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ALBARAKA BANK (PAKISTAN) LIMITED
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

EY Ford Rhodes
Chartered Accountants
Progressive Plaza, Beaumont Road
P.O. Box 15541, Karachi 75530
Pakistan

Tel: +9221 3565 0007-11
Fax: +9221 3568 1965
ey.khlpk.ey.com
ey.com/pk

AUDITORS' REPORT TO THE MEMBERS

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

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

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

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

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

Chartered Accountants

Audit Engagement Partner: Shaikh Ahmed Salman



Date: 26 February 2018

Karachi

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

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

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

 Chairman	 Chief Executive Officer	 Director	 Director
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ALBARAKA BANK (PAKISTAN) LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2017

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

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



 Chairman



 Chief Executive Officer



 Director



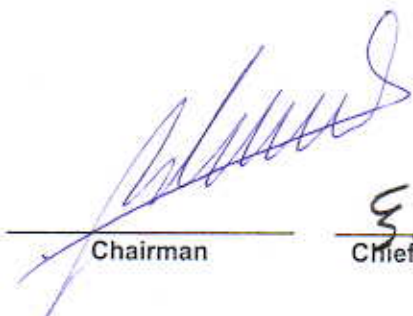

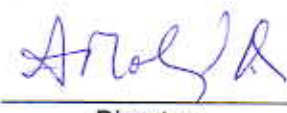

 Director

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

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

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

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

 Chairman	 Chief Executive Officer	 Director	 Director
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ALBARAKA BANK (PAKISTAN) LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

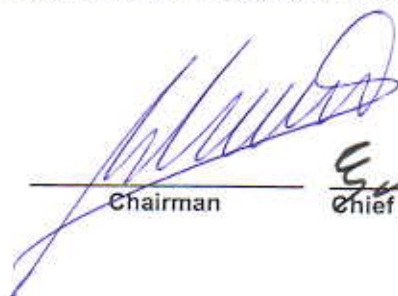


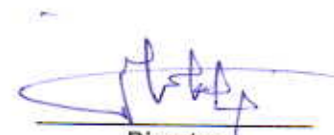
			
Chairman	Chief Executive Officer	Director	Director

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

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

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

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

 Chairman	 Chief Executive Officer	 Director	 Director
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ALBARAKA BANK (PAKISTAN) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

1. LEGAL STATUS AND NATURE OF BUSINESS

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

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

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

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

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

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

2. BASIS OF PRESENTATION

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

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

3. STATEMENT OF COMPLIANCE

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

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

4. BASIS OF MEASUREMENT

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

5. BUSINESS COMBINATION - Restatement of prior year figures

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

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

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

31 October 2016
PKR in '000

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

Purchase consideration:

Shares issued (480,442,760 shares @ of Rs.10.28 each)	4,938,952
GOODWILL	396.117

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

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

5.4 Intangible recognized on acquisition

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

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

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

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

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

6.1 New Standards, Interpretations and Amendments

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

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Standard or Interpretation

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

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

Improvements to Accounting Standards Issued by the IASB in September 2014

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

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

6.2 Business combination and goodwill

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

6.3 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury banks and balances with other banks in current and deposit accounts.

6.4 Due to / from Financial Institutions

Bai Muajjal

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

Musharaka / Mudaraba

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

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

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

6.5 Investments

6.5.1 Investments are classified as follows:

(a) Held for trading

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

(b) Held to maturity

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

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(c) Available for sale

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

6.5.2 Regular way contracts

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

6.5.3 Initial recognition and measurement

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

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

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

(b) Held to maturity

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

(c) Available for sale

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

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

6.5.5 Impairment

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

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

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

Murabaha

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

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Ijara Financing

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

Istasna

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

Tijarah

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

Diminishing Musharaka

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

Service Ijarah

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

Salam

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

Running Musharaka

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

Mudaraba

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

6.6.2 Accounting policies of Islamic financing

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

Provisions against non-performing Islamic financing and related assets

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

Ijarah Assets

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

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

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

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Inventories

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

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

6.7 Operating Fixed Assets

6.7.1 Tangible - owned

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

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

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

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

6.7.2 Capital work in progress

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

6.7.3 Intangible assets

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

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

6.7.4 Impairment of operating fixed assets

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

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6.8 Non-Banking Assets

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

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

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

6.9 Deposits

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

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

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

6.10 Sub-ordinated Loans

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

6.11 Revenue Recognition

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

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6.12 Taxation

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

(a) Current / prior

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

(b) Deferred

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

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

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

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

6.13 Staff Retirement Benefits

(a) Defined benefit plan

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

(b) Defined contribution plan

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

6.14 Provisions, Contingent Assets And Contingent Liabilities

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

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

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

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

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

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6.16 Foreign Currency Transactions

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

6.17 Commitments

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

6.18 Financial Instruments

(a) Financial assets and financial liabilities

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

(b) Off-setting

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

6.19 Earnings Per Share

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

6.20 Segment Reporting

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

(a) Business segments

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

- Trading and sales

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

- Retail banking

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

- Commercial banking

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

- Payment and settlement

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

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(b) Geographical segments

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

6.21 Pool Management

The Bank operates general and specific pools for depositors.

