investments - net	28,140,613	-	28,140,613
Advances	11,098,985	(636,506)	10,462,479
Operating fixed assets	2,157,083	-	2,157,083
Intangible assets recognised on acquisition	40,600	-	40,600
Deferred tax assets - net	5,914,551	583,779	6,498,330
Other assets - net	1,445,650	(33,904)	1,411,746
	53,358,083	(86,631)	53,271,452
<b>LIABILITIES</b>			
Bills payable	163,920	-	163,920
Due to financial institutions	313,206	-	313,206
Deposits and other accounts	57,338,264	-	57,338,264
Other liabilities	1,973,937	100,859	2,074,796
	59,789,327	100,859	59,890,186
<b>Fair Value of Net liabilities assumed</b>	<b>(6,431,244)</b>	<b>(187,490)</b>	<b>(6,618,734)</b>

The fair values of net assets of the subsidiary companies are same as were reported in prior year accounts. A summary of net assets acquired and net liabilities assumed is as follows:

	BIPL Securities Limited (Formerly KASB Securities Limited)	My Solutions Corporation Limited	Structured Ventures (Private) Limited
-----Rupees in 000-----			
Fair value of assets acquired	1,778,010	69,426	3,423
Fair value of liabilities assumed	933,898	34,248	1,582
<b>Net assets acquired</b>	<b>844,112</b>	<b>35,178</b>	<b>1,841</b>

In addition, the audited financial statements of the defunct KASB Bank Limited as at May 7, 2015 include a sum of Rs 981.410 million representing advance against issue of right shares which has been treated and disclosed as a part of equity. This amount does not form part of the KASB Bank Undertakings acquired and amalgamated with the Bank as per the Scheme. A case has been filed in respect of this matter, details of which are disclosed in note 22.6 to these consolidated financial statements.



#### 4.4.1 Intangible recognised on acquisition

Consequent to the amalgamation of the defunct KASB Bank Limited with and into the Group, the Group has recognised the following intangible asset as at the acquisition date of May 7, 2015:

	<b>May 7, 2015</b> <b>Rupees in '000</b>
<b>Core deposit intangible</b>	<u>40,600</u>

This intangible asset relates to core deposits of the defunct KASB Bank Limited and represents the funding benefit that would be available to the Group on account of availability of funding through deposit customers rather than from the wholesale or inter-bank markets. This benefit also considers the fact that the economic lifetime of these deposits is longer than their 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.

## 5 BASIS OF MEASUREMENT

### 5.1 Accounting convention

These consolidated financial statements have been prepared under the historical cost convention, except that certain fixed assets, certain investments, foreign currency balances and commitments in respect of foreign exchange contracts have been marked to market and are carried at fair value. Further, staff retirement benefits as discussed in notes 6.8 and 34 to these consolidated financial statements have been carried at present values.

### 5.2 Functional and Presentation Currency

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

### 5.3 Rounding off

Figures have been rounded off to the nearest thousand rupees unless otherwise stated.

### 5.4 Critical accounting estimates and judgments

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 management to exercise its judgment in the process of applying the Group's accounting policies. The significant accounting areas where various assumptions and estimates are significant to the Group's financial statements or where judgment was exercised in the application of the accounting policies are as follows:

- (a) Classification and valuation of investments in accordance with the Group's policy (notes 6.4 and 10).
- (b) Provision for non-performing Islamic financing and related assets (notes 6.5 and 11).



- (c) Determination of forced sales value of underlying securities of non performing Islamic financing and related assets (note 11).
- (d) Staff retirement benefits (notes 6.8 and 34).
- (e) Revaluation and depreciation / amortization of operating fixed assets (notes 6.6 and 12).
- (f) Valuation of non-banking assets acquired in satisfaction of claims (note 6.20)
- (g) Assumption and estimation in recognition of provision for taxation (current and prior years) and deferred taxation (notes 6.7, 13 and 30).
- (h) Fair values of assets acquired and liabilities assumed in a business combination (note 4).

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

## 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 6.1 Change in accounting policy

In line with the requirements of the Debt Property Swap Regulations issued by the SBP on January 1, 2016, the Group has changed its accounting policy for recording of non-banking assets acquired in satisfaction of claims. These were previously recorded at the lower of cost or market value. These are now initially recorded at cost and subsequently stated at revalued amount less accumulated depreciation / impairment. Increase in market value over the acquisition cost is recorded as surplus on revaluation. A decline in the market value is initially used to reduce the surplus account, if any, or if no surplus exists, is charged to the profit and loss account. Had there been no change in accounting policy, other assets, surplus on revaluation of assets (net of tax) and deferred tax liability would have been lower by Rs. 66.325 million, Rs. 67.968 million and Rs. 4.632 million respectively, whereas the profit after tax would have been higher by Rs. 4.246 million.

### 6.2 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.

### 6.3 Due to / from financial and other institutions.

#### 6.3.1 Bai Muajjal

In Bai Muajjal, the Group sells sukuk on deferred payment basis to financial institutions. The credit price is agreed at the time of sale and such proceeds are received at the end of the credit period. The difference between the deferred payment amount receivable and the carrying value at the time of sale is accrued and recorded as income over the credit period.

### **Musharakah / Mudaraba**

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

### **Musharakah from State Bank of Pakistan under IERS**

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

### **Acceptances from State Bank of Pakistan for financial assistance**

The Group has recorded Acceptances from State Bank of Pakistan for financial assistance at its fair value which is amortised over the period of the financing period.

## **6.4 Investments**

### **6.4.1 Classification**

Investments of the Group are classified as follows:

#### **(a) Held-for-trading**

These are investments which are either acquired for generating profits from short-term fluctuations in market prices or are securities included in a portfolio for which there is evidence of a recent actual pattern of short-term profit taking.

#### **(b) Held- to-maturity**

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

#### **(c) Available-for-sale**

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

### **6.4.2 Regular way contracts**

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

### **6.4.3 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 investment. Investments classified as 'held for trading' are initially recognised at fair value and transaction costs are expensed in the consolidated profit and loss account.



Premium or discount on debt securities classified as available for sale is amortised using the effective profit rate method and taken to the consolidated profit and loss account.

#### **6.4.4 Subsequent measurement**

Subsequent to initial recognition investments are valued as follows:

##### **(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 recognized to reflect irrecoverable amount.

##### **(c) Available for sale**

Quoted / Government securities are measured at fair value. Surplus / (deficit) arising on remeasurement is included in the consolidated statement of comprehensive income but is kept in a separate account shown in the statement of financial position below equity. The surplus / (deficit) arising on these securities is taken to the consolidated profit and loss account when actually realized upon disposal.

Unquoted equity securities are valued at the lower of cost (which in the case of business acquisition would be the fair value at the acquisition date) 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 audited financial statements. Investments in other unquoted securities are valued at cost less impairment losses, if any.

#### **6.4.5 Impairment**

##### **Available for sale and Held to maturity investments**

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

**6.4.6** Gains or losses on sale of investments are included in the consolidated profit and loss for the year.

## 6.5 Islamic financing and related assets

- 6.5.1 Islamic financing and related assets are financial products originated by the Group and principally comprise Murabahah, Istisna, Ijarah, Salam, Muswammah, Diminishing Musharakah and other Islamic modes of financing and the related assets.

As a general rule, funds disbursed, under financing arrangements for purchase of goods / assets are recorded as advance. On culmination, financing are recorded at the deferred sale price net of profit. Goods purchased but remaining unsold at the statement of financial position date are recorded as inventories.

- 6.5.2 Islamic financing and related assets are stated net of general provisions and specific provisions against non-performing Islamic financing and related assets which are charged to the consolidated profit and loss account.

### Specific provision

The Group maintains specific provision for doubtful debts based on the requirements specified in the Prudential Regulations issued by the SBP.

### General provision

#### *Consumer Financing*

The SBP vide circular 10 of 2016 has revised the Prudential Regulations for consumer financing.

In the revised Regulations, SBP has specified that general provision against consumer financing should be maintained at varying percentages based on the non-performing loan ratio present in the portfolio. These percentages range from 1% to 2.5% for secured and 4% to 7% for unsecured portfolio.

Previously, the Regulations required provision to be maintained at 1.5% for secured portfolio and 5% for unsecured portfolio. As a consequence of the above change, the Bank's general provisioning requirement against consumer portfolio has been reduced by Rs 6.794 million.

#### *Small Enterprise Financing*

The Bank maintains general provision in respect of small enterprise financing at the rate of 1 percent for secured portfolio and 2 percent for unsecured portfolio.

The net provision made / reversed during the year is charged to the profit and loss account and accumulated provision is netted off against Islamic financing and related assets. Islamic financing and related assets are written off when there are no realistic prospects of recovery.



### 6.5.3 Ijarah Financing

Ijarah financing executed on or before December 31, 2008 have been accounted for under finance method, thereafter all Ijarah financing are accounted for under IFAS-2.

- (a) Under finance method, the present value of minimum Ijarah payments have been recognised and shown under Islamic financing and related assets. The unearned income i.e. the excess of aggregate Ijarah rentals over the cost of the asset and documentation charges under Ijarah facility is deferred and then amortised over the term of the Ijarah, so as to produce a constant rate of return on net investment in the Ijarah. Gains / losses on termination of Ijarah contracts are recognised as income on a receipt basis. Income on Ijarah is recognised from the date of delivery of the respective assets to the mustajir (lessee).
- (b) Under IFAS-2 method, assets underlying Ijarah financing have been carried at cost less accumulated depreciation and impairment, if any, and are shown under Islamic financing and related assets. Rentals accrued from Ijarah financing net of depreciation charge are taken to the consolidated profit and loss account. Depreciation on Ijarah assets is charged by applying the straight line method over the Ijarah period which is from the date of delivery of respective assets to mustajir upto the date of maturity / termination of Ijarah agreement.

## 6.6 Operating fixed assets and depreciation

### 6.6.1 Property and equipment

Fixed assets other than freehold land and building on leasehold land are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Freehold land and building on leasehold land are carried at revalued amount less any accumulated depreciation and subsequent impairment losses. The revaluation exercise is carried out on periodic basis.

Depreciation is computed using the straight-line method consolidated by taking into consideration the estimated useful life of the related assets at the rates specified in note 12.2 to these consolidated financial statements. Depreciation on additions / deletions during the year is charged for the proportionate period for which the asset remained in use.

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

An item of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

Residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each reporting date.

Gains and losses on disposal of property and equipment, if any, are taken to the consolidated profit and loss account.

### 6.6.2 Capital work in progress

These are stated at cost less accumulated impairment losses, if any.

### 6.6.3 Intangible assets

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

Amortization on additions / deletions during the year is charged for the proportionate period for which the asset remained in use.

Software and other development costs are only capitalised to the extent that future economic benefits are expected to be derived by the Group.

### 6.6.4 Impairment

At each reporting date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. Recoverable amount is the greater of net selling price and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately in the consolidated financial statements except for impairment loss on revalued assets, which is adjusted against related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

Where an impairment loss reverses subsequently, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognized as income immediately except for impairment loss on revalued assets which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of assets.

## 6.7 Taxation

### 6.7.1 Current

The provision for current taxation is based on taxable income for the year at current rates of taxation, after taking into consideration available tax credits, rebates and tax losses as allowed under the seventh schedule to the Income Tax Ordinance, 2001. The charge for current tax also includes adjustments, where considered necessary relating to prior years, which arises from assessments / developments made during the year. Currently, the Group provides for minimum tax in accordance with the requirements of section 113 of the Income Tax Ordinance, 2001.



## **6.7.2 Deferred**

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and amounts used for taxation purposes. In addition, the Group also records deferred tax asset on available tax losses. Deferred tax is calculated using the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the reporting 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 the deferred tax asset is reviewed at each reporting 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 Group also recognises deferred tax asset / liability on deficit / surplus on revaluation of securities, operating fixed assets and non-banking assets which is adjusted against the related deficit / surplus in accordance with the requirements of the International Accounting Standard 12 - Income Taxes.

## **6.8 Staff retirement benefits**

### **6.8.1 Defined benefit plan**

The Group operates an approved funded gratuity scheme for the permanent employees of the Holding company and BankIslami Modaraba Investments Limited. The liability recognised in the consolidated statement of financial position in respect of defined benefit gratuity scheme, is the present value of the defined benefit obligation at the consolidated statement of financial position date less the fair value of plan assets. Contributions to the fund are made on the basis of actuarial recommendations. The defined benefit obligation is calculated periodically by an independent actuary using the projected unit credit method. The last valuation was conducted as on December 31, 2016 for the holding company and as at June 30, 2016 for BankIslami Modaraba Investments Limited.

Amounts arising as a result of "Remeasurements", representing the actuarial gains and losses and the difference between the actual investment returns and the return implied by the net interest cost are recognised in the Consolidated Statement of Financial Position immediately, with a charge or credit to "Other Comprehensive Income" in the periods in which they occur.

### **6.8.2 Defined contribution plan**

The Group operates recognised contributory provident funds for all the permanent employees of respective companies. Equal monthly contributions are made both by the respective companies and the employees at certain percentage of the basic salary. The Group has no further payment obligations once the contributions have been paid. The contributions made by the Group are recognised as employee benefit expense when they are due.

### **6.8.3 Employees' compensated absences**

The Group accounts for compensated absences (wherever applicable) on the basis of un-availed earned leave balance of each employee at the end of the year. The leave balance can accumulate upto a maximum of sixty days.



## 6.9 Revenue recognition

**6.9.1** Profit on Murabahah and Commodity Murabahah is recognised over the life of Murabahah on an accrual basis. Profit on Murabahah transactions for the period from the date of disbursement to the date of culmination of Murabahah is recognised immediately on the culmination date.

**6.9.2** Profit from Istisna is recorded on an accrual basis commencing from the time of sale of goods till the realisation of proceeds by the Group. Profit from Diminishing Musharakah, Salam and Muswammah are recognised on a time proportionate basis.

**6.9.3** The Group follows the finance method in recognising income on Ijarah contracts written upto December 31, 2008. Under this method the unearned income i.e. excess of aggregate Ijarah rentals over the cost of the asset and documentation charges under Ijarah facility is deferred and then amortised over the term of the Ijarah, so as to produce a constant rate of return on net investment in the Ijarah. Gains / losses on termination of Ijarah contracts are recognised as income on a receipt basis. Income on Ijarah is recognised from the date of delivery of the respective assets to the mustajir (lessee).

Profit from Ijarah contracts entered on or after January 01, 2009 is recognized in the consolidated profit and loss account over the term of the contract net of depreciation expense relating to the Ijarah assets.

**6.9.4** Provisional profit of Musharakah / Mudarabah financing is recognised on an accrual basis. Actual profit / loss on Musharakah and Mudarabah financing is adjusted after declaration of profit by Musharakah partner / mudarib or on liquidation of Musharakah / Mudarabah.

**6.9.5** Profit on Wakalah-tul-Istismar financings is booked on an accrual basis.

**6.9.6** Profit on Running Musharakah financings is booked on an accrual basis and is adjusted upon declaration of profit by Musharakah partners.

**6.9.7** Profit on classified financing is recognised on a receipt basis.

**6.9.8** Dividend income is recognised when the right to receive the dividend is established.

**6.9.9** Gains and losses on sale of investments are recognised in the consolidated profit and loss account.

**6.9.10** Fee on issuance of letter of credit and acceptance is recognised on receipt basis as generally the transactions consummate within an accounting period. Fee on guarantees, if considered material, is recognised over the period of guarantee.

**6.9.11** Profit on Sukuks is recognised on an accrual basis. Where Sukuks (excluding held for trading securities) are purchased at a premium or discount, those premiums / discounts are amortised through the consolidated profit and loss account over the remaining life of sukuk, using the effective yield method.

**6.9.12** Modaraba management fee is determined at 10% of the profit earned each year by the Modarabas floated and managed by the BankIslami Modaraba Investments Limited.



- 6.9.13** Modaraba management fee is recognised on an accrual basis.
- 6.9.14** Income earned from avenues that are not Shariah complaint are 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.
- 6.9.15** Brokerage income is recognised as and when such services are rendered.
- 6.9.16** Financial advisory fees and other income is recognised on an accrual basis.
- 6.9.17** Underwriting commission is recognised on accrual basis in accordance with the terms of the agreement.
- 6.9.18** Mark-up income, return on bank deposits and balances are recognized on accrual basis.
- 6.9.19** Capital gains and losses on sale of securities is recognised as and when transaction occurred.
- 6.9.20** Dividend income is recorded when the right to receive the dividend is established.

#### **6.10 Accounting of conventional portfolio**

As more fully explained in note 4 to these financial statements, during the previous year the Bank has acquired the operations of the defunct KASB Bank Limited effective from May 7, 2015 (close of business). The defunct KASB Bank Limited was operating as a conventional Bank in Pakistan.

Keeping in view the Shariah Compliance, following policy has been adopted by the Bank with the approval of its Shariah Board.

Income accruing on conventional products is not transferred to profit and loss statement and is classified as liability under the head of "Surplus income of quarantined entity held for future admissible expenses" in other liabilities till 30 June 2016, and there after in "Receipt appropriation account" in other liabilities.

#### **6.11 Financial Instruments**

##### **6.11.1 Financial assets and financial liabilities**

All financial assets and financial liabilities are recognised at the time when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Group loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any loss on derecognition of the financial assets and financial liabilities is taken to income directly. Financial assets carried on the consolidated statement of financial position includes cash and balances with treasury banks, balances with other banks, due from financial institutions, investments, Islamic financing and related assets and certain receivables and financial liabilities include bills payable, due to financial institutions, deposits and other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

### 6.11.2 Offsetting of financial instruments

Financial assets and financial liabilities are off-set and the net amount is reported in the consolidated financial statements only when there is a legally enforceable right to set-off the recognised amount and the Group intends either to settle on a net basis or to realise the assets and to settle the liabilities simultaneously. Income and expense are off-set and the net amount is reported in the consolidated financial statements wherever allowed under the approved accounting standards.

### 6.11.3 Derivatives

Derivative financial instruments are recognised at fair value. In case of equity futures, the fair value is calculated with reference to quoted market price. Derivatives with positive market values (i.e. unrealised gains) are included in other receivables and derivatives with negative market values (i.e. unrealised losses) are included in other liabilities in the consolidated statement of financial position. The resultant gains and losses are taken to consolidated profit and loss account currently.

## 6.12 Foreign currencies

### Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates. The consolidated financial statements are presented in Pakistani Rupee, which is the Group's functional and presentation currency.

### Foreign currency transactions

Foreign currency transactions are translated into local currency at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the statement of financial position date. Forward exchange promises are revalued using forward exchange rates applicable to their respective remaining maturities.

### Translation gains and losses

Translation gains and losses are included in the consolidated profit and loss account.

### Commitments

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

## 6.13 Acceptances

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

## 6.14 Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group in the consolidated financial statements.



## 6.15 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 deposits' and 'Fixed deposits'. 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 any profit earned / loss incurred on those funds are allocated to the equity of the Bank. No profit or loss is passed on to current account depositors. While the product features of each product differ, there is usually no restriction on withdrawals or number of transactions in current and saving accounts. In case of fixed deposits, pre-mature withdrawals can be made as per approved terms only.

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

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

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

## 6.16 Pool Management

The Bank operates general and specific pools for deposits and inter-bank funds accepted / acquired under Mudaraba, Musharakah and Wakalah modes.

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

Specific pools are operated for funds acquired / accepted from the State Bank of Pakistan and other banks for Islamic Export Refinance to Bank's customers and liquidity management respectively under the Musharakah / Mudaraba modes. The profit of each deposit pool is calculated on all the remunerative assets booked by utilising the funds from the pool after deduction of expenses directly incurred in earning the income of such pool along with related fee income, if any. The directly related costs comprise of depreciation on Ijarah assets, takaful premium, documentation charges etc. No expense of general or administrative nature of expense is charged to the pools. No provisions against any non-performing asset of the pool is passed on to the pool except on the actual loss / write-off of such non-performing asset. The profit of the pool is shared between equity and other members of the pool on the basis of Musharakah at gross level (before charging of mudarib fee) as per the investment ratio of the equity. 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 after charging of mudarib share.

The risk characteristic of each pool mainly depends on the assets and liability profile of each pool. As per Bank's policy, relatively low risk / secured financing transactions and assets are allocated to general depositors pool of PKR, USD, GBP and Euro. The Bank maintains General Pools, FI Pools, IERS pool and Equity pool. The general pools are exposed to general credit risk, asset ownership risk and profit rate risk of the underlying assets involved.

#### **General Pool**

For General Pools, the Group allocates PKR financing to Corporate, SME and Consumer Finance customers in diversified sectors and avenues of the economy / business as mentioned in the note 41.1.1.1. Investments in Sovereign Guarantee Sukuk, Bai Muajjal with State Bank of Pakistan, Bai Muajjal with Government of Pakistan are also done through General Pools. All remunerative deposits are tagged to these general pools and their funds generated from the depositors are invested on priority basis. Due to limited investment options in USD, GBP and EURO pool, funds from FCY pools are invested in available International Sukuk, Shariah Complaint Nostro accounts and remaining funds are taken out and invested in PKR general pool as part of equity. In such cases return from PKR General pool is given back to FCY pools, so that returns can be passed on to FCY pool customers accordingly.

#### **Islamic export refinance scheme Pool**

The IERS pool assets comprise of Sovereign Guarantee Sukuks, and financings to / sukuks of blue chip companies and exporters as allowed under the applicable laws and regulations, and as such are exposed to lower credit risk. The Musharakah with SBP under IERS is tagged to the IERS pool.

#### **Financial Institution (FI) Pool**

The FI pool assets generally comprise of Sovereign Guarantee Sukuks only and the related liability of the FI pool comprise of Musharakah/Mudarabah from other banks and financial institutions. These pools are created to meet the liquidity requirements of the Bank.

### **6.17 Provisions and contingent assets and liabilities**

Provisions are recognized when the Group 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 reporting date and are adjusted to reflect the current best estimates.

Contingent assets are not recognised, and are also not disclosed unless an inflow of economic benefits is probable. Contingent liabilities are disclosed unless the probability of an outflow of resources embodying economic benefit is remote.

Provisions for guarantee claims and other off balance sheet obligations are recognised when intimated and reasonable certainty exists for the Group to settle the obligation. Charge to the consolidated profit and loss account is stated net of expected recoveries.



## 6.18 Business Combination

Business combinations 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 the profit and loss account.

Goodwill acquired in a business combination is measured, subsequent to initial recognition, at its cost less accumulated impairment losses, if any. Goodwill acquired in a business combination is tested for impairment annually or whenever there is an indication of impairment as per the requirements of International Accounting Standard (IAS) 36, 'Impairment of Assets'. Impairment charge in respect of goodwill is recognised in the profit and loss account. However, for the holding company the SBP vide its letter no. BPRD(R&P-02)/625-112/2017/4089 dated February 24, 2017 has allowed the holding company exemption from "Goodwill impairment" (for goodwill pertaining to the acquisition of defunct KASB Bank Limited) under the applicable accounting standards till December 30, 2018.

Acquisition of non-controlling interests (NCI) is measured at the proportionate share of the NCI in the fair value of the net assets acquired by the Bank. The excess of fair value of consideration transferred over the proportionate share of the NCI in the fair value of the net assets acquired is recognised in equity.

## 6.19 Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format of reporting is based on business segments.

### 6.19.1 Business segments

#### Trading and sales

It includes equity, foreign exchanges, commodities, credit, funding, own position securities, placements and Islamic financing and related assets.

#### Retail banking

It includes retail Islamic financing and related assets, deposits and banking services offered to its retail customers and small and medium enterprises.

### **Commercial banking**

It includes project finance, export finance, trade finance, Ijarah, guarantees and bills of exchange relating to its corporate customers.

### **Support Centre**

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

#### **6.19.2 Geographical segment**

The Holding company and its subsidiaries operate in Pakistan only.

#### **6.20 Assets acquired in satisfaction of claims**

Assets acquired in satisfaction of claims are initially recorded at cost and revalued at each year-end date of the statement of financial position. An increase in market value over the acquisition cost is recorded as a surplus on revaluation. A decline in the market value is initially used to reduce the surplus account, if any, or if no surplus exists, is charged to the profit and loss account as an impairment. A subsequent increase in the market value of an impaired asset is reversed through the profit and loss account up to the extent of the original impairment. All direct costs of acquiring title to the asset are charged immediately to the profit and loss account.

Depreciation on assets acquired in satisfaction of claims is charged to the profit and loss account in line with depreciation charged on operating fixed assets.

These assets are generally intended for sale. Gains and losses realised on the sale of such assets are disclosed separately from gains and losses realised on the sale of operating fixed assets in the notes to these financial statements. If such asset is subsequently used by the Bank for its own operations, the asset, along with any related surplus, is transferred to operating fixed assets.

#### **6.21 Earnings per share**

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

#### **6.22 Dividend distribution and transfer between reserves**

Dividends declared and transfers between reserves made subsequent to the balance sheet date are considered as non-adjusting events and are recognised in the consolidated financial statements in the year in which such dividends are declared / transfers are made.



	Note	2016 ----- Rupees in '000 -----	2015
<b>7 CASH AND BALANCES WITH TREASURY BANKS</b>			
In hand			
- local currency		3,154,686	2,304,602
- foreign currency		410,919	347,816
		<u>3,565,605</u>	<u>2,652,418</u>
With the State Bank of Pakistan in			
- local currency current account	7.1	3,646,460	4,615,510
- foreign currency deposit accounts			
Cash Reserve Account	7.2	241,958	141,716
Special Cash Reserve Account	7.3	78,950	228,335
US Dollar Clearing Account		11,421	48,066
		<u>332,329</u>	<u>418,117</u>
With National Bank of Pakistan in			
- local currency current account		1,377,039	1,349,844
		<u>8,921,433</u>	<u>9,035,889</u>
<b>7.1</b>	This represents Rs. 3,646.460 million (2015: 4,615.510 million) held against Cash Reserve Requirement and Statutory Liquidity Requirement.		
<b>7.2</b>	As per BSD Circular No. 15 dated June 21, 2008, cash reserve of 5% is required to be maintained with the State Bank of Pakistan on deposits held under the New Foreign Currency Accounts Scheme (FE-25 deposits).		
<b>7.3</b>	Special cash reserve of 6% is required to be maintained with SBP on FE-25 deposits as specified in BSD Circular No. 15 dated June 21, 2008. Balance held under this account is non-remunerative.		
<b>8 BALANCES WITH OTHER BANKS</b>	<b>Note</b>	<b>2016 ----- Rupees in '000 -----</b>	<b>2015</b>
In Pakistan			
- on current accounts		42,016	8,035
- on deposit accounts	8.1	144,503	232,159
		<u>186,519</u>	<u>240,194</u>
Outside Pakistan			
- on current accounts		1,137,648	1,776,073
		<u>1,324,167</u>	<u>2,016,267</u>
<b>8.1</b>	Represents deposits with various Islamic commercial banks under Musharakah and Mudarabah arrangements. The expected profit rate on these arrangements is 3.5% (2015: 3.5% ) per annum.		
<b>9 DUE FROM FINANCIAL INSTITUTIONS</b>	<b>Note</b>	<b>2016 ----- Rupees in '000 -----</b>	<b>2015</b>
Sukuk Murabahah	9.1	-	5,349
Wakalah Placement	9.2	993,686	-
Commodity Murabahah - local currency	9.3	26,224,979	39,824,221
Musharakah finance - secured		-	31,304
		<u>27,218,665</u>	<u>39,860,874</u>
Other placements		32,400	32,400
		<u>27,251,065</u>	<u>39,893,274</u>
Provision against Sukuk Murabahah	9.1	-	(5,349)
Provision against placements - transferred from the amalgamated entity		(32,400)	(32,400)
		<u>27,218,665</u>	<u>39,855,525</u>
<b>9.1</b>	In prior years, the Group entered into Sukuk Murabahah arrangement under which the Group appointed its client as an agent under asset purchase agreement to purchase the underlying sukuk from open market on its behalf and later sell them on deferred Murabahah basis. The maturity date of the deal was February 08, 2009. The Group had recovered an amount of Rs. 1.069 million during the prior year, while the remaining balance of Rs 5.349 million has been recovered in the current year.		
<b>9.2</b>	The profit rates on the agreements range between 0.95% to 1.20% (2015: Nil) per annum and the agreements have maturities ranging from 18 days to 184 days (2015: Nil).		
<b>9.3</b>	The Group has entered into Commodity Murabahah agreements under which the Group purchases an underlying commodity from open market through an agent and sells it to a financial institution on credit with profit. The profit rates on the agreements range between 5.80% to 6.40% (2015: 6.02% to 6.70%) per annum and the agreements have maturities ranging from 3 days to 160 days (2015: 4 days to 185 days).		
<b>9.4 Particulars of amounts due from financial institutions with respect to currencies:</b>		<b>2016 ----- Rupees in '000 -----</b>	<b>2015</b>
- In local currency		26,257,379	39,893,274
- In foreign currency		993,686	-
		<u>27,251,065</u>	<u>39,893,274</u>



10 INVESTMENTS	Note	2016		2015	
		----- Rupees in '000 -----			
Investments - Islamic	10.1	44,106,461		33,988,524	
Investments - Conventional (relating to defunct KASB Bank Limited)	10.2	2,536,713		1,812,534	
		<u>46,643,174</u>		<u>35,801,058</u>	

### 10.1 Islamic Investments by types

Note	-----2016-----			-----2015-----			
	Held by the Bank	Given as collateral	Total	Held by the Bank	Given as collateral	Total	
----- (Rupees in '000) -----							
<b>Available for sale securities</b>							
Sukuk / Certificates	10.6	42,285,860	-	42,285,860	10,808,980	-	10,808,980
Units of Open-end mutual funds	10.6	21	-	21	21	-	21
Ordinary Shares of listed companies	10.6	242,645	-	242,645	242,645	-	242,645
Bai Muajjal	10.6	-	-	-	22,959,292	-	22,959,292
		<u>42,528,526</u>	<u>-</u>	<u>42,528,526</u>	<u>34,010,938</u>	<u>-</u>	<u>34,010,938</u>
<b>Held for trading securities</b>							
Ordinary Shares of listed companies	10.8	447,908	-	447,908	-	-	-
<b>Modaraba</b>							
Modaraba-AI-Mali	10.6	16,208	-	16,208	16,208	-	16,208
<b>Total investments at cost</b>		<u>42,992,642</u>	<u>-</u>	<u>42,992,642</u>	<u>34,027,146</u>	<u>-</u>	<u>34,027,146</u>
Less: Provision for diminution in value of investments	10.5	(17,804)	-	(17,804)	(17,804)	-	(17,804)
<b>Investments - net of Provisions</b>		<u>42,974,838</u>	<u>-</u>	<u>42,974,838</u>	<u>34,009,342</u>	<u>-</u>	<u>34,009,342</u>
Surplus on revaluation of held for trading securities	10.8	30,658	-	30,658	-	-	-
Surplus / (deficit) on revaluation of available-for-sale securities	21.3	1,100,965	-	1,100,965	(20,818)	-	(20,818)
<b>Total investments at market value</b>		<u>44,106,461</u>	<u>-</u>	<u>44,106,461</u>	<u>33,988,524</u>	<u>-</u>	<u>33,988,524</u>

### 10.2 Conventional Investments by types (relating to defunct KASB Bank Limited)\*

Note	-----2016-----			-----2015-----			
	Held by the Bank	Given as collateral	Total	Held by the Bank	Given as collateral	Total	
----- (Rupees in '000) -----							
<b>Available for sale securities</b>							
Ordinary Shares of listed companies	10.6	967,706	-	967,706	841,950	-	841,950
Ordinary Shares of unlisted companies	10.6	1,612,736	-	1,612,736	1,612,736	-	1,612,736
Listed Term Finance Certificates	10.6	105,092	-	105,092	105,312	-	105,312
Unlisted Term Finance Certificates	10.6	177,822	-	177,822	222,821	-	222,821
		<u>2,863,356</u>	<u>-</u>	<u>2,863,356</u>	<u>2,782,819</u>	<u>-</u>	<u>2,782,819</u>
<b>Held to maturity securities</b>							
Unlisted Term Finance Certificates	10.7	321,601	-	321,601	321,601	-	321,601
<b>Held for trading securities</b>							
Listed shares	10.8	65,438	-	65,438	28,531	-	28,531
Unlisted Term Finance Certificate	10.8	45,369	-	45,369	45,369	-	45,369
	10.9						
<b>Associates</b>	10.10	2,042,868	-	2,042,868	1,826,577	-	1,826,577
<b>Total investments at cost</b>		<u>5,338,632</u>	<u>-</u>	<u>5,338,632</u>	<u>5,004,897</u>	<u>-</u>	<u>5,004,897</u>
Less: Provision for diminution in the value of investments	10.5.1	(2,944,801)	-	(2,944,801)	(3,181,631)	-	(3,181,631)
<b>Investments - net of Provisions</b>		<u>2,393,831</u>	<u>-</u>	<u>2,393,831</u>	<u>1,823,266</u>	<u>-</u>	<u>1,823,266</u>
Surplus on revaluation of held for trading securities	10.8	7,061	-	7,061	-	-	-
Surplus / (deficit) on revaluation of available-for-sale securities	21.3	135,821	-	135,821	(10,732)	-	(10,732)
<b>Total investments at market value</b>		<u>2,536,713</u>	<u>-</u>	<u>2,536,713</u>	<u>1,812,534</u>	<u>-</u>	<u>1,812,534</u>

\* These investments are under process of conversion / liquidation / disposals.



