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ALBARAKA BANK (PAKISTAN) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

EY Ford Rhodes
Chartered Accountants
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P.O. Box 15541, Karachi 75530
Pakistan

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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed statement of financial position of **AlBaraka Bank (Pakistan) Limited** (the Bank) as at **31 December 2016**, and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for sixteen branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- (b) in our opinion:
 - (i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in note 6.1 to the financial statements, with which we concur;
 - (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;

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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 2016** and its true balance of the loss, comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Chartered Accountants

Audit Engagement Partner: Shabbir Yunus

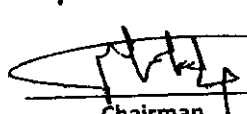
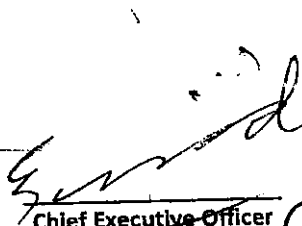
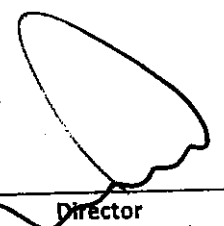

Date: 10 March 2017

Karachi

ALBARAKA BANK (PAKISTAN) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

		2016	2015
	Note	----- (Rupees '000) -----	
ASSETS			
Cash and balances with treasury banks	7	18,725,350	10,847,429
Balances with other banks	8	984,125	1,560,544
Due from financial institutions	9	2,692,703	1,831,716
Investments	10	24,601,518	17,358,401
Islamic financing and related assets	11	66,785,266	47,644,690
Operating fixed assets	12	4,502,269	2,671,911
Deferred tax assets	13	2,873,137	1,392,003
Other assets	14	5,634,265	3,625,816
		126,798,633	86,932,510
LIABILITIES			
Bills payable	15	1,386,390	883,698
Due to financial institutions	16	3,223,109	2,108,255
Deposits and other accounts	17	105,843,084	71,644,386
Sub-ordinated loans	18	1,428,568	3,756,734
Deferred tax liabilities		-	-
Other liabilities	19	3,527,979	2,266,200
		115,409,130	80,659,273
		11,389,503	6,273,237
NET ASSETS			
REPRESENTED BY			
Share capital	20.2	13,739,628	8,935,200
Advance against issuance of shares	20.3	-	95,704
Discount on issuance of shares - net	20.4	(632,766)	(767,290)
Reserves		159,348	159,348
Accumulated loss		(2,281,369)	(2,135,310)
		10,984,841	6,287,652
Surplus / (deficit) on revaluation of assets - net of tax	21	404,662	(14,415)
		11,389,503	6,273,237
CONTINGENCIES AND COMMITMENTS			
	22		

The annexed notes from 1 to 52 form an integral part of these financial statements.

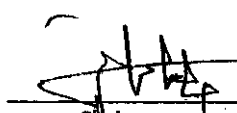
 Chairman
  Chief Executive Officer
  Director
  Director

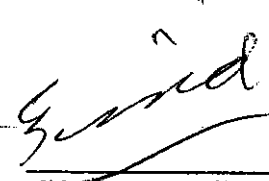
ALBARAKA BANK (PAKISTAN) LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2016

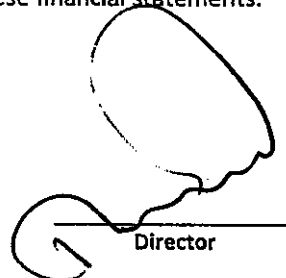
	Note	2016 ------(Rupees '000)-----	2015 ------(Rupees '000)-----
Profit / return earned on Islamic financing and related assets, investments and placements	23	5,158,073	6,269,086
Return on deposits and other dues expensed	24	(2,794,910)	(3,790,618)
Net spread earned		2,363,163	2,478,468
Reversal / (provision) against non-performing Islamic financing and related assets	11.5	167,580	(104,690)
(Provision) / reversal for diminution in the value of investments	10.3.1	(3,330)	230,132
		164,250	125,442
Net spread after provisions		2,527,413	2,603,910
Other income			
Fee, commission and brokerage income		521,529	439,105
Dividend income		20,182	21,592
Income from dealing in foreign currencies		133,413	160,842
Gain on sale of securities	25	194,346	12,838
Unrealized gain on revaluation of investments classified as held-for-trading		-	3,434
Other income	26	4,730	18,533
Total other income		874,200	656,344
		3,401,613	3,260,254
Other expenses			
Administrative expenses	27	(3,414,381)	(2,848,910)
Other provisions / write offs	28	(87,476)	(4,407)
Other charges	29	(504)	(328)
Total other expenses		(3,502,361)	(2,853,645)
		(100,748)	406,609
Extra ordinary / unusual items		-	-
(Loss) / profit before taxation		(100,748)	406,609
Taxation			
- Current		(60,323)	(69,254)
- Prior year		-	(18,278)
- Deferred		5,544	(78,631)
	30	(54,779)	(166,163)
(Loss) / profit after taxation		(155,527)	240,446
----- Rupee -----			
(Loss) / earning per share - basic / diluted	31	(0.17)	0.27

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The annexed notes from 1 to 52 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 2016

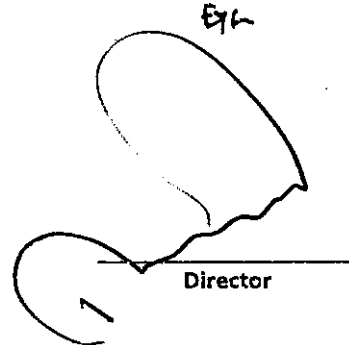
	2016	2015
Note	-----	(Rupees '000)-----
(Loss) / profit after taxation	(155,527)	240,446
Items not to be reclassified to profit or loss in subsequent periods:		
Actuarial gain / (loss) on remeasurement of defined benefit plan	34.7 14,460	(5,667)
Tax effect	(5,061)	1,983
	9,399	(3,684)
Comprehensive (loss) / income transferred to equity	(146,128)	236,762
Components of comprehensive income not reflected in equity		
Surplus on revaluation of available for sale securities - net of tax *	73,400	135,165
Surplus on revaluation of non-banking assets - net of tax	345,677	-
Total comprehensive income	272,949	371,927

* 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 52 form an integral part of these financial statements.


Chairman


Chief Executive Officer

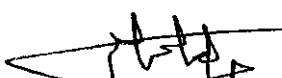

Director

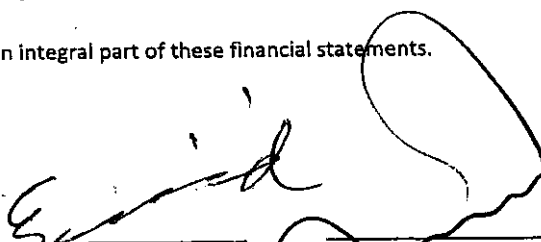

Director


ALBARAKA BANK (PAKISTAN) LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 ----- (Rupees '000) -----	2015 ----- (Rupees '000) -----
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / profit before taxation		(100,748)	406,609
Dividend income		(20,182)	(21,592)
		(120,930)	385,017
Adjustments for non-cash and other items:			
Depreciation		157,811	142,283
Amortisation		88,374	94,934
Depreciation - non banking assets		22,848	-
Unrealized gain on revaluation of investments classified as held for trading		-	(3,434)
(Reversal) / provision against non-performing Islamic financing and related assets	11.5	(167,580)	104,690
Provision / (reversal) for diminution in the value of investments	10.3.1	3,330	(230,132)
Other provisions / write offs		87,476	4,407
Gain on sale of operating fixed assets		(3,453)	(5,610)
		188,806	107,138
		67,876	492,155
(Increase) / decrease in operating assets			
Due from financial institutions		(860,987)	8,174,234
Held for trading securities		-	2,008,662
Islamic financing and related assets		(3,144,565)	(726,802)
Other assets		(343,830)	(310,258)
		(4,349,382)	9,145,836
Increase / (decrease) in operating liabilities			
Bills payable		148,934	203,888
Due to financial institutions		(339,646)	(103,313)
Deposits and other accounts		13,560,211	(8,578,193)
Other liabilities		210,559	32,334
		13,580,058	(8,445,284)
		(66,433)	(62,001)
Income tax paid		9,232,119	1,130,706
Net cash flow from operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available for sale investments		(3,480,999)	2,715,165
Redemptions / investments of held to maturity investments		2,080,047	(2,080,047)
Cash inflow on amalgamation of Ex-Burj Bank Limited		2,391,474	-
Net investments in operating fixed assets		(520,317)	(244,738)
Dividend received		16,916	20,443
Proceeds from disposal of operating fixed assets		6,132	8,414
Net cash flow from investing activities		493,253	419,237
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayment) / receipt of foreign currency debt	1.3	(2,042,450)	890,299
Payment to Parent Bank		(95,704)	-
Repayment of Tier II mudaraba sukuk		(285,716)	(285,716)
Effect of exchange difference on translation of foreign currency debt		-	46,837
Net cash (used in) / flow from financing activities		(2,423,870)	651,420
Net increase in cash and cash equivalents		7,301,502	2,201,363
Cash and cash equivalents at beginning of the year		12,407,973	10,206,610
Cash and cash equivalents at end of the year	32	19,709,475	12,407,973

The annexed notes from 1 to 52 form an integral part of these financial statements.