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

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

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

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

6.22 Accounting Judgments And Estimates

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

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

a) Provision against non-performing Islamic financing

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

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

b) Impairment of available for sale investments

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

c) Income taxes

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

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

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

e) **Employees' benefit plans**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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10. INVESTMENTS

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

Note	2017 (Rupees '000)	2016
10.1 Investments by segments		
Sukuk certificates		
Federal Government Securities (ijara sukuk)	10,299,102	16,610,051
Others	8,200,523	7,120,048
	18,499,630	23,730,099
Fully paid-up ordinary shares		
Ordinary shares of listed companies	1,305,720	823,793
Ordinary shares of unlisted company	52,200	52,200
	69,408	69,408
Units of open-end mutual funds		
	19,926,958	24,675,500
Less: Provisions for diminution in the value of investments	(278,770)	(164,728)
Investments (net of provisions)	19,648,188	24,510,772
(Deficit)/Surplus on revaluation of investments classified as available for sale	(248,604)	90,746
Deficit on revaluation of investments classified as held for trading securities	(6,098)	-
Total investments at market value	19,393,486	24,601,518
10.2 Particulars of provisions for diminution in the value of investments		
Opening balance	164,728	44,311
Charge during the year	116,443	4,514
Reversal during the year	(2,407)	(1,184)
	114,042	3,330
Transfer upon amalgamation	-	117,087
Closing balance	278,770	164,728
10.2.1 Particulars of provisions in respect of type and segment		
Available for sale		
Ordinary shares of unlisted companies	19,637	22,044
Ordinary shares of listed companies	142,046	25,597
Sukuk certificates	117,087	117,087
	278,770	164,728

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

10.3.1 Other particulars of sukuk certificates are as follows:

Particulars	Certificates / units denomination	Profit rate per annum	Profit payments	Maturity date
10.3.1.1 Government of Pakistan Ijara Sukuk - 16	PKR 100,000	6 Months Treasury Bill - 0.50%	Semi Annually	16 December 2018
10.3.1.2 Government of Pakistan Ijara Sukuk - F1	PKR 100,000	6.10%	Semi Annually	15 February 2019
10.3.1.3 Government of Pakistan Ijara Sukuk - F2	PKR 100,000	5.59%	Semi Annually	29 March 2019
10.3.1.4 Government of Pakistan Ijara Sukuk - F3	PKR 100,000	5.24%	Semi Annually	30 June 2020
10.3.1.5 Sui Southern Gas Company Limited	PKR 5,000	3 Months KIBOR + 0.40%	Quarterly	31 October 2019
10.3.1.6 WAPDA third sukuk certificates	PKR 5,000	6 Months KIBOR + 1.00%	Semi Annually	14 October 2021
10.3.1.7 Neelum Jhelum Hydro Power Company (Private) Limited	PKR 100,000	6 Months KIBOR + 1.13%	Semi Annually	29 June 2026
10.3.1.8 Pakistan International Airline Corporation Limited	PKR 5,000	6 Months KIBOR + 1.75%	Semi Annually	20 October 2019
10.3.1.9 Security Leasing Corporation Limited	PKR 1,540	6.00%	Monthly	19 January 2022
10.3.1.10 Quetta Textile Mills Limited	PKR 2,345	6 Months KIBOR + 1.75%	Semi Annually	26 September 2019
10.3.1.11 Amtex Limited	PKR 3,750	3 Months KIBOR + 2.00%	Quarterly	11 October 2012
10.3.1.12 AGP Limited	PKR 100,000	3 Month Kibor + 1.30%	Quarterly	9 June 2022
10.3.1.13 Aspin Pharma (Private) Limited	PKR 5,000	3 Month Kibor + 1.50%	Quarterly	30 November 2023
10.3.1.14 Emirates Islamic Bank Sukuk	USD 1,000	3.54%	Semi Annually	31 May 2021
10.3.1.15 Qatar Islamic Bank Sukuk	USD 1,000	2.75%	Semi Annually	27 October 2020
10.3.1.16 Oman Sovereign Sukuk	USD 1,000	4.40%	Semi Annually	01 June 2024
10.3.1.17 Dubai Islamic Bank Sukuk	USD 1,000	3.66%	Semi Annually	14 February 2022

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

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

10.4.1 Quality of available for sale securities

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

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10.4.2 Quality of held for trading securities