	Note	2016	2015
		----- Rupees in '000 -----	
<b>10.3 Islamic Investments by segments</b>			
<b>Federal Government Securities</b>			
GOP Ijarah Sukuks	10.6	37,756,627	9,330,423
<b>Other Federal Government Securities</b>			
Bai Muajjal with Government of Pakistan (through State Bank of Pakistan)	10.6	-	22,959,292
<b>Sukuk certificates</b>			
Sukuks - unlisted	10.6	4,529,233	1,478,557
<b>Fully paid up ordinary shares / Units</b>			
Modaraba Certificates	10.6	16,208	16,208
Units of Open-end Mutual Funds	10.6	21	21
Listed companies	10.6 & 10.8	690,553	242,645
<b>Total investments at cost</b>		<u>42,992,642</u>	<u>34,027,146</u>
Less: Provision for diminution in value of investments	10.5.1	(17,804)	(17,804)
<b>Investments - net of provisions</b>		<u>42,974,838</u>	<u>34,009,342</u>
Surplus on revaluation of held for trading securities		30,658	-
Surplus / (deficit) on revaluation of available-for-sale securities	21.3	1,100,965	(20,818)
<b>Total investments at market value</b>		<u><u>44,106,461</u></u>	<u><u>33,988,524</u></u>
<b>10.4 Conventional Investments by segments</b>			
<b>Fully paid up ordinary shares</b>			
Listed companies	10.6 & 10.8	1,033,144	870,481
Unlisted companies	10.6	1,612,736	1,612,736
<b>Term Finance Certificates</b>			
Listed	10.6	105,092	105,312
Unlisted	10.7 & 10.8	544,792	589,791
<b>Associates</b>			
<i>Unlisted</i>			
KASB Capital Limited	10.10	41,867	41,867
KASB Funds Limited	10.10	432,302	432,302
New Horizon Exploration & Production Limited	10.10	590,206	590,206
Shakarganj Food Products Limited	10.10	978,493	762,202
<b>Total investments at cost</b>		<u>5,338,632</u>	<u>5,004,897</u>
Less: Provision for diminution in value of investments	10.5.1	(2,944,801)	(3,181,631)
<b>Investments - net of provisions</b>		<u>2,393,831</u>	<u>1,823,266</u>
Surplus on revaluation of held for trading securities		7,061	-
Surplus / (deficit) on revaluation of available-for-sale securities	21.3	135,821	(10,732)
<b>Total investments at market value</b>		<u><u>2,536,713</u></u>	<u><u>1,812,534</u></u>

	2016	2015
	----- Rupees in '000 -----	
<b>10.5 Particular of provision for diminution in the value of investments</b>		
Opening balance	3,199,435	14,653
Charge for the year	-	6,653
Reversal during the year	(332,198)	-
	(332,198)	6,653
Transfer from the amalgamated entity	-	3,270,631
Transfer from other liability	95,368	-
Reversal on disposal	-	(92,502)
Closing balance	<u>2,962,605</u>	<u>3,199,435</u>
<b>10.5.1 Break up of provision for diminution in the value of investments is as follows:</b>		
Investments - Islamic	17,804	17,804
Investments - Conventional (relating to defunct KASB Bank Limited)	2,944,801	3,181,631
	<u>2,962,605</u>	<u>3,199,435</u>
<b>10.5.2 Particulars of provision in respect of type and segment</b>		
<b>Available for sale investments</b>		
Listed Term Finance Certificates	105,092	105,312
Unlisted Term Finance Certificates	177,822	222,821
Ordinary shares of listed companies	558,644	750,255
Ordinary shares of KASB Modaraba (related party)	60,543	60,543
Ordinary shares of unlisted companies	611,355	611,355
Modaraba Al Mali	13,866	13,866
Sukuk certificates	3,938	3,938
	1,531,260	1,768,090
<b>Held to maturity securities</b>		
Unlisted Term Finance Certificates	321,601	321,601
<b>Held for trading securities</b>		
Unlisted Term Finance Certificates	45,369	45,369
<b>Associates</b>		
New Horizon Exploration & Production Limited	590,206	590,206
KASB Funds Limited	432,302	432,302
KASB Capital Limited	41,867	41,867
	1,064,375	1,064,375
	<u>2,962,605</u>	<u>3,199,435</u>



## 10.6 Available for sale securities

Name of the investee company	Note	2016	2015	2015	2015	Face	2016	2015	2016	2015
		Number of Certificates / Shares / Units		Long / Medium Term Rating (Where available) *		Value	Cost		Carrying Value	
							----- Rupees in '000 -----			
<b>Sukuk Certificates</b>										
<b>Federal Government</b>										
Ijarah GOP Sukuk - 14**	10.6.1	-	15,000	N/A	-	Rs 100,000	-	1,500,907	-	1,506,000
Ijarah GOP Sukuk - 15**	10.6.2	14,246	78,256	-	-	Rs 100,000	1,425,911	7,829,516	1,425,455	7,825,600
Ijarah GOP Sukuk - Fixed Rental Rate 02**	10.6.3	3,000	-	-	N/A	Rs 100,000	304,090	-	304,090	-
Ijarah GOP Sukuk - Fixed Rental Rate 01**	10.6.4	359,500	-	-	N/A	Rs 100,000	36,026,626	-	37,123,909	-
							37,756,627	9,330,423	38,853,454	9,331,600
<b>Others</b>										
WAPDA Second Sukuk Certificates**	10.6.5	134,000	134,000	-	-	Rs 5,000	111,646	223,333	110,295	216,932
WAPDA Third Sukuk Certificates**	10.6.6	32,600	32,600	-	-	Rs 5,000	126,068	150,979	123,636	134,600
Pak Elektron Sukuk	10.6.7	-	60,000	N/A	A	Rs 5,000	-	85,715	-	85,715
Amtek Sukuk	10.6.8	59,000	59,000	Unrated	Unrated	Rs 5,000	221,250	221,250	221,250	221,250
Security Leasing Sukuk	10.6.9	2,000	2,000	Unrated	Unrated	Rs 5,000	3,080	3,080	3,080	3,080
New Allied Electronics (LG) - Sukuk	10.6.10	11,000	11,000	Unrated	Unrated	Rs 5,000	55,000	55,000	55,000	55,000
Sui Southern Gas Company Sukuk	10.6.11	120,000	120,000	Unrated	Unrated	Rs 5,000	150,000	450,000	150,000	450,000
Eden Housing Sukuk	10.6.12	50,000	50,000	Unrated	Unrated	Rs 5,000	36,738	36,738	32,800	32,800
Neelum Jehlum Hydro Power 1	10.6.13	16,500	-	AAA	N/A	Rs 100,000	1,650,000	-	1,650,000	-
Neelum Jehlum Hydro Power 2	10.6.13	19,250	-	AAA	N/A	Rs 100,000	1,925,000	-	1,925,000	-
K-Electric Azm Sukuk 2	10.6.14	50,000	50,000	AA	AA	Rs 5,000	250,451	252,462	252,172	254,484
							4,529,233	1,478,557	4,523,233	1,453,861
<b>Other Federal Government Securities</b>										
Bai Muajjal with Government of Pakistan (through State Bank of Pakistan)**	10.6.15	Not Applicable	Not Applicable	N/A	-	Not Applicable	-	22,959,292	-	22,959,292
<b>Modaraba</b>										
Modaraba-Al-Mali		2,342,177	2,342,177	Unrated	Unrated	Rs 10	16,208	16,208	11,361	7,026
<b>Units of Open-end mutual funds</b>										
Meezan Cash Fund		176	168	AA(f)	AA(f)	Rs 28.22***	5	5	9	9
Meezan Islamic Fund		347	332	Unrated	Unrated	Rs 14.41***	5	5	29	20
Meezan Islamic Income Fund		177	169	A-(f)	A-(f)	Rs 28.28***	5	5	9	9
Meezan Balanced Fund		1,281	1,235	Unrated	Unrated	Rs 4.77***	6	6	23	18
							21	21	70	56
<b>Ordinary shares - Listed</b>										
Dolmen City REIT		22,058,602	22,058,602	RR1	RR1	Rs 10	242,645	242,645	239,777	236,689
KASB Modarba Limited ****		10,446,767	10,446,767	Unrated	Unrated	Rs 10	91,675	91,675	31,132	31,132
Agritech Limited ****		25,028,879	21,435,858	D	D	Rs 10	876,011	750,255	317,367	-
K-Electric ****		2,928	2,928	AA-	AA-	Rs 10	20	20	20	20
							1,210,351	1,084,595	588,296	267,841
<b>Ordinary shares - Unlisted ****</b>										
Evolve Capital Limited - Incorporated in British Virgin Islands		5,400,000	5,400,000	Unrated	Unrated	USD 0.0845	1,155,350	1,155,350	577,675	577,675
Pakistan Export Finance Guarantee Agency Limited		568,044	568,044	Unrated	Unrated	Rs 10	5,680	5,680	-	-
KASB Invest (Private) Limited****		3,985,000	3,985,000	Unrated	Unrated	Rs 10	28,000	28,000	-	-
Pakistan Stock Exchange Limited	10.6.16	4,007,383	4,007,383	Unrated	Unrated	Rs 10	40,746	40,746	138,137	40,746
Al Johaih Power Limited	10.6.17	3,370	3,370	Unrated	Unrated		382,960	382,960	421,390	372,228
							1,612,736	1,612,736	1,137,202	990,649
<b>Term Finance Certificates - Listed ****</b>										
Telecard Limited	10.6.18	3,000	3,000			Rs 5,000	3,461	3,681	-	-
Trust Investment Bank Limited	10.6.19	9,000	9,000			Rs 5,000	22,491	22,491	-	-
World Call Telecom Limited	10.6.20	39,348	39,348			Rs 5,000	79,140	79,140	-	-
							105,092	105,312	-	-
<b>Term Finance Certificates - Unlisted ****</b>										
Agritech Limited	10.6.21	30,000	30,000			Rs 5,000	149,861	149,861	-	-
Azgard Nine Limited (3rd Issue)	10.6.22	5,600	5,600			Rs 5,000	27,961	27,960	-	-
Shakarganj Mills Limited	10.6.23	-	20,000			Rs 5,000	-	45,000	-	-
							177,822	222,821	-	-
							45,391,882	36,793,757	45,113,616	35,010,325

\* Entity's rating was used where sukuk's and shares rating were not available.

\*\* Their ratings are not mentioned, being Government guaranteed securities.

\*\*\* These represents average price of units held.

\*\*\*\* These represent investments acquired from KASB Bank Undertakings.

\*\*\*\*\* The Chief Executive of KASB Invest (Private) Limited is Mr. Rashid K. Siddiqui.

- 10.6.1** The profit rate on these Sukuks comprises of six months weighted average yield of six month market treasury bills minus 30 basis points. The principal has been redeemed on maturity in March 2016. These were backed by Government of Pakistan's Sovereign Guarantee.
- 10.6.2** The profit rate on these Sukuks comprises of six months weighted average yield of six month market treasury bills minus 200 basis points. The principal is redeemable on maturity in June 2017. These are backed by Government of Pakistan's Sovereign Guarantee.
- 10.6.3** The profit rate on these Sukuks comprised of Fixed Rental Rate (FRR) basis i.e. 5.59%. The principal is redeemable on maturity in March 2019. These are backed by Government of Pakistan's Sovereign Guarantee.
- 10.6.4** The profit rate on these Sukuks comprised of Fixed Rental Rate (FRR) basis i.e. 6.10%. The principal is redeemable on maturity in February 2019. These are backed by Government of Pakistan's Sovereign Guarantee.
- 10.6.5** These carry profit at the rate of six months KIBOR minus 25 basis points (2015: six months KIBOR minus 25 basis points) receivable on semi-annual basis with maturity in July 2017. The principal is repayable in 12 equal semi-annual installments with first installment falling due in the 54th month from the first drawdown date. The issue amount and rentals are backed by Government of Pakistan's Sovereign Guarantee.
- 10.6.6** These carry profit at the rate of six months KIBOR plus 100 basis points (2015: six months KIBOR plus 100 basis points) receivable on semi-annual basis with maturity in October 2021. The principal is repayable in 14 equal semi-annual installments with first installment falling due in the 18th month from the first drawdown date. The issue amount and rentals are backed by Government of Pakistan's Sovereign Guarantee.
- 10.6.7** These Sukuks carried profit at the rate of three months KIBOR plus 175 basis points (2015: three months KIBOR plus 175 basis points) receivable quarterly based on Diminishing Musharakah mechanism and had been matured in September 2016. The outstanding principal started its redemption in 6 equal quarterly installments from June 2015. These Sukuks have been fully settled during the current year.
- 10.6.8** The Sukuks have been matured in October 2012. As per the terms, principal was due to be redeemed in 12 consecutive quarterly installments with the first such installment falling due not later than the end of 27 months from the last draw down. These Sukuks are backed by guarantee of Rs. 740 million from the Bank of Punjab (BoP). During 2010, Amtex defaulted in its principal repayment. Consequently, the Bank suspended the accrual of profit on the Sukuk. In 2011, the Bank called the guarantee given by the BoP which was stayed by Lahore High Court in a case filed by Amtex. In 2014, the Court has ordered BoP to deposit the amount of guarantee with the Court till the disposal of the case. The Bank has also filed recovery case against Amtex and BoP, however, in view of BoP guarantee no provision has been made against the sukuk.



**10.6.9** Since last restructuring, these Sukuks carry profit at the rate of 0%, (2015: 0%). The accrued profit amount will be repaid in six equal monthly installments starting from 43rd month. Principal to be repaid in 48 months starting from April 2010. As per the restructured plan, principal will be repaid in 36 monthly installments and the accrued portion of profit up to March 2011 has been waived.

However, the issuer was unable to comply with the above restructuring plan and has executed a revised restructuring plan which has been approved by the minority sukuk holders. Currently, the customer is not making any payment as per the restructuring plan approved by the minority sukuk holders.

**10.6.10** These carry profit at the rate of three months KIBOR plus 220 basis points (2015: three months KIBOR plus 220 basis points) receivable semi-annually with the maturity in December 2012. The principal was to be repaid in 6 consecutive semi-annual installments, the first such installment falling not later than the end of 30th month from the date of issue. As a security first pari passu charge over all present and future fixed assets amounting to Rs. 800 million of the company, irrevocable guarantee of a Financial Institution and Personal Guarantee of sponsoring directors has been provided. The customer has defaulted in its payments towards the Bank. An amount of Rs. 55 million has been deposited with the Bank over which lien in favour of the Bank has been marked. Hence, no provision has been recognised by the Bank.

**10.6.11** These carry profit at the rate of three months KIBOR plus 75 basis points (2015: three months KIBOR plus 75 basis points) receivable on quarterly basis. The purchase price and rentals are backed by Government of Pakistan's Sovereign Guarantee. As a security first pari passu charge over fixed assets of the company and equitable mortgage on selected land and building with 25% margin had been provided.

**10.6.12** These Sukuks carry profit at the rate of three months KIBOR plus 300 basis points for the period between June 30, 2013 and June 29, 2014 (2015: three months KIBOR plus 300 basis points for the period between June 30, 2013 and June 29, 2014) receivable quarterly based on Diminishing Musharakah mechanism with maturity in June 2014. The customer has defaulted in its payment towards the Bank. As a security, charge over hypothecated assets amounting to Rs. 2,433 million (inclusive of approximately 33.5% margin) and a charge over the mortgaged property of the company amounting to Rs. 1,820 million (inclusive of 10% margin) has been created by the issuer in favour of the trustee.

**10.6.13** These carry profit at the rate of six months KIBOR plus 113 basis points (2015: 113 basis points) receivable half yearly with maturity in June 2026. The sukuk will be redeemed in 16 equal semi-annual installments starting from the end of 30th month from the first disbursement. As a security, unconditional and irrevocable first Demand Guarantee(s) of the President of Islamic Republic of Pakistan covering issue amount of respective facilities along with profit payments and all unencumbered present and future assets of NJHP under Sukuk arrangement for Shariah compliance has been provided. Further exclusive lien over Debt payment Account for the benefit of the investors has also been provided as security.

- 10.6.14** These carry profit at the rate of three months KIBOR plus 225 basis points (2015: three months KIBOR plus 225 basis points) receivable quarterly with maturity in March 2017. The principal is fully redeemable on maturity. As a security exclusive hypothecation charge has been provided on the assets of the company.
- 10.6.15** This represented Bai Muajjal agreements entered into with SBP on behalf of Government of Pakistan whereby the Bank sold Sukuks having carrying value of Rs. Nil (2015: Rs. 21,225 million) to SBP on deferred payment basis. The average return on these transactions is Nil (2015: 6.12%) per annum. The balance was due on November 17, 2016 which has been settled.
- 10.6.16** The Group's entitlement in respect of PSX's shares was determined on the basis of valuation of assets and liabilities of PSX as approved by the SECP and 4,007,383 shares of the face value of Rs 10/- each were allotted to BIPL Securities Limited, out of which 2,404,430 shares were kept in the blocked account and the divestment of the same was to be made in accordance with the requirements of the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012 [the Act] within two years from the date of promulgation of the Act.

On December 22, 2016, the Divestment Committee of PSX accepted the highest bid price of Rs. 28 per share from Chinese Consortium to divest 40% equity stake held by the existing shareholders of PSX, which were kept in the blocked account as mentioned above, under Stock Exchange (Corporatisation, Demutualisation and Integration) Act, 2012 and regulation framed thereunder.

Subsequent to above, PSX intimated vide letter dated December 29, 2016 that bidding process for the sale of PSX shares has been concluded. Further, consideration for the above sale will be paid by PSX after holding 10% of the sale price as Retention money in terms of Share Purchase Agreement executed among Anchor investor, Divestment Committee and PSX which will be retained for a period of one year to settle any outstanding liabilities of PSX. Accordingly, BIPL Securities Limited has revalued 4,007,383 of PSX after the discounting effect.

Further, the Group has pledged 1,602,953 shares with PSX to meet the requirement of Base Minimum Capital (BMC) under clause 19.2 of the Risk Management Regulations in PSX Rule Book.

- 10.6.17** The Group's investment in unquoted shares of Al Jomaih Power Limited are valued at its fair value as at year end based on the net assets value of the investee Company as at December 31, 2016.
- 10.6.18** These carry profit at the rate of six months KIBOR minus 375 basis points receivable on semi-annual basis with maturity in May 2015. The principal was repayable in 13 unequal semi-annual installments. The customer had defaulted in its payment and the amount had been fully provided. However, during the current year an amount of Rs 0.220 million has been received which has resulted in a decrease of provision by the same amount.



- 10.6.19** These carry profit at the rate of six months KIBOR minus 185 basis points receivable on semi-annual basis with maturity in May 2015. The principal was repayable in 13 unequal semi-annual installments. The customer has defaulted in its payment and the amount has been fully provided.
- 10.6.20** These carry profit at a fixed rate 1.6% receivable on semi-annual basis with maturity in October 2021. The principal is repayable in 14 equal semi-annual installments. The customer has defaulted in its payment and the amount has been fully provided.
- 10.6.21** These carry profit at the rate of six months KIBOR minus 175 basis points receivable on semi-annual basis with maturity in November 2014. The principal was repayable in 13 unequal semi-annual installments. The customer has defaulted in its payment and the amount has been fully provided.
- 10.6.22** These carry profit at the rate of six months KIBOR minus 225 basis points receivable on semi-annual basis with maturity in November 2014. The instrument was structured to redeem 0.08% of principal in the first 24 months and the remaining principal in 10 equal semi annual installments of 9.992% each of the issue amount respectively. The customer has defaulted in its payment and the amount has been fully provided.
- 10.6.23** These carried profit at the rate of six months KIBOR minus 225 basis points receivable on semi-annual basis with maturity in September 2016. The principal was repayable in 10 equal installments of Rs. 500 per certificate. The customer had defaulted in its payment and the amount had been fully provided in the previous years. However, the customer has fully settled the amount during the current year.

## 10.7 Held to maturity securities

Name of the investee company	Note	2016		2015			
		Number of Certificates	Face Value	2016	2015		
						Cost	
						-----Rupees in '000-----	
<b>Term finance certificates*</b>							
Azgard Nine Limited (3rd Issue)	10.7.1	35,000	35,000	Rs 5,000	60,041	60,041	
Azgard Nine Limited (5th Issue)	10.7.2	33,883	33,883	Rs 5,000	169,415	169,415	
Agritech Limited (4th Issue)	10.7.3	18,429	18,429	Rs 5,000	92,145	92,145	
					<u>321,601</u>	<u>321,601</u>	

\*These represent investments acquired from KASB Bank Undertakings.

- 10.7.1** These carry profit at the rate of six months KIBOR plus 225 basis point receivable on semi annual basis with maturity in December 2014. The principal is repayable in fourteen installments with first four installments of Rs. 1 per certificate and subsequent ten installments of Rs. 499.6 per certificate. The customer has defaulted in its payment and the amount has been fully provided.
- 10.7.2** These carry profit at the rate of six months KIBOR plus 225 basis point receivable on semi-annual basis with maturity in December 2014. The principal is repayable in 14 installments with first 4 installments of Rs. 1 per certificate and subsequent ten installments of Rs. 499.6 per certificate. The customer has defaulted in its payment and the amount has been fully provided.
- 10.7.3** These carry profit at the rate of zero percent coupon with maturity in December 2016. The principal is repayable in 7 semi unequal installments in 5 years inclusive of 1.5 years grace period. The customer has defaulted in its payment and the amount has been fully provided.



### 10.8 Held for trading securities

The Group holds investments in ordinary shares (nominal value of Rs 10 each, unless stated otherwise) in the following investees:

Name of the investee company	2016				2015			
	Entity Rating Long term / Short term	Number of shares	Cost	Carrying Value	Entity Rating Long term / Short term	Number of shares	Cost	Carrying Value
-----Rupees in '000-----								
<b>Ordinary shares of listed company</b>								
<b>AUTOMOBILE AND PARTS</b>								
Agriauto Industries Limited	Unrated	7,500	1,998	2,685	N/A	-	-	-
Indus Motor Company Limited	Unrated	3,800	5,117	6,135	Unrated	1,000	1,013	1,012
<b>PHARMACEUTICALS</b>								
Abbott Lab (Pakistan)	Unrated	1,000	925	957	N/A	-	-	-
<b>PHARMA AND BIO TECH</b>								
Sarnoff Aventis Pakistan Limited	Unrated	2,050	3,818	5,856	N/A	-	-	-
<b>GLASS &amp; CERAMICS</b>								
Shabbir Tiles and Ceramics Limited	Unrated	335,000	4,058	3,739	N/A	-	-	-
<b>MISCELLANEOUS</b>								
Shifa International Hospital Limited	Unrated	6,200	1,849	1,906	N/A	-	-	-
<b>TECHNOLOGY HARDWARE AND EQUIPMENT</b>								
Avanceon Limited	Unrated	105,000	3,729	3,659	N/A	-	-	-
<b>PERSONAL GOODS (TEXTILE)</b>								
Bannu Woollen Mills Limited	Unrated	3,000	204	216	N/A	-	-	-
<b>ELECTRICITY</b>								
Nishat Power Limited	A+ / A1	49,500	2,776	3,172	N/A	-	-	-
<b>CONSTRUCTION AND MATERIALS (CEMENT)</b>								
D.G. Khan Cement Company Limited	Unrated	272,500	52,544	60,421	Unrated	7,200	992	1,063
Cherat Cement Company Limited	A / A1	58,000	9,797	10,094	A / A1	20,000	1,600	1,804
Maple Leaf Cement Factory Limited	A+ / A1	462,500	51,340	59,006	N/A	-	-	-
Fauji Cement Company Limited	Unrated	126,000	5,216	5,680	N/A	-	-	-
Lucky Cement Limited	Unrated	1,500	1,110	1,299	Unrated	4,900	2,433	2,426
Pioneer Cement Limited	A / A1	53,000	5,628	7,531	N/A	-	-	-
Thatta Cement Company Limited	A- / A-2	30,000	1,073	1,181	N/A	-	-	-
Dewan Cement Limited	Unrated	40,000	1,593	1,562	N/A	-	-	-
Kohat Cement Limited	Unrated	4,900	1,313	1,429	N/A	5,100	993	1,228
<b>REFINERY</b>								
Attock Refinery Limited	AA / A1+	84,000	31,816	35,725	N/A	-	-	-
National Refinery Limited	N/A	-	-	-	AA+ / A1+	4,000	902	892
<b>FERTILIZER</b>								
Engro Corporation Limited	AA / A1+	28,400	8,902	8,977	AA / A1+	7,900	2,122	2,207
Engro Fertilizers Limited	AA- / A1+	93,000	6,232	6,323	AA- / A1+	10,800	921	908
Fauji Fertilizers Company Limited	AA / A1+	20,000	2,075	2,087	N/A	-	-	-
<b>CHEMICAL</b>								
Engro Polymer and Chemical Limited	A- / A2	40,000	627	738	N/A	-	-	-
Ethad Chemicals Limited	A- / A-2	15,500	628	624	N/A	-	-	-
<b>ENGINEERING</b>								
Amreli Steels Limited	A / A1	338,500	23,125	22,541	A / A1	10,000	619	601
International Steels Limited	A+ / A-1	623,500	56,266	60,935	N/A	-	-	-
Mughal Iron and Steel Industries Limited	Unrated	39,500	3,254	3,482	Unrated	10,000	771	697
<b>OIL &amp; GAS MARKETING COMPANIES</b>								
Hascol Petroleum Limited	A+ / A-1	4,500	1,479	1,519	N/A	-	-	-
Pakistan State Oil Company Limited	AA / A1+	161,500	64,929	70,125	N/A	-	-	-
<b>POWER GENERATION &amp; DISTRIBUTION</b>								
K-Electric Limited	AA / A-1	669,500	6,250	6,273	AA / A-1	500	4	4
Kot Addu Power Company Limited	AA+ / A-1+	3,000	237	236	N/A	-	-	-
<b>CABLE &amp; ELECTRICAL GOODS</b>								
Pak Elektron Limited	A+ / A1	1,060,000	75,406	75,557	A+ / A1	21,500	1,458	1,345
<b>COMMERCIAL BANKS</b>								
Summit Bank Limited	A- / A-1	900,000	4,266	3,960	N/A	-	-	-
<b>OIL &amp; GAS EXPLORATION COMPANIES</b>								
Pakistan Oilfields Limited	Unrated	91,500	48,080	48,918	Unrated	18,900	6,941	5,065
Pakistan Petroleum Limited	Unrated	18,500	3,297	3,481	Unrated	17,800	2,407	2,168
Oil & Gas Development Company Limited	Unrated	47,500	7,686	7,854	N/A	-	-	-
Mari Petroleum Company Limited	Unrated	4,200	5,246	5,775	Unrated	10,200	5,819	7,111
<b>FOOD &amp; PERSONAL CARE PRODUCTS</b>								
Engro Foods Limited	Unrated	32,000	6,004	6,142	N/A	-	-	-
<b>TECHNOLOGY &amp; COMMUNICATION</b>								
Pakistan Telecommunication Company Limited	Unrated	190,000	3,453	3,265	N/A	-	-	-
<b>Unlisted Term Finance Certificates</b>								
Pace Pakistan Limited								
(Face value Rs. 5,000 each)	Unrated	10,000	45,369	-	Unrated	10,000	45,369	-
(Refer Note 10.8.1)			45,369	-			45,369	-
			558,715	551,065			74,364	28,531



**10.8.1** These TFCs are secured and carry mark-up at the rate of 6 months KIBOR +2% and will mature in February 15, 2017. These TFCs are currently rated as 'non-performing' by the Mutual Funds Association of Pakistan. The purchase cost of TFCs amounts to Rs. 45.37 million (2015: Rs. 45.37 million) and during the previous years, the Group on the basis of prudence, has fully impaired the investment of Rs. 45.37 million.

**10.9 Details of investment in associates**

	Holding	2016		2015	
		Number of Shares	Cost	Number of Shares	Cost
	%	Rs in '000		Rs in '000	
<b>Unlisted</b>					
KASB Capital Limited - incorporated in Mauritius Face value per share: USD 1 /- Break-up value per share: Rs. 41.65 /- [based on unaudited financial statements for the year ended 31 December 2016] Chief Executive: Mr. Muzaffar Ali Shah Bukhari	21.78	283,000	41,867	283,000	41,867
KASB Funds Limited Face value per share: Rs. 10 /- Break-up value per share: Rs. 0.44/- [based on unaudited financial statements for the year ended 31 Dec 2015] Chief Executive: Information not available	43.89	14,123,622	432,302	14,123,622	432,302
New Horizon Exploration and Production Limited Face value per share: Rs. 1 /- and Rs. 10 /- Break-up value per share: Rs. 1.08/- [based on unaudited financial statements for the year ended 30 June 2015] Chief Executive: Information not available	43.23 *	76,360,000	589,629	76,360,000	589,629
Shakarganj Food Products Limited [Unlisted] Face value per share: Rs. 10 /- Break-up value per share: Rs. 12.23/- [based on unaudited financial statements for the period ended 31 Dec 2016] Chief Executive: Mr. Ahsan M. Saleem	40.2	60,950,000	627,942	60,950,000	627,942
			<u>1,691,740</u>		<u>1,691,740</u>

\* The total effective holding is 43.23% with direct holding being 19.64% and indirect holding being 23.59%.

## 10.10 Reconciliation of investments in associates

31 December 2016										
Particulars	KASB Capital Limited*	KASB Funds Limited*	New Horizon Exploration and Production Limited*	Shakarganj Food Products Limited	KASB Income Opportunity Fund	KASB Asset Allocation Fund	KASB Islamic Income Opportunity Fund	Crosby Dragon Fund	KASB Cash Fund	Total
Rupees in '000										
As at Jan 1, 2016	41,867	432,302	590,206	762,202	-	-	-	-	-	1,826,577
Net investments during the period	41,867	432,302	590,206	762,202	-	-	-	-	-	1,826,577
<b>Post-acquisition changes during the period</b>										
Recognised in the profit and loss account	-	-	-	216,291	-	-	-	-	-	216,291
	41,867	432,302	590,206	978,493	-	-	-	-	-	2,042,868
Dividend income received during the period	-	-	-	-	-	-	-	-	-	-
Disposed off during the period	-	-	-	-	-	-	-	-	-	-
<b>As at December 31, 2016</b>	<b>41,867</b>	<b>432,302</b>	<b>590,206</b>	<b>978,493</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,042,868</b>
Provision for diminution in the value of investment	(41,867)	(432,302)	(590,206)	-	-	-	-	-	-	(1,064,375)
<b>As at December 31, 2016</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>978,493</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>978,493</b>
31 December 2015										
Particulars	KASB Capital Limited*	KASB Funds Limited*	New Horizon Exploration and Production Limited*	Shakarganj Food Products Limited	KASB Income Opportunity Fund	KASB Asset Allocation Fund	KASB Islamic Income Opportunity Fund	Crosby Dragon Fund	KASB Cash Fund	Total
Rupees in '000										
As at May 7, 2015	41,867	432,302	589,629	627,942	328,794	298,424	103,525	110,777	113,389	2,646,649
Net investments during the period	41,867	432,302	589,629	627,942	328,794	298,424	103,525	110,777	113,389	2,646,649
<b>Post-acquisition changes during the period</b>										
Recognised in the profit and loss account	-	-	577	134,260	4,632	(7,956)	(17,273)	41,775	1,291	157,306
	41,867	432,302	590,206	762,202	333,426	290,468	86,252	152,552	114,680	2,803,955
Dividend income received during the period	-	-	-	-	(3,362)	(3,237)	-	(2,284)	(7,757)	(16,640)
Disposed off during the period	-	-	-	-	(330,064)	(287,231)	(86,252)	(150,268)	(106,923)	(960,738)
<b>As at December 31, 2015</b>	<b>41,867</b>	<b>432,302</b>	<b>590,206</b>	<b>762,202</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,826,577</b>
Provision for diminution in the value of investment	(41,867)	(432,302)	(590,206)	-	-	-	-	-	-	(1,064,375)
<b>As at December 31, 2015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>762,202</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>762,202</b>

\* Share of loss has not been recognised, as this is fully provided in the books.