Chairman


Chief Executive Officer

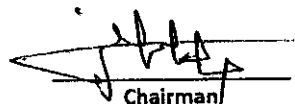

Director

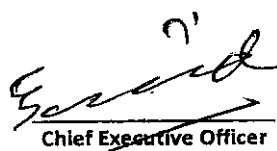
ALBARAKA BANK (PAKISTAN) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

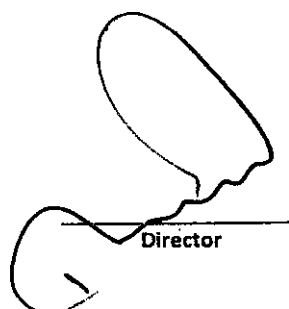
Note	Issued, subscribed and paid-up share capital	Advance against issuance of shares	Discount on issuance of shares - net	Statutory Reserve *	Accumulated loss	Total
	(Rupees '000)					
Balance as at 01 January 2015	8,935,200	95,704	(767,290)	111,259	(2,323,983)	6,050,890
Profit after taxation for the year	-	-	-	-	240,446	240,446
Other comprehensive loss for the year	-	-	-	-	(3,684)	(3,684)
Total comprehensive income for the year	-	-	-	-	236,762	236,762
Transfer to statutory reserves	-	-	-	48,089	(48,089)	-
Balance as at 31 December 2015	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	20.4	-	134,524	-	-	134,524
Transfer from surplus on revaluation of non-banking assets - net of tax	21.1	-	-	-	69	69
Balance as at 31 December 2016	13,739,628	-	(632,766)	159,348	(2,281,369)	10,984,841

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

The annexed notes from 1 to 52 form an integral part of these financial statements.


Chairman


Chief Executive Officer


Director


Director

ALBARAKA BANK (PAKISTAN) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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.

The Bank is a subsidiary of AlBaraka Islamic Bank B.S.C. (c) (AIB) {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 224 branches including 14 sub-branches (31 December 2015: 135 branches including 14 sub-branches) in Pakistan.

Based on the financial statements of the Bank for the year ended 31 December 2015, Pakistan Credit Rating Agency Limited (PACRA) has determined the Bank's long-term rating at "A" and short term rating as 'A1'. JCR-VIS, has also maintained long-term and short-term ratings of "A" and 'A1' respectively. These ratings were placed on watch by rating agencies on account of merger with Burj Bank Limited (BBL).

1.2 During the year, 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 BBL with and into the Bank. The scheme provides as under:

- a) as of the effective date of amalgamation, the entire undertaking of BBL including all the properties, assets and liabilities and all the rights and obligations shall, without any further act, action or deed and notwithstanding the terms of any contract or other document or any rule of law, stands amalgamated with and vest in the Bank and as a consequence, BBL stands amalgamated with and into the Bank.
- b) shares to be swapped at the ratio of 1 share of the Bank against 1.7 share of BBL as determined by an independent consultant. Accordingly, the Bank shall issue 480,442,760 fully paid up ordinary shares against 816,752,728 shares of BBL, which upon issuance to the shareholders of BBL will represent 35% of the total issued and paid up capital of the amalgamated Bank.

As at 31 December 2016, the Minimum Capital Requirement (MCR) and Capital Adequacy Ratio (CAR) stood at Rs.10.825 billion and 10.26 % respectively.

1.3 FCY Sub-ordinated Debt

As per previous approved capitalization plan, the AIB deposited FCY sub-ordinated debt amounting to Rs. 1,150.584 (USD 11) million which was subsequently raised to Rs. 2,039.671 (USD 19.5) million. As per the scheme of amalgamation referred to in Note 1.2, the AIB agreed to purchase 358,927,177 shares of BBL from its certain shareholders and payment for such shares will be made by AIB from the aforementioned FCY sub-ordinated debt deposited with the SBP.

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.

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3. STATEMENT OF COMPLIANCE

- 3.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the SECP and the SBP differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives prevail.
- 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

The amalgamation of BBL with and into the Bank as referred to in note 1.2 to the financial statements has been accounted for by applying acquisition method of accounting as prescribed by International Financial Reporting Standard (IFRS) 3 - Business Combinations. The said accounting method requires to recognise all identified assets acquired (separately from goodwill) and liabilities assumed in the business combination at fair values at the date of amalgamation.

In order to apply the acquisition method of accounting for the amalgamation as referred above, the management is in the process of carrying out a detailed exercise for the identification and valuation of the assets acquired (including intangible assets, if any).

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. Accordingly, pending the completion of the detailed exercise for valuation of the acquired net assets referred above, the Bank has reported provisional amounts for the assets acquired including the goodwill in respect of the amalgamation.

The fair valuation exercise is being carried out by an independent consultant engaged by the Bank for this purpose. As of 31 December 2016, the fair value of shares issued (i.e. fair value of consideration given) has been finalized, however, the fair values of the assets acquired and liabilities assumed have been recognized at the carrying amounts based on the audited financial statements of Ex-BBL as of the date of amalgamation. Accordingly, the resultant goodwill recognised has been determined provisionally.

Provisional amounts
31 October 2016
(Rupees '000)

Carrying value of assets acquired	27,338,800
Carrying of liabilities assumed	23,497,965
Net assets acquired	<u>3,840,835</u>
Purchase Consideration:	
Shares issued (480,442,760 shares @ of Rs.10.28 each)	4,938,952
GOODWILL ON AMALGAMATION	<u><u>1,098,117</u></u>

Details of the cost of acquisition, the identifiable assets acquired and liabilities assumed on the basis of provisional values is as under:

	Audited 31 October 2016 (Rupees '000)
ASSETS	
Cash and balances with treasury banks	2,326,027
Balances with other banks	65,447
Investments	5,732,572
Islamic financing and related assets	15,828,431
Operating fixed assets	535,946
Deferred tax assets	1,706,344
Other assets	1,144,033
	27,338,800
LIABILITIES	
Bills payable	353,758
Due to financial institutions	1,454,500
Deposits and other accounts	20,638,487
Other liabilities	1,051,220
	23,497,965
NET ASSETS ACQUIRED	3,840,835

Subsequent to amalgamation of Ex - Burj Bank Limited with and into the Bank, the processing of key functions has been handled and supervised by AlBaraka Bank (Pakistan) Limited. Further, the Bank had centralized its treasury and capital market operations immediately post amalgamation. Accordingly, amounts of Ex- BBL related to Profit earned from Bank deposits, profit earned from lending, income from dealing in foreign currency, capital gain and administration expenses are not separately identifiable. Therefore, the financial results pertaining to post amalgamation operations of Ex - BBL have not been given as the same is considered impracticable due to aforementioned reasons.

5. 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 accounting standards and the amendments and interpretation of IFRSs which became effective for the current year:

Standard or Interpretation

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

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

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

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

IAS 16 Property, Plant and Equipment IAS 41 Agriculture - Agriculture: Bearer Plants (Amendment)

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

Improvements to Accounting Standards Issued by the IASB in September 2014

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

IAS 19 Employee Benefits - Discount rate: regional market issue

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

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

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6.2 Change in accounting policy

Non-banking assets acquired in satisfaction of claims

During the year, the Bank changed its accounting policy in respect of remeasurement of non-banking assets acquired in satisfaction of claims, whereby, with effect from the current period, these are carried at the revalued amounts, being the fair value at the date of revaluation less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

The above change is made to comply with the requirements of Regulations for Debt Property Swap (DPS) issued by State Bank of Pakistan vide its BPRD Circular No. 1 of 2016 dated 01 January 2016 and has been accounted for in accordance with the requirements of above referred regulations and IAS – 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. The surplus arising on revaluation of non-banking assets is credited to the “Surplus / (deficit) on revaluation of assets” shown below equity in the statement of financial position in accordance with the requirements of section 235 of the Companies Ordinance 1984 and any deficit arising on revaluation is taken to profit and loss account directly. Legal fees, transfer costs and direct costs of acquiring title to property are charged to profit and loss account and not capitalised.

Had there been no change in the aforesaid accounting policy, the carrying value of non-banking assets acquired in satisfaction of claims would have been Rs. 1,842.443 million and surplus on revaluation of assets - net of tax, deferred tax asset and depreciation expense would have been lower by Rs. 345.677 million, Rs. 186.134 million and Rs. 22.848 million respectively.

6.3 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.

6.4 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.

6.5 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.

6.6 Investments

6.6.1 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.

(c) Available for sale

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

6.6.2 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.

6.6.3 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.

6.6.4 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.

6.6.5 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.

6.6.6 Cost of equity investments is determined on weighted average basis**6.7 Islamic financing and related assets****6.7.1 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.

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.

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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-aqd 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.

6.7.2 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 IAS 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.

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.

6.8 Operating Fixed Assets**6.8.1 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.

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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.

6.8.2 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.

6.8.3 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.

6.8.4 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.

6.9 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.

6.10 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.

6.11 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.

6.12 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 later 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.

6.13 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'.

6.14 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-BBL. 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.

6.15 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.

6.16 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.

6.17 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.

6.18 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.

6.19 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.

6.20 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.

6.21 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.

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- **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.

(b) Geographical segments

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

6.22 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.

6.23 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.

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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.

6.24 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
IAS 7 Financial Instruments: Disclosures - Disclosure Initiative - (Amendment)	January 01, 2017
IAS 12 Income Taxes – Recognition of Deferred Tax Assets for unrealised losses (Amendments)	January 01, 2017
IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – (Amendments)	January 01, 2018
IAS 40 Investment Property: Transfers of Investment Property (Amendments)	January 01, 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	January 01, 2018

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.

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 2017. 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 9 – Financial Instruments: Classification and Measurement	January 01, 2018
IFRS 14 – Regulatory Deferral Accounts	January 01, 2016
IFRS 15 – Revenue from Contracts with Customers	January 01, 2018
IFRS 16 – Leases	January 01, 2019

Note 2016 2015
 ----- (Rupees '000) -----

7. CASH AND BALANCES WITH TREASURY BANKS**In hand**

- local currency
- foreign currencies

1,913,504	1,138,777
300,414	272,180
2,213,918	1,410,957

With State Bank of Pakistan in

- local currency current account
- foreign currency - current account
- deposit account
- capital account

7.1	15,409,774	6,412,996
7.1	2,336	2,133
7.1	578,468	445,187
1.3	-	2,042,450
	15,990,578	8,902,766

With National Bank of Pakistan in

- local currency current account
- local currency deposit account

520,847	533,425
7	281

18,725,350 10,847,429

- 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 2016 2015
 ----- (Rupees '000) -----

8. BALANCES WITH OTHER BANKS**In Pakistan**

- on current accounts
- on deposit accounts

8.1	1,432	2,160
	632,031	1,035,156
	633,463	1,037,316

Outside Pakistan

- on current accounts
- on deposit accounts

285,236	517,170
65,426	6,058
350,662	523,228
984,125	1,560,544

- 8.1 The expected return on these deposits ranges from 2.50% to 5.50% (31 December 2015: 2.32% to 6.25%) per annum.