Ordinary shares

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

10.5 Particulars of investments in ordinary shares of unlisted companies

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

Takaful
Pakistan
Limited*

Percentage of equity holding %

17%

Latest available audited financial statements

31 December 2016

Name of the chief executive officer

Syed Tariq Husain

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

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

11. ISLAMIC FINANCING AND RELATED ASSETS

In Pakistan

Islamic financing and related assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

12.1 Property and equipment

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

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

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

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

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

12.2.1	2016 (Restated)									
	COST			ACCUMULATED AMORTISATION				Net book value as at		Rate of amortisation %
	As at 01 January 2016	Additions	Transfer upon amalgamation	As at 31 December 2016	As at 01 January 2016	Amortisation for the year	Transfer upon amalgamation	As at 31 December 2016	December 2016	
	Rupees in '000									
Computer software	276,978	60,624	383,582	721,184	247,020	25,419	341,593	614,032	107,152	20 - 33%
Core deposits	684,000	702,000	-	1,386,000	324,924	62,955	-	387,879	998,121	8.33%-10%
31 December 2016	<u>960,978</u>	<u>762,624</u>	<u>383,582</u>	<u>2,107,184</u>	<u>571,944</u>	<u>88,374</u>	<u>341,593</u>	<u>1,001,911</u>	<u>1,105,273</u>	

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

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

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

Discount rates

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

Terminal growth rates

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

Sensitivity to changes in assumptions

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

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

12.4 Disposal of assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

19.1 Movement of charity payable

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

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

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

20. SHARE CAPITAL

20.1 Authorized Capital

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

20.2 Issued, subscribed and paid up capital

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

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

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

21. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - NET OF TAX

Note

2017
----- (Rupees '000) -----
2016

Surplus / (deficit) on revaluation of investments classified as 'available for sale'

- Sukuk certificates - listed		(21,919)	(8,691)
- Government of Pakistan - Ijarah sukuk		2,400	62,211
- Ordinary shares - listed		(229,405)	36,780
- Units of Open-end mutual funds		320	446
		<u>(248,604)</u>	<u>90,746</u>

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

21.1

512,810 531,811

Surplus on revaluation of assets
Related deferred tax liability

264,206	622,557
<u>(92,472)</u>	<u>(217,895)</u>
<u>171,734</u>	<u>404,662</u>

21.1 Surplus on revaluation of non banking assets acquired in satisfaction of claims

Surplus at the beginning of the year	531,811	-
Surplus recognised during the year	26,362	531,917
Realised on disposal during the year	(44,909)	-
Transferred to accumulated losses in respect of incremental depreciation charged during the year - net of deferred tax	(295)	(69)
Related deferred tax liability on incremental depreciation charged during the year	(159)	(37)
	<u>512,810</u>	<u>531,811</u>

22. CONTINGENCIES AND COMMITMENTS

22.1 Transaction-related contingent liabilities

Includes performance bonds, bid bonds, shipping guarantees favouring:

- Government	5,589,644	5,187,996
- Banking companies and other financial institutions	25,252	27,983
- Others	1,500,360	3,089,234
	<u>7,115,256</u>	<u>8,305,213</u>

22.2 Trade-related contingent liabilities

Letters of credit	8,082,529	5,993,210
Others - Shipping Guarantees	2,650	-
Acceptances	1,991,792	1,913,423

22.3 Commitments in respect of forward exchange contracts

Purchase	5,582,401	4,236,420
Sale	3,547,869	2,512,760

22.4 Commitments to incur capital expenditure

10,501	29,826
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22.5 Other Contingencies

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

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

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

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

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

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

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

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

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34.2 Significant Actuarial Assumptions

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

34.3 Fair value of plan assets and present value of obligation

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

34.4 Movement in the present value of defined benefit obligation

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

34.5 Movement in the fair value of plan assets

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

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

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

34.7 Defined benefit cost / (income) for the year

Service cost

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

Net Interest Cost

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

Re-measurements recognized in other comprehensive income during the year

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

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

		<u>47,121</u>	<u>(39,033)</u>
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34.8 Actual return on plan assets

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

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34.15 Historical information

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

34.16 Risks associated with defined benefit plan

- **Investment risks:**

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

- **Longevity risks:**

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

- **Salary increase risk:**

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

- **Withdrawal risk:**

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

35. DEFINED CONTRIBUTION PLAN

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

	2017	2016
	(Rupees '000)	
Contribution from the Bank	72,835	53,636
Contribution from the employees	72,835	53,636
	145,670	107,272

36. COMPENSATION OF DIRECTORS AND EXECUTIVES

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

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

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

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

37.2 Fair value hierarchy

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

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

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

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

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

40. CAPITAL - ASSESSMENT AND ADEQUACY - BASEL III SPECIFIC

40.1 Capital Adequacy Framework

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

i) Minimum Capital Requirement (MCR):

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

ii) Capital Adequacy Ratio (CAR):

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

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

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

40.2 Scope of Applications

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

40.3 Capital Structure

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

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

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