## 10.11 Summary of Associates

Name of associates	Based on the financial information for the year ended	Assets	Liabilities	Equity	Revenue	Profit/ (Loss)
KASB Capital Limited	December 31, 2016	68,288,601	14,165,566	54,123,046	-	(3,565,110)
KASB Funds Limited	December 31, 2015	46,465,212	32,465,328	13,999,884	18,662,025	(66,240,997)
New Horizon Exploration and Production Limited	June 30, 2015	464,409,653	124,395,622	340,014,032	-	5,064,351
Shakarganj Food Products Limited	December 31, 2016	4,699,110	2,845,452	1,853,659	3,181,996	106,377

11	ISLAMIC FINANCING AND RELATED ASSETS	Note	2016	Restated 2015
			----- Rupees in '000 -----	
	Islamic financing and related assets - net	11.1	76,676,829	66,112,412
	Advances (relating to defunct KASB Bank Limited) - net	11.2	990,447	2,448,439
			<u>77,667,276</u>	<u>68,560,851</u>
			2016	2015
			----- Rupees in '000 -----	
11.1	Islamic financing and related assets - net			
	In Pakistan			
	- Murabahah financing and related assets	11.3, 11.8 & 11.10	13,798,029	30,966,858
	- Istisna financing and related assets	11.4 & 11.9	13,973,015	11,951,754
	- Diminishing Musharakah - Housing		7,661,273	5,516,984
	- Diminishing Musharakah - Auto		877,758	-
	- Diminishing Musharakah financing and related assets - Others	11.5	8,800,359	6,314,608
	- Against Bills - Murabahah		12,310	62,512
	- Post Due Acceptance		25,073	11,556
	- Salam	11.6	75,000	2,000,000
	- Muswammah financing and related assets / Karobar financing	11.7	7,918,202	5,465,376
	- Financing to employees	11.19.1	2,062,322	1,848,942
	- FBP Against Bai Salam		50,577	-
	- Running Musharakah		10,000,000	-
	- Investment Agency Wakalah		6,250,000	-
	- Housing finance portfolio		73,761	83,980
	- Net investment in Ijarah financing in Pakistan	11.13	39,829	64,445
	- Ijarah financing under IFAS 2 and related assets	11.8	6,910,162	4,414,721
	<b>Gross financing and related assets</b>		<u>78,527,670</u>	<u>68,701,736</u>
	Less: Provision against non-performing Financing and related assets			
	- Specific	11.15 & 11.16	(1,658,774)	(2,455,621)
	- General	11.15 & 11.16	(192,067)	(133,703)
	<b>Islamic financing and related assets – net of provisions</b>		<u>76,676,829</u>	<u>66,112,412</u>

### 11.1.1 Brief description of Islamic Financing arrangements

#### Murabahah

Murabahah to the purchase orderer is a sale transaction wherein the first party (the Group) sells to the client / customer Shariah compliant assets / goods for cost plus a pre-agreed profit after getting title and possession of the same. In principle, on the basis of an undertaking (Promise-to-Purchase) from the client (the purchase orderer), the Group purchases the assets / goods subject of the Murabahah from a third party and takes the possession thereof. However, the Group can appoint the client as its agent to purchase and take possession of the assets / goods on its behalf. Thereafter, it sells it to the client at cost plus the profit agreed upon in the promise.

#### Import Murabahah

Import Murabahah is a product, used to finance a commercial transaction which consists of purchase by the Group (generally through an undisclosed agent) the goods from the foreign supplier and selling them to the client after getting the title to and possession of the goods. Murabahah financing is extended to all types of trade transactions i.e., under Documentary Credits (LCs), Documentary Collections and Open Accounts.

#### Istisna

Istisna is a contract where the buyer (the Group) orders the client (seller / manufacturer) to manufacture and deliver specified goods at an agreed contract price upon completion. Istisna is used with Wakalah agreement to provide financing mainly to manufacturers. Thus the transaction consists of two stages: (i) Bai Istisna whereby the Group purchases goods from the client and (ii) Wakalah whereby the Group after receipt / possession of goods, appoints the client its agent to sell the goods in the market.

#### Ijarah

Ijarah is a contract where the owner of an asset transfers its usufruct (i.e. the usage right) to another person for an agreed period, at an agreed consideration. The rentals received / receivable on Ijarah are recorded as income / revenue. Depreciation on Ijarah assets is charged to consolidated profit and loss account by applying the accounting policy consistent with the policy for depreciation of operating fixed assets.

#### 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.

#### Muswammah / Karobar Financing

Muswammah is a contract where the Group purchases tangible identified goods from client at an agreed purchase price. The Group then sells the goods in the market through agent (Client) at a higher price to earn its desired profit.

#### Diminishing Musharakah

Diminishing Musharakah represents an asset in joint ownership whereby a partner promises to buy the equity share of the other partner until the title to the equity is totally transferred to him. The partner using the asset pays the proportionate rental of such asset to the other partner (the Group).



## Musharakah / Mudarabah

Musharakah / Mudarabah are different types of partnerships in business with distribution of profit in agreed ratio and distribution of loss in the ratio of capital invested.

## Wakalah–tul–Istismar (Investment Agency Wakalah)

Wakalah–tul–Istismar means appointing another person to invest and grow one's wealth, with or without a fee. It covers contract for acquisition of services of a person or institution (Wakeel) for making investments of Wakalah Funds, and accomplishment of certain task on behalf of another person or institution (Muwakkil).

## Running Musharakah

In Running Musharakah financing, the Group enters into financing with the customer based on Shirkat-ul-Aqd or Business Partnership in customers operating business. Under this mechanism the customer can withdraw and return funds to the Bank subject to his Running Musharakah Financing limit during the Musharakah Period. At the end of each quarter / half year the customer pays the provisional profit as per the desired profit rate which is subject to final settlement based on the relevant quarterly / half yearly / annual accounts of the customer.

	Note	2016	Restated 2015
-----Rupees in '000-----			
<b>11.2 Advances (relating to defunct KASB Bank Limited)</b>			
Loans, cash credits, running finances, etc.			
- In Pakistan		9,780,050	12,092,129
- Outside Pakistan		-	-
		9,780,050	12,092,129
Net investment in finance lease			
- In Pakistan	11.13	608,712	660,149
- Outside Pakistan		-	-
		608,712	660,149
Bills discounted and purchased (excluding treasury bills)			
- Payable in Pakistan		720,973	843,557
- Payable outside Pakistan		-	-
		720,973	843,557
<b>Gross Advances</b>		11,109,735	13,595,835
Less: Provision for non-performing Financings			
- Specific	11.15 & 11.16	(10,280,585)	(11,060,885)
- General	11.15 & 11.16	(860)	(1,890)
<b>Advances - net of provisions</b>		828,290	2,533,060
Fair value adjustment	11.17	162,157	(84,621)
<b>Advances - net of provisions and fair value adjustment</b>		990,447	2,448,439

	2016	2015
	-----Rupees in '000-----	
<b>11.3 Murabahah financing and related assets</b>		
Murabahah financing	11,568,440	19,658,149
Advance against Murabahah financing	644,052	11,308,709
Murabahah inventories	1,585,537	-
	<u>13,798,029</u>	<u>30,966,858</u>
<b>11.4 Istisna financing and related assets</b>		
Istisna financing	8,207,253	4,476,496
Advance against Istisna financing	759,934	5,672,724
Istisna inventories	5,005,828	1,802,534
	<u>13,973,015</u>	<u>11,951,754</u>
<b>11.5 Diminishing Musharakah financing and related assets - Others</b>		
Diminishing Musharakah financing	8,731,608	5,946,950
Advance against Diminishing Musharakah financing	68,751	367,658
	<u>8,800,359</u>	<u>6,314,608</u>
<b>11.6 Salam</b>		
Salam financing	12,002	-
Advance against Salam	-	2,000,000
Salam inventories	62,998	-
	<u>75,000</u>	<u>2,000,000</u>
<b>11.7 Muswammah financing and related assets / Karobar financing</b>		
Muswammah financing	6,884,913	1,846,665
Muswammah inventories	1,033,289	3,618,711
	<u>7,918,202</u>	<u>5,465,376</u>



	Note	2016	2015
-----Rupees in '000-----			
<b>11.8 Ijarah financing under IFAS 2 and related assets</b>			
Net book value of assets under IFAS 2	11.14	6,382,270	3,905,102
Advance against Ijarah financing		<u>527,892</u>	<u>509,619</u>
		<u>6,910,162</u>	<u>4,414,721</u>
<b>11.9</b> Murabahah financing and related assets includes financing amounting to Rs. 700 million (2015: Rs.50 million) and advance amounting to Rs. 611.550 million (2015: Rs 189.1 million) under Islamic Export Refinance Scheme.			
<b>11.10</b> Istisna financing and related assets includes financing amounting to Rs. 223.5 million (2015: Rs. 150 million) and advance amounting to Rs. 763.2 million (2015: Rs. 831.25 million) under Islamic Export Refinance Scheme.			
		2016	2015
-----Rupees in '000-----			
<b>11.11</b> Murabahah sale price (for transactions during the year)		90,044,556	48,134,052
Purchase price (for transactions during the year)		<u>(88,461,554)</u>	<u>(46,872,896)</u>
		<u>1,583,002</u>	<u>1,261,156</u>
<b>11.11.1 Deferred Murabahah income</b>			
Opening balance		249,323	323,516
Arising during the year		1,583,002	1,261,156
Recognised during the year		<u>(1,697,835)</u>	<u>(1,335,349)</u>
		<u>134,490</u>	<u>249,323</u>
<b>11.11.2 Murabahah receivable</b>			
Opening balance		19,658,149	13,004,733
Sales during the year		90,044,556	48,134,052
Received during the year		<u>(98,886,206)</u>	<u>(41,480,636)</u>
		<u>10,816,499</u>	<u>19,658,149</u>
<b>11.12 Particulars of Islamic financing and related assets and advances - gross</b>			
<b>11.12.1</b> In local currency		89,637,405	82,297,571
In foreign currency		-	-
		<u>89,637,405</u>	<u>82,966,830</u>
<b>11.12.2</b> Short-term ( for upto one year)		<u>46,771,304</u>	<u>63,361,761</u>
Long-term ( for over one year)		<u>42,866,101</u>	<u>18,935,810</u>
		<u>89,637,405</u>	<u>82,297,571</u>



11.13 Net investment in Ijarah financing in Pakistan

	2016			2015		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
	----- Rupees in '000 -----					
Ijarah rentals receivable	619,480	-	619,480	645,337	2,023	647,360
Residual value	33,841	-	33,841	124,685	5,992	130,677
Minimum Ijarah payments	653,321	-	653,321	770,022	8,015	778,037
Profit for future periods	(4,780)	-	(4,780)	(53,400)	(43)	(53,443)
Present value of minimum Ijarah payments	648,541	-	648,541	716,622	7,972	724,594

11.13.1 Break up of net investment in Ijarah financing and Finance lease

	2016	2015
	----- Rupees in '000 -----	
Islamic financing and related assets - net	39,829	64,445
Advances (relating to defunct KASB Bank Limited) - net	608,712	660,149
	<u>648,541</u>	<u>724,594</u>

11.14 Ijarah Assets

	2016							
	Cost			Accumulated depreciation			Book value as at December 31, 2016	Rate of Depreciation %
	As at January 01, 2016	Addition / (deletions)	As at December 31, 2016	As at January 01, 2016	Charge / (deletions)	As at December 31, 2016		
	----- (Rupees in '000) -----							
Plant and Machinery	958,417	868,527 (9,838)	1,817,106	565,626	264,571 (6,665)	823,532	993,574	20-33.33
Vehicles	4,774,960	3,182,103 (635,387)	7,321,676	1,262,649	975,043 (304,712)	1,932,980	5,388,696	20-33.33
	<u>5,733,377</u>	<u>4,050,630</u> <u>(645,225)</u>	<u>9,138,782</u>	<u>1,828,275</u>	<u>1,239,614</u> <u>(311,377)</u>	<u>2,756,512</u>	<u>6,382,270</u>	

	2015							
	Cost			Accumulated depreciation			Book value as at December 31, 2015	Rate of Depreciation %
	As at January 01, 2015	Addition / (deletions)	As at December 31, 2015	As at January 01, 2015	Charge / (deletions)	As at December 31, 2015		
	----- (Rupees in '000) -----							
Plant and Machinery	874,000	115,939 (31,522)	958,417	381,899	207,532 (23,805)	565,626	392,791	20-33.33
Vehicles	2,794,404	2,370,923 (390,367)	4,774,960	819,138	629,486 (185,975)	1,262,649	3,512,311	20-33.33
	<u>3,668,404</u>	<u>2,486,862</u> <u>(421,889)</u>	<u>5,733,377</u>	<u>1,201,037</u>	<u>837,018</u> <u>(209,780)</u>	<u>1,828,275</u>	<u>3,905,102</u>	

11.14.1 Net investment in Ijarah financing - IFAS 2

	2016				2015			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	----- Rupees in '000 -----							
Ijarah rentals receivable	2,113,168	3,271,090	1,336	5,385,594	1,531,050	3,195,774	-	4,726,824



- 11.15 Islamic financing and related assets and advances include Rs. 14,533.967 million (2015: Rs 15,683.583 million) which have been placed under non-performing status as follows:

Category of Classification	2016								
	Classified Islamic financing and related assets and advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees in '000									
Other Assets especially mentioned (OAEM)	692,569	-	692,569	-	-	-	-	-	-
Substandard	886,389	-	886,389	188,468	-	188,468	188,468	-	188,468
Doubtful	867,928	-	867,928	296,471	-	296,471	296,471	-	296,471
Loss	12,087,081	-	12,087,081	11,454,420	-	11,454,420	11,454,420	-	11,454,420
	<u>14,533,967</u>	<u>-</u>	<u>14,533,967</u>	<u>11,939,359</u>	<u>-</u>	<u>11,939,359</u>	<u>11,939,359</u>	<u>-</u>	<u>11,939,359</u>

Category of Classification	2015 (Restated)								
	Classified Islamic financing and related assets			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees in '000									
Other Assets especially mentioned (OAEM)	159,355	-	159,355	-	-	-	-	-	-
Substandard	1,311,903	-	1,311,903	273,064	-	273,064	273,064	-	273,064
Doubtful	382,990	-	382,990	135,009	-	135,009	135,009	-	135,009
Loss	13,829,335	-	13,829,335	13,108,433	-	13,108,433	13,108,433	-	13,108,433
	<u>15,683,583</u>	<u>-</u>	<u>15,683,583</u>	<u>13,516,506</u>	<u>-</u>	<u>13,516,506</u>	<u>13,516,506</u>	<u>-</u>	<u>13,516,506</u>

- 11.16 Particulars of provision against non-performing Islamic financing and related assets:

	2016			2015 (Restated)		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
Opening balance	13,516,506	135,593	13,652,099	524,414	76,644	601,058
Transferred from the amalgamated entity	-	-	-	13,932,612	6,238	13,938,850
Charge for the year	790,180	57,126	847,512	324,602	52,711	377,313
Reversals	(2,309,561)	-	(2,309,561)	(1,247,551)	-	(1,247,551)
	(1,519,383)	57,126	(1,462,049)	(922,949)	52,711	(870,238)
Amount written off	(57,764)	-	(57,764)	(93,662)	-	(93,662)
Transferred to provision against off balance sheet	-	-	-	76,091	-	76,091
Closing balance	<u>11,939,359</u>	<u>192,927</u>	<u>12,132,286</u>	<u>13,516,506</u>	<u>135,593</u>	<u>13,652,099</u>

- 11.16.1

	2016			2015 (Restated)		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
Islamic	1,658,774	192,067	1,850,841	2,455,621	133,703	2,589,324
Conventional	10,280,585	860	10,281,445	11,060,885	1,890	11,062,775
	<u>11,939,359</u>	<u>192,927</u>	<u>12,132,286</u>	<u>13,516,506</u>	<u>135,593</u>	<u>13,652,099</u>

- 11.16.2 Reversals net of fair value adjustment taken to consolidated profit and loss account

	2016	2015
	Rupees in '000	
Gross reversals	2,309,561	1,247,551
Charge for the year	(847,512)	(377,313)
	<u>1,462,049</u>	<u>870,238</u>
Fair value adjusted - net	262,338	(230,715)
Net reversals taken to the profit and loss account	<u>1,724,387</u>	<u>639,523</u>

- 11.16.3 Particulars of provision against non-performing Islamic financing and related assets:

	2016			2015 (Restated)		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
In local currency	11,939,359	192,927	12,132,286	13,516,506	135,593	13,652,099
In foreign currency	-	-	-	-	-	-
	<u>11,939,359</u>	<u>192,927</u>	<u>12,132,286</u>	<u>13,516,506</u>	<u>135,593</u>	<u>13,652,099</u>

**11.16.3.1** The Holding company maintains general reserve (provision) in accordance with the applicable requirements of the Prudential Regulations for Consumer Financing and Prudential Regulations for Small and Medium Enterprise Financing issued by the SBP.

**11.16.3.2** In accordance with BSD Circular No. 2 dated January 27, 2009 issued by the SBP, the holding company has availed the benefit of Forced Sale Value (FSV) of collaterals against the non-performing financings. The benefit availed as at December 31, 2016 amounts to Rs. 468.585 million (2015: Rs. 238.542 million). The additional profit arising from availing the FSV benefit - net of tax as at December 31, 2016 amounts to Rs. 304.580 million (2015: Rs. 155.052 million). The increase in profit, due to availing of the benefit, is not available for distribution of cash and stock dividend to share holders of the holding company.

**11.17** Provision in respect of acquired loans have been determined after taking into considerations of the fair values of such loans on the basis of valuation exercise performed by the Independent consultant.

<b>11.18</b>	<b>Particulars of write offs</b>	<b>2016</b>	<b>2,015</b>
		---- (Rupees in '000) ----	
	Against provisions	57,764	93,662
	Directly charged to the profit and loss account	32,008	25
		<u>89,772</u>	<u>93,687</u>
	Write offs Rs. 500,000 and above	89,211	93,662
	Write offs below Rs. 500,000	561	25
		<u>89,772</u>	<u>93,687</u>

**11.18.1** **Details of financings written off of Rs. 500,000 and above**

In term of sub-section(3) of section 33 A of the Banking Companies Ordinance, 1962, the statement in respect of written off financings or any other financial relief of five hundred thousand rupees or above allowed to any person is required to be disclosed. The details of financial relief allowed during the year is given as Annexure - II.

**11.19** **Particulars of financing to directors, executives or officers of the Holding Company**

Financing due by directors, executives or officers of the holding company or any of them either severally or jointly with any other persons

	<b>Note</b>	<b>2016</b>	<b>2015</b>
		-----Rupees in '000-----	
Balance at the beginning of the year		1,847,139	1,159,060
Financing granted during the year		847,227	1,198,922
Repayments made during the year		(632,044)	(510,843)
Balance at the end of the year	11.18.1	<u>2,062,322</u>	<u>1,847,139</u>

**11.19.1** This includes Rs 4.653 million (2015: Rs 3.586 million) mark up free financing to employees of the holding company given under the holding company's Human Resource Policy.



12 OPERATING FIXED ASSETS	Note	Restated	
		2016	2015
-----Rupees in '000-----			
Capital work-in-progress	12.1	38,362	101,463
Property and equipment	12.2	6,160,780	5,642,200
Intangible assets	12.3	3,212,987	3,158,358
		<u>9,412,129</u>	<u>8,902,021</u>

12.1 Capital work-in-progress	2016		2015	
	-----Rupees in '000-----			
Advances to suppliers and contractors	-	-	92,707	-
Civil works (relating to defunct KASB Bank Limited)	38,362	-	3,597	-
Advance for acquiring properties (relating to defunct KASB Bank Limited):				
- Office premises	721,903	-	721,903	-
- Computer software	-	-	5,159	-
	760,265	-	823,366	-
Provision for impairment against advance for acquiring floor / office premises (relating to defunct KASB Bank Limited)	(721,903)	-	(721,903)	-
	<u>38,362</u>	-	<u>101,463</u>	-

## 12.2 Property and equipment

	2016								
	COST / REVALUATION				DEPRECIATION			Net book value as at December 31, 2016	Rate of Depreciation %
	As at January 01, 2016	Additions / transfers / adjustment	(Disposals) / Write offs	As at December 31, 2016	As at January 01, 2016	Charge for the year / (disposals) / adjustments	As at December 31, 2016		
-----Rupees in '000-----									
Freehold and Leasehold Land	831,847	-	-	1,016,199	-	-	-	1,016,199	-
Building on leasehold land	3,742,250	61	-	3,570,355	250,531	86,859	332,544	3,237,811	2
		(171,956)	-			(4,865)			
		-				19			
Furniture and fixture	1,544,732	744,300	(2,565)	2,286,467	861,023	244,860	1,121,602	1,164,865	10
		-	-			(1,819)			
		-				17,538			
Electrical, office and computer equipment	2,816,178	409,070	(84,174)	3,141,074	2,188,656	312,060	2,409,338	731,736	15 - 25
		-	-			(77,409)			
		-				(13,969)			
Vehicles	40,158	7,566	(4,275)	43,449	32,755	4,744	33,280	10,169	20
		-	-			(4,219)			
		-				-			
	<u>8,975,165</u>	<u>1,160,997</u>	<u>(91,014)</u>	<u>10,057,544</u>	<u>3,332,965</u>	<u>648,523</u>	<u>3,896,764</u>	<u>6,160,780</u>	
		-	-			(88,312)			
		<u>12,396</u>				<u>3,588</u>			

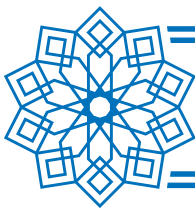
2015											
COST / REVALUATION					DEPRECIATION				Net book value as at December 31, 2015	Rate of Depreciation %	
As at January 01, 2015	Additions/ adjustments / revaluation surplus*	Transfer from amalgamated entity	(Disposals) / Write offs	As at December 31, 2015	As at January 01, 2015	Charge for the year / (disposals) / adjustments	Transfer from amalgamated entity	As at December 31, 2015			
-----Rupees in '000-----											
Freehold and Leasehold Land	486,748	-	345,232	-	831,847	-	-	-	-	831,847	-
		(133)	*								
Building on leasehold land	1,528,388	251,787	1,837,680	-	3,742,250	1,857	70,740	248,185	250,531	3,491,719	2
		(70,251)									
		194,646	*				(70,251)	*			
Furniture and fixture	1,383,051	157,291	190,921	(10)	1,544,732	580,475	193,800	129,932	861,023	683,709	10
		-		(186,521)			(10)				
		-					(43,174)				
Electrical, office and computer equipment	1,585,873	291,511	947,766	(8,972)	2,816,178	1,095,953	246,025	854,858	2,188,656	627,522	15 - 25
		-		-			(8,180)				
		-					-				
Vehicles	2,936	208	37,126	(112)	40,158	2,340	7,576	22,934	32,755	7,403	20
		-		-			(95)				
		-					-				
	4,986,996	700,797	3,358,725	(9,094)	8,975,165	1,680,625	518,141	1,255,909	3,332,965	5,642,200	
		(70,251)		(186,521)			(8,285)				
		194,513					(113,425)				

### 12.2.1 Details of property and equipment disposed-off

The details of property and equipment disposed-off during the year are disclosed in 'Annexure I'

### 12.3 Intangible asset

2016									
COST			AMORTISATION			Net book value as at December 31, 2016	Rate of amortization %		
As at January 01, 2016	Additions / (disposals)	As at December 31, 2016	As at January 01, 2016	Charge for the year / adjustments	As at December 31, 2016				
-----Rupees in '000-----									
Computer software		555,305	122,440	677,745	436,151	56,306	498,557	179,188	20
			-			6,100			
Core deposits		40,600	-	40,600	1,554	2,371	3,925	36,675	5.5% - 20%
			-			-			
Customer list		30,735	-	30,735	24,935	3,034	27,969	2,766	10
			-			-			
Membership cards of KSE and NCEL (Refer Note 12.3.1 & 12.3.2)		2,100	-	2,100	-	-	-	2,100	Indefinite useful life
Rooms at KSE		5,804	-	5,804	5,804	-	5,804	-	Indefinite useful life
			-			-			
Booths at KSE		950	-	950	-	-	-	950	Indefinite useful life
			-			-			
Contracts and Mandates		89,353	-	89,353	89,353	-	89,353	-	Indefinite useful life
			-			-			
Foreign Affiliate Relationships		89,327	-	89,327	89,327	-	89,327	-	Indefinite useful life
			-			-			
Goodwill (Refer note 12.4)		2,991,308	-	2,991,308	-	-	-	2,991,308	-
			-			-			
			-			-			
	3,805,482	122,440	3,927,922	647,124	61,711	714,935	3,212,987		
					6,100				



2015 (Restated)										
COST				AMORTISATION				Net book value as at December 31, 2015	Rate of amortization %	
As at January 01, 2015	Additions / (impairment)	Transfer from amalgamated entity*	As at December 31, 2015	As at January 01, 2015	Charge for the year / (disposals)	Transfer from amalgamated entity	As at December 31, 2015			
Rupees in '000										
Computer software	204,104	21,112	330,089	555,305	164,907	26,903	244,341	436,151	119,154	20
Core deposits	-	40,600	-	40,600	-	1,554	-	1,554	39,046	5.5% - 20%
Customer list	-	-	30,735	30,735	-	1,999	22,936	24,935	5,800	10
Membership cards of KSE and NCEL (Refer Note 12.3.1 & 12.3.2)	-	-	2,100	2,100	-	-	-	-	2,100	Indefinite useful life
Rooms at KSE	-	-	5,804	5,804	-	-	-	5,804	-	Indefinite useful life
Booths at KSE	-	-	950	950	-	-	-	-	950	Indefinite useful life
Contracts and Mandates	-	-	89,353	89,353	-	-	89,353	89,353	-	Indefinite useful life
Foreign Affiliate Relationships	-	-	89,327	89,327	-	-	89,327	89,327	-	Indefinite useful life
Goodwill (Refer Note 12.4)	20,025	2,978,201	-	2,991,308	-	-	-	-	2,991,308	-
	224,129	3,039,913	548,358	3,805,482	164,907	30,456	445,957	647,124	3,158,358	
		(6,918)				5,804				

**12.3.1** Pursuant to the promulgation of the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012 (The Act), the ownership in a stock exchange has been segregated from right to trade on the exchange. Accordingly, BIPL Securities Limited has received equity shares of PSX and a Trading Right Entitlement Certificate (TREC) in lieu of its membership card of PSX. BIPL Securities Limited's entitlement in respect of PSX's shares is determined on the basis of valuation of assets and liabilities of PSX as approved by the SECP and BIPL Securities Limited has been allotted 4,007,383 shares of the face value of Rs 10/- each, out of which 2,404,430 shares are kept in the blocked account and the divestment of the same will be made in accordance with the requirements of the Act within two years from the date of Demutualization.

On December 29, 2016, the divestment committee of PSX formed for the purpose has confirmed the sale of 40% equity stake of PSX shares as detailed in note 10.6.16 to these financial statements.

The cost / book value of the PSX membership card amounts to Rs. 4.95 million as at December 31, 2012. In absence of an active market of the shares of PSX and TREC, the allocation of the carrying value of the membership card between the shares (financial asset) and TREC (an intangible asset) has been made by BIPL Securities Limited on the basis of the face of ordinary shares and the TREC value assigned by the PSX for minimum capital requirement purpose applicable to the stock exchange brokers.

**12.3.2** BIPL Securities Limited has pledged / hypothecated its TREC in favor of PSX to meet the requirement of Base Minimum Capital (BMC) under clause 19.2 of the Risk Management Regulation of PSX Rule Book.

	Note	2016	Restated 2015
----- Rupees in '000 -----			
<b>12.4 Goodwill</b>			
As at January 1		2,991,308	20,025
Goodwill recognised during the year	12.4.1	-	2,978,201
Impairment - charged during the year		-	(6,918)
<b>Net book value as at December 31</b>		<u>2,991,308</u>	<u>2,991,308</u>

**12.4.1** Goodwill recognised on the amalgamation of KASB Bank Undertakings 12.4.2 2,978,201 2,978,201

This represents goodwill recognised upon acquisition of KASB Bank Undertakings based on fair values of assets and liabilities as more fully explained in note 4 to these financial statements. It includes goodwill arising on consolidation amounting to Rs 33.904 million. The SBP vide its letter no. BPRD(R&P-02)/625-112/2017/4089 dated February 24, 2017 has allowed the Group exemption from "Goodwill impairment" under the applicable accounting standards till December 30, 2018.

- 12.4.2** The amount of goodwill that will be deductible for taxable purposes is Rs. 5,930.736 million as mentioned in note 4 to these consolidated financial statement.
- 12.5** Cost of fully depreciated properties and equipment that are still in the holding company's use, as at December 31, 2016, amounted to Rs. 1,051.133 million (2015: Rs. 785.225 million). The cost of fully amortised intangible assets that are still in the holding company's use, as at December 31, 2016 amounted to Rs. 156.176 million (2015: Rs. 146.284 million).
- 12.6** During the year 2015, the holding company's freehold land and buildings on leasehold land were revalued by M/s Akbani & Javed, Harvesters Services and Ghandhara Consultants on the basis of their professional assessment of the present market value. As a result of revaluation the market value of freehold land and buildings on leasehold land were determined at Rs. 3,796.573 million.

Had there been no revaluation, the carrying amount of revalued assets at December 31, 2016 would have been as follows:

	COST			DEPRECIATION			Net book value as at December 31, 2016
	As at January 01, 2016	Additions	(Disposals)	As at December 31, 2016	As at January 01, 2016	Charge for the year	
	-----Rupees in '000-----						
Freehold Land	374,528	-	-	374,528	-	-	374,528
Building on lease hold land	2,509,952	-	-	2,509,952	236,875	41,853	2,231,224
	<u>2,884,480</u>	-	-	<u>2,884,480</u>	<u>236,875</u>	<u>41,853</u>	<u>2,605,752</u>

13 DEFERRED TAX ASSET	Note	2016	Restated 2015
		----- Rupees in '000 -----	
<b>Deferred tax debits arising in respect of:</b>			
Accumulated tax losses	13.1 & 13.2	1,893,706	2,022,909
Tax credit against minimum tax		354,905	315,488
Deficit on revaluation of available for sale securities		-	8,925
Provision for diminution in the value of investments		369,462	453,177
Provision against non-performing Islamic financing and related assets		3,871,299	3,832,981
Provision for gratuity		21,253	21,253
Impairment of goodwill		74,118	92,240
Ijarah financing and related assets		1,018	-
Fair value adjustments relating to net assets acquired upon amalgamation		-	81,726
Others		606,559	638,953
		<u>7,192,320</u>	<u>7,467,652</u>
<b>Deferred tax credits arising due to:</b>			
Fair value adjustments relating to net assets acquired upon amalgamation		(38,157)	-
Accelerated tax depreciation		(192,081)	(198,711)
Surplus on revaluation of fixed assets		(650,800)	-
Surplus on revaluation of non-banking assets		(4,632)	-
Surplus on revaluation of available for sale securities		(404,091)	(656,390)
Net investment in finance lease		(81,603)	(81,603)
		<u>(1,371,364)</u>	<u>(936,704)</u>
		<u>5,820,956</u>	<u>6,530,948</u>



- 13.1** The holding company has aggregate tax losses of Rs. 9,901.591 million as at December 31, 2016 which includes tax losses of defunct KASB Bank Limited (now amalgamated with and into the Bank). The management has carried out an assessment for estimating the benefit of these losses, the holding company would be able to set off from the profit earned in future years against these carry forward losses. Based on this assessment the management has recognised deferred tax debit balance amounting to Rs. 2,248.611 million [including deferred tax on minimum tax amounting to Rs. 354.905 million (2015: Rs. 315.488 million – representing deferred tax asset on minimum tax)]. The amount of this benefit has been determined based on the projected financial statements for the future periods as approved by the Board of Directors. The determination of future taxable profit is most sensitive to certain key assumptions such as cost to income ratio of the holding company, deposit's composition, kibar rates, growth of deposits and financing, investment returns, product mix of financing, potential provision against assets / financings, recoveries from non-performing loans and branch expansion plan. Any significant change in the key assumptions may have an effect on the realisability of the deferred tax asset.
- 13.2** In case of another company the Division Bench of the Sindh High Court in its decision dated May 7, 2013 on carry forward of minimum tax in the cases of taxable loss for the year has held by interpreting Section 113(2)(c) of the Income tax Ordinance, 2001 that the benefit of carry forward of minimum tax paid by a company is only available if the tax paid in a particular year is less than minimum tax payable. Accordingly, if no tax is paid / payable by the company due to taxable loss the right to carry forward the minimum tax does not arise. However, the management based on the advice of its legal counsel is of the view that this matter is subject to appeal in larger bench of the High Courts as well as the Supreme Court and valid legal grounds are available to substantiate the Bank's case for carry forward of minimum tax, therefore, minimum tax of Rs.354.905 million (2015: Rs. 315.488 million) has been recognised as 'Deferred tax' in these financial statements.