Note 2016 2015
 ----- (Rupees '000) -----

9. DUE FROM FINANCIAL INSTITUTIONS

- Bai muajjal
- Lending to financial institutions

9.1	2,550,318	1,831,716
9.2	142,385	-
	2,692,703	1,831,716

9.1 Bai muajjal**Deferred income****Profit receivable shown in other assets**

	2,608,302	1,873,849
	(21,755)	(17,464)
	(36,229)	(24,669)
9.1.1	<u>2,550,318</u>	<u>1,831,716</u>

- 9.1.1 The return on bai muajjal is 5.62% to 5.90% (31 December 2015: 6%) per annum. These will mature by March 2017.

- 9.2 The expected return on these placements is 0.33% (31 December 2015: Nil) per annum. These will mature by March 2017.

Note 2016 2015
 ----- (Rupees '000) -----

9.3 Particulars of due from financial institution

- local currency
- foreign currency

2,550,318	1,831,716
142,385	-
2,692,703	1,831,716

10. INVESTMENTS

10.1 Investments by types

		2016			2015		
		Held by Bank	Given as Collateral	Total	Held by Bank	Given as Collateral	Total
Note		Rupees in '000					
Available for sale securities							
Sukuk certificates	10.4	23,730,099	-	23,730,099	14,944,894	-	14,944,894
Ordinary shares of listed companies	10.5	823,793	-	823,793	347,748	-	347,748
Ordinary shares of unlisted company	10.6	52,200	-	52,200	52,200	-	52,200
Units of Open-end mutual funds	10.5	69,408	-	69,408	-	-	-
		24,675,500	-	24,675,500	15,344,842	-	15,344,842
Held to maturity							
Bai Muajjal with Government of Pakistan		-	-	-	2,080,047	-	2,080,047
		24,675,500	-	24,675,500	17,424,889	-	17,424,889
Investments at cost							
Less: Provisions for diminution in the value of investments	10.3	(164,728)	-	(164,728)	(44,311)	-	(44,311)
Investments (net of provisions)		24,510,772	-	24,510,772	17,380,578	-	17,380,578
Surplus / (deficit) on revaluation of investments classified as "available for sale" securities							
	21	90,746	-	90,746	(22,177)	-	(22,177)
Total investments at market value		24,601,518	-	24,601,518	17,358,401	-	17,358,401

10.2 Investments by segments

	Note	2016	2015
		(Rupees '000)	(Rupees '000)
Sukuk certificates			
Federal Government Securities (ijara sukuk)		16,610,051	12,744,881
Others		7,120,048	2,200,013
	10.4	23,730,099	14,944,894
Fully paid-up ordinary shares			
Ordinary shares of listed companies	10.5	823,793	347,748
Ordinary shares of unlisted company	10.6	52,200	52,200
	10.5	69,408	-
Units of Open-end mutual funds			
Bai Muajjal			
Federal Government		-	2,080,047
Investments at cost		24,675,500	17,424,889
Less: Provisions for diminution in the value of investments	10.3	(164,728)	(44,311)
Investments (net of provisions)		24,510,772	17,380,578
Surplus / (deficit) on revaluation of investments classified as "available for sale"	21	90,746	(22,177)
Total investments at market value		24,601,518	17,358,401
10.3 Particulars of provisions for diminution in the value of investments			
10.3.1 Opening balance		44,311	274,443
Charge during the year	10.3.3	4,514	4,284
Reversal during the year		(1,184)	(234,416)
		3,330	(230,132)
Transfer upon amalgamation		117,087	-
Closing balance	10.3.2	164,728	44,311
10.3.2 Particulars of provisions in respect of type and segment			
Available for sale			
Ordinary shares of unlisted companies		22,044	23,228
Ordinary shares of listed companies	10.3.3	25,597	21,083
Sukuk certificates		117,087	-
		164,728	44,311

10.3.3 The mark to market impairment loss on certain investments as of 31 December 2016 amounts to Rs.14.501 (31 December 2015: Rs.Nil) million. However, SBP vide its letter BPRD/BRD (Policy)/2016-14898 has allowed the recognition of impairment loss of Rs.14.501 million in a phased manner by 30 June 2017. As per such relaxation, the Bank is required to record at least 50% of impairment loss as of 31 December 2016 which amounts to Rs.7.251 (31 December 2015: Rs.Nil) million and the same has been recorded in these financial statements.

10.4	Sukuk certificates		2016	2015	2016	2015
	Name of the Investee	Note	Number of certificates / units		Cost — (Rupees '000) —	
	Available for sale					
	Federal Government Securities					
	Government of Pakistan Ijara Sukuk - 14		-	4,780	-	478,812
	Government of Pakistan Ijara Sukuk - 15	10.4.1.1	139,656	122,673	13,961,563	12,266,069
	Government of Pakistan Ijara Sukuk - 16	10.4.1.2	26,250	-	2,639,774	-
	Government of Pakistan Ijara Sukuk - F1	10.4.1.3	87	-	8,714	-
					16,610,051	12,744,881
	Unquoted Securities					
	Sul Southern Gas Company Limited	10.4.1.4	200,000	-	1,000,000	1,000,000
	Al Razi Healthcare (Private) Limited	10.4.1.5	60,000	60,000	178,333	191,667
	Pakistan Stone Development Company		-	80,000	-	65,000
	WAPDA second sukuk certificates	10.4.1.6	74,000	-	61,975	-
	WAPDA third sukuk certificates	10.4.1.7	214,975	214,975	780,537	943,346
	Neelum Jhelum Hydro Power Company (Private) Limited	10.4.1.8	26,000	-	2,600,000	-
	Pakistan International Airline Corporation Limited	10.4.1.9	265,000	-	1,325,000	-
	Security Leasing Corporation Limited	10.4.1.10	6,000	-	9,242	-
	Quetta Textile Mills Limited	10.4.1.11	30,000	-	70,345	-
	Amtext Limited	10.4.1.12	10,000	-	37,500	-
					6,062,932	2,200,013
	Quoted Securities					
	Emirates Islamic Bank Sukuk	10.4.1.13	5,000	-	529,041	-
	Qatar Islamic Bank Sukuk	10.4.1.14	5,000	-	528,075	-
					1,057,116	-
					23,730,099	14,944,894

10.4.1 Other particulars of sukuk certificates are as follows:

Particulars	Certificates / units	Profit rate per annum	Profit payments	Maturity date
10.4.1.1 Government of Pakistan Ijara Sukuk - 15	PKR 100,000	6 months Treasury Bills - 2.00%	Semi annually	25 June 2017
10.4.1.2 Government of Pakistan Ijara Sukuk - 16	PKR 100,000	6 months Treasury Bills - 0.50%	Semi annually	18 December 2018
10.4.1.3 Government of Pakistan Ijara Sukuk - F1	PKR 100,000	6.10%	Semi annually	15 February 2019
10.4.1.4 Sul Southern Gas Company Limited	PKR 5,000	3 months KIBOR + 0.40 %	Quarterly	30 October 2019
10.4.1.5 Al Razi Healthcare (Private) Limited	PKR 5,000	6 months KIBOR + 2.50 %	Monthly	4 November 2021
10.4.1.6 WAPDA second sukuk certificates	PKR 1,667	6 months KIBOR - 0.25 %	Semi annually	13 July 2017
10.4.1.7 WAPDA third sukuk certificates	PKR 5,000	6 months KIBOR + 1.00 %	Semi annually	14 October 2021
10.4.1.8 Neelum Jhelum Hydro Power Company (Private) Limited	PKR 100,000	6 months KIBOR + 1.13 %	Semi annually	29 June 2026
10.4.1.9 Pakistan International Airline Corporation Limited	PKR 5,000	6 months KIBOR + 1.75 %	Semi annually	20 October 2019
10.4.1.10 Security Leasing Corporation Limited	PKR 1,540	6.00%	Monthly	19 January 2022
10.4.1.11 Quetta Textile Mills Limited	PKR 2,345	6 months KIBOR + 1.75 %	Semi annually	26 March 2020
10.4.1.12 Amtext Limited	PKR 3,750	3 months KIBOR + 2.00 %	Quarterly	11 October 2012
10.4.1.13 Emirates Islamic Bank Sukuk	USD 1000	3.54%	Semi annually	31 May 2021
10.4.1.14 Qatar Islamic Bank Sukuk	USD 1000	2.75%	Semi annually	27 October 2020