	Note	2016	Restated 2015
		----- Rupees in '000 -----	
<b>14 OTHER ASSETS</b>			
Profit / return accrued in local currency		2,326,703	932,265
Profit / return accrued in foreign currency		1,093	10
Advances, deposits, advance rent and other prepayments		915,328	477,077
Non-banking assets acquired in satisfaction of claims	14.1	1,665,910	1,599,587
Lease rental receivable		44,641	44,641
Branch Adjustment Account		53,761	151,637
Defined Benefit Plan assets	34.3	35,373	26,513
Insurance claim receivable		13,250	11,321
Car Ijarah repossession		-	3,170
Receivable against First WAPDA Sukuk	14.2	50,000	50,000
Stationery and stamps in hand		7	7
Trade debts	14.3	197,968	134,026
Receivable against Mutual Funds		16,041	542,970
Unrealized gain on forward foreign exchange contracts		1,541	-
Other receivables		329,505	644,462
		<u>5,651,121</u>	<u>4,617,686</u>
Less: Provision held against other assets	14.4	(665,281)	(670,355)
Other assets (net of provisions)		<u>4,985,840</u>	<u>3,947,331</u>

- 14.1** The market value of Non-Banking assets acquired in satisfaction of claims is Rs. 1,149.336 million (2015: Rs. 1,110.490 million).
- 14.2** The Group had purchased 10,000 certificates on June 25, 2009 of first Wapda sukuk through a negotiated transaction for a cash consideration of Rs. 50.228 million having face value of Rs. 50 million. These certificates were available in the seller's Central Depository Company (CDC) account and on completion of the transaction were transferred to the Group's CDC account. However, the periodic Ijarah Rental dues were not paid to the Group on the plea that there exists certain discrepancy with respect to ownership of the asset. The amount has been shown under "other assets" as the certificates were matured in 2012 as per the terms of the sukuk issue. The Group has not recognised any provision in respect of the above amount as it is fully secured through a lien over a deposit account.



14.3 This includes receivable from NCCPL amounting to Rs. 92.88 million (2015: Rs. 10.29 million) in respect of trading in securities settled subsequent to the year end.

	Note	2016	Restated 2015
----- Rupees in '000 -----			
<b>14.4 Provision held against other assets</b>			
Opening balance		670,355	58,063
Charge for the year		69	3,923
Reversals		(5,143)	-
		(5,074)	3,923
Provision transferred from the amalgamated entity	14.4.1	-	608,369
Closing balance		<u>665,281</u>	<u>670,355</u>

14.4.1 This includes Rs 523.106 million pertaining to impairment recorded against non banking assets.

	Note	2016	2015
----- Rupees in '000 -----			
<b>15 BILLS PAYABLE</b>			
In Pakistan		2,273,934	1,523,933
Outside Pakistan		-	-
		<u>2,273,934</u>	<u>1,523,933</u>

**16 DUE TO FINANCIAL INSTITUTIONS**

In Pakistan		6,066,307	3,197,770
Outside Pakistan		-	-
		<u>6,066,307</u>	<u>3,197,770</u>

**16.1 Details of due to financial institutions secured / unsecured**

**Secured**

Acceptances from State Bank of Pakistan:

- under Islamic Export Refinance Scheme	16.1.1	2,205,550	1,039,350
- under scheme of amalgamation	16.1.2	2,360,757	2,158,420

**Unsecured**

Musharakah Acceptance	16.1.3	1,500,000	-
		<u>6,066,307</u>	<u>3,197,770</u>

16.1.1 The acceptances is on a profit and loss sharing basis and is secured against demand promissory notes executed in favour of the State Bank of Pakistan (SBP). A limit of Rs. 5,000 million (2014: Rs. 1,000 million) was allocated to the holding company by the SBP under Islamic Export Refinance Scheme for the financial year ended December 31, 2016.

16.1.2 This represents amortised cost of a 10 year financing facility of Rs.5,000 million extended by the State Bank of Pakistan (SBP). The facility is secured against Government of Pakistan Ijarah Sukuk. The 10 year facility was provided on the basis of Mudaraba to be remunerated at profit sharing ratio declared by the Bank on its remunerative current accounts on monthly basis (the last declared rate in this respect is 0.01% per annum).



16.1.3 The profit rates on the agreements range between 5% to 5.25% (2015: Nil) per annum and the agreements have maturities ranging from 30 days to 51 days (2015: Nil).

		2016	2015
		----- Rupees in '000 -----	
<b>16.2</b>	<b>Particulars of due to financial institutions with respect to currencies</b>		
	In local currency	6,066,307	3,197,770
	In foreign currencies	-	-
		<u>6,066,307</u>	<u>3,197,770</u>
<b>17</b>	<b>DEPOSITS AND OTHER ACCOUNTS</b>		
	<b>Customers</b>		
	Fixed deposits	41,134,961	47,405,448
	Savings deposits	47,774,326	51,231,874
	Current accounts - non-remunerative	48,557,422	44,844,739
	Margin accounts - non-remunerative	516,032	391,114
		<u>137,982,741</u>	<u>143,873,175</u>
	<b>Financial Institutions</b>		
	Remunerative deposits	15,479,103	8,568,286
	Non-remunerative deposits	364,504	219,679
		<u>153,826,348</u>	<u>152,661,140</u>
<b>17.1</b>	<b>Particulars of deposits</b>		
	In local currency	151,049,608	150,007,925
	In foreign currencies	2,776,740	2,653,215
		<u>153,826,348</u>	<u>152,661,140</u>
<b>18</b>	<b>OTHER LIABILITIES</b>	<b>Note</b>	<b>Restated 2015</b>
		----- Rupees in '000 -----	
	Profit / return payable in local currency		793,193
	Profit / return payable in foreign currencies		3,283
	Accrued expenses		540,035
	Deferred Murabahah Income - Financing and IERS	11.11.1	249,323
	Deferred Murabahah Income - Bai Muajjal		1,141,581
	Deferred Murabahah Income - Commodity Murabahah		78,179
	Payable to defined contribution plan		1,405
	Security deposits against Ijarah and others		1,611,102
	Provision against off-balance sheet obligations	18.1	394,456
	Surplus income of quarantined entity held for future admissible expenses		78,573
	Receipt appropriation account		9,620
	Current taxation (provisions less payments)		171,799
	Provision against other tax liabilities	18.2	28,827
	Sundry creditors		485,553
	Payable to brokers against purchase of shares - net		-
	Unrealized loss on forward foreign exchange contracts		13,817
	Unrealized loss on forward sale contracts		-
	Charity payable	18.3	3,956
	Retention money payable		12,917
	WWF payable		-
	Others		165,193
			<u>6,760,717</u>
			<u>5,782,812</u>

	Note	2016	Restated 2015
----- Rupees in '000 -----			
<b>18.1 Provision against off-balance sheet obligations</b>			
Opening balance		394,456	-
Transfer from the amalgamated entity		-	470,547
Transferred to provision against Islamic financing and related assets and Advances	11.16	(95,363)	(76,091)
Closing balance		<u>299,093</u>	<u>394,456</u>

**18.2 Provision against other tax liabilities**

This balance is payable to tax authorities in relation to certain outstanding tax matters.

	Note	2016	2015
----- Rupees in '000 -----			
<b>18.3 Charity Payable</b>			
Opening balance		3,956	6,212
Additions during the year		7,158	6,804
Payments during the year	18.3.1	(9,207)	(9,060)
Accrual of profit on charity account		238	-
Closing balance		<u>2,145</u>	<u>3,956</u>

**18.3.1 Charity was paid to the following:**

Alamgir Welfare Trust International	500	1000
The Citizen Foundation	500	1000
The Indus Hospital	500	1000
Liaquat National Hospital & Medical College	-	500
Sindh Institute of Urology and Transplantation (SIUT)	-	500
Koohi Goth Hospital	200	500
Diya Pakistan	200	0
Shoukat Khanum Memorial	500	1000
Kharadar General Hospital	200	0
Habib University	-	300
Infaq Memorial Trust	700	1000
Marie Adelaide Leprosy Center	-	500
Kiran Patient Welfare Society	-	350
Nighiban Welfare Association Charity	-	500
Saylani Welfare International Trust	500	-
Ms. Kainat Zubairi	-	35
Ms. Mehak Ruba	60	50
Mrs. Shahnaz Khan	975	825
Qindeel Academy	200	-
Akhuwat Foundation	500	-
Syeda Anayah Nadeem	250	-
Mr. Sajid Inayat	322	-
Dr. M Nasir Jamal Pasha	200	-
Wasil Trust Charity	1,000	-
Mrs. Ishrat Afzal Butt	1,900	-
	<u>9,207</u>	<u>9,060</u>

**18.3.2** Charity was not paid to any staff of the holding company or to any individual / organisation in which a director of the holding company or his spouse had any interest at any time during the year.



## 19 SHARE CAPITAL

### 19.1 Authorised capital

2016	2015		2016	2015
----- Number of Shares -----			----- Rupees in '000 -----	
<u>1,300,000,000</u>	<u>1,300,000,000</u>	Ordinary shares of Rs.10 each	<u>13,000,000</u>	<u>13,000,000</u>

### 19.2 Issued, subscribed and paid up capital

2016	2015		2016	2015
----- Number of Shares -----			----- Rupees in '000 -----	
1,007,912,090	575,872,090	Ordinary shares of Rs 10 each	10,079,121	5,758,721
-	432,040,000	At beginning of the year	-	4,320,400
<u>1,007,912,090</u>	<u>1,007,912,090</u>	Issued during the year - right issue	<u>10,079,121</u>	<u>10,079,121</u>
		Balance as at December 31		

20	RESERVES	Note	2016	2015
			----- Rupees in '000 -----	
	Statutory Reserves	20.1	363,636	273,176
	Reserve for bad debts and contingencies	20.2	250,000	250,000
			<u>613,636</u>	<u>523,176</u>

**20.1** Under section 21 of the Banking Companies Ordinance, 1962 an amount of not less than 20% of the profit of the holding company is to be transferred to create a reserve fund till such time the reserve fund and the share premium account equal the amount of the paid up capital of the holding company (i.e. Bank). Thereafter, an amount of not less than 10% of the profit is required to be transferred to such reserve fund.

**20.2** The Board of Directors of the holding company in its meeting held on March 6, 2015 had approved transfer of an amount of Rs 250 million out of "unappropriated profit" to "reserve for bad debts and contingencies".

21	SURPLUS ON REVALUATION OF ASSETS	Note	2016	2015
			----- Rupees in '000 -----	
	<b>Surplus / (Deficit) arising on revaluation of:</b>			
	Fixed Assets (attributable to equity shareholders of the Bank)	21.1	840,664	851,045
	Non Banking Assets (attributable to equity shareholders of the Bank)	21.2	67,968	-
	Available for sale securities, attributable to:			
	- Equity shareholders of the Bank		806,633	(20,169)
	- Non-controlling interest		26,062	(2,456)
		21.3	<u>832,695</u>	<u>(22,625)</u>
			<u>1,741,327</u>	<u>828,420</u>

	2016	2015
	----- Rupees in '000 -----	
<b>21.1 Surplus on revaluation of fixed assets</b>		
<b>Freehold Land</b>	112,087	112,087
<b>Building on lease hold land</b>		
Surplus on revaluation of fixed assets at January 1	1,136,858	961,677
Surplus recognised during the year	-	194,646
Transferred to un-appropriated profit / (accumulated loss) in respect of incremental depreciation charged during the year	(10,381)	(12,652)
Related deferred tax liability in respect of incremental depreciation charged during the year	(5,590)	(6,813)
	(15,971)	(19,465)
	<u>1,120,887</u>	<u>1,136,858</u>
Related deferred tax liability on surplus as at January 1	(397,900)	(336,587)
Related deferred tax liability on surplus during the year	-	(68,126)
Related deferred tax liability in respect of incremental depreciation charged during the year	5,590	6,813
	(392,310)	(397,900)
	<u>728,577</u>	<u>738,958</u>
	<u><u>840,664</u></u>	<u><u>851,045</u></u>
<b>21.2 Surplus on revaluation of Non Banking Assets</b>		
<b>Freehold Land</b>		
Surplus on revaluation of Non Banking Assets at January 1	-	-
Surplus recognised during the year	59,367	-
	<u>59,367</u>	<u>-</u>
<b>Building on lease hold land</b>		
Surplus on revaluation of Non Banking Assets at January 1	-	-
Surplus recognised during the year	13,491	-
Transferred to un-appropriated profit / (accumulated loss) in respect of incremental depreciation charged during the year	(168)	-
Related deferred tax liability in respect of incremental depreciation charged during the year	(90)	-
	(258)	-
	<u>13,233</u>	<u>-</u>
Related deferred tax liability on surplus as at January 1	-	-
Related deferred tax liability on surplus arising during the year	(4,722)	-
Related deferred tax liability in respect of incremental depreciation charged during the year	90	-
	(4,632)	-
	<u>8,601</u>	<u>-</u>
	<u><u>67,968</u></u>	<u><u>-</u></u>



	2016	2015
	----- Rupees in '000 -----	
<b>21.3 Surplus on revaluation of available for sale securities</b>		
<b>Federal Government Securities</b>		
- Ijarah Sukuk Bonds - Islamic	1,096,826	1,177
<b>Sukuk certificates</b>		
- Sukuks listed	1,721	-
- Sukuks unlisted	(3,783)	(20,758)
<b>Fully paid up ordinary shares / Units</b>		
- Modaraba Certificates - Islamic	9,019	4,684
- Ordinary shares of listed company - Islamic	(2,868)	(5,956)
- Units of Open end Mutual Funds - Islamic	50	35
- Al Jomaih Power Limited (pertaining to BIPL Securities Limited) - Conventional	135,821	(10,732)
	<u>1,236,786</u>	<u>(31,550)</u>
Related deferred tax (liability) / asset	(404,091)	8,925
	<u>832,695</u>	<u>(22,625)</u>
<b>22 CONTINGENCIES AND COMMITMENTS</b>		
<b>22.1 Transaction-related contingent liabilities</b>		
Contingent liabilities in respect of performance bonds, bid bonds, warranties, etc. given favouring		
- Government	875,950	452,948
- Others	11,828,695	10,707,081
	<u>12,704,645</u>	<u>11,160,029</u>
<b>22.2 Trade-related contingent liabilities</b>		
Import letter of Credit	4,348,098	4,624,374
Acceptances	1,983,434	1,618,343
	<u>6,331,532</u>	<u>6,242,717</u>
<b>22.3 Suit filed by customers for recovery of alleged losses suffered, pending in the High Court, which the Group has not acknowledged as debt</b>	<u>150,000</u>	<u>150,000</u>

**22.3.1** These mainly represent counter claims filed by the borrowers for restricting the Group for disposal of assets (such as mortgaged / pledged assets kept as security), cases where the Group was proforma defendant for defending its interest in the underlying collateral kept by it at the time of financing.

The ownership of the Group in respect of its investment in 400,000 certificates of Modaraba Al-Mali costing Rs 2,972,822 was disputed by a person. The Group rejected this claim and filed a suit against that party in the High Court of Sindh claiming damages of Rs 20,000,000. The High Court granted an injunction in favour of the Group restraining the person to deal with the shares pending hearing and disposal of the suit. Meanwhile a suit filed by the same party for the winding up the subsidiary company was dismissed by the High Court. After dismissal the party filed a suit against the Group in Banking Court, Karachi, claiming Rs 19,200,000.

The management, based on the opinion of its legal counsel is confident that the Group has a strong case and the suit filed against the Group will be dismissed. Accordingly, no provision has been made in these consolidated financial statements in respect of the above.

**22.3.2** Consequent to the amalgamation of KASB Bank Limited with and into BankIslami Pakistan Limited as at May 7, 2015 certain cases have been filed by individuals pertaining to amalgamation in which the Group has been made a party. The management based on the advice of its legal counsel is confident that there will be no financial loss to the Group in respect of these cases.

- 22.4** The Deputy Commissioner Inland Revenue (DCIR) passed certain assessment orders against the Group vide letter no 06/97/2012, 07/97/2012 and 08/97/2012, all dated September 25, 2012 under Section 33 of the Federal Excise Duty Act 2005, wherein aggregate demand of federal excise duty of Rs. 69.431 million was raised against the Group mainly in respect of income from dealing in foreign currencies and certain dispute regarding deposit of the amount amongst Federal and Provincial government.
- 22.5** The Group filed an appeal for the stay of the above demand before the Appellate Tribunal Inland Revenue (ATIR) after the assessment order were confirmed by the Commissioner Inland Revenue (Appeals). The stay application was heard on February 23, 2013. The ATIR accepted the stay application and had verbally directed that no recovery of demand should be initiated against the holding company till the decision of the main case by the ATIR. The holding company had initially deposited an amount of Rs. 10.4 million for filing appeal against the said case. Last year, the holding company had further deposited an additional amount of Rs. 8 million on the verbal instructions of the authorities. The ATIR has set aside the stay appeal in respect of income from dealing in foreign currencies and remanded back the case to the Commissioner Inland Revenue for fresh reassessment proceedings. The management of the holding company is confident that the above matter will be decided in favour of the holding company and therefore, no provision for any liability which may arise in this respect has been made in these consolidated financial statements.
- 22.6** As referred to in note 4.3.2, an amount of Rs 981.410 million was appearing as advance against issue of right shares being received by the defunct KASB Bank Limited from Mr. Nasir Ali Shah Bukhari, a former sponsor of the defunct KASB Bank Limited and other shareholders. The defunct KASB Bank Limited, when it was under the management and control of Mr. Bukhari, did not issue shares against the said advance, amongst other reasons, due to default on the part of the sponsors for meeting the minimum capital requirement. The amount was reported by the defunct KASB Bank Limited as a part of the shareholders equity in the financial statements with the permission of SBP consistent with the practice followed by other Banks in Pakistan. The defunct KASB Bank Limited is now amalgamated with and into the BIPL i.e. (holding company), with effect from May 7, 2015, as per the Scheme of Amalgamation sanctioned by the Federal Government. The KASB Corporation Limited and one of its sponsors has filed a suit no: 1102/2015 in the Honorable High Court of Sindh, wherein, they prayed for restraining the BIPL from using or transferring the amount of advance for any purpose whatsoever during the pendency of the instant proceedings. Pursuant to the said suit, an order has been passed by the Honorable High Court of Sindh on July 1, 2015, whereby, the holding company has been asked to submit a statement of financial position and keep the amount in the same position. The holding company is of the view that, in addition to other reasons, as Advance against future issue of right shares appeared as shareholders equity in the financial statements prepared by the Defunct Bank itself, it did not form part of the assets and liabilities of the defunct Bank transferred to the BIPL under the scheme of amalgamation. The same position has been maintained.
- 22.7** As disclosed in first para of note 4.1, after the acquisition of defunct KASB Bank, the Holding company came to know about certain transactions, identified by SBP, that were carried out by the ex-sponsors of defunct KASB Bank including but not limited to siphoning of money, fraudulent agreements and account opening for their personal benefit. SBP instructed the Holding company to initiate legal actions to recover the siphoned amounts from the alleged defaulters as per law. Separate complaints for the recovery of Rs. 3,114 million and Rs. 103.501 million have been lodged by the Bank with National Accountability Bureau (the Bureau) which were later converted into formal inquiries by the Bureau. It may be noted without prejudice to the Holding company's claim, the aforesaid amounts have not been recorded in these consolidated financial statements as a matter of prudence.



22.8	Commitments in respect of promises	2016 ----- Rupees in '000 -----	2015
	Purchases	<u>5,974,455</u>	<u>4,971,841</u>
	Sales	<u>6,336,881</u>	<u>4,808,264</u>
22.9	Commitments for the acquisition of operating fixed assets	<u>217,107</u>	<u>61,451</u>

#### 22.10 Commitments in respect of financing facilities

The Group makes commitments to extend financing in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

#### 22.11 Taxation

**22.11.1** The income tax returns of the holding company have been filed and tax assessments have been made by the tax authorities upto tax year 2016. The returns filed for the tax year 2014 to tax year 2016 are treated to be deemed assessment order under section 120 of the Income Tax Ordinance, 2001.

**22.11.2** During the year 2014 (relating to the defunct KASB Bank Limited), the learned Additional Commissioner Inland Revenue (ACIR) passed amended assessments order under section 122(5A) of the Income Tax Ordinance, 2001 for tax Years 2011 and 2013 by imposing minimum tax on turnover disregarding gross loss position of the bank. ACIR has also amended taxability of capital gain and dividend income. The aggregate tax impact comes to Rs.116.002 million. Against the said order, the bank filed appeal before the Commissioner Inland Revenue - Appeals (CIRA). During the year the learned CIRA issued order under section 129 of the Ordinance by deleting the tax charged on capital gain and dividend income and upheld the levy of minimum tax. The learned ACIR has passed appeal effect order under section 124 of the Ordinance

After appeal effect order the aforesaid demand has now been reduced to Rs.89.928 million. Against the order of the learned CIRA, the Group has filed an appeal before the Honourable Appellate Tribunal Inland Revenue (ATIR). However, the department has filed appeal against the CIRA Order on the issue of capital gain and dividend income. Therefore, cross appeal for the tax year 2011 and 2013 is pending before ATIR.

**22.11.3** During the year 2014 (relating to the defunct KASB Bank Limited), in respect of Income tax assessments of International Housing Finance Limited (amalgamated into the defunct KASB Bank Limited during the year ended 31 December 2007) for tax year 2005, CIR Appeals has maintained the order of the Taxation Officer to the extent of disallowances relating to income from carry over transactions and gain on sale of property having an aggregate tax impact of Rs 12.997 million. The defunct KASB Bank Limited has preferred appeals before the ATIR for tax year 2005.

**22.11.4** The income tax returns (relating to the defunct KASB Bank Limited) of the Bank for Azad Jammu Kashmir (AJK) region have been filed and tax assessments have been made by the tax authorities upto and including tax year 2014.



- 22.11.5** During the year 2013 (relating to the defunct KASB Bank Limited), the Appellate Tribunal Inland Revenue (ATIR) passed an order for the tax years 2005 to 2009 in favour of the defunct KASB Bank Limited by allowing certain deductions including provision for non-performing advances, impairment on investments, other provisions, amortization of goodwill and allocation of expenses having an aggregate tax impact of Rs. 712.550 million. However, the ATIR has disallowed deductions relating to carry over transactions having tax impact of Rs. 86.377 million for the tax years 2005 to 2008. The defunct KASB Bank Limited has preferred an appeal before the Honourable High Court of Sindh against the said decision of the ATIR. No development has taken place during the current period 2015.
- 22.11.6** During the year 2013 (relating to the defunct KASB Bank Limited), the Income tax assessments of KASB Capital Limited (amalgamated into the defunct KASB Bank Limited during the year ended 31 December 2008) for tax years 2008 and 2009 were amended by the Taxation Officer to the extent of apportionment of expenses having an aggregate tax impact of Rs 125.880 million. The Bank has preferred an appeal before the Honourable High Court of Sindh against the said decision of tax authorities. No development has taken placed till the current period end.
- 22.11.7** For tax years 2003 and 2004 (relating to the defunct KASB Bank Limited), the Commissioner Inland Revenue Appeals (CIR Appeals) has passed appellate orders on account of certain disallowances in respect of income from carry over transactions, provision against non performing advances, bad debts and certain other items having an aggregate tax impact of Rs. 33.748 million. The defunct KASB Bank Limited has preferred appeal before the Appellate Tribunal Inland Revenue (ATIR) against the above referred orders of the CIR Appeals. No development has taken place during the current period.
- 22.11.8** For assessment years 2001-2002 and 2002-2003 and tax years 2003, 2004 and 2005 (relating to the defunct KASB Bank Limited) the income tax authorities of AJK region have passed appellate orders by adding interest on surplus funds transferred to head office, resulting in an additional tax demand of Rs. 14.587 million. The defunct KASB Bank Limited has filed reference with the Azad Kashmir High Court against such additions for the above mentioned assessment/ tax years upto 2004. For tax year 2005, the Commissioner Income Tax (Appeals) - AJK has passed order in favour of the defunct KASB Bank Limited . However, the tax department has preferred appeal before the Appellate Tribunal Inland Revenue (ATIR) - AJK against interest on surplus head office funds, having tax impact of Rs. 5.337 million. For tax years 2006 and 2008, AJK tax department passed orders under section 122(5A) of the Ordinance. As a result of these orders , aggregate demand of Rs 19.178 million was raised against the defunct KASB Bank Limited. However, the order for the tax year 2008 has subsequently rectified under section 221 of the Ordinance. Thereby aggregate demand for tax year 2006 and 2008 reduced to Rs.13.304 million. During the year the learned Commissioner Income Tax (Appeals) - AJK has passed orders under section 129 of the Ordinance for the tax year 2006 and 2008 whereby he has confirmed all additions. Therefore, the defunct KASB Bank Limited has preferred an appeal before the ITAT - AJK . An appeal against the order of CIRA for the tax year 2006 and 2008 has been filed by the Group before the Appellate Tribunal Inland Revenue (ATIR) - AJK.



**22.11.9** During the year 2014 (relating to the defunct KASB Bank Limited), the Commissioner Inland Revenue (Appeals) has given decision in favour of the Group relating to tax periods from 2007 to 2011 for payment of Federal Excise Duty and annulling default surcharge and penalty. However, the tax department has preferred appeal before the Appellate Tribunal against annulment of default surcharge and penalty amounting Rs. 33.208 million.

The management, based on the opinion of its tax advisor, is confident about the favorable outcome of the above matters and consequently no additional provision has been considered necessary in these consolidated financial statements.

	2016	2015
	----- Rupees in '000 -----	
<b>22.12 Other commitments</b>		
Bills for collection	<u>1,806,470</u>	<u>1,627,426</u>
<b>23 PROFIT / RETURN EARNED</b>		
On financings to:		
- Customers	5,401,723	3,800,018
- Financial institutions	2,242,709	2,670,306
	<u>7,644,432</u>	<u>6,470,324</u>
On investments in available for sale securities	2,386,777	2,295,123
On deposits / placements with financial institutions	8,586	6,493
Others	76,044	59,235
	<u>10,115,839</u>	<u>8,831,175</u>
<b>24 PROFIT / RETURN EXPENSED</b>		
Deposits	4,858,482	4,570,287
Due to financial institutions	905,706	528,214
	<u>5,764,188</u>	<u>5,098,501</u>
<b>25 GAIN ON SALE OF SECURITIES</b>		
<b>Unlisted Securities</b>		
Sukuk certificates	97,772	12,003
	<u>97,772</u>	<u>12,003</u>

	Note	2016	2015
		----- Rupees in '000 -----	
<b>26 OTHER INCOME</b>			
Rent on property		12,739	1,792
Gain on termination of financing		9,274	35,528
Gain on sale of property and equipment	12.2.1	29,855	3,583
Amount recovered from staff		6,263	10,133
Income from tracker charges		8,115	13,083
Others		7,427	-
		<u>73,673</u>	<u>64,119</u>
<b>27 ADMINISTRATIVE EXPENSES</b>			
Salaries, allowances, and other benefits	27.1	2,564,446	2,080,740
Charge for defined benefit plan	34	73,126	50,227
Contribution to defined contribution plan	35	74,415	67,805
Non-executive directors' fees, allowances and other expenses		1,820	1,550
Remuneration to Shariah Board		900	900
Takaful and tracker charges on consumer car Ijarah		179,805	79,374
Rent, taxes, insurance, electricity, etc.		1,160,315	1,093,871
Legal and professional charges		44,484	41,876
Communications		233,850	247,030
Repairs and maintenance		148,581	221,657
Stationery and printing		78,914	73,751
Advertisement and publicity		141,830	96,852
Auditors' remuneration	27.2	8,565	26,834
Depreciation on operating fixed assets	12.2	634,381	507,444
Amortisation	12.3	60,927	30,196
Depreciation on non banking assets		6,533	-
CDC and share registrar services		18,273	18,899
Entertainment expense		49,497	40,601
Security service charges		305,532	238,644
Brokerage and commission		28,253	23,068
Travelling and conveyance		34,192	26,018
Fees and subscription		158,243	136,061
Vehicle running and maintenance		53,487	56,053
Others		94,600	107,123
		<u>6,154,969</u>	<u>5,266,574</u>
Allowable administrative expenses of the quarantined entity for the period as per the Shariah Board's approval		<u>-</u>	<u>(208,517)</u>
		<u>6,154,969</u>	<u>5,058,057</u>

**27.1** This includes Rs. 142.411 million (2015: Rs. 105.023 million) paid to employees in respect of car monetisation allowance.



	2016	2015
	----- Rupees in '000 -----	
<b>27.2 Auditors' remuneration</b>		
Audit fee	4,363	3,563
Fee for the review of half yearly financial statements	1,500	1,000
Special audit due to amalgamation	-	18,000
Special certifications and sundry advisory services	1,650	2,935
Out-of-pocket expenses	1,052	1,336
	<u>8,565</u>	<u>26,834</u>
<b>28 OTHER CHARGES</b>		
Penalties imposed by the State Bank of Pakistan	1,044	2,134
Worker's Welfare Fund	16,692	14
	<u>17,736</u>	<u>2,148</u>
	<b>For the year</b>	<b>For the period</b>
	<b>ended December</b>	<b>from May 8 to</b>
	<b>31, 2016</b>	<b>December 31,</b>
		<b>2015</b>
	----- Rupees in '000 -----	
<b>29 FINANCIAL RESULTS OF BIPL SECURITIES LIMITED (Formerly KASB Securities Limited)</b>		
Total income for the period	308,288	266,848
Total expenses for the period	298,820	264,188
Profit before taxation	9,468	2,660
Taxation		
- Current	9,852	15,571
- Prior years	(580)	9,237
- Deferred	(10,983)	(7,659)
	(1,711)	17,149
<b>Profit / (loss) after taxation</b>	<u>11,179</u>	<u>(14,489)</u>
<b>30 TAXATION</b>	<b>2016</b>	<b>2015</b>
	----- Rupees in '000 -----	
- Current year	106,229	99,469
- Prior years	(20)	21,384
- Deferred	283,779	(197,098)
	<u>389,988</u>	<u>(76,245)</u>

The numerical reconciliation between average tax rate and the applicable tax rate has not been presented in these consolidated financial statements as the provision for current year income tax has been made under section 113 of the Income Tax Ordinance, 2001 (minimum tax on turnover) due to available tax losses brought forward from prior years.

Under Section 114 of the Income Tax Ordinance, 2001 (Ordinance), the holding company has filed the return of income for the tax years 2006 to 2016 on due dates. These returns were deemed completed under the provisions of the prevailing income tax laws as applicable in Pakistan during the relevant accounting years.

In respect of tax year 2007, the Additional Commissioner (Inland Revenue) under section 122(5A) of the Income Tax Ordinance, 2001 amended the return submitted by the holding company by adding / disallowing certain expenses / deductions resulting in reduction of losses claimed by the holding company by Rs 117.505 million. The holding company filed an appeal against the said decision with the Commissioner (Inland Revenue Appeals). The Commissioner (Inland Revenue Appeals) has revised the order of Additional Commissioner and has restricted the amount of disallowance / add back to Rs 47.867 million. The holding company has filed appeal before the Appellate Tribunal against these disallowances / add backs.

	Note	2016	2015
		----- Rupees in '000 -----	
<b>31 BASIC AND DILUTED EARNINGS / (LOSS) PER SHARE</b>			
Profit / (loss) after taxation for the year (Attributable to equity shareholders of the Bank)		644,503	(84,107)
		----- Number of shares -----	
Weighted average number of ordinary shares in issue		1,007,912,090	804,320,638
		----- Rupees -----	
Earnings / (loss) per share - basic / diluted	31.1	0.6394	(0.1046)
<b>31.1</b>	There were no convertible / dilutive potential ordinary shares outstanding as at December 31, 2016 and December 31, 2015.		
<b>32 CASH AND CASH EQUIVALENTS</b>			
		----- Rupees in '000 -----	
Cash and balances with treasury banks	7	8,921,433	9,035,889
Balances with other banks	8	1,324,167	2,016,267
		10,245,600	11,052,156
<b>33 STAFF STRENGTH</b>			
		---- Number of employees----	
Permanent		2,511	2,370
Contractual basis		877	705
Group's own staff strength at the end of the year		3,388	3,075
Outsourced		643	608
Total staff strength		4,031	3,683



## 34 DEFINED BENEFIT PLAN

### 34.1 General description

The Group operates separate gratuity funds for its employees of the holding company and the BankIslami Modaraba Investments Limited. The fund entitles the members to lump sum payment at the time of retirement, resignation or death. Permanent staff are eligible for such benefits after three years of service.

The number of employees covered under the defined schemes are 2,392 (2015: 2,228). The latest actuarial valuation of the holding company's gratuity scheme was carried out as at December 31, 2016 and BankIslami Modaraba Investments Limited as at June 30, 2016. Projected unit credit method, using the following significant assumptions, was used for the valuation of the defined benefit plan:

34.2 Actuarial assumption	2016 -----Percent-----	2015
-Valuation Discount Rate	9.50%	10.50%
-Salary Increase Rate	9.00%	10.00%
-Expected Return on Plan Assets	9.50%	10.50%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in Pakistan. The rates assumed are based on the adjusted SLIC 2001 - 2005 mortality tables with one year age set back.

34.3 Reconciliation of receivable from defined benefit plan	2016 -----Rupees in '000-----	2015
Present value of defined benefit obligations	271,842	215,794
Fair value of plan assets	<u>(307,215)</u>	<u>(242,291)</u>
Asset recognised in the consolidated statement of financial position	<u><u>(35,373)</u></u>	<u><u>(26,497)</u></u>

### 34.4 Plan assets consist of the following:

	2016		2015	
	(Rupees in '000)	%	(Rupees in '000)	%
<b>Holding:</b>				
Amount in Bank	245,040	79.76%	242,126	99.65%
Units of Mutual Funds	61,397	19.99%	-	0.00%
Subsidiary assets	778	0.25%	844	0%
	<u>307,215</u>	<u>100%</u>	<u>242,970</u>	<u>100%</u>

**34.5 The movement in the defined benefit obligation over the year is as follows:**

	2016		
	Present value of obligation	Fair value of plan assets	Total
	-----Rupees in '000-----		
At January 1	215,794	(242,291)	(26,497)
Current service cost	79,263	-	79,263
Return expense / (income)	21,617	(27,754)	(6,137)
	316,674	(270,045)	46,629
Remeasurements:			
-Return on plan assets, excluding amounts included in interest expense / (income)	-	38	38
-(Gain) / loss from change in financial assumptions	(7)	-	(7)
-Experience (gains) / losses	(23,608)	5,663	(17,945)
	(23,615)	5,701	(17,914)
	293,059	(264,344)	28,715
Contribution	-	(64,088)	(64,088)
Benefit payments	(21,217)	21,217	-
At December 31	271,842	(307,215)	(35,373)

	2015		
	Present value of obligation	Fair value of plan assets	Total
	-----Rupees in '000-----		
At January 1	162,299	(174,342)	(12,043)
Current service cost	47,443	-	47,443
Return expense / (income)	17,265	(14,481)	2,784
	227,007	(188,823)	38,184
Remeasurements:			
-Return on plan assets, excluding amounts included in interest expense / (income)	-	-	-
-(Gain) / loss from change in financial assumptions	-	-	-
-Experience losses	7,050	923	7,973
	7,050	923	7,973
	234,057	(187,900)	46,157
Contribution	-	(72,654)	(72,654)
Benefit payments	(18,263)	18,263	-
At December 31	215,794	(242,291)	(26,497)

**34.6 Charge for the Defined Benefit Plan**

	2016	2015
	----- Rupees in '000 -----	
Current service cost	79,263	47,443
Net financial charges	(6,137)	2,784
	73,126	50,227



34.7 The plan assets and defined benefit obligations are based in Pakistan.

34.8 The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation - Increase / (Decrease)		
	Change in assumption	Increase in assumption	Decrease in assumption
	----- (Rupees in '000) -----		
Discount rate	1.0%	306,516	(241,821)
Salary growth rate	1.0%	307,740	(240,341)
Life expectancy / Withdrawal rate	1 year	271,308	271,214

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the gratuity liability recognised within the Consolidated Statement of Financial Position.

34.9 The weighted average duration of the defined benefit obligation is 11.92 years (for holding company).

34.10 Expected maturity analysis of undiscounted defined benefit obligation for the gratuity scheme is as follows:

At December 31, 2016	Less than a year	Between 1-2 years	Between 2-5 years	Over 5 years	Total
	----- Rupees '000 -----				
Gratuity	20,872	14,288	13,691	1,148,209	1,197,060

**34.11 Historical information**

	2016	2015	2014	2013	2012
	----- (Rupees in '000) -----				
As at December 31					
Present value of defined benefit obligation	271,842	215,794	162,299	124,699	87,240
Fair value of plan assets	(307,215)	(242,291)	(174,342)	(151,477)	(107,104)
Deficit / (surplus)	<u>(35,373)</u>	<u>(26,497)</u>	<u>(12,043)</u>	<u>(26,778)</u>	<u>(19,864)</u>
Experience adjustments on plan liabilities	<u>(23,615)</u>	<u>7,050</u>	<u>19,853</u>	<u>8,330</u>	<u>(1,963)</u>

34.12 Funding levels are monitored on an annual basis and are based on actuarial recommendations. Expected Gratuity Expense of the holding company for the next year works out to Rs. 69.204 million as per the actuarial valuation report of the holding company as of December 31, 2016.

34.13 Through its defined benefit gratuity plan, the Fund is exposed to a number of risks, the most significant of which are detailed below:

<b>Investment Risks</b>	The risk arises when the actual performance of the investments is lower than expectation and thus creating a shortfall in the funding objectives.
<b>Longevity Risks</b>	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.
<b>Salary Increase Risk</b>	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.
<b>Withdrawal Risk</b>	The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

34.14 The disclosure made in notes 34.1 to 34.13 are based on the information included in the actuarial valuation report of the holding company as of December 31, 2016.



**35 DEFINED CONTRIBUTION PLAN (PROVIDENT FUND)**

The holding company operates a contributory provident fund for all permanent employees. The employer and employee both contribute 10% of basic salary to the fund every month. Equal monthly contributions by employer and employees during the year amounted to Rs. 74.415 million (2015: Rs. 67.805 million) each.

**36 COMPENSATION OF DIRECTORS AND EXECUTIVES OF THE HOLDING COMPANY**

	President / Chief Executive		Directors		Executives	
	2016	2015	2016	2015	2016	2015
	----- Rupees in '000 -----					
Fees	-	-	1,550	1,550	-	-
Managerial remuneration	27,406	25,550	-	-	431,708	247,848
Bonus	-	-	-	-	-	-
Charge for defined benefit plan	-	-	-	-	18,265	21,528
Salary in lieu of provident fund	2,741	2,555	-	-	-	-
Contribution to defined contribution plan	-	-	-	-	31,280	21,967
Rent and house maintenance	757	705	-	-	194,269	111,531
Utilities	2,741	2,555	-	-	43,170	24,785
Medical	2,741	2,555	-	-	43,174	24,785
Others	-	-	-	-	49,454	50,605
	<b>36,386</b>	<b>33,920</b>	<b>1,550</b>	<b>1,550</b>	<b>811,320</b>	<b>503,049</b>
Number of persons	1	1	7	7	478	262

**36.1** The holding company's President / Chief Executive is also provided with car allowance of Rs. 5.419 million (2015: Rs. 5.419 million) as per the policy of the Bank.

**36.2** In addition to above, the Executives have also been given car allowance amounting to Rs. 119.685 million (2015: Rs. 98.993 million) during the current year.

**36.3** The remuneration and other benefits paid to the Chief Executive Officer of the BankIslami Modaraba Investments Limited and BIPL Securities Limited amounted to Rs 8.562 million (2015: 8.169 million) and Rs 12.423 million (2015: 7.073 million) respectively.

**37 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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 quoted investments is based on quoted market prices. Unquoted equity securities are valued at cost less impairment losses. The provision for impairment in the value of investments has been determined in accordance with the accounting policy as stated in note 6.4.5 to these consolidated financial statements.

Fair values of all other financial assets and liabilities cannot be calculated with sufficient accuracy as active market does not exist for these instruments. In the opinion of the management, fair value of these assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short term in nature and in case of financing and deposits these are frequently repriced.



### 37.1 Off-balance sheet financial instruments

	2016		2015	
	Cost	Fair value	Cost	Fair value
	Rupees in '000			
Forward purchase of foreign currencies	5,974,735	5,974,455	5,001,768	4,971,841
Forward sale of foreign currencies	5,857,020	5,855,003	4,824,374	4,808,264
Forward sale of foreign currencies	478,565	481,878	-	-

### 37.2 The table below analyses financial and non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the assets or liabilities that are not based on observable market data (i.e. unobservable inputs e.g. estimated future cash flows) (Level 3).

	2016			
	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
<b>Items carried at fair value</b>				
<b>Financial Assets and Liabilities</b>				
<b>Available for sale securities</b>				
Ordinary shares - listed	588,296	-	-	588,296
GOP Sukuks	-	38,853,454	-	38,853,454
WAPDA Sukuks	-	233,931	-	233,931
Modarabas	11,361	-	-	11,361
Units of open ended mutual funds	70	-	-	70
<b>Held for trading securities</b>				
Ordinary shares - listed	551,065	-	-	551,065
<b>Commitments in respect of forward exchange contracts</b>				
Forward purchase of foreign exchange contracts	-	5,974,455	-	5,974,455
Forward sale of foreign exchange contracts	-	5,855,003	-	5,855,003
Future sale of listed ordinary shares	481,878	-	-	481,878
<b>Non-Financial Assets</b>				
Operating fixed assets - Land and building	-	-	4,254,010	4,254,010
Non Banking Asset	-	-	1,149,336	1,149,336
<b>Items for which fair value is disclosed</b>				
Ordinary shares - unlisted	-	-	1,137,202	1,137,202
Associates	-	-	627,942	627,942
	2015 (Restated)			
	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
<b>Items carried at fair value</b>				
<b>Financial Assets and Liabilities</b>				
<b>Available for sale securities</b>				
Ordinary shares - listed	296,372	-	-	296,372
GOP Sukuks	-	9,331,600	-	9,331,600
WAPDA Sukuks	-	606,016	-	606,016
Modarabas	7,026	-	-	7,026
Units of open ended mutual funds	56	-	-	56
<b>Held for trading securities</b>				
Ordinary shares - listed	28,531	-	-	28,531
<b>Commitments in respect of forward exchange contracts</b>				
Forward purchase of foreign exchange contracts	-	4,971,841	-	4,971,841
Forward sale of foreign exchange contracts	-	4,808,264	-	4,808,264
<b>Non-Financial Assets</b>				
Operating fixed assets - Land and building	-	-	4,323,566	4,323,566
<b>Items for which fair value is disclosed</b>				
Ordinary shares - unlisted	-	-	990,649	990,649
Associates	-	-	627,942	627,942

The Group's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred.

There were no transfers between levels 1 and 2 during the year.

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

Item	Valuation approach and input used
GOP Sukuks	The fair value of GoP Ijarah Sukuks and WAPDA Sukuks quoted are derived using PKISRV rates. The PKISRV rates are announced by FMA (Financial Market Association) through Reuters. The rates announced are simple average of quotes received from 6 different pre-defined / approved dealers / brokers.
WAPDA Sukuks	Investment in WAPDA Sukuks are valued on the basis of the rates announced by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the methodology prescribed by the Securities and Exchange Commission of Pakistan.
Forward foreign exchange contracts	The valuation has been determined by interpolating the mid rates announced by State Bank of Pakistan.

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

Operating fixed assets - Land and building	Land and buildings are revalued by professionally qualified valuers as per the accounting policy disclosed in note 6.6.1. The valuers are listed on the panel of the Pakistan Bank's Association. The valuation is based on their assessment of market value of the properties.
Non Banking Assets	Non banking assets are revalued by professionally qualified valuers as per the accounting policy disclosed in note 6.20. The valuers are listed on the panel of the Pakistan Bank's Association. The valuation is based on their assessment of market value of the properties.

### 38 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Trading & Sales	Retail Banking	Commercial Banking	Support Centre	Total
-----Rupees in '000-----					
<b>2016</b>					
Total income	1,685,841	5,269,232	3,669,389	308,380	10,932,842
Total expenses	633,929	5,273,469	1,683,841	2,304,617	9,895,856
Net income / (loss)	1,051,912	(4,237)	1,985,548	(1,996,237)	1,036,986
Segment assets (gross)	78,585,072	17,351,038	94,809,632	6,984,947	197,730,689
Segment non - performing assets	5,000,849	1,817,128	13,363,597	715,560	20,897,134
Segment provision required	2,698,805	1,422,227	10,835,010	643,603	15,599,645
Segment liabilities	7,191,550	91,817,563	65,856,893	4,061,300	168,927,306
Segment return on assets (ROA) (%)	1.34%	-0.02%	2.09%	-	-
Segment cost of funds (%)	5.94%	3.42%	4.40%	-	-
-----Rupees in '000-----					
<b>2015 (Restated)</b>					
Total income	2,127,287	3,814,313	3,206,087	390,265	9,537,952
Total expenses	462,156	4,417,897	2,761,837	2,059,692	9,701,582
Net income / (loss)	1,665,131	(603,584)	444,250	(1,669,427)	(163,630)
Segment assets (gross)	81,728,963	41,278,972	67,762,187	1,130,404	191,900,526
Segment non - performing assets	7,271,484	1,723,915	10,338,704	36,468	19,370,571
Segment provision required	7,292,107	1,712,282	8,193,075	36,236	17,233,700
Segment liabilities	3,206,205	80,030,354	77,223,056	2,706,040	163,165,655
Segment return on assets (ROA) (%)	2.04%	-1.46%	0.66%	-	-
Segment cost of funds (%)	5.14%	4.35%	4.01%	-	-



## 39 RELATED PARTY TRANSACTIONS

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

The related parties of the Group comprise related group companies, principal shareholders, key management personnel, companies where directors of the Group also hold directorship, directors and their close family members and staff retirement funds.

A number of banking transactions are entered into with related parties in the normal course of business. These include financing and deposits transactions. These transactions are executed substantially on the same terms including profit rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk.

Contributions to staff retirement benefit plan are made in accordance with the terms of the contribution plan. Remuneration to the executives are determined in accordance with the terms of their appointment.

Transactions with related parties other than remuneration and benefits to key management personnel including Chief Executive Officer under the terms of the employment as disclosed in note 36 are as follows:

	2016	2015
	----- Rupees '000 -----	
<b><u>Associates</u></b>		
<b>Islamic Financing and related assets</b>		
At beginning of the year	93,314	93,750
Accrued during the year	687,850	90,000
Repayments during the year	(14,089)	(93,750)
At end of the year	<u>767,075</u>	<u>90,000</u>
<b>Prepayments</b>		
At beginning of the year	27,691	12,733
Additions during the year	56,562	29,126
Expired during the year	(46,966)	(22,476)
At end of the year	<u>37,287</u>	<u>19,383</u>
<b>Deposits</b>		
At beginning of the year	878,909	664,636
Deposits during the year	16,639,616	3,931,438
Withdrawals during the year	(17,122,864)	(3,178,596)
Balance transferred during the period	-	(551,377)
At end of the year	<u>395,661</u>	<u>866,101</u>

\* Balances pertaining to parties that were related at the beginning of the year but ceased to be related during any part of the current period are not reflected as part of the opening balance of the current year, and parties became related parties during the year have been added in opening balances.

	2016	2015
	----- Rupees '000 -----	
<b>Transactions, income and expenses</b>		
Profit earned on financing	51,790	3200
Return on deposits expensed	60,627	135,977
Administrative expense	20,667	24,833
Payable on deposits	4,259	-
Receivable on financing	8,492	1,626
Dividend Income	-	16,638
Contingencies and commitments	362,650	-

**Key management personnel**

**Islamic financing and related assets**

At beginning of the year	217,412 *	111,354
Disbursements during the year	30,375	92,249
Repaid during the year	(52,557)	(68,493)
At end of the year	<u>195,230</u>	<u>135,110</u>

**Deposits**

At beginning of the year	19,079 *	15,330
Deposits during the year	285,149	89,163
Withdrawals during the year	(271,132)	(88,979)
At end of the year	<u>33,096</u>	<u>15,514</u>

**Transactions, income and expenses**

Profit earned on financing	7,907	2,935
Return on deposits expensed	236	197
Remuneration	130,351	51,979
Administrative expenses	6	-
Payable on deposits	9	-

**Other related parties**

**Deposits**

At beginning of the year	648,644	212,369
Deposits during the year	1,010,654	596,139
Withdrawals during the year	(907,581)	(714,459)
Balance transferred during the period	-	551,377
At end of the year	<u>751,717</u>	<u>645,426</u>

\* Balances pertaining to parties that were not related at the beginning of the year but continued to be related during any part of the current year are reflected as part of the opening balance of the current year.



	2016	2015
	----- Rupees '000 -----	
<b>Transactions, income and expenses</b>		
Other receivable	17,880	17,880
Payable on deposits	93	-
Return on deposits expensed	5,160	4,556
Dividend income	-	1,149
Other income	-	185
<b><u>Employee benefit plans</u></b>		
Contribution to employees gratuity fund	<u>64,088</u>	<u>72,654</u>
Charge for defined benefit plan	<u>73,126</u>	<u>50,227</u>
Contribution to employees provident fund	<u>74,415</u>	<u>67,805</u>

#### 40 CAPITAL MANAGEMENT

Capital Management aims to safeguard the Group's ability to continue as a going concern so that it could continue to provide adequate returns to the shareholders by pricing products and services commensurately with the level of risk. For this the Group ensures strong capital position and efficient use of capital as determined by the underlying business strategy i.e. maximizing growth on continuing basis. The Group maintains a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

This process is managed by the Asset Liability Committee (ALCO) of the holding company. The objective of ALCO is to derive the most appropriate strategy in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movement, liquidity constraints and capital adequacy and its implication on risk management policies.

The Group prepares Annual Budget and Projections outlining its future growth and direction keeping in consideration the economic and political factors in the country and region. Adequacy of capital to support the expected growth in balance sheet is also ascertained.

Stress testing of the holding company is regularly performed to ensure that the holding company remains well capitalised and able to sustain any shocks under any of the specified risk factors.

The State Bank of Pakistan (SBP) introduced guidelines with respect to disclosure of capital adequacy related information in the financial statements of banks vide its communication dated February 4, 2014. These guidelines are based on the requirements of Basel III which were introduced by the SBP in August 2013 for implementation by the banks in Pakistan. The SBP has specified a transitional period till 2018 for implementation of Basel III. The SBP vide its BPRD Circular No. 11 of 2014 dated November 5, 2014 has specified the disclosure requirements with respect to capital adequacy related information. The disclosures below have been prepared on the basis of the SBP's circular.

#### 40.1 Goals of managing capital

The goals of managing capital of the Group are as follows:

- To be an appropriately capitalised institution, considering the requirements set by the regulators of the banking markets where the Group operates;
- Maintain strong ratings and to protect the Group against unexpected events; and
- Availability of adequate capital at a reasonable cost so as to enable the Group to operate adequately and provide reasonable value addition for the shareholders and other stakeholders.

#### 40.2 Capital Structure

Under Basel III framework, Group's regulatory capital has been analysed into two tiers as follows:

- Tier 1 capital (going concern capital) which is sub divided into:
  - a) Common Equity Tier 1 (CET1), which includes fully paid up capital, reserve for bonus issue, general reserves and un-appropriated profits (net of losses), etc. after deductions for investments in the equity of subsidiary companies engaged in banking and financial activities (to the extent of 50% after incorporating transitional provisions), reciprocal crossholdings and deficit on revaluation of available for sale investments and deduction for book value of intangibles. The State Bank of Pakistan vide its letter no BPRD(R&P-02)/625-112/2017/4809 dated February 24, 2017 has given relaxation to the Group for non-deduction of goodwill and deferred tax assets pertaining to defunct KASB Bank Limited portfolio from CET 1 capital till December 30, 2018 for the purpose of calculating the Capital Adequacy Ratio (CAR) of the Bank. Accordingly, the amounts of goodwill and deferred tax asset have not been deducted from CET 1 capital. Instead, the amount of goodwill and deferred tax assets pertaining to defunct KASB Bank Limited portfolio have been risk weighted at 100% for CAR purposes.
  - b) Additional Tier 1 capital (AT1), which includes instruments issued by the Bank which meet the specified criteria after regulatory deduction for investments in the equity of subsidiary companies engaged in banking and financial activities and other specified deductions.

Presently the Group does not have any AT1 capital.

- Tier II capital, which includes general provisions for loan losses (upto a maximum of 1.25% of credit risk weighted assets), reserves on revaluation of fixed assets and equity investments after deduction of deficit on available for sale investments (upto a maximum of 78%), and any balance specifically allowed by the regulator.

Group's operations are categorised in either the trading book or the banking book and risk weighted assets are determined according to the specified requirements that seek to reflect the varying levels of risk attached to assets and off balance sheet exposures.



#### 40.3 Capital adequacy ratio

The capital to risk weighted assets ratio, calculated in accordance with the SBP guidelines on capital adequacy, under Basel III and Pre-Basel III treatment using Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk is presented below:

Particulars	2016	2015
	Amount	
	Rupees in '000	
<b>Common Equity Tier 1 capital (CET1): Instruments and reserves</b>		
Fully paid-up capital / capital deposited with the SBP	10,079,121	10,079,121
Balance in share premium account	-	-
Reserve for issue of bonus shares	-	-
Discount on issue of shares	(79,042)	(79,042)
General / Statutory Reserves	613,636	523,176
Gains / (losses) on derivatives held as Cash Flow Hedge	-	-
Unappropriated profit / (loss)	518,942	(57,295)
Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	76,011	81,139
<b>CET 1 before Regulatory Adjustments</b>	<b>11,208,668</b>	<b>10,547,099</b>
<b>Total regulatory adjustments applied to CET1 (Note 40.3.1)</b>	<b>(516,345)</b>	<b>(2,249,355)</b>
<b>Common Equity Tier 1</b>	<b>10,692,323</b>	<b>8,297,744</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	-	-
- classified as liabilities	-	-
Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties		
- of which: instrument issued by subsidiaries subject to phase out	4,811	1,780
<b>AT1 before regulatory adjustments</b>	<b>4,811</b>	<b>1,780</b>
<b>Total of Regulatory Adjustment applied to AT1 capital (Note 40.3.2)</b>	<b>-</b>	<b>-</b>
<b>Additional Tier 1 capital after regulatory adjustments</b>	<b>4,811</b>	<b>1,780</b>
<b>Tier 1 Capital (CET1 + admissible AT1)</b>	<b>10,697,134</b>	<b>8,299,524</b>
<b>Tier 2 Capital</b>		
Qualifying Tier 2 capital instruments under Basel III plus any related share premium*	2,360,757	2,158,420
Capital instruments subject to phase out arrangement issued	-	-
Tier 2 capital instruments issued to third parties by consolidated subsidiaries		
- of which: instruments issued by subsidiaries subject to phase out	45,025	39,142
General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	192,927	135,593
Revaluation Reserves (net of taxes)		
of which:		
- Revaluation reserves on fixed assets	655,718	570,200
- Unrealized gains/losses on AFS	649,502	(15,159)
Foreign Exchange Translation Reserves	-	-
Undisclosed/Other Reserves (if any)	-	-
<b>T2 before regulatory adjustments</b>	<b>3,903,929</b>	<b>2,888,196</b>
Total regulatory adjustment applied to T2 capital (Note 40.3.3)	-	-
Tier 2 capital (T2) after regulatory adjustments	3,903,929	2,888,196
Tier 2 capital recognized for capital adequacy	3,903,929	2,888,196
Portion of Additional Tier 1 capital recognized in Tier 2 capital	-	-
Total Tier 2 capital admissible for capital adequacy	3,903,929	2,888,196
<b>TOTAL CAPITAL (T1 + admissible T2)</b>	<b>14,601,063</b>	<b>11,185,940</b>
<b>Total Risk Weighted Assets (RWA) {for details refer Note 40.5}</b>	<b>107,135,466</b>	<b>87,127,545</b>

\* Considered as Tier II capital as per the SBP's approval vide letter no BPRD(R&P-02)/625-112/2017/4809 dated February 24, 2017.

Particulars	2016	2015
	Percent	
<b>Capital Ratios and buffers (in percentage of risk weighted assets)</b>		
CET1 to total RWA	9.98%	9.52%
Tier-1 capital to total RWA	9.98%	9.52%
Total capital to total RWA	13.63%	12.84%
Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement) of which:		
- capital conservation buffer requirement	-	-
- countercyclical buffer requirement	-	-
- D-SIB or G-SIB buffer requirement	-	-
CET1 available to meet buffers (as a percentage of risk weighted assets)	3.98%	3.52%
<b>Notional 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	10.00%	10.00%
CCB (Consisting of CET 1 only)	0.65%	0.25%
Total Capital plus CCB	10.65%	10.25%



Particulars	2016		2015	
	Amount	Pre-Base I treatment*	Amount	Pre-Base I treatment*

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

#### 40.3.1 Common Equity Tier 1 capital: Regulatory adjustments

Goodwill (net of related deferred tax liability)	13,107	13,107	13,107	13,107
All other intangibles (net of any associated deferred tax liability)	221,679	221,679	177,377	177,377
Shortfall of provisions against classified assets	-	-	-	-
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	260,335	433,891	803,648	2,009,119
Defined-benefit pension fund net assets	21,224	35,373	10,605	26,513
Reciprocal cross holdings in CET1 capital instruments	-	-	-	-
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 property / AFS	-	-	-	-
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)	-	-	1,244,618	3,111,545
Amount exceeding 15% threshold of which:	-	-	-	-
- significant investments in the common stocks of financial entities	-	-	-	-
- deferred tax assets arising from temporary differences	-	-	-	-
Notional specific regulatory adjustments applied to CET1 capital	-	-	-	-
Investment in TFCs of other banks exceeding the prescribed limit	-	-	-	-
Any other deduction specified by SBP	-	-	-	-
Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-	-	-	-
<b>Total regulatory adjustments applied to CET1</b>	<b>516,345</b>	<b>704,050</b>	<b>2,249,355</b>	<b>5,337,661</b>

#### 40.3.2 Additional Tier 1 Capital: regulatory adjustments

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)	-	-	-	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-	-
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Base I 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	-	-	-	-
<b>Total of Regulatory Adjustment applied to AT1 capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

\* This column highlights items that are still subject to Pre Base I treatment during the transitional period



Particulars	2016		2015	
	Amount	Pre-BaseI III treatment*	Amount	Pre-BaseI III treatment*

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

#### 40.3.3 Tier 2 Capital: regulatory adjustments

Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-BaseI 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)	-	-	-	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-	-
<b>Amount of Regulatory Adjustment applied to T2 capital</b>	-	-	-	-

\* This column highlights items that are still subject to Pre Basel III treatment during the transitional period

#### 40.3.4 Risk Weighted Assets subject to pre-BaseI III treatment

	2016	2015
	----- Rupees in '000 -----	
Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-BaseI III Treatment)	-	-
of which: deferred tax assets	1,988,276	1,205,471
of which: Defined-benefit pension fund net assets	14,149	15,908
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	-	-
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
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)	3,572,345	1,866,141
<b>Applicable caps on the inclusion of provisions in Tier 2</b>		
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	192,927	135,593
Cap on inclusion of provisions in Tier 2 under standardized approach	1,190,048	992,167
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	-	-

#### 40.3.5 Leverage ratio

According to Basel III instructions issued by State Bank of Pakistan (BPRD circular # 06 dated August 15, 2013), it is mandatory for all the banks to calculate and report the Leverage Ratio on a quarterly basis with the minimum benchmark of 3%.

The reason for calculating leverage ratio is to avoid excessive On- and Off-balance sheet leverage in the banking system. A simple, transparent and non-risk based Ratio has been introduced with the following objectives:

- Constrain the build-up of leverage in the banking sector which can damage the broader financial system and the economy; and
- Reinforce the risk based requirements with an easy to understand and a non-risk based measure.

Particulars	2016	2015
	----- Rupees in '000 -----	
<b>On balance sheet exposures</b>		
1 On-balance sheet items (excluding unrealised gain on forward contracts)	181,477,295	172,312,789
2 Forward exchange commitments with positive fair values	35,174	40,340
Total on balance sheet exposures	<b>181,512,469</b>	<b>172,353,129</b>
<b>Off balance sheet exposures</b>		
3 Off-balance sheet items	22,107,012	21,643,603
4 Commitment in respect of forward exchange contracts	119,118	51,066
Total Off balance sheet exposures	<b>22,226,130</b>	<b>21,694,669</b>
<b>Capital and total exposures</b>		
5 Tier 1 capital (Note 40.3)	10,697,134	8,297,744
6 Total exposures	<b>203,738,599</b>	<b>194,047,798</b>
<b>Basel III leverage ratio</b>	<b>5.25%</b>	<b>4.28%</b>

The current year's leverage ratio is 5.25% (2015: 4.28%) whereas total tier 1 capital and total exposures are Rs. 10,697.134 million (2015: Rs. 8,297.744 million) and Rs. 203,738.599 million (2015: Rs. 194,047.798 million) respectively.

#### 40.4 Capital Structure Reconciliation

##### 40.4.1 Reconciliation of each financial statement line item to item under regulatory scope of reporting - Step 1

Particulars	Balance sheet as in published financial statements	Under regulatory scope of reporting
	----- (Rupees in '000) -----	
<b>Assets</b>		
Cash and balances with treasury banks	8,921,433	8,921,433
Balances with other banks	1,324,167	1,324,167
Due from financial institutions	27,218,665	27,218,665
Investments	46,643,174	46,643,174
Islamic financing and related assets	77,667,276	77,667,276
Operating fixed assets	9,412,129	9,412,129
Deferred tax assets	5,820,956	5,820,956
Other assets	4,985,840	4,985,840
<b>Total assets</b>	<b>181,993,640</b>	<b>181,993,640</b>
<b>Liabilities and Equity</b>		
Bills payable	2,273,934	2,273,934
Due to financial institutions	6,066,307	6,066,307
Deposits and other accounts	153,826,348	153,826,348
Sub-ordinated loans	-	-
Deferred tax liabilities	-	-
Other liabilities	6,760,717	6,760,717
<b>Total liabilities</b>	<b>168,927,306</b>	<b>168,927,306</b>
Share capital	10,079,121	10,079,121
Discount on issue of shares	(79,042)	(79,042)
Reserves	613,636	613,636
Unappropriated profit / (loss)	518,942	518,942
Minority Interest	192,350	192,350
Surplus on revaluation of investments - net of tax	1,741,327	1,741,327
<b>Total liabilities and equity</b>	<b>181,993,640</b>	<b>181,993,640</b>



#### 40.4.2 Reconciliation of balance sheet to eligible regulatory capital - Step 2

Particulars	Reference	Balance sheet as in published financial statements	Under regulatory scope of reporting
------(Rupees in '000)-----			
<b>Assets</b>			
Cash and balances with treasury banks		8,921,433	8,921,433
Balances with other banks		1,324,167	1,324,167
Due from financial institutions		27,218,665	27,218,665
Investments		46,643,174	46,643,174
of which:			
- non-significant capital investments in capital of other financial institutions exceeding 10% threshold	a	-	-
- significant capital investments in financial sector entities exceeding regulatory threshold	b	-	-
- mutual Funds exceeding regulatory threshold	c	-	-
- reciprocal crossholding of capital instrument	d	-	-
- others	e	-	-
Islamic financing and related assets		77,667,276	77,667,276
- shortfall in provisions / excess of total EL amount over eligible provisions under IRB	f	-	-
- general provisions reflected in Tier 2 capital	g	192,927	192,927
Operating fixed assets		9,412,129	9,412,129
- of which: Intangibles	k	3,212,987	3,212,987
Deferred tax assets		5,820,956	5,820,956
of which:			
- DTAs that rely on future profitability excluding those arising from temporary differences	h	2,248,611	2,248,611
- DTAs arising from temporary differences exceeding regulatory threshold	i	3,572,345	3,572,345
Other assets		4,985,840	4,985,840
of which:			
- defined-benefit pension fund net assets	l	35,373	35,373
<b>Total assets</b>		<b>181,993,640</b>	<b>181,993,640</b>
<b>Liabilities and Equity</b>			
Bills payable		2,273,934	2,273,934
Due to financial institutions		6,066,307	6,066,307
Deposits and other accounts		153,826,348	153,826,348
Sub-ordinated loans of which:			
- eligible for inclusion in AT1	m	-	-
- eligible for inclusion in Tier 2	n	-	-
Deferred tax liabilities of which:			
- DTLs related to goodwill	o	-	-
- DTLs related to intangible assets	p	-	-
- DTLs related to defined pension fund net assets	q	-	-
- other deferred tax liabilities	r	-	-
Other liabilities		6,760,717	6,760,717
<b>Total liabilities</b>		<b>168,927,306</b>	<b>168,927,306</b>
<b>Share capital</b>		10,079,121	10,079,121
- of which: amount eligible for CET1	s	10,079,121	10,079,121
- of which: amount eligible for AT1	t	-	-
Reserves of which:		613,636	613,636
- portion eligible for inclusion in CET1 - Statutory reserve		613,636	613,636
- portion eligible for inclusion in CET1 - Gain on Bargain Purchase	u	-	-
- portion eligible for inclusion in CET1 - General reserve		-	-
- portion eligible for inclusion in Tier 2 General reserve	v	-	-
Discount on issue of shares		(79,042)	(79,042)
Unappropriated profit / (loss)	w	518,942	518,942
Minority Interest of which:		192,350	192,350
- portion eligible for inclusion in CET1	x	76,011	76,011
- portion eligible for inclusion in AT1	y	4,811	4,811
- portion eligible for inclusion in Tier 2	z	45,025	45,025
Surplus on revaluation of assets of which:		1,741,327	1,741,327
- Revaluation reserves on Property		840,664	840,664
- Revaluation reserves on Property		67,968	67,968
- Unrealized Gains/Losses on AFS	aa	832,695	832,695
- In case of Deficit on revaluation (deduction from CET1)	ab	-	-
<b>Total liabilities and Equity</b>		<b>181,993,640</b>	<b>181,993,640</b>