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

Company Name	2016			2015		
	Number of	Cost	Market Value	Number of	Cost	Market Value
	shares / units	Rupees in '000		shares	Rupees in '000	
Available for sale and held for trading - shares / units						
Chemicals and pharmaceutical						
Agritech Limited	1,471,636	51,507	18,660	821,937	28,768	7,685
The Searle Company Limited	50,000	30,521	32,689	-	-	-
GlaxoSmithKline Pakistan Limited	75,000	15,588	17,498	-	-	-
Fertilizer						
Engro Fertilizers Limited	115,000	10,124	7,818	191,500	17,147	16,111
Engro Corporation Limited	250,000	74,629	79,023	80,000	24,820	22,351
Fauji Fertilizer Bin Qasim Limited	-	-	-	200,000	11,959	10,536
Fauji Fertilizer Company Limited	-	-	-	177,500	24,899	20,941
Fatima Fertilizer Company Limited	-	-	-	80,000	3,657	3,578
Cement						
Fauji Cement Company Limited	600,000	23,548	27,048	-	-	-
Maple Leaf Cement Factory Limited	200,000	25,222	25,516	195,000	14,413	14,543
D.G.Khan Cement Company Limited	200,000	37,719	44,346	-	-	-
Cherat Cement Company Limited	100,000	11,940	17,404	-	-	-
Lucky Cement Limited	75,000	55,845	64,970	-	-	-
Attock Cement Limited	-	-	-	100,000	18,619	16,775
Textile						
Nishat Mills Limited	140,000	20,626	21,318	163,000	20,821	15,464
Kohinoor Textile Mills Limited	100,000	9,523	11,620	-	-	-
Power Generation & Distribution						
Kohinoor Energy Limited	225,000	10,720	9,675	197,000	9,755	8,471
Hub Power Company Limited	500,000	57,653	61,740	-	-	-
Kot Addu Power Company Limited	-	-	-	394,500	35,110	31,955
K-Electric Limited	1,000,000	9,267	9,370	325,000	2,698	2,418
Oil & Gas						
Pakistan Oil Fields Limited	75,000	36,141	40,096	-	-	-
Attock Refinery Limited	50,000	19,242	21,265	-	-	-
Pakistan Petroleum Limited	75,000	13,459	14,114	-	-	-
Hascal Petroleum Limited	150,000	49,982	50,628	-	-	-
Sul Southern Gas Company	750,000	31,524	27,262	-	-	-
Food Producers						
Abdullah Shah Ghazi Sugar Mills Limited	4,890,249	41,962	36,628	4,890,249	41,961	48,902
Engro Foods Limited	-	-	-	120,700	19,319	17,693
Al Shaheer Corporation Limited	150,000	6,883	8,610	-	-	-
Service Industry						
Shifa International Hospitals Limited	50,000	16,281	15,371	-	-	-
Packaging						
Packages Limited	50,000	40,520	42,502	-	-	-
Automobile Assembler						
Millat Tractors Limited	41,050	35,411	37,136	8,300	5,367	4,588
Honda Atlas Cars Pakistan Limited	23,000	13,384	15,379	-	-	-
Indus Motor Company Limited	-	-	-	37,580	44,733	38,019
Automobile Parts & Accessories						
Thai Limited	-	-	-	22,300	6,298	5,649
Cable & Electrical Goods						
Pak Elektron Limited	850,000	56,372	60,588	50,000	3,748	3,127
Construction						
TPL Properties	1,600,000	17,600	16,704	-	-	-
Commercial Banks						
Meezan Bank Limited	-	-	-	292,000	13,656	13,359
		823,793	834,978		347,748	302,165
Open-end mutual funds						
Faysal Islamic Savings Growth Fund	665,909	69,408	69,854	-	-	-
		893,201	904,832		347,748	302,165

10.5.1 Quality of available for sale securities

		2016		2015	
	Note	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		16,610,051	GOP Guaranteed	12,744,881	GOP Guaranteed
Sui Southern Gas Company Limited		1,000,000	Unrated	1,000,000	Unrated
Al Razi Healthcare (Private) Limited		178,333	Unrated	191,667	Unrated
Pakistan Stone Development Company		-	-	65,000	GOP Guaranteed
WAPDA second sukuk certificates		61,975	GOP Guaranteed	-	-
WAPDA third sukuk certificates		780,537	GOP Guaranteed	943,346	GOP Guaranteed
Neelum Jhelum Hydro Power Company (Private) Limited		2,600,000	GOP Guaranteed / AAA	-	-
Pakistan International Airline Corporation Limited		1,325,000	GOP Guaranteed	-	-
Security Leasing Corporation Limited		9,242	Non-performing	-	-
Quetta Textile Mills Limited		70,345	Non-performing	-	-
Amtex Limited		37,500	Non-performing	-	-
Emirates Islamic Bank Sukuk		529,041	A+	-	-
Qatar Islamic Bank Sukuk		528,075	A+	-	-
Ordinary shares					
Takaful Pakistan Limited	10.6	52,200	BBB+	52,200	BBB+
Agritech Limited		51,507	Unrated	28,768	Unrated
The Searle Company Limited		30,521	Unrated	-	-
GlaxoSmithKline Pakistan Limited		15,588	Unrated	-	-
Engro Fertilizers Limited		10,124	AA- / A1+	17,147	AA- / A1+
Engro Corporation Limited		74,629	AA / A1+	24,820	AA / A1+
Fauji Fertilizer Bin Qasim Limited		-	-	11,959	Unrated
Fauji Fertilizer Company Limited		-	-	24,899	Unrated
Fatima Fertilizer Company Limited		-	-	3,657	AA- / A1+
Fauji Cement Company Limited		23,548	Unrated	-	-
Maple Leaf Cement Factory Limited		21,822	A+ / A1	14,413	A / A1
D.G.Khan Cement Company Limited		37,719	Unrated	-	-
Cherat Cement Company Limited		15,940	A / A1	-	-
Lucky Cement Limited		55,845	Unrated	-	-
Attock Cement Limited		-	-	18,619	Unrated
Nishat Mills Limited		20,626	AA / A1+	20,821	AA / A1+
Kohinoor Textile Mills Limited		9,523	A+ / A1	-	-
Kohinoor Energy Limited		10,720	AA / A1+	9,755	AA / A1+
Hub Power Company Limited		57,653	AA+ / A1+	-	-
Kot Addu Power Company Limited		-	-	35,110	AA+ / A1+
K-Electric Limited		9,267	AA / A1+	2,698	AA- / A1
Pakistan Oil Fields Limited		36,141	Unrated	-	-
Attock Refinery Limited		19,242	AA / A1+	-	-
Pakistan Petroleum Limited		13,459	Unrated	-	-
Hascol Petroleum Limited		49,982	A+ / A1	-	-
Sui Southern Gas Company		31,524	A+ / A1	-	-
Abdullah Shah Ghazi Sugar Mill Limited		41,962	Unrated	41,961	Unrated
Engro Foods Limited		-	-	19,319	Unrated
Al Shaheer Corporation Limited		6,883	Unrated	-	-
Shifa International Hospitals Limited		16,281	Unrated	-	-
Packages Limited		40,520	AA / A1+	-	-
Millat Tractors Limited		35,411	Unrated	5,367	Unrated
Honda Atlas Cars Pakistan Limited		13,384	Unrated	-	-
Indus Motor Company Limited		-	-	44,733	Unrated
Thal Limited		-	-	6,298	Unrated
Pak Elektron Limited		56,372	A+ / A1	3,748	A / A1
TPL Properties		17,600	A+ / A1	-	-
Meezan Bank Limited		-	-	13,656	AA / A1+
Units of Open-end mutual funds					
Faysal Islamic Savings Growth Fund		69,408	A(f)	-	-
Total		24,675,500		15,344,842	

10.6 Particulars of investments in ordinary shares of unlisted companies

	2016	2015	2016	2015
	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 %

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Latest available audited financial statements

31 December 2015

Name of the chief executive officer

Syed Tariq Husain

* The breakup value of Takaful Pakistan Limited is Rs.5.91 (un-audited) per share as per the available financial statements for the period ended 30 September 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.

	Note	2016 (Rupees '000)	2015 (Rupees '000)
11. ISLAMIC FINANCING AND RELATED ASSETS			
In Pakistan			
Islamic financing and related assets			
- Murabaha finance	11.1	13,311,162	15,483,094
- Advance against murabaha finance		918,213	326,636
- Export refinance under Islamic scheme		3,579,184	929,405
- Advance against export refinance under Islamic scheme		252,506	47,400
- Ijarah assets under IFAS 2		4,191,559	4,211,037
- Net investment in ijarah	11.2	112,530	112,396
- Advance against ijarah		39,326	281,397
- Service ijarah		260,417	469,730
- Diminishing musharaka financing		31,705,563	15,366,192
- Advance against diminishing musharaka finance		1,143,500	162,414
- Running musharaka		150,000	150,000
- Tijarah finance		777,563	599,886
- Over due acceptances		612,598	505,274
- Payment against guarantee		61,896	80,063
- Payment against documents		4,718	49,049
- Salam financing		22,485	28,385
- Advance against salam		6,015,358	4,897,084
- Salam inventory		185,999	172,001
- Financing against bills		597,286	230,439
- Istasna finance		2,517,612	4,014,527
- Advance against istasna		2,732,661	1,186,864
- Istasna inventory		-	18,000
- Mudaraba		80,000	-
- Staff financing		1,308,824	721,956
- Advance against staff financing		9,067	4,913
- Rahnuma travel services		161	-
Islamic financing and related assets - gross		<u>71,090,188</u>	<u>50,548,142</u>
Provisions for non-performing financing - specific	11.5	(4,217,953)	(2,875,066)
- general	11.5	(86,969)	(28,386)
		<u>(4,304,922)</u>	<u>(2,903,452)</u>
Islamic financing and related assets - net of provisions		<u>66,785,266</u>	<u>47,644,690</u>

Note		2016	2015
		(Rupees '000)	(Rupees '000)
11.1	Murabaha receivable - gross	14,534,931	16,339,981
	Deferred murabaha income	(534,246)	(516,719)
	Profit receivable shown in other assets	(189,523)	(340,168)
	Murabaha finance	<u>13,811,162</u>	<u>15,483,094</u>
11.1.1	Murabaha sale price	14,534,931	16,339,981
	Murabaha purchase price	<u>(13,811,162)</u>	<u>(15,483,094)</u>
		<u>723,769</u>	<u>856,887</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	<u>112,530</u>	<u>112,396</u>
		<u>112,530</u>	<u>112,396</u>

11.3 Particulars of Islamic financing and related assets

11.3.1	In local currency	65,407,626	46,196,684
	In foreign currency	<u>1,377,640</u>	<u>1,448,006</u>
		<u>66,785,266</u>	<u>47,644,690</u>
11.3.2	Short-term (for upto one year)	38,761,395	29,808,538
	Long term (for over one year)	<u>28,023,871</u>	<u>17,836,152</u>
		<u>66,785,266</u>	<u>47,644,690</u>

11.4 Islamic financing and related assets include Rs.7,146,027 (31 December 2015: Rs.4,042,561) million which have been placed under non-performing status as detailed below:

Category of classifications	2016			Provision required	Provision held
	Classified financing				
	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
	7,146,027	-	7,146,027	4,217,953	4,217,953

Category of classifications

Category of classifications	2015				
	Classified financing			Provision required	Provision held
	Domestic	Overseas	Total		
	Rupees in '000				
Other assets especially mentioned	5,032	-	5,032	-	-
Substandard	383,873	-	383,873	74,439	74,439
Doubtful	365,059	-	365,059	70,858	70,858
Loss	3,288,597	-	3,288,597	2,729,769	2,729,769
	4,042,561	-	4,042,561	2,875,066	2,875,066

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

Note	2016			2015		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Opening balance	2,875,066	28,386	2,903,452	2,795,155	16,548	2,811,703
Charge for the year	513,194	18,688	531,882	429,655	11,838	441,493
Reversals for the year	(699,462)	-	(699,462)	(336,803)	-	(336,803)
	(186,268)	18,688	(167,580)	92,852	11,838	104,690
Written off during the year	11.5.5	-	-	(12,941)	-	(12,941)
Transfer upon amalgamation	1,529,155	39,895	1,569,050	-	-	-
Closing balance	4,217,953	86,969	4,304,922	2,875,066	28,386	2,903,452

11.5.1 The above provision against non-performing Islamic financing has been computed after considering allowable forced sale value (FSV) of collateral amounting to Rs. 2,252.469 (31 December 2015: Rs.831.380) 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 to the Bank 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/PR-Unit/ 2017/1094 dated 13 January 2017 has allowed relaxation from further provisioning requirement against certain financing exposures having a provisioning impact of Rs.297.581 (31 December, 2015: Rs.40.581) million. The relaxation allowed vide letter BPRD/BRD/PR-Unit/ 2017/1094 dated 13 January 2017 is effective till 31 March 2017.

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

	2016			2015		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
In local currency	4,204,358	86,969	4,291,327	2,862,082	28,386	2,890,468
In foreign currency	13,595	-	13,595	12,984	-	12,984
	4,217,953	86,969	4,304,922	2,875,066	28,386	2,903,452

11.5.5 Particulars of write offs	Note	2016	2015
		(Rupees '000)	(Rupees '000)
11.5.5.1 Against provision	11.5.5.2	-	12,941
Directly charged to profit and loss account		-	-
		-	12,941
11.5.5.2 Write offs Rs. 500,000 and above		-	12,808
Write offs below Rs. 500,000		-	133
		-	12,941

11.5.5.3 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 thousand rupees or above allowed to any person during the year ended 31 December 2016 is annexed to these financial statements.

11.6 Particulars of Islamic financing to executives, directors, associated companies etc.	2016	2015
	(Rupees '000)	(Rupees '000)
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	723,302	333,949
Islamic financing during the year	285,153	438,583
Repayments during the year	(226,082)	(49,230)
Transfer upon amalgamation	535,518	-
Balance at the end of the year	1,317,891	723,302

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

12. OPERATING FIXED ASSETS

Property and equipment	12.1	2,054,500	1,593,986
Intangible assets	12.2	1,884,535	772,179
Capital work-in-progress	12.3	563,234	305,746
		4,502,269	2,671,911

12.1 Property and equipment

	2016									
	COST			ACCUMULATED DEPRECIATION						
	As at 01 January 2016	Additions / (disposals) / (write offs*)	Transfer upon amal- gamation	As at 31 December 2016	As at 01 January 2016	Charge for the year / (on disposals) / (on write offs*)	Transfer upon amal- gamation	As at 31 December 2016	Net book value as at 31 December 2016	Rate of depreciation
	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	76,201	43,963	10,234 (20,444)	14,184	47,937	30,264	20%
	2,561,670	140,043 (27,331) (3,100) *	1,447,617	4,118,899	967,634	157,811 (24,652) (3,100) *	966,656	2,064,399	2,054,500	

	2015							
	COST			ACCUMULATED DEPRECIATION			Net book value as at 31 December 2015	Rate of depreciation
	As at 01 January 2015	Additions / (disposals)	As at 31 December 2015	As at 01 January 2015	Charge for the year / (on disposals)	As at 31 December 2015		
	Rupees in '000							%
Leasehold land	707,104	-	707,104	-	-	-	707,104	-
Building and improvements on leasehold land	623,223	97,056	720,279	198,033	36,376	234,415	485,864	5% - 10%
Furniture and fixtures	176,396	29,798	206,194	107,211	17,755	124,966	81,228	10%
Computer and office equipments	741,142	125,486 (12,408)	854,220	495,238	79,455 (10,353)	564,340	289,880	10% - 50%
Vehicles	69,201	22,752 (18,080)	73,873	52,598	8,696 (17,331)	43,963	29,910	20%
	2,317,066	275,092 (30,488)	2,561,670	853,086	142,282 (27,684)	967,684	1,593,986	

12.1.1 Property and equipment include assets that are fully depreciated and are still in use aggregating to Rs.935.763 million (31 December 2015: Rs.361.299 million).

EN

12.2 Intangible assets

Computer software and core deposits
Brand with indefinite useful life
Goodwill

Note	2016 — (Rupees '000) —	2015 — (Rupees '000) —
12.2.1	403,273	389,034
12.2.2	383,145	383,145
5	1,098,117	-
	<u>1,884,535</u>	<u>772,179</u>

12.2.1

	COST				ACCUMULATED AMORTISATION				Net book value as at 31 December 2016	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		
	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	-	-	684,000	324,924	62,955	-	387,879	296,121	8.33%-10%
31 December 2016	<u>960,978</u>	<u>60,624</u>	<u>383,582</u>	<u>1,405,184</u>	<u>571,944</u>	<u>88,374</u>	<u>341,593</u>	<u>1,001,911</u>	<u>403,273</u>	
Computer software	248,272	28,706	-	276,978	214,870	32,150	-	247,020	29,958	33%
Core deposits	684,000	-	-	684,000	262,141	62,783	-	324,924	359,076	8.33%-10%
31 December 2015	<u>932,272</u>	<u>28,706</u>	<u>-</u>	<u>960,978</u>	<u>477,011</u>	<u>94,933</u>	<u>-</u>	<u>571,944</u>	<u>389,034</u>	

12.2.2 As referred to in note 5 to the financial statements, 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	14.99% per annum
- Terminal growth rate	6% 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 reasonably 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

Land and building including advances to suppliers and contractors
Advance for purchase of property - related party

Note	2016 — (Rupees '000) —	2015 — (Rupees '000) —
	684,283	305,746
	251,680	251,680
	(251,680)	(251,680)
	(45,890)	-
12.3.1	(75,159)	-
	<u>(372,729)</u>	<u>(251,680)</u>
	<u>563,234</u>	<u>305,746</u>

Total capital work-in-progress

12.3.1 This relates to Mysis software which is being shelved and hence written off.

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
Rupees in '000						
Vehicles						
BMW	16,500	16,500	-	-	As per Bank's policy	Mr. Shafqat Ahmed - Chief Executive Officer
Civic	2,644	1,136	1,508	1,508	As per Bank's policy	Mr. Mushtaq Riaz Mirza - Ex-BBL executive
Office Equipment						
Generator	793	542	251	472	Insurance Claim	Pak-Qatar General Takaful
	<u>19,937</u>	<u>18,178</u>	<u>1,759</u>	<u>1,980</u>		
Fixed assets having book value of less than Rs.0.25 million or cost of Rs.1 million is as follows:						
Various	7,394	6,474	920	4,152		
31 December 2016	<u>27,331</u>	<u>24,652</u>	<u>2,679</u>	<u>6,132</u>		
31 December 2015	<u>30,488</u>	<u>27,684</u>	<u>2,804</u>	<u>8,414</u>		

13. DEFERRED TAX ASSETS

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

Deferred tax debits arising in respect of
Provisions against non performing islamic financing and related assets
Provisions for diminution in the value of investments
Provisions against operating fixed assets
Provisions against other assets
Minimum tax
Deferred tax on remeasurement of defined benefit plan
Tax effect of revaluation of investments classified as available for sale
Unused tax losses

859,817	714,912
59,211	17,065
22,022	22,022
28,349	1,551
432,702	308,518
14,715	19,776
-	7,762
1,837,553	479,949
3,254,369	1,571,555

Deferred tax credits arising due to

Excess of accounting book values over tax written down
values of operating fixed assets
Tax effect of revaluation of investments classified as available-for-sale
Tax effect of incremental depreciation transferred to retained earnings
Tax effect of revaluation of non-banking assets

(163,300)	(179,552)
(31,761)	-
(37)	-
(186,134)	-
(381,232)	(179,552)

2,873,137 1,392,003

- 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

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

Profit / return accrued in local currency
Profit / return accrued in foreign currency
Advances, deposits and prepayments
Advance taxation (payments less provision)
Receivable in respect of defined benefit plan
Receivable against sale of shares
Unrealised gain on re-measurement of forward
exchange contracts
Branch adjustment account
Stamps and stationery
Non banking assets acquired in satisfaction of claims
Others
Less: Provisions held against other assets
Other assets - net of provisions

14.1 & 19.2

34.3

14.2

14.3

1,618,522	1,174,537
5,475	12,843
801,925	352,520
393,946	222,904
52,331	-
244,351	-
2,075	-
151,084	11,961
6,232	7,000
2,351,512	1,808,006
151,332	87,252
5,778,785	3,677,023
(144,520)	(51,207)
5,634,265	3,625,816

- 14.1 This includes prepaid rent and prepaid takaful aggregating to Rs.266.7 (31 December 2015: Rs.166.4) million and Rs.58.7 (31 December 2015: Rs.62.9) million respectively.

14.2 Non banking assets acquired in satisfaction of claims

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

Market value of non-banking assets acquired in satisfaction of claims
Less: Accumulated depreciation

2,374,360	2,080,655
(22,848)	-
2,351,512	2,080,655

14.2.1 During the year, the Bank revalued its non-banking assets acquired in satisfaction of claims according to the requirements of the 'Regulation for Debt Property Swap' (the regulations) issued by SBP vide the BPRD Circular No. 1 of 2016 dated 1 January 2016. Had there been no revaluation, the carrying value of non-banking assets acquired in satisfaction of claims would have amounted to Rs.1,842.443 million. During the year, non performing financing amounting to Rs.324,999 million have settled against settlement of claims. The Bank reversed the provision of Rs.303.839 million recorded in prior years.