#### 40.4.3 Basel III Disclosure (with added column) - Step 3

Particulars		Source based on reference number from step 2	Component of regulatory capital reported by bank (Rupees in '000)
<b>Common Equity Tier 1 capital (CET1): Instruments and reserves</b>			
1	Fully Paid-up Capital	(s)	10,079,121
2	Balance in share premium account		-
3	Discount on issue of shares		(79,042)
4	Reserve for issue of bonus shares		-
5	General / Statutory Reserves	(u)	613,636
6	Gain / (Losses) on derivatives held as Cash Flow Hedge		-
7	Unappropriated / unremitted profits	(w)	518,942
8	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)	76,011
9	<b>CET 1 before Regulatory Adjustments</b>		<b>11,208,668</b>
<b>Common Equity Tier 1 capital: Regulatory adjustments</b>			
10	Goodwill (net of related deferred tax liability)	(j) - (s)	13,107
11	All other intangibles (net of any associated deferred tax liability)	(k) - (p)	221,679
12	Shortfall of provisions against classified assets	(f)	-
13	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(h) - (r) * x%	260,335
14	Defined-benefit pension fund net assets	(l) - (q) * x%	21,224
15	Reciprocal cross holdings in CET1 capital instruments	(d)	-
16	Cash flow hedge reserve		-
17	Investment in own shares / CET1 instruments		-
18	Securitization gain on sale		-
19	Capital shortfall of regulated subsidiaries		-
20	Deficit on account of revaluation from bank's holdings of property / AFS	(ab)	-
21	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)	-
22	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)	-
23	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	(i)	-
24	Amount exceeding 15% threshold of which:		-
	- significant investments in the common stocks of financial entities		-
	- deferred tax assets arising from temporary differences		-
25	Notional specific regulatory adjustments applied to CET1 capital		-
26	Investment in TFCs of other banks exceeding the prescribed limit		-
27	Any other deduction specified by SBP (mention details)		-
28	Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions		-
29	Total regulatory adjustments applied to CET1		516,345
	<b>Common Equity Tier 1</b>		<b>10,692,323</b>
<b>Additional Tier 1 (AT 1) Capital</b>			
30	Qualifying Additional Tier-1 instruments plus any related share premium of which:		-
31	- Classified as equity	(t)	-
32	- Classified as liabilities	(m)	-
33	Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties	(y)	4,811
34	- of which: instrument issued by subsidiaries subject to phase out		-
35	<b>AT1 before regulatory adjustments</b>		<b>4,811</b>



Particulars	Source based on reference number from 41.4.2	Component of regulatory capital reported by bank (Rupees in '000)
<b>Additional Tier 1 Capital: regulatory adjustments</b>		
36 Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)		-
37 Investment in own AT1 capital instruments		-
38 Reciprocal cross holdings in Additional Tier 1 capital instruments		-
39 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)	-
40 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	(ad)	-
41 Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-BaseI III treatment which, during transitional period, remain subject to deduction from tier-1 capital		-
42 Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		-
43 Total of Regulatory Adjustment applied to AT1 capital		-
44 Additional Tier 1 capital		4,811
45 <b>Additional Tier 1 capital recognised for capital adequacy</b>		4,811
<b>Tier 1 Capital (CET1 + admissible AT1)</b>		<b>10,697,134</b>
<b>Tier 2 Capital</b>		
46 Qualifying Tier 2 capital instruments under Basel III		2,360,757
47 Capital instruments subject to phase out arrangement from Tier 2	(n)	-
48 Tier 2 capital instruments issued to third party by consolidated subsidiaries - of which: instruments issued by subsidiaries subject to phase out	(z)	45,025
49 General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	(g)	192,927
50 Revaluation Reserves eligible for Tier 2 of which:		
51 - portion pertaining to Property		655,718
52 - portion pertaining to AFS securities	78% of (aa)	649,502
53 Foreign Exchange Translation Reserves	(v)	-
54 Undisclosed / Other Reserves (if any)		-
55 <b>T2 before regulatory adjustments</b>		<b>3,903,929</b>
<b>Tier 2 Capital: regulatory adjustments</b>		
56 Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-BaseI III treatment which, during transitional period, remain subject to deduction from tier-2 capital		-
57 Reciprocal cross holdings in Tier 2 instruments		-
58 Investment in own Tier 2 capital instrument		-
59 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)	-
60 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	(af)	-
61 Amount of Regulatory Adjustment applied to T2 capital		-
62 Tier 2 capital (T2)		3,903,929
63 Tier 2 capital recognised for capital adequacy		3,903,929
64 Excess Additional Tier 1 capital recognised in Tier 2 capital		-
65 Total Tier 2 capital admissible for capital adequacy		3,903,929
<b>TOTAL CAPITAL (T1 + admissible T2)</b>		<b>14,601,063</b>

#### 40.4.4 Main features of regulatory capital instruments

	Main Features	Common Shares
1	Issuer	BankIslami Pakistan Limited
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	BIPL - CDC Symbol
3	Governing law(s) of the instrument	Listing Regulations of Pakistan Stock Exchange Limited
	<b>Regulatory treatment</b>	
4	Transitional Basel III rules	Common Equity Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1
6	Eligible at solo / group / group & solo	Solo
7	Instrument type	Ordinary shares
8	Amount recognised in regulatory capital (Currency in PKR thousands, as of reporting date)	10,079,121
9	Par value of instrument	10
10	Accounting classification	Shareholders' equity
11	Original date of issuance	May 02, 2006
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	<b>Coupons / dividends</b>	
17	Fixed or floating dividend/ coupon	N/A
18	coupon rate and any related index/ benchmark	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Residual interest
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A



#### 40.5 Risk-weighted exposures

	Capital requirements		Risk weighted assets	
	2016	2015	2016	2015
<b>Credit Risk</b>	------(Rupees in '000)-----			
<b>Portfolios subject to on-balance sheet exposure (Simple Approach)</b>				
Cash and cash equivalents	-	-	-	-
Sovereign	1,825	7,210	17,132	72,099
Public sector entities	6,983	80,029	65,564	800,290
Banks	643,422	870,381	6,041,517	8,703,807
Corporate	4,087,650	2,864,808	38,381,688	28,648,075
Retail	1,031,077	411,826	9,681,472	4,118,258
Residential mortgage	258,968	234,107	2,431,624	2,341,072
Past due loans	319,840	172,554	3,003,190	1,725,540
Operating fixed assets	660,209	548,231	6,199,142	5,482,312
All other assets	1,342,785	879,563	12,608,306	8,795,632
<b>Portfolios subject to off-balance sheet exposure - non market related (Simple approach)</b>				
Banks	146,181	364	1,372,589	3,638
Corporate	360,142	710,987	3,381,616	7,109,874
Retail	17,696	3,476	166,157	34,760
Others	32,967	28,408	309,547	284,081
<b>Portfolios subject to off-balance sheet exposures - market related (Current exposure method)</b>				
Banks	2,147	4,616	20,157	46,162
Customers	3,560	32	33,432	319
<b>Equity Exposure Risk in the Banking Book</b>				
Unlisted equity investments held in banking book	181,668	148,598	1,705,803	1,485,978
Investment in commercial entity	1,042,095	762,202	9,784,930	7,622,020
Recognised portion of significant investment	-	208,383	-	2,083,828
<b>Market Risk</b>				
<b>Capital Requirement for portfolios subject to Standardised Approach</b>				
Interest rate risk	24,224	8,546	302,799	106,824
Equity position risk	261,228	47,428	3,265,350	592,850
Foreign Exchange risk	15,029	6,011	187,863	75,138
<b>Operational Risk</b>				
Capital requirement for operational risk	654,047	559,599	8,175,588	6,994,988
<b>TOTAL</b>	<b>11,093,743</b>	<b>8,557,359</b>	<b>107,135,466</b>	<b>87,127,545</b>
<b>Capital Adequacy Ratio</b>				
	<b>Required</b>	<b>Actual</b>	<b>Required</b>	<b>Actual</b>
	<b>December-16</b>		<b>December-15</b>	
CET1 to total RWA	6.65%*	9.98%	6.25%*	9.52%
Tier-1 capital to total RWA	7.50%	9.98%	7.50%	9.52%
Total capital to total RWA	10.65%*	13.63%	10.25%*	12.84%

\* Capital adequacy requirement inclusive of Capital Conservation Buffer (CCB) requirement.



## 41 RISK MANAGEMENT

The objective of Risk Management is to effectively manage uncertainties that arise in the normal course of business activities. The risk management function is one of the most important areas of the banking business, and covers a wide spectrum of financial business risk class; including Credit, Market, Liquidity, Operational etc. The Group follows effective risk governance which commensurate well with its current size and structure.

The implementation of Basel II (B2) provides for a risk-based capital requirement. Further, the SBP has decided to implement Basel III framework in a phased manner with effect from December 31, 2013 to December 31, 2019, to revise and update capital reforms and clarifications and further strengthen the existing capital adequacy framework prescribed under Basel II. The Group adheres to the regulatory requirement in this respect, and conducts its business accordingly.

As a prelude to countering the financial debacle of the recent past, the Basel Committee (Internationally) is raising the resilience of the banking sector by strengthening the regulatory capital framework, essentially building on the three pillars of the Basel II structure. The reforms raise both the quality and quantity of the regulatory capital base and enhance the risk coverage of the capital framework. The SBP (State Bank of Pakistan) while being cognizant of the various reforms in the offing, is reviewing the impact of Basel III (B3) guidelines on the capital structure and CAR (Capital Adequacy Ratio) through quantitative impact studies. Accordingly, the SBP has implemented first phase of Basel III framework with effect from December 31, 2013.

### RISK MANAGEMENT FRAMEWORK

A well formulated policy and procedure is critical to an effective Risk Management framework; it then needs to be reinforced through a strong control culture that promotes sound risk governance. The Group's Risk Management Framework has been developed keeping in mind, that:

- To be effective, control activities should be an integral part of the regular activities of the Group;
- Every loss or near miss event should provide some Key Learning Outcome (KLO), helping and promoting a better risk identification and mitigation,
- While the reward may well commensurate the level of risk, it has to be viewed in entirety and not in isolation; and
- Critical decision making should be based on relevant research, proper analysis and effective communication within the Group.

### Strategic Level

At the strategic level, the risk related functions are approved by the senior management and the Board. These include: defining risks, setting parameters, ascertaining the institutions risk appetite, formulating strategy and policies for managing risks and establishing adequate systems and controls to ensure that overall risk remains within acceptable level and the reward compensates for the risk taken.



### **Macro Level**

It encompasses risk management within a business area or across business lines. Generally the risk management activities performed by middle management or units devoted to risk reviews fall into this category. Periodical review of various portfolios; stress test and scenario analysis for portfolio resilience; application of statistical tools and information in time series for developing strong inferences are all performed at this level.

### **Micro Level**

Risk management at micro level, is of critical importance. This function if performed with diligence and understanding, can be of maximum benefit to the organization. Micro level risk management includes:

- Business line acquisition, strong adherence to the credit and other related criteria.
- Middle Office monitoring function for a sound risk assessment of various risks inherent in treasury operations.
- Detailed review of various processes and operating procedures, for operational and other risk related assessments.

### **Risk appetite of the Group**

The risk appetite of the Group is an outcome of its corporate goal, economic profitability, available resources (size and business life cycle) and most significantly; the controls. The Group believes in a cautious yet steady approach towards its business objectives and takes a holistic view of its investment and financing requirement.

This approach is primarily based on a viable portfolio build-up with a long-term view; key consideration being the health of various portfolios.

### **Risk organization**

A strong organizational set-up, with clearly defined roles and responsibilities permits a higher level of articulation of the Group's risk mandate, establishment of a structure that provides for authority, delegation and accountability, and development of control framework. Risk management cannot live in a vacuum; in order to be effective, it has to be run at an enterprise level. Risk governance must involve all relevant parties and should be sanctioned by the bank's leadership.

The risk management function at the Group, along with the different committees including ALCO (Asset Liability Committee) and MCC (Management Credit Committee), RMC (Risk Management Committee of the Board) manage and adhere to the risk management policies and procedures, with an explicit aim to mitigate/ manage risk in line with the Groups objectives.

## **Business line accountability**

One of the most important features of the risk management process is the business line accountability. Business has to understand the risk implication of specific transaction on the business / portfolio. Some specific risks e.g. reputation risk affects the entire banking business and is not limited to one business line or the other. The Group entity, as in any other reputable organization, responsibility comes with accountability. Each business segment is responsible for the profit / loss of the business. The management of risk is as much a line function as it is support's.

Business lines are equally responsible for the risks they are taking. Because line personnel understand the risks of the business. Lack of an understanding of this by the line management may lead to risk management in isolation.

### **41.1 Credit Risk**

The Group manages credit risk by effective credit appraisal mechanism, approving and reviewing authorities, limit structures, internal credit risk rating system, collateral management and post disbursement monitoring so as to ensure prudent financing activities and sound financing portfolio under the umbrella of a comprehensive Credit Policy approved by the Board of Directors. Credit Risk has certain sub-categories as follows:

#### **i) Price risk**

There is a risk that the asset repossessed due to default of the customer may be sold or leased out to another party at a price lower than the original contract price.

#### **ii) Counter party risk**

The risk that the counter-party defaults during the term of a transaction (Murabahah, Ijarah etc.).

#### **iii) Settlement risk**

The risk that the counter-party does not meet its commitments at the maturity of the transaction after the Group has already met its commitments.

#### **iv) Country risk**

Country Risk can be defined as the risk of adverse impact of certain factors on a country's specific economic, political and social scenario which affects the ability of the country (or a borrower in that country) to repay its obligations. Country risk may be a combination of Transfer Risk and Sovereign Risk.

#### **41.1.1 Segmental information**

Segmental information is presented in respect of the class of business and geographical distribution of Islamic financing and related assets, Deposits, Contingencies and Commitments.



#### 41.1.1.1 Segments by class of business

	2016					
	Islamic financing and related assets and advances		Deposits		Contingencies and Commitments **	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	1,921,096	2.14%	6,326,370	4.11%	1,506,000	5.54%
Mining and Quarrying	3,183	0.00%	877,168	0.57%	55,474	0.20%
Textile	9,197,464	10.26%	742,689	0.48%	72,283	0.27%
Chemical and Pharmaceuticals	4,013,467	4.48%	1,453,263	0.94%	223,163	0.82%
Cement	1,776,221	1.98%	257,317	0.17%	326,248	1.20%
Sugar	3,642,141	4.06%	631,497	0.41%	-	0.00%
Footwear and Leather garments	253,631	0.28%	128,296	0.08%	18,645	0.07%
Automobile and transportation equipment	1,309,014	1.46%	2,476,085	1.61%	2,118,588	7.79%
Education	15,458	0.02%	1,603,708	1.04%	-	0.00%
Electronics and electrical appliances	2,484,160	2.77%	237,863	0.15%	810,040	2.98%
Production and transmission of energy	-	0.00%	20,136,016	13.09%	595,033	2.19%
Construction	6,103,179	6.81%	2,161,476	1.41%	1,394,743	5.13%
Power (electricity), Gas, Water, Sanitary	10,620,970	11.85%	24,708	0.02%	87,056	0.32%
Wholesale and Retail Trade	12,225,686	13.64%	30,084,018	19.56%	320,657	1.18%
Exports / Imports	693,663	0.77%	127,132	0.08%	19,230	0.07%
Transport, Storage and Communication	626,988	0.70%	875,802	0.57%	344,040	1.27%
Financial	2,586,073	2.89%	15,844,400	10.30%	10,989,090	40.42%
Insurance	5,227	0.01%	1,762,813	1.15%	-	0.00%
Services	4,321,401	4.82%	5,881,989	3.82%	104,651	0.38%
Individuals	18,709,243	20.87%	47,053,495	30.59%	291,434	1.07%
Food and beverages	5,441,174	6.07%	1,871,521	1.22%	764,236	2.81%
Private Trust & NGO	22,796	0.03%	5,312,842	3.45%	-	0.00%
Packing and Paper products	766,993	0.86%	14,805	0.01%	-	0.06%
Others*	2,898,177	3.23%	7,941,075	5.16%	7,143,598	26.28%
	89,637,405	100%	153,826,348	100.00%	27,184,209	100.00%

	2015 (Restated)					
	Islamic financing and related assets		Deposits		Contingencies and Commitments**	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	1,915,599	2.31%	6,076,036	3.98%	1,027,399	4.24%
Mining and Quarrying	3,683	0.00%	714,345	0.47%	107,972	0.45%
Textile	8,194,802	9.88%	789,787	0.52%	804,431	3.32%
Chemical and Pharmaceuticals	5,095,285	6.14%	2,095,720	1.37%	116,712	0.48%
Cement	1,743,669	2.10%	337,006	0.22%	114,651	0.47%
Sugar	3,597,585	4.34%	2,233,462	1.46%	300,010	1.24%
Footwear and Leather garments	28,493	0.03%	132,292	0.09%	3,467	0.01%
Automobile and transportation equipment	1,315,610	1.59%	1,965,002	1.29%	2,005,329	8.28%
Education	3,962	0.00%	2,683,204	1.76%	-	0.00%
Electronics and electrical appliances	4,488,012	5.41%	4,835,033	3.17%	863,425	3.57%
Production and transmission of energy	-	0.00%	21,368,252	14.00%	1,649,852	6.81%
Construction	4,900,371	5.91%	1,730,537	1.13%	1,798,276	7.43%
Power (electricity), Gas, Water, Sanitary	2,461,673	2.97%	30,688	0.02%	87,395	0.36%
Wholesale and Retail Trade	6,516,417	7.85%	26,419,522	17.31%	697,918	2.88%
Exports/Imports	2,171,847	2.62%	90,617	0.06%	46,515	0.19%
Transport, Storage and Communication	635,771	0.77%	1,974,619	1.29%	346,040	1.43%
Financial	3,636,034	4.38%	8,787,967	5.76%	10,796,746	44.59%
Insurance	9,529	0.01%	667,568	0.44%	-	0.00%
Services	4,864,288	5.86%	4,786,730	3.14%	83,591	0.35%
Individuals	13,258,408	15.98%	43,678,228	28.61%	173,937	0.72%
Food and beverages	13,422,734	16.18%	1,668,463	1.09%	1,065,992	4.40%
Private Trust & NGO	1,514,318	1.83%	4,891,072	3.20%	400	0.00%
Packing and Paper products	291,649	0.35%	11,979	0.01%	38,741	0.06%
Others*	2,897,091	3.49%	14,693,011	9.62%	2,084,665	8.61%
	82,966,830	100%	152,661,140	100.00%	24,213,464	100.00%

\* Others include Sole Proprietors, fund accounts and Govt deposits etc.

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

#### 41.1.1.2 Segment by sector

	2016					
	Islamic financing and related assets and advances		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	11,460,059	13%	7,110,306	5%	875,950	3%
Private	78,177,346	87%	146,716,042	95%	26,308,259	97%
	89,637,405	100%	153,826,348	100%	27,184,209	100%

	2015 (Restated)					
	Islamic financing and related assets and advances		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	12,000,232	14%	17,899,005	12%	475,444	2%
Private	70,966,598	86%	134,762,135	88%	23,738,020	98%
	82,966,830	100%	152,661,140	100%	24,213,464	100%

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

	2016		2015 (Restated)	
	Classified financing and related assets	Specific provisions held	Classified financing and related assets	Specific provisions held
	----- Rupees in '000 -----			
Wholesale and Retail trade	818,087	629,640	236,887	149,140
Agriculture, Forestry, Hunting and Fishing	858,824	168,450	48,789	48,789
Textile	2,559,194	2,401,362	4,302,647	3,848,509
Chemical and Pharmaceuticals	170,230	38,102	140,164	132,670
Power (electricity), Gas, Water, Sanitary	649	51	292,430	291,832
Cement	3,183	3,183	563,250	563,250
Electronics and electrical appliances	4,231,623	4,214,866	30,215	30,215
Construction	1,050,182	983,859	1,106,996	1,108,416
Services	362,870	172,619	1,662,794	1,662,794
Financial	245,401	245,189	201,131	200,920
Paper Product	13,000	13,000	13,000	10,814
Food and Beverages	5,000	-	467,782	467,782
Individuals	1,994,522	1,322,902	3,103,979	2,429,093
Automobile and transportation equipment	-	-	100,359	100,359
Footwear and leather garments	2,459	2,459	162,361	162,361
Manufacturing	-	-	1,768,729	1,405,786
Sugar	782,195	309,049	352,125	352,125
Transport, storage and communication	467,864	467,864	368,289	368,134
Others	968,684	966,764	761,656	183,517
	14,533,967	11,939,359	15,683,583	13,516,506

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

	2016		2015 (Restated)	
	Classified financing and related assets	Specific provisions held	Classified financing and related assets	Specific provisions held
	----- Rupees in '000 -----			
Public / Government	-	-	-	-
Private	14,533,967	11,939,359	15,683,583	13,516,506
	14,533,967	11,939,359	15,683,583	13,516,506



#### 41.1.1.5 Geographical segment analysis

	2016			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- Rupees in '000 -----			
Pakistan	1,036,986	181,993,640	13,066,334	27,184,209
	2015 (Restated)			
	Loss before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- Rupees in '000 -----			
Pakistan	(163,630)	174,549,037	11,484,235	24,213,464

#### 41.1.2 Credit risk - Standardized Approach

Credit risk arises due to the risk of a borrower defaulting on his commitment either in part or as a whole. The Group has currently employed standardized approach for evaluation of credit risk. It uses CRM (Credit Risk Mitigation) technique where applicable. The Group carries a strong desire to move towards the FIRB and Advanced approach.

##### 41.1.2.1 Credit Risk: Disclosures for portfolio subject to the Standardised Approach and supervisory risk weights in the IRB Approach

The Group uses reputable and SBP approved rating agencies for deriving risk weight to specific credit exposures, where available. The Group has also recently employed a credit rating model, which is compatible to the rating guidelines of SBP, which will support the Group in internally rating the credit clients.

#### Types of Exposures and ECAI's used

Exposures	2016			2015		
	JCR - VIS	PACRA	Others	JCR - VIS	PACRA	Others
Corporate	✓	✓	N/A	✓	✓	N/A
Banks	✓	✓	✓	✓	✓	✓

#### Credit Exposures subject to Standardised approach

Exposures	SBP grade	Rating Category	2016			2015		
			Amount Outstanding Credit Equivalent	Deduction CRM	Net amount	Amount Outstanding Credit Equivalent	Deduction CRM	Net amount
			----- Rupees in '000 -----					
Cash and cash equivalent		0%	3,565,605	-	3,565,605	2,652,415	-	2,652,415
Claims on Government of Pakistan (Federal or Provincial Governments) and SBP denominated in PKR		0%	53,523,964	160,134	53,363,830	44,126,470	232	44,126,238
Foreign Currency claims on SBP arising out of statutory obligations of banks in Pakistan		0%	320,908	-	320,908	370,051	-	370,051
Claims on other sovereigns and on Government of Pakistan or provincial governments or SBP denominated in currencies other than PKR		0%	-	-	-	-	-	-
	1	20%	-	-	-	-	-	-
	2,3	50%	-	-	-	-	-	-
	4,5	100%	-	-	-	-	-	-
	6	150%	11,421	-	11,421	48,066	-	48,066
	Unrated	100%	-	-	-	-	-	-
Claims on Public Sector Entities in Pakistan		0%	-	-	-	-	-	-
	1	20%	1,827,818	1,500,000	327,818	709,086	453,884	255,202
	2,3	50%	-	-	-	-	-	-
	4,5	100%	-	-	-	-	-	-
	6	150%	-	-	-	-	-	-
	Unrated	50%	418,811	233,931	184,880	9,393,234	7,449,475	1,943,759

Exposures	SBP grade	Rating Category	2016			2015			
			Amount Outstanding Credit Equivalent	Deduction CRM	Net amount	Amount Outstanding Credit Equivalent	Deduction CRM	Net amount	
			Rupees in '000						
Claims on Banks		0%	-	-	-	-	-	-	
		1	20%	1,475,213	-	1,475,213	1,356,572	-	1,356,572
		2,3	50%	2,641,265	-	2,641,265	57	-	57
		4,5	100%	-	-	-	-	-	-
		6	150%	-	-	-	-	-	-
		Unrated	50%	249,881	-	249,881	7,884	-	7,884
Claims, denominated in foreign currency, on banks with original maturity of 3 months or less		0%	-	-	-	-	-	-	
		1,2,3	20%	249,939	-	249,939	1,096,342	-	1,096,342
		4,5	50%	7,420	-	7,420	168,425	-	168,425
		6	150%	-	-	-	-	-	-
		unrated	20%	880,290	-	880,290	511,306	-	511,306
Claims on banks with original maturity of 3 months or less denominated in PKR and funded in PKR		0%	-	-	-	-	-	-	
		20%	27,218,665	-	27,218,665	39,824,221	-	39,824,221	
Claims on Corporates (excluding equity exposures)		0%	-	-	-	-	-	-	
		1	20%	11,055,570	3,575,000	7,480,570	7,110,008	2	7,110,006
		2	50%	1,367,631	150,000	1,217,631	1,627,882	4,691	1,623,191
		3,4	100%	54,834	53,081	1,753	2,853	1,085	1,768
		5,6	150%	-	-	-	-	-	-
		Unrated 1	100%	29,265,154	1,618,720	27,646,434	26,837,330	5,406,859	21,430,471
		Unrated 2	125%	9,612,741	4,591	9,608,150	11,655,286	1,863,039	9,792,247
Claims categorized as retail portfolio		0%	-	-	-	-	-	-	
		20%	-	-	-	-	-	-	
		50%	-	-	-	-	-	-	
		75%	15,203,380	2,073,209	13,130,171	6,920,086	1,382,728	5,537,358	
Claims fully secured by residential property (Residential Mortgage Finance as defined in Section 2.1)		35%	6,947,496	-	6,947,496	6,688,777	-	6,688,777	
<b>Past Due loans:</b>									
1.1 where specific provisions are less than 20 percent of the outstanding amount of the past due claim.		150%	1,355,312	276,250	1,079,062	1,103,961	576,942	527,019	
1.2 where specific provisions are no less than 20 percent of the outstanding amount of the past due claim.		100%	822,119	-	822,119	544,685	9,894	534,791	
1.3 where specific provisions are more than 50 percent of the outstanding amount of the past due claim.		50%	253,918	-	253,918	81,381	62,526	18,855	
2. Loans and claims fully secured against eligible residential mortgages that are past due for more than 90 days and/or impaired		100%	398,727	-	398,727	344,209	2,668	341,541	
3. Loans and claims fully secured against eligible residential mortgage that are past due by 90 days and /or impaired and specific provision held there against is more than 20% of outstanding amount		50%	73,583	-	73,583	98,501	-	98,501	
Investment in commercial entity (which exceeds 10% of the issued common share capital of the issuing entity) or where the entity is an unconsolidated associate.		100%	978,493	-	978,493	627,942	-	627,942	
Unlisted equity investments (other than that deducted from capital) held in banking book		150%	1,137,202	-	1,137,202	577,675	-	577,675	
Investments in premises, plant and equipment and all other fixed assets		100%	6,199,142	-	6,199,142	5,459,918	-	5,459,918	
All other assets		100%	12,825,413	-	12,825,413	8,490,003	-	8,490,003	



#### **41.1.2.2 Credit Risk Disclosures with respect to Credit Risk Mitigation for Standard and IRB Approaches**

The Group obtains capital relief for both on and off-balance sheet non-market related exposures by using simple approach for Credit risk mitigation (CRM). Off-balance sheet items under the simplified standardized approach are converted into credit exposure equivalents through the use of credit conversion factors. Under the standardized approach the Group has taken advantage of the cash collaterals available with the Group in the form of security deposits and cash margins.

Valuation and management of eligible collaterals for CRM is being done in line with the conditions laid down by the SBP. Since eligible collaterals for CRM purposes are all in the form of cash collaterals, they generally do not pose risk to the Group in terms of change in their valuation due to changes in the market conditions.

#### **41.2 Equity Position Risk in the Banking book**

Equity position includes the following:

- Strategic investments
- Investment in equities for generating revenue in short term

These equity investments are accounted for and disclosed as per the provisions and directives of SBP, SECP and the requirements of approved International Accounting Standards as applicable in Pakistan.

Provision for diminution in the value of securities is made after considering impairment, if any, in their value and charged to the consolidated profit and loss account.

#### **41.3 Yield / Profit Rate Risk in the banking book**

It includes all material yield risk positions of the Group taking into account all repricing and maturity data. It includes current balances and contractual yield rates, the Group understands that its Islamic financing and related assets shall be repriced as per their respective contracts.

The Group estimates changes in the economic value of equity due to changes in the yield rates on on-balance sheet positions by conducting duration gap analysis. It also assesses yield rate risk on earnings of the Group by applying upward and downward shocks.

#### **41.4 Market Risk**

Market risk is defined as the risk of losses in on-and-off balance sheet positions arising from movements in market prices e.g. fluctuations in values in tradable, marketable or leasable assets. The risks relate to the current and future volatility of market values of specific assets and of foreign exchange rates and benchmark yields.

The Group uses various tools and techniques to assess market risk including but not limited to full valuation, stress testing, scenario analysis. These assessment methods enable the Group to estimate changes in the value of the portfolio, if exposed to various risk factors.

Moreover, since the Group does not deal in interest based products, the impact of the above risks will be very minimal. The Group does not have positions or forward exchange contracts giving mismatches of maturity unless such risks have been taken care of through some other mechanism.



The VaR reports are complemented by various other position and sensitivity limit structures, including stress, sensitivity, gap and scenario analysis. The capital charge for market risk has been calculated by using Standardized Approach.

#### 41.4.1 Foreign Exchange Risk

Currency risk is the risk of loss arising from the fluctuations of exchange rates.

In the normal course of conducting commercial banking business, which ranges from intermediation only to taking on principal risk as dealer or as counterparty, the Group purchases or sells currencies in today / ready and gives or receives unilateral promises for sale or purchase of FX at future dates in a long or short position in different currency pairs. These positions expose the Group to foreign exchange risk. To control this risk, the Group primarily uses notional principal limits at various levels to control the open position, and ultimately the residual foreign exchange risk of the Group. The Group also strictly adheres to all associated regulatory limits.

Following is the summary of the assets of the Group subject to foreign exchange risk.

	2016			
	Assets	Liabilities	Off-balance Sheet	Net foreign currency exposure
	----- Rupees in '000 -----			
Pakistan rupee	173,187,514	160,305,394	(6,197,348)	6,684,772
United States dollar	8,121,391	8,032,902	5,438,503	5,526,992
Great Britain pound	315,222	280,151	183,998	219,069
Japanese yen	18,887	6,107	-	12,780
Euro	297,758	298,682	574,847	573,923
UAE Dirham	3,301	6	-	3,295
Asian Currency Unit	41,841	-	-	41,841
CHF	3,574	-	-	3,574
Australian Dollar	3,242	1,223	-	2,019
Saudi Riyal	656	-	-	656
Canadian Dollar	116	2,841	-	(2,725)
Turkish Lira	138	-	-	138
	<u>181,993,640</u>	<u>168,927,306</u>	<u>-</u>	<u>13,066,334</u>
	2015 (Restated)			
	Assets	Liabilities	Off-balance Sheet	Net foreign currency exposure
	----- Rupees in '000 -----			
Pakistan rupee	172,100,772	160,524,698	(163,577)	11,412,577
United States dollar	1,863,049	2,011,886	163,577	14,740
Great Britain pound	265,859	266,076	-	(217)
Japanese yen	6,664	279	-	6,385
Euro	358,429	361,520	-	(3,091)
UAE Dirham	4,258	-	-	4,258
Asian Currency Unit	33,690	-	-	33,690
CHF	3,779	-	-	3,779
Australian Dollar	3,645	1,276	-	2,369
Saudi Riyal	9,745	-	-	9,745
	<u>174,649,890</u>	<u>163,165,655</u>	<u>-</u>	<u>11,484,235</u>



#### 41.4.2 MISMATCH OF YIELD / PROFIT RATE SENSITIVE ASSETS AND LIABILITIES

Effective Yield / Profit rate	2016											Non-profit bearing financial instruments
	Total	Exposed to Yield / Profit risk										
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 to 9 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>On-balance sheet financial instruments</b>												
<i>Assets</i>												
	8,921,433	-	-	-	-	-	-	-	-	-	-	8,921,433
Cash and balances with Treasury Banks	1,324,167	26,675	-	-	-	-	-	-	-	-	-	1,297,492
Balances with other Banks	27,218,665	5,722,557	9,135,008	-	12,361,100	-	-	-	-	-	-	-
Due from financial institutions	46,643,174	900,986	37,953,818	5,240,230	-	-	-	-	-	-	-	2,548,140
Investments - net	77,667,276	10,146,567	12,872,093	8,133,853	2,697,061	1,153,956	2,877,474	10,067,761	8,729,206	6,337,980	2,077,051	-
Islamic financing and related assets and Advances (net)	4,077,364	-	-	-	-	-	-	-	-	-	-	4,077,364
Other assets	165,852,079	16,796,785	59,960,919	13,374,083	2,697,061	1,153,956	2,877,474	10,067,761	8,729,206	6,337,980	18,921,480	-
<i>Liabilities</i>	2,273,934	-	-	-	-	-	-	-	-	-	-	2,273,934
Bills payable	6,066,307	1,030,000	634,000	2,041,550	-	-	-	-	2,360,757	-	-	-
Due to financial institutions	153,826,348	104,845,285	-	-	-	-	-	-	-	-	-	48,981,063
Deposits and other accounts	2,829,823	-	-	-	-	-	-	-	-	-	-	2,829,823
Other liabilities	164,996,412	105,875,285	634,000	2,041,550	-	-	-	-	2,360,757	-	-	54,084,820
<b>On-balance sheet gap</b>	<b>855,667</b>	<b>(89,078,500)</b>	<b>59,326,919</b>	<b>11,332,533</b>	<b>2,697,061</b>	<b>24,935,374</b>	<b>2,877,474</b>	<b>10,067,761</b>	<b>6,368,449</b>	<b>6,337,980</b>	<b>(35,163,340)</b>	
<b>NON FINANCIAL ASSETS</b>												
Operating fixed assets	9,412,129	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	5,820,956	-	-	-	-	-	-	-	-	-	-	-
Other assets	908,476	-	-	-	-	-	-	-	-	-	-	-
	16,141,561	-	-	-	-	-	-	-	-	-	-	-
<b>NON FINANCIAL LIABILITIES</b>												
Deferred tax liabilities	3,930,894	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	13,066,334	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL NET ASSETS</b>												
Total Yield / Profit Risk Sensitivity Gap	(89,078,500)	59,326,919	11,332,533	2,697,061	24,935,374	1,153,956	2,877,474	10,067,761	6,368,449	6,337,980	(35,163,340)	
Cumulative Yield/Profit Risk Sensitivity Gap	(89,078,500)	(29,751,581)	(18,419,048)	(15,721,987)	9,213,387	10,367,343	13,244,817	23,312,578	29,681,027	36,019,007	(35,163,340)	

Effective Yield / Profit rate	2015 (Restated)										Non-profit bearing financial instruments	
	Exposed to Yield / Profit risk											
Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 to 9 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>On-balance sheet financial instruments</b>												
<b>Assets</b>												
Cash and balances with Treasury Banks	-	-	-	-	-	-	-	-	-	-	-	9,035,889
Balances with other Banks	-	-	-	-	-	-	-	-	-	-	-	2,016,267
Due from financial institutions	35,805,525	4,050,000	-	-	-	-	-	-	-	-	-	-
Investments	35,801,058	582,164	7,960,200	-	22,959,293	-	-	-	-	-	-	2,453,203
Islamic financing and related assets and Advances (net)	68,560,851	4,012,901	28,763,909	1,926,547	124,453	3,198,513	1,776,358	5,487,593	867,655	7,521,070	-	-
Other assets	3,865,453	-	-	-	-	-	-	-	-	-	-	3,865,453
	159,135,043	40,400,590	20,778,050	36,724,109	1,926,547	23,083,746	3,198,513	5,487,593	867,655	7,521,070	-	17,370,812
<b>Liabilities</b>												
Bills payable	-	-	-	-	-	-	-	-	-	-	-	-
Due to financial institutions	671,000	40,000	328,350	-	-	-	-	-	-	-	-	1,523,933
Deposits and other accounts	16,706,023	11,873,710	12,633,153	-	10,843,426	47,571,975	47,576,853	4,485,237	2,158,420	970,763	-	-
Other liabilities	5,325,663	-	-	-	-	-	-	-	-	-	-	5,325,663
	162,708,506	17,377,023	11,913,710	12,961,503	-	10,843,426	47,571,975	4,485,237	3,129,183	-	-	6,849,596
<b>On-balance sheet gap</b>	(3,573,463)	23,023,567	8,864,340	23,762,606	1,926,547	12,240,320	(44,373,462)	(45,800,495)	1,002,356	(2,261,528)	7,521,070	10,521,216
<b>NON FINANCIAL ASSETS</b>												
Operating fixed assets	8,902,021											
Deferred tax assets	6,530,948											
Other assets	81,878											
	15,514,847											
<b>NON FINANCIAL LIABILITIES</b>												
Deferred tax liabilities	-											
Other liabilities	457,149											
<b>TOTAL NET ASSETS</b>	11,484,235											
Total Yield / Profit Risk Sensitivity Gap	23,023,567	8,864,340	23,762,606	1,926,547	12,240,320	(44,373,462)	(45,800,495)	1,002,356	(2,261,528)	7,521,070	10,521,216	
Cumulative Yield/Profit Risk Sensitivity Gap	23,023,567	31,887,907	55,650,513	57,577,060	69,817,380	25,443,918	(20,356,577)	(19,354,221)	(21,615,749)	(14,094,679)	10,521,216	



#### 41.5 Liquidity Risk

Liquidity risk is the potential loss to the Group arising from its inability either to meet its obligations (financial) or to fund increases in assets as they fall due without incurring unacceptable costs or losses.

BIPL's liquidity at various levels (day to day, short term, long term) is managed by the Treasury along with the Asset and Liability Management Committee (ALCO), which is one of the most important management level committees. Its role cannot be overemphasized here, it serves as a part of the critical trio with risk management and treasury department, monitoring and maintaining key liquidity ratios, a viable funding mix, depositor concentration, reviewing contingency plans etc.

#### 41.5.1 MATURITIES OF ASSETS AND LIABILITIES

Total	2016																		
	Up to 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		
	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	
8,921,433	8,921,433	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1,324,167	1,324,167	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
27,218,665	5,722,558	9,135,007	12,361,100	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
46,643,174	1,108,064	1,969,073	1,969,073	326,247	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,688,155
77,667,276	11,428,075	12,875,161	8,134,121	15,298,280	1,352,474	-	-	-	-	-	-	-	-	-	-	-	-	-	6,384,343
9,412,129	-	46,218	46,218	-	62,716	-	-	-	-	-	-	-	-	-	-	-	-	-	6,813,136
5,820,956	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4,985,840	3,547,685	-	13,250	-	454,765	-	-	-	-	-	-	-	-	-	-	-	-	-	-
181,993,640	13,799,285	18,258,697	22,010,168	59,468	22,464,294	454,765	15,298,280	364,478	1,415,130	40,526,608	6,707,274	10,230,286	2,535,650	8,989,563	6,813,136	12,072,498	-	-	-
2,273,934	2,273,934	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6,066,307	1,030,000	634,000	2,041,550	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
153,826,348	55,702,654	8,443,415	6,379,652	11,074,028	27,083,961	2,699,381	27,667,270	27,667,270	2,612,425	2,612,425	4,196,899	4,196,899	2,360,757	65,858	-	-	-	-	-
6,760,717	2,946,910	59,106	138,308	138,308	-	-	997,810	-	-	-	-	-	-	-	-	-	-	-	-
168,927,306	60,925,498	8,920,805	59,106	9,077,415	138,308	8,421,202	997,810	11,074,028	27,083,961	2,699,381	27,667,270	2,612,425	2,360,757	65,858	-	-	-	-	-
13,066,334	47,132,213	9,337,892	(65,106)	12,932,753	(78,840)	14,043,092	(543,045)	4,224,232	(26,729,483)	(1,284,191)	(27,667,270)	37,914,183	4,090,691	6,033,387	174,893	8,923,705	6,813,136	12,072,498	-

#### Assets

Cash and balances with treasury banks	8,921,433
Balances with other banks	1,324,167
Due from financial institutions	27,218,665
Investments - net	46,643,174
Islamic financing and related assets	77,667,276
and Advances (net)	9,412,129
Operating fixed assets	5,820,956
Deferred tax assets	4,985,840
Other assets	181,993,640

#### Liabilities

Bills payable	2,273,934
Due to financial institutions	6,066,307
Deposits and other accounts	153,826,348
Deferred tax liabilities	6,760,717
Other liabilities	168,927,306

#### Net assets

Share capital	10,079,121
Discount on issue of shares	(79,042)
Reserves	613,636
Unappropriated profit	518,942
Non Controlling Interest	192,350
Surplus on revaluation of assets	1,741,327
	13,066,334

		2015 (Restated)																	
		Rupees in '000																	
Total	Expected Maturity	Up to 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	
		Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity	Contractual Maturity	Expected Maturity
<b>Assets</b>																			
Cash and balances with treasury banks																			
9,035,889	9,035,889	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks																			
2,016,267	2,016,267	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from financial institutions																			
39,855,525	39,855,525	35,805,525	4,050,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
35,801,038	921,772	-	1,506,000	-	-	22,959,293	-	-	-	8,080,064	450,000	-	-	-	586,409	-	-	-	1,295,500
Investments																			
Islamic financing and related assets																			
68,560,851	-	4,012,901	14,881,852	-	26,763,909	-	2,051,000	-	-	3,198,513	1,776,358	-	-	5,487,593	-	-	-	-	7,521,070
8,902,021	58,942	-	19,145	-	3,714	-	4,793	-	2,530	-	-	-	-	692,952	-	1,188,146	-	-	6,951,799
Operating fixed assets																			
6,530,948	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets																			
3,947,331	627,906	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
174,649,880	11,739,004	40,740,198	19,145	20,437,852	18,205	28,763,909	874,928	25,010,293	2,530	11,278,597	-	2,226,358	9,658,699	5,487,593	1,188,146	1,456,064	6,951,799	-	8,816,570
<b>Liabilities</b>																			
Bills payable																			
1,523,933	1,523,933	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to financial institutions																			
3,197,770	684,248	40,000	-	315,102	-	-	-	-	-	-	-	-	-	-	-	2,158,420	-	-	-
152,661,140	12,457,781	4,247,868	11,873,710	12,633,153	-	10,846,928	44,819,389	2,751,523	44,819,389	2,758,901	-	-	-	4,485,237	968,263	-	-	-	-
Deferred tax liabilities																			
5,782,812	1,718,213	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities																			
163,165,655	16,384,715	4,247,868	80,894	11,873,710	1,820,107	12,633,153	821,559	821,559	44,819,389	2,751,523	44,819,389	2,758,901	1,697,141	4,485,237	3,126,683	-	-	-	-
11,484,235	(4,645,171)	36,492,330	(61,749)	8,584,142	(1,801,902)	16,130,756	53,369	14,164,367	(44,816,859)	8,527,074	(44,819,389)	(532,543)	7,961,558	1,002,356	(1,998,537)	1,456,064	6,951,799	-	8,816,570
<b>Net assets</b>																			
Rupees in '000																			
Share capital																			
Discount on issue of shares																			
Reserves																			
Non Controlling Interest																			
Surplus on revaluation of assets																			



#### **41.6 Operational Risk**

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external / internal events. The risk is different from the others, since it has a greater level of uncertainty and may be termed as a little difficult to measure. The Group believes that (prudence) should be lived and breathed through the organizational culture.

At a more formal level, the Group has strengthened its risk management framework by developing policies, guidelines and manuals. Operational and other risk assessment tool e.g. Risk Control and Self Assessment (RCSA) is being effectively used to assess, mitigate and monitor possible risk that may arise in any of the Group's financial product or department. Operational Loss Database (OLD) records all the internal / external potential operational losses which helps the management understand the causes and impact of these risks.

#### **41.7 Strategic Risk**

Strategic risk arises due to wrong assumptions in strategic decision making or the failure to react correctly to long-term changes in strategic parameters.

The Group follows a deliberate low-risk strategy. Within the general constraints of its niche market the Group is aware of the need of reducing risk. The Group has a well established strategic planning and evaluation process which involves all levels of management and which is subject to regular review.

#### **41.8 Systematic Risk**

Systematic risk is the risk of a total or partial collapse of the financial system.

Such a collapse could be due to technical factors or market driven (psychological reasons).

Systematic risk is reduced by the activities of both national and international regulatory authorities. The Group actively supports these organizations through its membership of the relevant Grouping industry association i.e. Pakistan Banks Association ("PBA"). The Group also takes account of systematic risk by means of careful management of counter party risks in the inter-Group market.

#### **41.9 Shariah Non-compliance**

Shariah non-compliance risk is the risk that arises from an Islamic bank's failure to comply with the Shariah rules and principles prescribed by the State Bank of Pakistan and / or the Shariah Advisor of the Group. It remains' the most important operational risk for an Islamic bank. Compliance of shariah guidelines must permeate throughout the organization and its adherence should be reflected in the products and activities.

#### 42 TRUST ACTIVITIES

Banks commonly act as trustees 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. These are not assets of the Group and, therefore, are not included in consolidated statement of financial position. Following is the list of assets held under trust:

Category	Type	No. of IPS account		-----Rupees in '000----- Face Value	
		2016	2015	2016	2015
Insurance Companies	Sukuks	1	1	220,000	220,000
Asset Management Companies	Sukuks	24	24	1,426,240	1,452,165
Employee Funds / NGO's	Sukuks	5	5	138,250	79,500
Individuals	Sukuks	9	10	137,795	111,870
Others	Sukuks	21	21	4,537,715	4,596,465
		<u>60</u>	<u>61</u>	<u>6,460,000</u>	<u>6,460,000</u>

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

The holding company maintained following pools for profit declaration and distribution during the year ended December 31, 2016:

- General Deposit Mudarabah Pool (PKR, USD, EUR & GBP);
- Musharakah Pool under SBP's Islamic Export Refinance Scheme; and
- Treasury Special Pools

The deposits and funds accepted under the General Deposit Mudarabah Pool is provided to different sectors of economy mainly to 'Textile and Allied', 'Energy', 'Fertilizer', 'Trading' 'Consumer Finance' and GOP Ijarah Sukuks'.

Musharakah investments from the SBP under Islamic Export Refinance Scheme (IERS) are channeled towards the export sector of the economy via different Islamic financing modes such as Murabahah, Istisna etc.

##### Key features and risk & reward characteristics of all pools

The 'General Deposit Mudarabah Pool' for both local and foreign currency is to catered for all depositors of Group and provide profit / loss based on actual returns earned by the pool. Depositors are Rabb-ul-Maal as they are the provider of capital while group acts as Mudarib by investing these funds in business. Since there are more than one Rabb-ul-Maal (depositor), their mutual relationship is that of Musharakah. Profit is shared among Mudarabah partners (Group and depositors) as per pre-agreed profit sharing ratio. Whereas, profit sharing among the depositors is based on pre-assigned weightages. Loss, if any, is borne by the Rabb-ul-Maal as per the principles of Mudarabah.

The IERS Pool caters to the 'Islamic Export Refinance Scheme' requirements based on the guidelines issued by the SBP. In this Scheme, SBP enters into a Musharakah arrangement with the Group for onward financing to exporters and other blue chip companies on the basis of Shariah compliant modes such as Murabahah, Istisna, etc. Under the scheme, SBP is required to share in profit and loss of the Group's IERS Musharakah pool. IERS pool consists of blue chip companies to whom the Group has provided financing facilities on Shariah compliant modes including IERS facility. Profit is shared according to an agreed weightage and loss is shared according to the investment ratio.

Treasury Pools are managed on the basis of Musharakah, wherein Group and partner (Financial Institution) share actual return earned by the pool according to pre-defined profit sharing ratio.



The risk characteristic of each pool mainly depends on the asset and liability profile of each pool. The pool is exposed to following kinds of risks:

- 1 **Asset Risk:** The pool is exposed to Asset Risk which is the risk that is associated with Islamic mode of finance(s) applied / used under the transaction structure(s). The Group has prepared detailed product manuals in order to identify and properly mitigate such risk. The Group also analyze transaction structure of each customer to further ensure proper safeguard of depositors' interest. The review is done by experienced team of professional having considerable experience in the field of Islamic banking and finance. Nevertheless since Islamic banking is a nascent industry, we believe that the process of further improvement will continue as the business grows.
- 2 **Credit Risk:** This Risk is the risk which is associated with financing that is mitigated through safeguards through available standards within Shariah guidelines as disclosed in note 41.1 to these consolidated financial statements.

**Parameters used for allocation of profit, charging expenses and provisions etc. along with a brief description of their major components:**

Gross income (Revenue less cost of goods sold and after deduction of other direct expenses), generated from relevant assets is calculated at the end of the month. The income is shared between Group and the depositors as per agreed profit sharing ratio after deduction of commingled Holding Company's equity share on pro rata basis. The residual is shared among depositors as per agreed weightages. These weightages and profit sharing ratios are declared by the Holding Company in compliance with the requirements of the SBP and Shariah.

The allocation of income and expenses to different pools shall be made based on pre-defined basis and accounting principles / standards. Direct expenses are charged to respective pool, while indirect expenses are borne by the Group as Mudarib. The direct expenses charged to the pool are direct cost in financing / investment transactions (i.e. Murabahah, Ijarah, Diminishing Musharakah, Istisna, Karobar Financing, Salam, etc.) and depreciation of Ijarah assets. The general and specific provisions created against non-performing Islamic financing and related assets and diminution in the value of investments as under prudential regulations and other SBP directives have been borne by Group as Mudarib.

General Deposit Mudarabah Pool	Profit rate and weightage announcement period	Profit rate return earned	Depositor Share %	Mudarib share %	Mudarib share	Profit rate return distributed to remunerative deposits (Savings and Term)	Percentage of Mudarib share transferred through Hiba	Amount of Mudarib Share transferred through Hiba
					(Rupees in '000)			
PKR Pool	Monthly	7.45%	66.53%	33.47%	2,295,666	4.61%	0.00%	-
USD Pool	Monthly	0.20%	64.55%	35.45%	11	0.13%	0.00%	-

Specific Pool	Profit rate and weightage announcement period	Profit rate return earned	SBP Share %	Bank share %	Bank share	Profit rate return distributed	Percentage of Mudarib share transferred through Hiba	Amount of Mudarib Share transferred through Hiba
					(Rupees in '000)			

(i) Islamic Export Refinance (IERS) Pool Monthly 4.94% 46.33% 53.67% 1,717,393 2.57% 0.00% -

(ii) In addition to the above, 167 short term Treasury Pools were created to meet liquidity management requirement of Treasury Department. The Pools were dissolved after maturity of respective Treasury transaction. The Pools were managed under the Shariah approved guidelines.



44 GENERAL

44.1 Captions, as prescribed by BSD Circular No. 04 of 2006 dated February 17, 2006 issued by the SBP, in respect of which there are no amounts, have not been reproduced in these consolidated financial statements, except for captions of the Consolidated Statement of Financial Position and Consolidated Profit and Loss Account.

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

44.2 Corresponding figures

Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate comparisons. There were no significant reclassifications / restatements during the year except as disclosed in note 4 and as disclosed below.

Reclassified from	Reclassified to	Rupees in '000
Other Assets	Operating fixed assets - Intangible assets	2,957,404
Other Assets	Operating fixed assets - Property and equipment	251,024

45 DATE OF AUTHORISATION FOR ISSUE

These consolidated financial statements were authorised for issue on **March 10, 2017** by the Board of Directors of the Holding Company.

  
CHAIRMAN

  
PRESIDENT / CHIEF EXECUTIVE

  
DIRECTOR

  
DIRECTOR



## Annexure 1

Details of disposal of fixed assets to the Chief Executive Officer or to a Director or to Executives, irrespective of the value, and to any other person having cost more than Rs 1 million or net book value of Rs 250,000 or above are as follows:

Asset description	Asset Cost	Accumulated depreciation	WDV	Sale proceeds	Gain/ (loss) on disposal	Mode of disposal	Particulars of Buyer
----- Rupees in '000 -----							
Lenovo Thinkpad T410 Note book Pc Intel Core	98	98	-	5	5	Bank Policy	Imran Khurshheed - Area Manager South
Lenovo Thinkpad T410 Note book Pc Intel Core	114	106	8	13	5	Bank Policy	Ms. Sheba Khan - HOD HR
Lenovo Think Pad Note Book PC	110	110	-	5	5	Bank Policy	Farooq Anwer HOD OPS
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Adeel Khan - Section Head Recon
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Muhammad Shoaib - Company Secretary
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Muhammad Furqan - HOD Credit Admin
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Faisal Sheikh - HOD Prod Dev
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Ahmed Mobeen - Corporate Finance
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Qazi Hamid - Area Manager
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Rehan Shujah - HOD Internal Audit
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Farhan Danish - Sec Head CAD
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Akhter Ausaf - HOD Risk Management
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Saad Madni - RGM South
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Ismail Khan - Reg Manager Ops
Lenovo T-420 Thinkpad Note Book PC	114	114	-	5	5	Bank Policy	Syed Haseen Raza Section Head Internal Audit
Interior works	1,506	1,112	394	1,506	1,112	Takaful Claim	EFU General Takaful Insurance Claim
Genset	1,232	1,232	-	171	171	Tender	M/s Adam Traders
Genset	1,214	1,214	-	171	171	Tender	M/s Adam Traders
Genset	1,146	1,146	-	171	171	Tender	M/s Adam Traders
Genset	1,008	1,007	1	171	170	Tender	M/s Adam Traders
Genset	1,149	1,149	-	171	171	Tender	M/s Adam Traders
Genset	1,808	1,808	-	171	171	Tender	M/s Adam Traders
Genset	1,060	1,060	-	171	171	Tender	M/s Adam Traders
<b>Total</b>	<b>11,813</b>	<b>11,410</b>	<b>403</b>	<b>2,786</b>	<b>2,383</b>		

ANNEXURE II

STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF RUPEES 500,000 OR ABOVE DURING THE YEAR ENDED DECEMBER 31, 2016

S. No	Name and address of the borrower	Name of individuals / partners / directors (with CNIC No.)	Father's / Husband's Name	Outstanding liabilities					Principal written off	Profit / Mark-up written off	Other financial	Total (9+10+11)
				Principal	Profit	Others	Total (5+6+7)	8				
1	2	3	4	5	6	7	8	9	10	11	12	
1	KONVA INDUSTRIES (PVT) LTD. 1. P.O. Box No. 474, Khuda Bukhsh Chambers, Water Works Road, Multan 2. Mill: 62-B, Industrial Estate Multan 3. Khawaja Mohammad Awaiz 36302-2970484-5 4. Khawaja Mazhar Hussain 36302-1955367-7	1. Khawaja Khuda Buksh 36302-2876484-5 2. Khawaja Mohammad Abdul Haque 36302-5476472-5 3. Khawaja Khuda Buksh 4. Khawaja Khuda Buksh	1. Manzoor Hussain 2. Khawaja Khuda Buksh 3. Khawaja Khuda Buksh 4. Khawaja Khuda Buksh	13,181	7,854	-	21,035	9,874	7,854	-	17,728	
2	A & S FOOD, 156 - N, Model Town (Ext.), Lahore	Sehar Adil 35201-1410445-0	Mr. Adil	3,311	3,339	-	6,650	-	2,654	-	2,654	
3	SHAN INDUSTRIES, 62-A, SIE No. 01, Model Town, Gujranwala	Zeeshan Abdul Rasheed 34101-7498664-3	Abdul Rasheed	498	932	-	1,430	-	932	-	932	
4	ALI COMMUNICATION SERVICES, 84-B, Iqbal Road, Westridge-1, Rawalpindi	Basharat Ali Bhatti 37405-400484-1	Hamid Ali Bhatti	1,454	755	-	2,209	-	755	-	755	
5	AMIN TEXTILE MILLS, 97 - B, Gulberg II, Lahore	1. Muhammad Rafi 35202-3244650-5 2. Tariq Rafi 42301-0838522-7 3. Arif Rafi 35202-1594108-3 4. Anjum Rafi 35202-2434949-9 5. Abdullah Rafi 35200-1416576-7	1. Haji Muhammad Ismail 2. Muhammad Rafi 3. Muhammad Rafi 4. Muhammad Rafi 5. Muhammad Rafi	250,762	38,106	-	288,868	71,508	38,106	-	109,614	
6	LAKHANI TRADERS, 603 - Business & Finance Centre, Opposite State Bank of Pakistan, I.I. Chundrigar Road, Karachi	Amin Muhammad Lakhani 42301-0857023-3	Noor Muhammad Lakhani	-	5,860	-	5,860	-	2,990	-	2,990	
7	NOVA INTERNATIONAL, Plot No. 81, Sector 7 / A, Korangi Industrial Area, Karachi	1. Asif Nazar 42301-6434483-1 2. Yousuf Nazar 42301-0811400-1 3. Mrs. Yasmeen Asif 42301-3481454-4 4. Mrs. Nazia Yousuf 42301-0847770-4	1. Mr. Nazar 2. Mr. Nazar 3. Mr. Asif 4. Mr. Yousuf	117,421	21,448	-	138,869	7,421	21,392	-	25,813	
8	DR. KHAN LABORATORIES & DIAGNOSTIC CENTRE, Office at A-57, Mahir City Shahr-e-Faisal, Karachi	Shakeel Ahmed Khan 42201-9642358-1	Muhammad Ahmed Khan	3,372	993	-	4,365	-	865	-	865	
9	KENLUBES INTERNATIONAL, Plot No. 11, Sector 23, Korangi Industrial Area, Karachi	1. Mian Zahid Hussain 42301-1409960-7 2. Mian Zia ul Hassan 42301-1125516-9 3. Danish Ayub 42301-0751481-1	1. Haji Muhammad Ayub 2. Haji Muhammad Ayub 3. Mian Zahid Hussain	25,989	900	-	26,889	-	900	-	900	
10	BALOUCHISTAN GLASS LIMITED, 1. Head Office: 12 KM Sheikhpura Road, Kot Abdul Malik, Lahore. 2. Registered Office: Dime Center, 3rd Floor, Block-9, Clifton, Karachi II CHIPPAA TEXTILES, 8 / 10, ST-5, Sector 12-C, North Karachi Industrial Area, Karachi	1. Muhammad Taiseef Paracha 35202-1524979-9 2. Tariq Siddiq Paracha 42301-4898864-7 3. Muhammad Rehman 42301-2597680-5 4. Muhammad Niaz Paracha 35202-2752828-7 5. Muhammad Ishaq Khokhar 35202-327680-3	1. Muhammad Siddiq Paracha 2. Muhammad Siddiq Paracha 3. Muhammad Amin 4. Muhammad Riaz Paracha 5. Muhammad Saleem Khokhar	5,500	4,232	-	9,732	-	4,232	-	4,232	
11	CHIPPAA TEXTILES, 8 / 10, ST-5, Sector 12-C, North Karachi Industrial Area, Karachi	Muhammad Aslam Chippa 42101-1575109-7	Abdul Karim Chippa	2,850	503	-	3,353	-	503	-	503	
12	NAVEED INDUSTRIES, Plot No. 3/7, Sector 21, Korangi Industrial Area, Karachi	1. Mohammad Shafiq 42201-0164638-1 2. Mohammad Ashraf Khan 42201-4669294-1 3. Mohammad Anwar 42201-4401207-5 4. Mohammad Hanif Khan 42201-8352382-7	1. Faiz Mohammad 2. Mohammad Shafiq 3. Mohammad Shafiq 4. Mohammad Shafiq	1,299	1,116	-	2,415	-	1,116	-	1,116	



ANNEXURE II

STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF RUPEES 500,000 OR ABOVE DURING THE YEAR ENDED DECEMBER 31, 2016

S. No	Name and address of the borrower	Name of individuals / partners / directors (with CNIC No.)	Father's / Husband's Name	Outstanding liabilities			Principal written off	Profit / Mark-up written off	Other financial	Total (9+10+11)	
				Principal	Profit	Others					
1	2	3	4	5	6	7	8	9	10	11	12
13	IMANI TRADING, Apartment No. 303, 3rd Floor, Wali Heights, Plot No. J.M. 131, Jamshed Quarters, Karachi	Ali Akber Imani 42201-0377402-5	Ali Bhai Imani	2,499	785	-	3,284	-	785	-	785
14	Rehana Sultana Bulia35/1, 27TH STREET, PHASE-V, DHA NEAR KHY-E-SHAM SHEER, KARACHI.	Rehana Sultana Batla 4230142899444	Sultan Ahmed Batla	20,000	13,594	614	34,208	-	13,594	614	14,208
15	Muhammad Iqbal H No 757, Janipur, Ward No 4, Shahdadpur.	Muhammad Iqbal 4420499022827	Fateh Nasib	402	505	8	915	-	505	8	513
16	Shaikh M.Ehsan Ellahi Flat # C-2, Boat View Apartment, Boat Basin, Clifton, Bl-5, # 5, Karachi.	Shaikh M.Ehsan Ellahi 4230104331387	Shaikh M. Hasnaini	1,830	1,692	-	3,522	-	1,648	-	1,648
17	Mr.Abdul Naeem House # 469/6, Liaquatabad, Karachi.	Mr.Abdul Naeem 4210140868623	Abdul Ghani	555	1,190	-	1,745	-	1,227	-	1,227
18	Ghazala Nawaz HOUSE # 2, STREET # 7- A JAMSHAD COLONY, DR. QADEER KHAN ROAD, RAWALPINDI	Ghazala Nawaz 3740557336422	Ahmed Nawaz Niazi	513	558	-	1,071	-	558	-	558
19	Akhtar Bano House No A-914, Block No H, North Nazimabad, Karachi.	Akhtar Bano 4210134619712	Ghulam Mujtaba Saleem	2,025	1,205	-	3,230	-	1,205	-	1,205
20	Muhammad Iqbal Qazi BUNGLOW # 37 CIVIL LINES CANTONMENT HYDERABAD SINDH	Muhammad Iqbal Qazi 4230185874335	Ahmed Muhammad Qazi	30,749	16,138	1,293	48,180	-	16,138	1,293	17,431
21	Nadeem Ahmed H No E-468, Hafeez Street No 5, Muthallah Ali Muhammad, Lahore.	Nadeem Ahmed 3520164216349	Ghulam Muhammad	1,039	1,590	-	2,629	408	1,547	-	1,955
22	Mufid Mirza H# .105-B, STREET NO. 33, KHYE-SHAR PHASE-5, DHA, KARACHI.	Mufid Mirza 421018668393	Saeed Mirza	19,872	7,996	960	28,828	-	7,989	888	8,877
23	Nasreen Khalid H # 12-L BLOCK, MODEL TOWN, LAHORE.	Nasreen Khalid 3520226937832	Khalid Molyuddin	17,130	9,749	446	27,325	-	9,749	446	10,195
24	Naseem Akhtar HOUSE # A-188, BLOCK-10, GULSHAN-E-IQBAL KARACHI.	Naseem Akhtar 4220104344045	M.A. Razaque	3,199	3,455	242	6,896	-	3,454	233	3,687
25	Muhammad Latif #41, 42, 43, REHMANIA TOWN, JHANG ROAD, FAISALABAD.	Muhammad Latif 331009060675	Bashir Ahmed	13,700	19,743	704	34,147	-	19,740	646	20,386
26	Pak American Academic E-6, BLOCK F NORTH NAZIMABAD KARACHI.	Sultan Mahmood Ahmed 4210195473773	Manzoor Ahmed	33,550	7,503	490	41,543	-	7,503	490	7,993
				572,705	171,747	4,764	749,206	89,220	167,951	4,629	261,782



# Sheer Diversity

BankIslami being an organization with a diverse workforce, values differences in people. It is one that recognizes people with different foundations, skills, attitudes and experiences while bringing fresh ideas and new perceptions. At BankIslami we encourage and harness these differences and then entwine together as one solid team.



## Home Remittance – Now even more convenient...

With BankIslami's **Ria MONEY** service, you can receive money sent to you from abroad by your loved ones, from any BankIslami branch nationwide.

BankIslami's **Ria MONEY** service comes with the following features:

- Quick Account Opening facility
- Service available at BankIslami's 321\* branches in 105 cities
- Money transfer from **Ria MONEY** outlets in over 200 countries
- Bank account not required for receiving **Ria MONEY** payment from any BankIslami branch
- Very low fees

\* Including sub-branches

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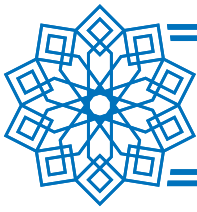
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## Pattern of Shareholding

No. of Shareholders	Shareholdings'Slab		Total Shares Held
	From	To	
695	1	100	15,546
14923	101	500	7,103,615
3304	501	1000	2,493,488
1766	1001	5000	3,359,723
188	5001	10000	1,439,124
65	10001	15000	815,786
36	15001	20000	647,005
31	20001	25000	710,977
13	25001	30000	377,279
16	30001	35000	522,719
7	35001	40000	262,612
2	40001	45000	87,000
11	45001	50000	540,834
3	50001	55000	157,500
4	55001	60000	234,808
4	60001	65000	251,739
2	65001	70000	139,031
2	70001	75000	146,451
2	80001	85000	166,500
1	85001	90000	87,500
2	90001	95000	187,535
6	95001	100000	595,501
2	115001	120000	239,913
1	120001	125000	121,873
3	130001	135000	397,829
1	135001	140000	136,000
1	145001	150000	150,000
1	150001	155000	152,500
1	160001	165000	165,000
1	175001	180000	179,970
1	180001	185000	185,000
1	185001	190000	185,937
2	195001	200000	398,500
1	205001	210000	210,000
1	220001	225000	223,500
1	225001	230000	229,053
1	235001	240000	236,500
1	245001	250000	247,816
1	255001	260000	255,202
1	325001	330000	327,219
1	430001	435000	434,000
1	475001	480000	475,175
1	495001	500000	500,000
1	515001	520000	519,084



## Pattern of Shareholding

No. of Shareholders	Shareholdings'Slab		Total Shares Held
	From	To	
1	890001	895000	894,000
1	935001	940000	939,697
1	995001	1000000	1,000,000
1	1585001	1590000	1,586,138
1	1980001	1985000	1,980,500
1	2375001	2380000	2,379,500
1	2595001	2600000	2,600,000
1	4090001	4095000	4,091,928
1	4345001	4350000	4,345,345
1	5700001	5705000	5,702,050
1	5920001	5925000	5,922,067
1	6600001	6605000	6,603,975
1	7045001	7050000	7,045,200
1	9565001	9570000	9,568,500
1	12250001	12255000	12,250,976
1	14590001	14595000	14,593,000
1	15700001	15705000	15,703,637
1	16210001	16215000	16,213,281
1	16705001	16710000	16,709,207
1	18300001	18305000	18,300,705
1	18785001	18790000	18,786,781
1	20615001	20620000	20,616,693
1	27995001	28000000	28,000,000
1	50290001	50295000	50,293,194
2	99020001	99025000	198,047,276
1	144200001	144205000	144,200,144
1	158965001	158970000	158,967,492
1	214255001	214260000	214,258,460
<b>21138</b>			<b>1,007,912,090</b>



A close-up photograph of a hand placing a wooden letter 'Y' to complete the word 'INTEGRITY' on a sandy surface. The letters are light-colored wood and cast soft shadows on the sand. The background is a warm, golden-brown sand.