	Note	2016 ----- (Rupees '000) -----	2015 ----- (Rupees '000) -----
14.3 Provisions held against other assets			
Opening balance		51,207	46,800
Charge for the year	28	12,317	4,407
		63,524	51,207
Transfer upon amalgamation		80,996	-
		<u>144,520</u>	<u>51,207</u>
15. BILLS PAYABLE			
In Pakistan		1,386,390	883,698
Outside Pakistan		-	-
		<u>1,386,390</u>	<u>883,698</u>
16. DUE TO FINANCIAL INSTITUTIONS			
In Pakistan		3,223,109	2,065,465
Outside Pakistan	16.1	-	42,790
		<u>3,223,109</u>	<u>2,108,255</u>
16.1 Particulars of due to financial institutions with respect to currencies			
In local currency		3,223,109	2,065,465
In foreign currency		-	42,790
		<u>3,223,109</u>	<u>2,108,255</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	3,223,109	2,065,465
Unsecured			
Overdrawn nostro account		-	42,790
		<u>3,223,109</u>	<u>2,108,255</u>
16.2.1 The range of profit rates on these borrowings is 1.0% to 2.0% (31 December 2015 : 2.5% to 5.0%) per annum. The maximum limit approved by SBP to the Bank under Islamic Export Refinance Scheme is Rs.4.65 (31 December 2015: Rs.2.8) billion. The above contracts will mature starting from 23 January 2017 to 28 June 2017.			
16.3 Particulars of due to financial institutions	Note	2016 ----- (Rupees '000) -----	2015 ----- (Rupees '000) -----
Short-term (for up to one year)		3,223,109	2,108,255
Long term (for over one year)		-	-
		<u>3,223,109</u>	<u>2,108,255</u>
17. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		23,855,144	16,691,631
Savings deposits		45,031,088	33,325,446
Current accounts - non-remunerative		24,579,138	16,816,701
Margin deposits		891,821	726,167
		<u>94,357,191</u>	<u>67,559,945</u>
Financial Institutions			
Remunerative deposits		11,263,522	4,023,857
Non-remunerative deposits		222,371	60,584
		<u>11,485,893</u>	<u>4,084,441</u>
		<u>105,843,084</u>	<u>71,644,386</u>
17.1 Particulars of deposits			
In local currency		100,349,952	67,415,868
In foreign currencies		5,493,132	4,228,518
		<u>105,843,084</u>	<u>71,644,386</u>
18. SUB - ORDINATED LOANS			
Foreign currency sub-ordinated debt	1.3	-	2,042,450
Tier II mudaraba sukuk	18.1	1,428,568	1,714,284
		<u>1,428,568</u>	<u>3,756,734</u>

- 18.1 During the year 2014, the Bank 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 year, the Bank has paid the two tranches of principal repayment along with profit to its sukuk holders amounting to Rs.285.716 million and Rs.127.386 million respectively.

19. OTHER LIABILITIES	Note	2016 ----- (Rupees '000) -----	2015 ----- (Rupees '000) -----
Return on deposits and borrowings:			
- payable in local currency		456,001	430,879
- payable in foreign currencies		2,786	1,946
Accrued expenses		274,954	82,903
Payable in respect of defined benefit plan		-	26,494
Security deposit against ijarah		1,681,163	1,334,729
Unrealised loss on re-measurement of forward exchange contracts		-	1,100
Charity payable	19.1, 19.1.1 & 19.1.2	49,928	47,763
Payable against purchase of listed shares		10,749	-
Advance payments		500,609	280,521
Insurance payable against ijarah and diminishing musharakah assets		145,892	-
Others	19.2	405,897	59,865
		<u>3,527,979</u>	<u>2,266,200</u>

19.1 Movement of charity payable

Opening balance	47,763	57,742
Amount transferred during the year	15,085	26,321
Payments / utilization during the year	(26,297)	(36,300)
Transfer upon amalgamation	13,377	-
Closing balance	<u>49,928</u>	<u>47,763</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.

- 19.2 Includes amount of Rs.99.753 million recovered during the year 2011 by Ex-Burj Bank Limited (BBL) from a deposit account of BBL which was used for unauthorised transfer of funds amounting to Rs.100 million from another financial institution. Upon identification of the matter, this amount was settled by BBL and recorded as an asset under the head "Other Assets" under Advances, deposits, and other prepayments. Since, the matter is pending final resolution of the legal proceedings, this amount has not been netted off against the balance recovered.

20. SHARE CAPITAL

20.1 Authorized Capital

2016	2015		2016	2015
Number of shares			----- (Rupees '000) -----	
<u>1,800,000,000</u>	<u>1,200,000,000</u>	Ordinary shares of Rs.10 each	<u>18,000,000</u>	<u>12,000,000</u>

20.2 Issued, subscribed and paid up capital

2016	2015		2016	2015
Number of shares			----- (Rupees '000) -----	
450,000,000	450,000,000	Ordinary shares of Rs.10 each fully paid in cash	4,500,000	4,500,000
443,520,000	443,520,000	Issued for consideration other than cash - at beginning of the year	4,435,200	4,435,200
480,442,760	-	Issued during the year for consideration other than cash	4,804,428	-
923,962,760	443,520,000	Balance as at December 31	9,239,628	4,435,200
<u>1,373,962,760</u>	<u>893,520,000</u>		<u>13,739,628</u>	<u>8,935,200</u>

20.3 Advance against issuance of shares

This represents advance against issuance of shares that was returned to the Parent Bank in lieu of the Bank meeting the capital requirements as fully explained in note 1.2

20.4 Discount on issuance of shares - net

	2016	2015
	----- (Rupees '000) -----	
Discount on issuance of shares	767,290	767,290
Premium on issuance of shares	(134,524)	-
	<u>632,766</u>	<u>767,290</u>

20.5 Shareholders having more than 10% shareholding in 2016 and 2015

Name of shareholder	2016		2015	
	Number of shares held	Percentage of shareholding	Number of shares held	Percentage of shareholding
AlBaraka Islamic Bank (Bahrain) B.S.C. (c)	788,677,133	57.40%	577,543,500	64.64%
Islamic Corporation for the Development of the Private Sector	162,847,717	11.85%	-	-
Mal Al Khaleej Investment L.L.C.	158,360,039	11.53%	158,360,039	17.72%
Sheikh Tariq Bin Faisal Bin Khalid Al Qassemi	103,018,177	7.50%	103,018,177	11.53%

Note

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

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

- Sukuk certificates - listed
- Government of Pakistan - Ijarah sukuk
- Ordinary shares - listed
- Units of Open-end mutual funds

(8,691)	-
62,211	2,322
36,780	(24,499)
446	-
<u>90,746</u>	<u>(22,177)</u>

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

21.1

531,811	-
622,557	(22,177)
(217,895)	7,762
<u>104,632</u>	<u>(14,415)</u>

Surplus / (deficit) on revaluation of assets
Related deferred tax (liability) / asset

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

Surplus at the beginning of the year

Surplus recognised during the year

Transferred to accumulated losses in respect of incremental depreciation charged during the year - net of deferred tax

Related deferred tax liability on incremental depreciation charged during the year

-	-
531,917	-
(69)	-
(37)	-
<u>531,811</u>	<u>-</u>

22. CONTINGENCIES AND COMMITMENTS

22.1 Transaction-related contingent liabilities

Includes performance bonds, bid bonds, shipping guarantees favouring:

- Government
- Banking companies and other financial institutions
- Others

5,187,996	4,446,114
27,983	611
3,089,234	363,541
<u>8,305,213</u>	<u>4,810,266</u>

22.2 Trade-related contingent liabilities

Letters of credit

5,993,210 5,370,825

Others - Shipping Guarantees

- 36,279

Acceptances

1,913,423 1,202,664

22.3 Commitments in respect of forward exchange contracts

Purchase

4,236,420 2,865,530

Sale

2,512,760 1,260,153

22.4 Commitments to incur capital expenditure

29,826 57,419

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, 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 Appellate Tribunal.

22.5.2 During the current year, the taxation authorities have amended the assessments of ex-Burj Bank Limited (now AlBaraka Bank (Pakistan) Limited) for the tax years 2010, 2011, 2012, 2013 and 2014. The amended assessment order has been passed for the tax year 2010. The major adjustment made by the taxation authorities were related to calculation of turnover tax based on treatment of Murabaha income at its gross sales value resulting in an additional tax liability amounting Rs.1.208 billion. The management is of the view that the contention of the taxation authorities is not justified based on the fact that Clause (11A) Part IV of the Second Schedule of the Income Tax Ordinance, 2001 specifically excludes Murabaha transactions from the definition of turnover for the purpose of charging minimum tax. For the tax year 2010, the Bank has filed an appeal before ATIR along with stay application to drop the proceedings against tax demand. In this regard, the Bank granted a stay order from ATIR against the recovery of demand.

Further, the Bank has also obtained stay orders from the Honorable High Court (HHC) for the tax years 2011-14 against similar notices issued u/s 122(9) by income tax authorities. In view of the above, the management of the Bank is confident that the outcome of the matter will be decided in favour of the Bank and hence, no provision in this respect is required to be made in these financial statements.

22.5.3 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 2015: Rs.116.512) million.