INTEGRITY

# Steadfast Integrity

Integrity is a core value that we cherish at BankIslami. Along with our vision and other core values; it forms the foundation on which we strive to build our reputation and service proposition. Founded on integrity, our products and services are designed to be Shariah Compliant as well as being contemporarily relevant so that the customers can enjoy a seamless Banking experience.

## Islami Bachat Account



## Tradition of Saving with Innovation

**Islami Bachat Account** offers the following pure Islamic banking solutions while keeping your values intact.

- Halal Profit payment on monthly basis
- VISA Debit Card facility
- Nationwide network of 321 branches in 105 cities
- Online Banking facility
- SMS Banking facility
- Internet Banking facility

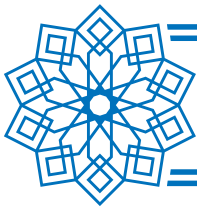
Serving you, the Right way



## Categories of Shareholders

AS AT DECEMBER 31, 2016

PARTICULARS	SHAREHOLDERS	SHAREHOLDING PERCENTAGE	
<b>ASSOCIATED COMPANIES, UNDERTAKING AND RELATED PARTIES.</b>	<b>4</b>		
JAHANGIR SIDDIQUI & CO.LTD.		214,258,460	
DUBAI BANK PJSC		144,200,144	
SAJ CAPITAL MANAGEMENT LTD		50,293,194	
EFU GENERAL INSURANCE LIMITED		6,603,975	
<b>SUB TOTAL</b>		<b>415,355,773</b>	<b>41.21</b>
<b>MUTUAL FUNDS.</b>	<b>6</b>		
GOLDEN ARROW SELECTED STOCKS FUND LIMITED		4,091,928	
CDC - TRUSTEE MEEZAN BALANCED FUND		875	
CDC - TRUSTEE AKD OPPORTUNITY FUND		5,922,067	
CDC - TRUSTEE AL MEEZAN MUTUAL FUND		875	
CDC - TRUSTEE MEEZAN ISLAMIC FUND		875	
CDC - TRUSTEE NATIONAL INVESTMENT (UNIT) TRUST		247,816	
<b>SUB TOTAL</b>		<b>10,264,436</b>	<b>1.02</b>
<b>DIRECTORS, CHIEF EXECUTIVE OFFICER, AND THEIR SPOUSE AND MINOR CHILDREN</b>	<b>6</b>		
ALI HUSSAIN		158,967,492	
ALI RAZA SIDDIQUI		9,544	
FAWAD ANWAR		1,750	
HASAN AZIZ BILGRAMI		939,697	
KAMAL AFSAR		1,000	
SIRAJ AHMED DADABHOY		5,000	
<b>SUB TOTAL</b>		<b>159,924,483</b>	<b>15.87</b>
<b>EXECUTIVES AND THEIR SPOUSE</b>	<b>SUB TOTAL</b>	<b>0</b>	<b>0.00</b>
<b>PUBLIC SECTOR COMPANIES AND CORPORATIONS:</b>	<b>1</b>	<b>190</b>	<b>0.00</b>
<b>BANKS DEVELOPMENT FINANCIAL INSTITUTIONS, NON BANKING FINANCIAL INSTITUTIONS, INSURANCE COMPANIES TAKAFUL, MODARABAS, PENSION FUNDS AND OTHERS</b>	<b>55</b>	<b>62,320,589</b>	<b>6.18</b>
<b>INDIVIDUALS</b>			
a: Local	21057	161,886,193	16.06
b: Foreign	9	198,160,426	19.66
<b>TOTAL</b>	<b>21,138</b>	<b>1,007,912,090</b>	<b>100.00</b>
<b>ADDITIONAL INFORMATION</b>			
<b>AS AT DECEMBER 31, 2016</b>			
<b>FIVE % AND ABOVE</b>			
JAHANGIR SIDDIQUI & CO.LTD.		214,258,460	21.26
ALI HUSSAIN		158,967,492	15.77
DUBAI BANK PJSC		144,200,144	14.31
SHABIR AHMED RANDEREE		99,023,638	9.82
AHMED G. M. RANDEREE		99,023,638	9.82



## Correspondent Banking Network

COUNTRY	NAME OF BANK
AUSTRALIA	COMMONWEALTH BANK OF AUSTRALIA JPMORGAN CHASE BANK NATIONAL ASSOCIATION
AUSTRIA	RAIFFISENLANDESBANK OBEROESTERREICH
BAHRAIN	AL BARAKA ISLAMIC BANK BANK AL HABIB LIMITED BMI BANK BSC(C) NATIONAL BANK OF PAKISTAN
BANGLADESH	BANK ALFALAH LIMITED BANK ASIA LIMITED EASTERN BANK LIMITED HABIB BANK LIMITED SOUTHEAST BANK LIMITED STANDARD BANK LIMITED
BEIRUT	BANK OF BEIRUT
BELGIUM	BELFIUS BANK SA / NV BYBLOS BANK EUROPE S.A. COMMERZBANK AG HABIB BANK LIMITED KBC BANK NV
CANADA	HABIB CANADIAN BANK
CHINA	AGRICULTURAL BANK OF CHINA LIMITED BANK OF CHENGDU COMPANY LIMITED BANK OF CHINA BANK OF DALIAN BANK OF DEYANG COMPANY LIMITED BANK OF GUYANG COMPANY LIMITED BANK OF JIANGSU COMPANY. LIMITED BANK OF RUIFENG CHINA EVERBRIGHT BANK EXPORT – IMPORT BANK OF CHINA HARBIN COMMERCIAL BANK HUAXIA BANK INDUSTRIAL AND COMMERCIAL BANK OF CHINA JPMORGAN CHASE BANK (CHINA) COMPANY LIMITED PING AN BANK COMPANY LIMITED RURAL COMMERCIAL BANK COMPANY LIMITED ZHANGJIAGANG SHENGJING BANK TAICANG RURAL COMMERCIAL BANK YINZHOU BANK ZHEJIANG CHOUZHOU COMMERCIAL BANK COMPANY LIMITED ZHEJIANG PINGHU RURAL COOPERATIVE BANK ZHEJIANG XIAOSHAN RURAL COMMERCIAL BANK COMPANY LIMITED
CZECH REPUBLIC	CESKA SPORITELNA AS CITIBANK EUROPE PLC UNICREDIT BANK CZECH REPUBLIC AND SLOVAKIA AS

A hand is shown from the bottom, holding a glowing blue sphere composed of many small, translucent cubes. The cubes are arranged in a dense, spherical pattern, with some cubes floating away from the sphere. The background is dark blue with some light rays and a bright spot on the right side. The overall image has a futuristic, technological feel.

# In Tune With Technology

From its inception, a cornerstone of BankIslami's philosophy has been to be relevant in terms of the latest technological trends. Thus, in addition to being pioneers in Pakistan of Cardless Biometric ATM technology, we have launched our mobile app –mBankIslami; to facilitate our customers in making transactions remotely. Furthermore, we also strive in providing a user-friendly Internet Banking facility to further enhance this experience.

بَيْنَكُمُ الْاِسْلَامِي



BankIslami



LET'S GET  
SOCIAL

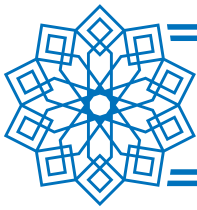
Serving you, the Right way

BankIslami Pakistan  
www.bankislami.com.pk



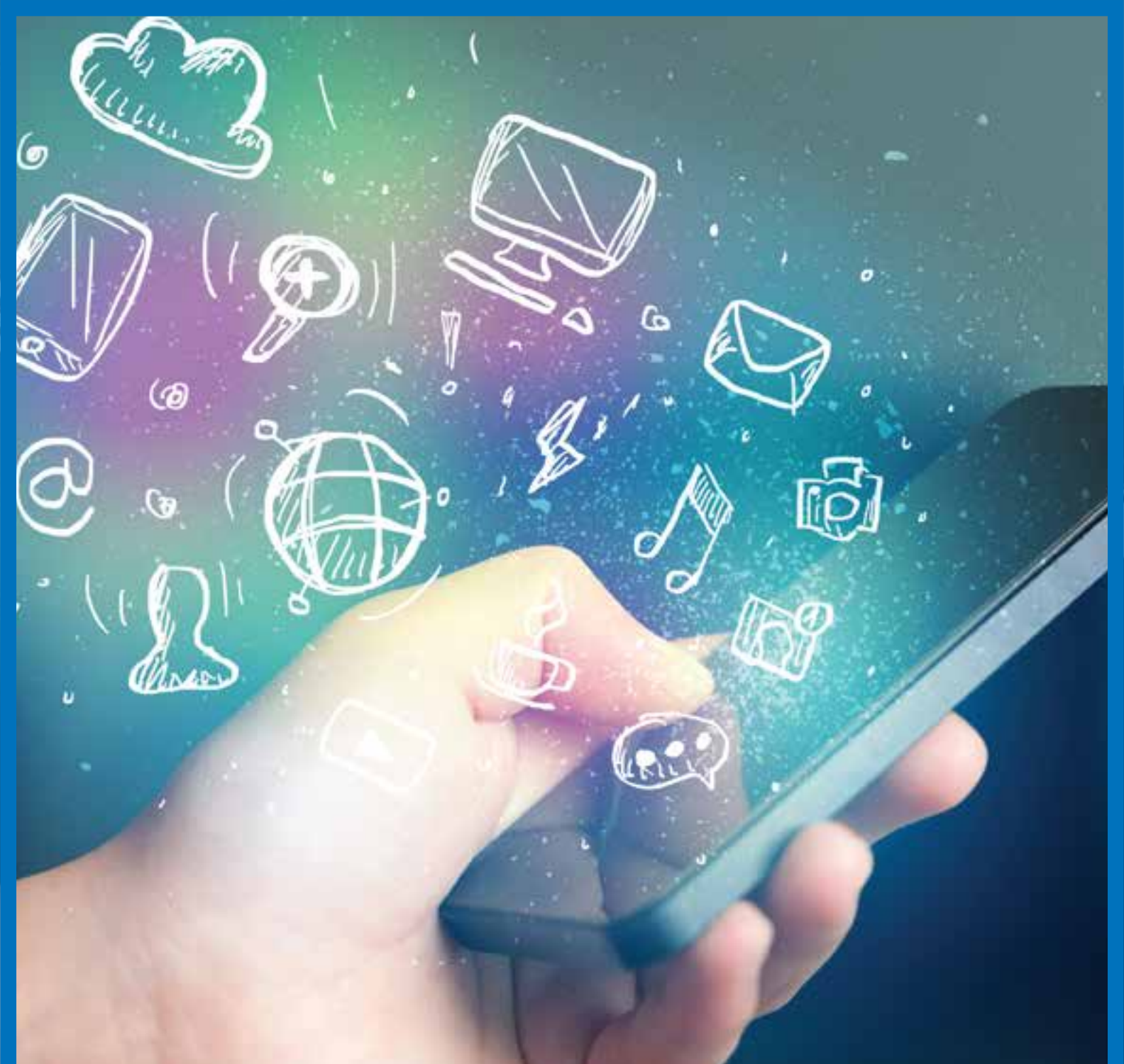
24/7 Phone Banking  
111-ISLAMI (111-475264)

COUNTRY	NAME OF BANK
DENMARK	DANSKE BANK A/S
DJIBOUTI	BANQUE POUR LE COMMERCE ET L'INDUSTRIE-MER GROUPE
EGYPT	MASHREQ BANK
FINLAND	DANSKE BANK A/S DANSKE BANK PLC
FRANCE	BYBLOS BANK EUROPE S.A. HABIB BANK LIMITED NATIONAL BANK OF PAKISTAN UNION DE BANQUES ARABES ET FRANCAISES
GERMANY	DANSKE BANK A/S DEUTSCHE BANK A.G. LANDESBANK HESSEN-THURINGEN GIROZENTRALE NATIONAL BANK OF PAKISTAN RAIFFEISENLANDESBANK OBEROESTERREICH AKTIENGESELL UNICREDIT BANK AG
GREECE	EUROBANK ERGASIAS S.A.
HONG KONG	BANK OF AMERICA HABIB BANK LIMITED HBZ FINANCE LIMITED ICICI BANK LIMITED JPMORGAN CHASE BANK NATIONAL ASSOCIATION MASHREQ BANK NATIONAL BANK OF PAKISTAN UNION BANK OF INDIA UNION DE BANQUES ARABES ET FRANCAISES
INDIA	JPMORGAN CHASE BANK NATIONAL ASSOCIATION MASHREQBANK PUNJAB NATIONAL BANK TAMILNAD MERCANTILE BANK LIMITED UNION BANK OF INDIA
INDONESIA	JPMORGAN CHASE BANK NATIONAL ASSOCIATION PT BANK BUKOPIN PT BANK MANDIRI (PERSERO) TBK PT BANK MAYAPADA INTERNATIONAL TBK PT BANK SYARIAH MUAMALAT INDONESIA TBK
IRELAND	DANSKE BANK PLC
ITALY	BANCA POPLARE DELL'EMILIA ROMAGNA SOCIETA COOPERATIVA BANCA UBAE SPA BANCO POPOLARE DI VERONA BANCO POPLARE MILANO INTESA SANPAOLO SPA
JAPAN	JPMORGAN CHASE BANK, N.A. KOREA EXCHANGE BANK MIZUHO CORPORATE BANK LIMITED NATIONAL BANK OF PAKISTAN UNION DE BANQUES ARABES ET FRANCAISES



KENYA	GULF AFRICAN BANK LIMITED HABIB BANK AG ZURICH HABIB BANK LIMITED KENYA COMMERCIAL BANK LIMITED
KOREA	BUSAN BANK JPMORGAN CHASE BANK NATIONAL ASSOCIATION KOOKMIN BANK KOREA EXCHANGE BANK NATIONAL BANK OF PAKISTAN UNION DE BANQUES ARABES ET FRANCAISES WOORI BANK
KUWAIT	COMMERCIAL BANK OF KUWAIT SAK, THE
LUXEMBOURG	DANSKE BANK INTERNATIONAL SA
MALAYSIA	BANK MUAMALAT MALAYSIA BERHAD CIMB BANK BERHAD JPMORGAN CHASE BANK BERHAD MIZUHO CORPORATE BANK LIMITED
MALTA	FIMBANK PLC
MAURITIUS	HABIB BANK LIMITED MAURITIUS
NEPAL	HIMALAYAN BANK LIMITED
NETHERLANDS	DEUTSCHE BANK A.G. DEUTSCHE BANK NEDERLAND N.V HABIB BANK LIMITED
NIGERIA	KEYSTONE BANK LIMITED
NORWAY	DANSKE BANK PLC
OMAN	HABIB BANK OMAN
PAKISTAN	ALBARAKA BANK (PAKISTAN) LIMITED ALLIED BANK LIMITED ASKARI BANK LIMITED BANK AL HABIB LIMITED BANK ALFALAH LIMITED BANK OF KHYBER (THE) BANK OF PUNJAB (THE) DEUTSCHE BANK A.G. DUBAI ISLAMIC BANK PAKISTAN LIMITED FAYSAL BANK LIMITED HABIB BANK LIMITED HABIB METROPOLITAN BANK LIMITED INDUSTRIAL AND COMMERCIAL BANK OF CHINA KARACHI BRANCH JS BANK LIMITED MCB BANK LIMITED MEEZAN BANK LIMITED NATIONAL BANK OF PAKISTAN NIB BANK LIMITED SAMBA BANK LIMITED SILKBANK LIMITED SINDH BANK LIMITED



A hand holding a smartphone is the central focus, with a vibrant, multi-colored background of green, blue, and purple. Numerous white, hand-drawn icons are scattered throughout the scene, including a cloud, a computer monitor, a magnifying glass, a globe, a camera, a music note, a person silhouette, a play button, a speech bubble, and an envelope. The overall aesthetic is modern and tech-oriented.

# Sustainable Innovation

With the changing financial and technological landscape, BankIslami has been keeping up with the pace of innovation. We have been changing and improving our processes, as well as adding better and more beneficial products to our portfolio. From our counters in branches to our Cardless Biometric ATM to our Mobile App - mBankIslami, BankIslami has been consistently innovating to provide seamless service to its customers.

بَيْنَاكِ اِسْلَامِي



BankIslami

Cardless  
ATM



# An Impression is Enough

## Pakistan's First Cardless Biometric ATM

Your ATM Card is now obsolete. Your thumb impression is all you need for transaction at our ATMs. BankIslami is the pioneer of **Cardless Biometric ATM** in Pakistan since 2006. Cardless service was made available at selected ATMs in December 2012. This service is now available on all our ATMs installed in 105 cities across Pakistan.

BankIslami also has the largest proprietary database of fingerprints in Pakistan.

Serving you, the Right way



BankIslami Pakistan  
www.bankislami.com.pk

24/7 Phone Banking  
111-ISLAMI (111-475264)

	SONERI BANK LIMITED SUMMIT BANK LIMITED UNITED BANK LIMITED
PORTUGAL	DEUTSCHE BANK A.G.
POLAND	BANK ZACHODNI WBK SA DANSKE BANK A/S
QATAR	DOHA BANK MASHREQ BANK MASRAF AL RAYAN QATAR ISLAMIC BANK UNITED BANK LIMITED
ROMANIA	ROMANIAN INTERNATIONAL BANK SA
RUSSIA	OPEN JOINT STOCK COMPANY 'RBS'
SAUDI ARABIA	BANK AL JAZIRA EMIRATES NBD PJSC JPMORGAN CHASE BANK NATIONAL ASSOCIATION NATIONAL BANK OF PAKISTAN NATIONAL COMMERCIAL BANK THE SAUDI HOLLANDI BANK
SINGAPORE	DEUTSCHE BANK A.G. HABIB BANK LIMITED JPMORGAN CHASE BANK NATIONAL ASSOCIATION UNION DE BANQUES ARABES ET FRANCAISES WELLS FARGO BANK NA WOORI BANK
SOUTH AFRICA	HABIB OVERSEAS BANK LIMITED HBZ BANK LIMITED
SPAIN	BANCO ESPANOL DE CREDITO BANCO SANTANDER S.A.
SRI LANKA	HATTON NATIONAL BANK LIMITED
SWEDEN	DANSKE BANK A/S SVENSKA HANDELSBANKEN
SWITZERLAND	ARAB BANK (SWITZERLAND) LIMITED HABIB BANK AG ZURICH HABIBSONS BANK LIMITED UNITED BANK A.G.
TAIWAN	BANK OF PANHSIN JPMORGAN CHASE BANK NATIONAL ASSOCIATION TAIWAN SHIN KOG COMMERCIAL BANK COMPANY LIMITED
THAILAND	EXPORT – IMPORT BANK OF THAILAND ISLAMIC BANK OF THAILAND JPMORGAN CHASE BANK NATIONAL ASSOCIATION
TURKEY	ASYA KATILIM BANKASI A.S. DENIZ BANK A.S HABIB BANK LIMITED KUVEYT TURK KATILIM BANKASI SA TEKSTIL BANKASI S.A.



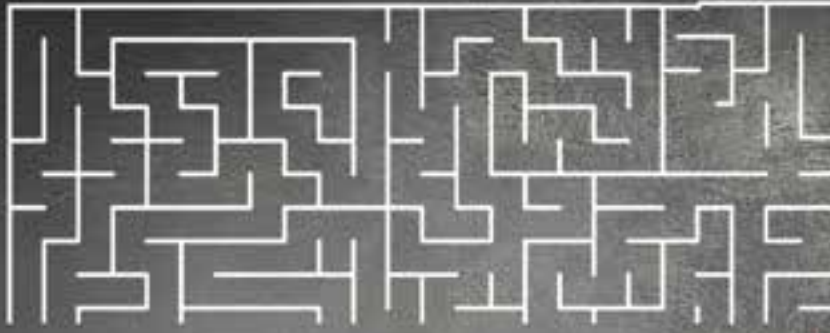
	TURKIYE CUMHURİYETİ ZIRAAT BANKASI A.S. TURKIYE FINANS KATILIM BANK TURKIYE VAKIFLAR BANKKASI T.A.O.
U.A.E.	ABU DHABI COMMERCIAL BANK ABU DHABI ISLAMIC BANK EMIRATES NBD BANK PJSC HABIB BANK AG ZURICH HABIB BANK LIMITED MASHREQ BANK MCB BANK LIMITED UNITED BANK LIMITED
U.K.	AL RAYAN BANK PLC BYBLOS BANK EUROPE S.A. DANSKE BANK A/S DANSKE BANK PLC DEUTSCHE BANK A.G. EMIRATES NBD PJSC HABIBSONS BANK LIMITED HABIB BANK UK HABIB BANK AG ZURICH INTESA SANPAOLO SPA JPMORGAN CHASE BANK N.A. MASHREQ BANK UNITED NATIONAL BANK WOORI BANK
USA	ATLANTIC BANK OF NEW YORK BOKF NA DEUTSCHE BANK TRUST COMPANY AMERICAS HABIB AMERICAN BANK HABIB BANK LIMITED JPMORGAN CHASE BANK NATIONAL ASSOCIATION MASHREQ BANK NATIONAL BANK OF PAKISTAN SAEHAN BANK UNITED BANK LIMITED WACHOVIA BANK, NA WELLS FARGO BANK NA
VIETNAM	ASIA COMMERCIAL BANK JOINT STOCK COMMERCIAL BANK JPMORGAN CHASE BANK NATIONAL ASSOCIATION VIETNAM ASIA COMMERCIAL JOINT-STOCK BANK VINASIAM BANK

# Dynamic Versatility

At BankIslami, we try and maintain versatility in our products and services so as to cater to every aspect of the customer's needs. From Islami Auto Finance to MUSKUN Home Financing, from Takaful to the mBankIslami mobile App, from Working Capital Financing to Project Financing we try and provide all those products and services that fulfill the banking needs of our customers in a Shariah compliant manner.



**Islami**  
**Asaan**  
**Account**



## Nothing can be more Simpler

BankIslami's Islami Asaan Account gives you freedom to open an account in 3 simple steps:

**A. Visit your nearest branch**      **B. Fill Asaan account form**      **C. Submit CNIC copy**

Features of Islami Asaan Account:

- Open your account with Rs. 100/-
- Free Cheque book\*
- Free E-Statement facility
- Free Payorder\*
- Free Internet Banking facility
- VISA Debit Card facility
- SMS Banking facility
- Facility of opening a Current, Saving or Sahulat Account

Serving you, the Right way

**BankIslami Pakistan**  
www.bankislami.com.pk



24/7 Phone Banking  
**111-ISLAMI (111-475264)**

## Branch Network

Serial No.	Location	No of Branches
1	Abbottabad	1
2	Arifwala	1
3	Attock	2
4	Badin	1
5	Bahawalpur	2
6	Balakot	1
7	Batgram	1
8	Batkhella	1
9	Bisham	1
10	Booni	1
11	Burewala	1
12	Chaksawari	1
13	Chakwal	1
14	Chaman	1
15	Chichawatni	1
16	Chilas	1
17	Chiniot	1
18	Chitral	1
19	Dadu	1
20	D.G Khan	2
21	D.I Khan	1
22	Dinga	1
23	Dukki	1
24	Faisalabad	2
25	Fateh Jang	1
26	Gharo	1
27	Ghotki	1
28	Gilgit	1
29	Gojra	1
30	Golarchi	1
31	Gujjar Khan	1
32	Gujranwala	3
33	Gujrat	2
34	Hala	1
35	Haripur	1
36	Haroonabad	1
37	Harnai	1
38	Hasan Abdal	1
39	Hattaar	1
40	Hazro	1
41	Humak	1
42	Hyderabad	6
43	Islamabad	13
44	Islamgarh	1
45	Jacobabad	1
46	Jehlum	2
47	Jhang	2
48	Jhuddo	1
49	Kamonki	2
50	Kandhkot	1
51	Karachi	103
52	Kasur	1
53	Khairpur	1



54	Khanozai	1
55	Khanpur	1
56	Kharian	1
57	Kuchlak	1
58	Lahore	49
59	Lalamusa	2
60	Larkana	1
61	Loralai	1
62	Mandi Bahauddin	1
63	Mansehra	1
64	Mardan	1
65	Mehar	1
66	Mian Channu	1
67	Mianwali	1
68	Mirpur AJK	2
69	Mirpurkhas	2
70	Mingora	1
71	Multan	5
72	Murree	1
73	Muslim Bagh	1
74	Naran	1
75	Nawabshah	2
76	Nowshera	1
77	Okara	2
78	Peshawar	5
79	Pishin	1
80	Qila Saifullah	1
81	Quetta	8
82	Rahimyar Khan	2
83	Rawalpindi	13
84	Rawat	1
85	Sadiqabad	2
86	Sahiwal	2
87	Sambriyal	1
88	Sanghar	1
89	Sargodha	2
90	Sheikhupura	1
91	Sialkot	3
92	Sukkur	2
93	Tando Adam	1
94	Tando Allahyar	1
95	Tarnol	1
96	Tatral Kahun	1
97	Thana Bola Khan	1
98	Taxila	1
99	Timergara	1
100	Toba Tek Singh	1
101	Upper Dir	1
102	Vehari	1
103	Wah Cantt	1
104	Wazirabad	1
105	Zhob	1





# Sustaining Honor

Honor is a vital pre-essential for what we offer and do. At BankIslami, honor is associated with reverence, dignity, distinction and good reputation. Our objective is to deliver products and service proposition with integrity, honesty, determination and excellence as a way of honoring our customers.



## With BankIslami **VISA** DEBIT CARD Pay Directly! Anytime, Everywhere

Get Globally accepted "BankIslami VISA Debit Card" & feel the cashless convenience with higher limits, added security & peace of mind.

Following are the services & exclusive benefits of BankIslami Visa Debit Card

- Accepted at 27 million Merchants Worldwide
- Accepted at more than 10,000 ATMs Nationwide
- Accepted for Online Shopping Worldwide
- ATM Cash withdrawal Takaful coverage
- Accidental Takaful coverage



Serving you, the Right way



## Proxy Form

### 13th Annual General Meeting

The Company Secretary  
BankIslami Pakistan Limited  
11th Floor, Executive Tower,  
Dolmen City, Marine Drive,  
Block – 4, Clifton  
Karachi – Pakistan.

I/We \_\_\_\_\_ of \_\_\_\_\_ being a member(s) of BankIslami Pakistan Limited and holder of \_\_\_\_\_ ordinary shares as per Share Register Folio No. \_\_\_\_\_ and / or CDC Investor Account No./Participant I.D. No. \_\_\_\_\_ and sub Account No. \_\_\_\_\_ do hereby appoint \_\_\_\_\_ of \_\_\_\_\_ or failing him / her \_\_\_\_\_ of \_\_\_\_\_ as my / our proxy to vote and act for me / us on my / our behalf at the 13th Annual General Meeting of BankIslami Pakistan Limited, to be held on Tuesday April 11, 2017 at 09:00 am at DHA Gulf Club, Zulfiqar, Street # 1, Phase VIII, D.H.A. Karachi - 75500, and at any adjournment thereof.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2017.

Witness:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

CNIC or Passport No. \_\_\_\_\_

Please affix  
Rupees \_\_\_\_  
Revenue Stamp

Signature of Member(s)

Notes:

1. Proxies in order to be effective, must be received by the company not less than 48 hours before the meeting.
2. CDC Shareholders and their Proxies are each requested to attach an attested photocopy of their Computerized National Identity Card or Passport with this proxy form before submission to the Company.

Please affix  
Correct  
Postage

The Company Secretary

**BankIslami Pakistan Limited**

11<sup>th</sup> Floor, Executive Tower,  
Dolmen City, Marine Drive,  
Clifton Block - 4,  
Karachi, Pakistan

# Progressive Prosperity

As a growing institution, the foundation for BankIslami's performance is in our human capital. We differentiate ourselves by providing Shariah Compliant products by using innovative, yet market-relevant methods with a commitment to excellence for our customers' satisfaction. Our commitment to these values enables us to prosper with every passing year, Alhamdulillah.



بَيْنَكُمُ وَاللَّهِ



BankIslami



# Bridging the gap with Innovative Services

With a network of 321\* branches across 105 cities, BankIslami strives to provide an enhanced customer experience. With an array of Innovative and Sharia'h compliant products, our aim is to make day to day banking efficient, reliable and fast.

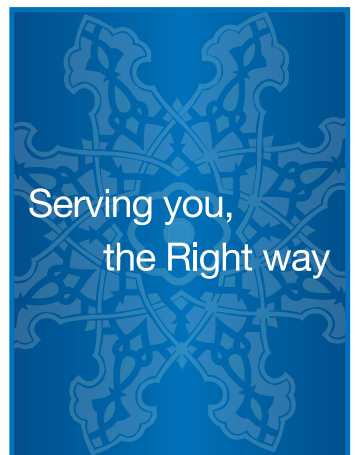
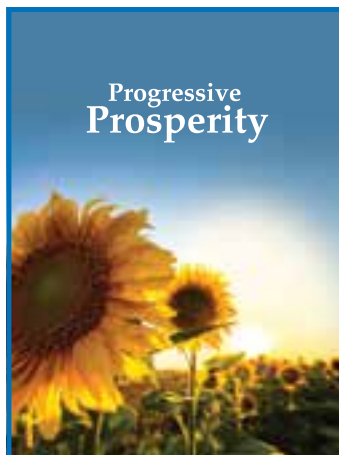
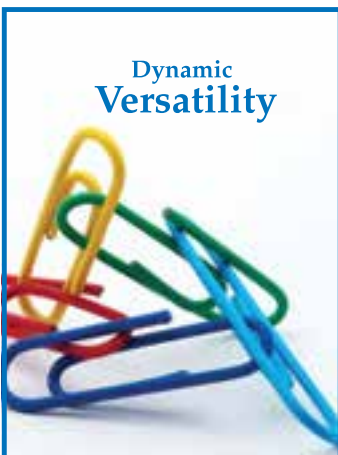
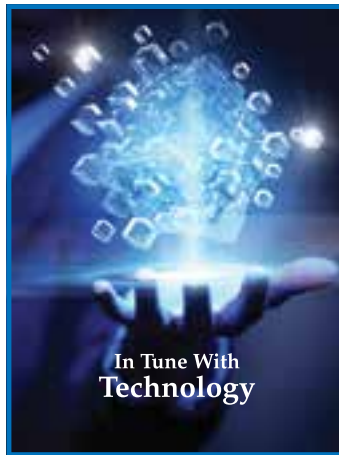
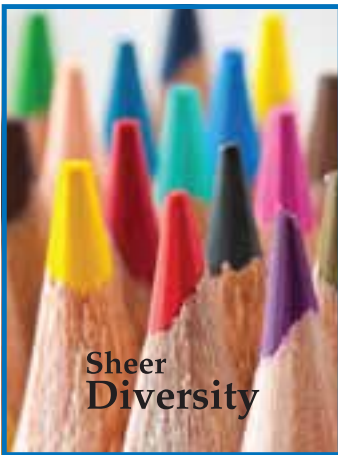
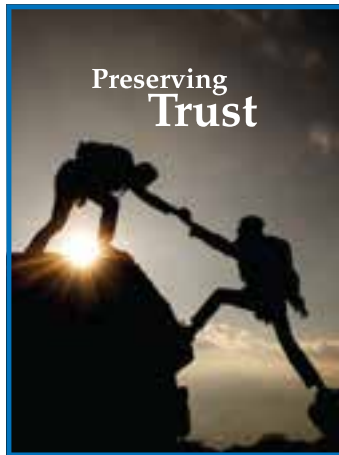
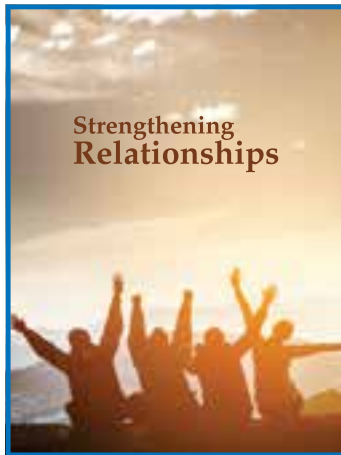
\*Including sub-branches

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