	Note	2016 ----- (Rupees '000) -----	2015 ----- (Rupees '000) -----
23. PROFIT / RETURN EARNED ON ISLAMIC FINANCING AND RELATED ASSETS, INVESTMENTS AND PLACEMENTS			
On islamic financing and related assets		3,934,153	4,115,986
On investments in			
- Available-for-sale securities		815,598	1,226,833
- Held to maturity securities		113,651	15,036
- Held for trading securities		-	6,211
		929,249	1,248,080
On deposits with banks		146,600	182,473
On due from financial institutions		148,071	722,547
		<u>5,158,073</u>	<u>6,269,086</u>
24. RETURN ON DEPOSITS AND OTHER DUES EXPENSED			
Deposits and other accounts		2,595,516	3,469,264
Other short term borrowings		26,478	61,500
Tier II Sukuk Mudaraba	18.1	119,337	174,409
On export refinance under Islamic scheme		53,579	85,445
		<u>2,794,910</u>	<u>3,790,618</u>

ALBARAKA BANK (PAKISTAN) LIMITED

	Note	2016 ----- (Rupees '000) -----	2015 ----- (Rupees '000) -----
25. GAIN ON SALE OF SECURITIES			
Gain on sale of sukuk certificates			
- Federal government sukuk certificates		10,358	2,352
- Other sukuk certificates		5,567	-
		15,925	2,352
Gain on sale of listed shares		178,421	10,486
		<u>194,346</u>	<u>12,838</u>
26. OTHER INCOME			
Gain on sale of assets		4,704	10,521
Gain on sale of non banking assets		-	8,012
Others		26	-
		<u>4,730</u>	<u>18,533</u>
27. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other staff benefits	27.1	1,447,335	1,179,962
Contribution to defined benefit and contribution plan	34.7 & 35	29,063	91,210
Non-executive directors' fees, allowances and other expenses	36	40,355	33,693
Rent, taxes, insurance, electricity, etc.		675,110	566,271
Takaful and registration of Ijarah		158,833	118,132
Legal and professional charges		93,085	36,412
Software maintenance and license fee		122,699	119,821
Communication		113,359	97,996
Brokerage, commission and bank charges		30,592	17,371
Traveling and conveyance		21,786	23,487
Repairs and maintenance		98,046	64,181
Training and development		4,143	3,715
Stationery and printing		51,580	46,374
Advertisement and publicity		33,798	30,571
Auditors' remuneration	27.2	11,087	6,800
Depreciation	12.1	157,811	142,282
Amortization	12.2.1	88,374	94,933
Depreciation - Non banking assets	14.2	22,848	-
Security charges		149,685	113,589
Newspaper and periodicals		4,308	1,564
Entertainment		33,451	31,041
Other expenses		27,033	29,505
		<u>3,414,381</u>	<u>2,848,910</u>

27.1 This includes remuneration paid during the year to Shariah Board including Resident Shariah Board Member amounting to Rs.5.691 (31 December 2015: Rs.4.769) million.

	Note	2016 ----- (Rupees '000) -----	2015 ----- (Rupees '000) -----
27.2 Auditors' remuneration			
Fee for statutory audit - annual		2,225	2,070
Fee for special audit due to amalgamation		3,750	-
Fee for limited scope review - half yearly		670	623
Fee for other audit, reviews and certifications		4,442	4,107
		<u>11,087</u>	<u>6,800</u>

ALBARAKA BANK (PAKISTAN) LIMITED

		2016	2015
	Note	(Rupees '000)	(Rupees '000)
28. Other provisions / write offs			
Provision against other assets	14.3	12,317	4,407
Fixed assets write off	12.3.1	75,159	-
		<u>87,476</u>	<u>4,407</u>
29. OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan		<u>504</u>	<u>328</u>
30. TAXATION			
Current taxation	30.1	(60,323)	(69,254)
Prior taxation		-	(18,278)
Deferred taxation		5,544	(78,631)
		<u>(54,779)</u>	<u>(166,163)</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) / profit after taxation for the year

		(155,527)	240,446
	Note	2016	2015
		Number of shares	
Weighted average number of ordinary shares		<u>897,458,055</u>	<u>893,520,000</u>
		Rupee	
Basic / diluted (loss) / profit per share	31.1	<u>(0.17)</u>	<u>0.27</u>

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

		2016	2015
	Note	(Rupees '000)	(Rupees '000)
32. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	7	18,725,350	10,847,429
Balances with other banks	8	984,125	1,560,544
		<u>19,709,475</u>	<u>12,407,973</u>
33. STAFF STRENGTH			
		Number	Number
Permanent		1,648	1,201
Temporary / on contractual basis		394	312
Consultants		1	1
Bank's own staff strength at the end of the year		<u>2,043</u>	<u>1,514</u>
Outsourced		702	331
Total Staff Strength		<u>2,745</u>	<u>1,845</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.

ALBARAKA BANK (PAKISTAN) LIMITED
34.2 Significant Actuarial Assumptions

	Note	2016 Per annum	2015 Per annum
Financial assumptions			
- Valuation discount rate		9.00%	9.00%
- Salary increase rate		7.50%	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

		2016 ----- (Rupees '000) -----	2015
Present value of defined benefit obligation	34.4 & 34.10	219,727	279,796
Fair value of plan assets	34.5 & 34.12	(272,058)	(253,302)
	34.6	<u>(52,331)</u>	<u>26,494</u>

34.4 Movement in the present value of defined benefit obligation

Obligation at the beginning of the year		279,796	263,682
Current service cost		43,320	44,650
Interest cost		22,850	27,346
Past service cost / other adjustment		(68,487)	-
Benefits paid		(51,825)	(51,788)
Actuarial gain on obligations		(5,927)	(4,094)
Obligation at the end of the year		<u>219,727</u>	<u>279,796</u>

34.5 Movement in the fair value of plan assets

Fair value at the beginning of the year		253,302	245,401
Expected return on plan assets		22,256	27,647
Contributions		39,792	41,803
Benefits paid		(51,825)	(51,788)
Actuarial gain / (loss) on plan assets		8,533	(9,761)
Fair value at the end of the year		<u>272,058</u>	<u>253,302</u>

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

Opening balance		26,494	18,281
Income / charge for the year	34.7	(24,573)	44,349
Bank's contribution to the fund made during the year		(39,792)	(41,803)
Re-measurements recognized in Other Comprehensive Income (OCI)	34.7 & 34.11	(14,460)	5,667
Closing balance		<u>(52,331)</u>	<u>26,494</u>

34.7 Defined benefit cost for the period / year
Service cost

Current service cost		43,320	44,650
Past service cost / other adjustments		(68,487)	-
		<u>(25,167)</u>	<u>44,650</u>

Net Interest Cost

Interest cost on defined benefit obligation		22,850	27,346
Expected return on plan assets		(22,256)	(27,647)
Net interest cost		594	(301)
		<u>(24,573)</u>	<u>44,349</u>

Re-measurements recognized in other comprehensive income during the year

Actuarial gain on obligations		(5,927)	(4,094)
Actuarial gain / (loss) on plan assets		(8,533)	9,761
	34.11	<u>(14,460)</u>	<u>5,667</u>

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

		<u>(39,033)</u>	<u>50,016</u>
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34.8 Actual return on plan assets

		<u>30,789</u>	<u>17,886</u>
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ALBARAKA BANK (PAKISTAN) LIMITED

2016 2015

(Rupees '000)

34.9 Expected contributions to be paid to the fund in the next financial year
Service cost

Current service cost

36,968

40,122

Net Interest cost

Interest cost on defined benefit obligation

19,775

23,719

Return on plan assets

(24,485)

(23,358)

(4,710)

361

32,258

40,483

34.10 Analysis of present value of defined benefit obligations
Vested / Non-Vested

Vested benefits

198,926

265,407

Non-vested benefits

20,801

14,389

219,727

279,796

Type of Benefits

Accumulated benefit obligation

103,939

155,958

Amounts attributed to future salary increases

115,788

123,838

219,727

279,796

34.11 Re-measurements recognized in Other Comprehensive Income during the year
Re-measurements: (Gain) / loss on obligation

Due to change in financial assumptions

-

(4,095)

Due to change in experience adjustments

(5,927)

1

(5,927)

(4,094)

Re-measurements: (Gain) / loss on plan assets

Actual return on plan assets

(30,789)

(17,886)

Return on plan assets

22,256

27,647

(8,533)

9,761

(14,460)

5,667

34.12 Components of plan assets

Cash and cash equivalents

218,470

220,772

Investments

53,588

32,530

272,058

253,302

34.13 Maturity profile of the defined benefit obligation

Weighted average duration of the defined benefit obligation

Distribution of timing of benefit payments

11.25 years

9.06 years

Less than 12 months

24,525

32,519

Between 1 year and 5 years

50,168

119,771

Between 6 and 10 years

86,558

59,033

Above 10 years

674,628

673,103

34.14 Sensitivity Analysis on significant actuarial assumptions: Actuarial Liability

Discount Rate +1%

197,119

256,561

Discount Rate -1%

246,562

307,272

Salary Increases +1%

247,749

308,832

Salary Increases -1%

195,809

254,871

Withdrawal Rates +10%

220,103

280,062

Withdrawal Rates -10%

219,345

279,526

1 Year Monthly age set back

219,554

279,620

1 Year Monthly age set forward

219,900

279,971

34.15 Historical information

	2016	2015	2014	2013	2012
	(Rupees '000)				
Defined benefit obligation	219,727	279,796	263,682	203,381	159,417
Fair value of plan assets	(272,058)	(253,302)	(245,401)	(210,331)	(173,568)
Net defined benefit (assets) / liability	(52,331)	26,494	18,281	(6,950)	(14,151)
Remeasurement gain/(loss) on obligation	5,927	4,094	(28,547)	(15,742)	4,486
Remeasurement gain/(loss) on plan asset	8,533	(9,761)	(4,526)	1,812	(5,186)
Other comprehensive income	14,460	(5,667)	(33,073)	(13,930)	(700)

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.

	2016	2015
	(Rupees '000)	
Contribution from the Bank	53,636	46,851
Contribution from the employees	53,636	46,851
	107,272	93,702

36. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive Officer		Directors		Executives *	
	2016	2015	2016	2015	2016	2015
	Rupees in '000					
Managerial remuneration	28,909	25,697	-	-	303,668	156,021
Charge for defined benefit plan	2,207	2,141	-	-	18,861	19,048
Contribution to defined contribution plan	2,891	2,570	-	-	26,780	22,330
Rent and house maintenance	5,069	5,069	-	-	94,088	76,050
Utilities allowance	1,690	1,690	-	-	30,183	25,349
Medical allowance	1,690	1,690	-	-	30,183	25,349
Bonus	8,566	7,448	-	-	23,807	18,530
Conveyance	1,236	960	12,472	12,650	-	-
Fee	-	-	27,883	21,043	-	-
Others	3,600	3,600	-	-	107,493	81,724
	55,858	50,865	40,355	33,693	635,063	524,401
Number of persons	1	1	9	9	399	244

*Executives means employees other than the Chief Executive Officer and Directors, whose basic salary exceeds five hundred thousand rupees in a financial year. The amount includes two months salary of 136 executives added on account of amalgamation of Burj Bank Limited with and into the Bank.

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 2016, 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 44 and 46 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:

		2016			
		Level 1	Level 2	Level 3	Total
		(Rupees '000)			
On - balance sheet financial instruments	Note				
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
		1,953,257	16,672,262	2,374,360	20,999,879
Off - balance sheet financial instruments					
Forward exchange contracts					
Purchase	37.2.1	-	4,236,420	-	4,236,420
Sale	37.2.1	-	2,512,760	-	2,512,760
		2015			
		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		302,165	-	-	302,165
Government Securities					
Government of Pakistan - Ijarah sukuk		-	12,747,204	-	12,747,204
Sukuks					
Sukuk certificates - listed		-	-	-	-
Mutual Funds					
Units of open end fund		-	-	-	-
Non - financial assets					
Non banking assets acquired in satisfaction of claims - Gross		-	-	2,080,655	2,080,655
		302,165	12,747,204	2,080,655	15,130,024

		2015			
		Level 1	Level 2	Level 3	Total
		----- (Rupees '000) -----			
Off - balance sheet financial instruments					
Forward exchange contracts					
Purchase	37.2.1	-	2,865,530	-	2,865,530
Sale	37.2.1	-	1,260,153	-	1,260,153

	2016	2015
	<u>----- (Rupees '000) -----</u>	
37.2.1 Book value of off - balance sheet financial instruments		
Forward purchase of foreign exchange	<u>4,238,066</u>	<u>2,869,418</u>
Forward sale of foreign exchange	<u>2,516,480</u>	<u>1,262,941</u>

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

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

38. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

2016					
Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Total	
Rupees in '000					
Total income	1,735,287	680,515	3,611,820	4,651	6,032,273
Total expenses	2,659,530	745,150	2,783,120	-	6,187,800
Net income / (loss)	(924,243)	(64,635)	828,700	4,651	(155,527)
Segment return on assets (ROA) (%)	4.22%	5.35%	6.70%	0.16%	5.45%
Segment cost of funds (%)	3.48%	3.48%	3.48%	3.48%	3.48%
Segment assets (gross of provisions)	48,266,901	19,564,797	60,296,451	2,975,406	131,103,555
Segment non performing financing (NPFs)	-	280,747	6,865,280	-	7,146,027
Segment provision required against NPFs	-	214,171	4,090,751	-	4,304,922
Segment liabilities	1,468,280	71,814,591	41,118,862	1,007,397	115,409,130

2015					
Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Total	
Rupees in '000					
Total income	2,481,909	337,716	4,101,094	4,711	6,925,430
Total expenses	2,466,042	597,728	3,621,214	-	6,684,984
Net income / (loss)	15,867	(260,012)	479,880	4,711	240,446
Segment return on assets (ROA) (%)	7.49%	6.31%	8.36%	0.21%	7.71%
Segment cost of funds (%)	4.73%	4.73%	4.73%	4.73%	4.73%
Segment assets (gross of provisions)	33,119,701	5,380,917	49,071,380	2,263,964	89,835,962
Segment non performing financings (NPFs)	-	81,848	3,960,713	-	4,042,561
Segment provision required against NPFs	-	69,982	2,833,470	-	2,903,452
Segment liabilities	3,793,585	45,479,522	30,502,468	883,698	80,659,273

39. RELATED PARTY TRANSACTIONS

39.1 Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions and include Key management personnel, Parent Bank, shareholders of the Bank, staff retirement benefit plan and Directors of the Bank. Banking transactions with related parties are entered into the normal course of business. Details of transactions with the related parties, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	Note	2016 ------(Rupees '000)-----	2015 ------(Rupees '000)-----
Key management personnel			
Islamic financing and related assets			
At beginning of the year		151,457	117,314
Disbursements / additions during the year		109,578	66,190
Repayments / deletions during the year		(60,633)	(32,047)
Transfer upon amalgamation		32,921	-
At end of the year		233,323	151,457
Deposits			
At beginning of the year		95,028	108,350
Deposits / additions during the year		584,252	438,567
Withdrawals / deletions during the year		(508,260)	(451,889)
Transfer upon amalgamation		1,180	-
At end of the year		172,200	95,028
Other Balances			
Return payable on deposit		1,031	637
Profit receivable on islamic financing and related assets		254	126
Other receivables		708	-
Transactions, income and expenses			
Profit earned on islamic financing and related assets		5,494	5,511
Return on deposits expenses		5,642	6,846
Salaries, allowances and benefits		186,808	177,101
Parent Bank			
Balances			
Payable to Parent Bank		-	2,138,154
Shareholders, directors and other related parties of the Bank			
Deposits			
At beginning of the year		687,191	420,289
Deposits / additions during the year		592,561	1,092,512
Withdrawals / deletions during the year		(582,078)	(825,610)
Transfer upon amalgamation		48,280	-
At end of the year		745,954	687,191
Other balances			
Return payable on deposits		3,054	3,139
Investments		52,200	52,200
Provision for diminution in the value of investments		22,044	23,228
Payable to shareholders		657	657
Transactions, income and expenses			
Revenue earned from non funded exposure		13	-
Return on deposits expenses		37,362	28,737
Director fee and other allowances		40,355	33,693
Shariah Board fee		2,054	1,400
Staff Retirement benefit plan of the Bank			
Balance			
Receivable / (payable) in respect of defined benefit plan	34.3	52,331	(26,494)
Transactions, income and expenses			
Contribution to defined contribution and benefit plan	34.7 & 35	29,063	91,210

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. 10.825 billion as against the required MCR of Rs.10 billion.

During the year, 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 (BBL) 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 BBL with and into the Bank. The scheme provides as under:

- i) as of the effective date of amalgamation, the entire undertaking of BBL including all the properties, assets and liabilities and all the rights and obligations shall, without any further act, action or deed and notwithstanding the terms of any contract or other document or any rule of law, stands amalgamated with and vest in the Bank and as a consequence, BBL stands amalgamated with and into the Bank.
- ii) shares to be swapped at the ratio of 1 share of the Bank against 1.7 share of BBL as determined by an independent consultant. Accordingly, the Bank shall issue 480,442,760 fully paid up ordinary shares against 816,752,728 shares of BBL, which upon issuance to the shareholders of BBL will represent 35% of the total issued and paid up capital of the amalgamated Bank.

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.

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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ALBARAKA BANK (PAKISTAN) LIMITED
Common Equity Tier 1 capital (CET1): Instruments and reserves

	2016	2015
Note	Rupees in '000	
20.2	13,739,628	11,073,354
	-	-
	-	-
20.3	(632,766)	(767,290)
	159,348	159,348
	-	-
	(2,281,369)	(2,135,310)
	-	-

CET 1 before Regulatory Adjustments

10,984,841 8,330,102

Total regulatory adjustments applied to CET1

40.4.1 3,527,604 1,226,671

Common Equity Tier 1

7,457,237 7,103,431

Additional Tier 1 (AT 1) Capital

Qualifying Additional Tier-1 capital instruments plus any related share premium	-	-
of which: Classified as equity	-	-
of which: Classified as liabilities	-	-
Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)	-	-
of which: instrument issued by subsidiaries subject to phase out	-	-

AT1 before regulatory adjustments

40.4.2 - -

Total regulatory adjustment applied to AT1 capital

Additional Tier 1 Capital after regulatory adjustments

Additional Tier 1 capital recognized for capital adequacy

- -

Tier 1 Capital (CET1 + admissible AT1)

7,457,237 7,103,431

Tier 2 Capital

18	1,142,854	1,714,284
	-	-
	-	-
	-	-
11.5	86,969	28,386
	-	-
	-	-
	58,985	-
	-	-
	-	-

T2 before regulatory adjustments

1,288,808 1,742,670

Total regulatory adjustment applied to T2 capital

40.4.3 - -

Tier 2 capital (T2) after regulatory adjustments

1,288,808 1,742,670

Tier 2 capital recognized for capital adequacy

- -

Portion of Additional Tier 1 capital recognized in Tier 2 capital

- -

Total Tier 2 capital admissible for capital adequacy

1,288,808 1,742,670

TOTAL CAPITAL (T1 + admissible T2)

8,746,045 8,846,101

Total Risk Weighted Assets (RWA)

40.6 85,235,279 60,843,210

Capital Ratios and buffers (in percentage of risk weighted assets)

CET1 to total RWA	8.75%	11.67%
Tier-1 capital to total RWA	8.75%	11.67%
Total capital to RWA	10.26%	14.54%
Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)	-	-
of which: capital conservation buffer requirement	-	-
of which: countercyclical buffer requirement	-	-
of which: D-SIB or G-SIB buffer requirement	-	-
CET1 available to meet buffers (as a percentage of risk weighted assets)	-	-

National minimum capital requirements prescribed by SBP

CET1 minimum ratio	6.00%	6.00%
Tier 1 minimum ratio	7.50%	7.50%
Total capital minimum ratio	10.65%	10.25%

E+

40.4 Regulatory Adjustments and Additional Information

	Amount	Amounts subject to Pre- Basel III treatment	Amount	Amounts subject to Pre- Basel III treatment
	2016		2015	
-----Rupees in '000-----				
40.4.1 Common Equity Tier 1 capital: Regulatory adjustments				
- Goodwill (net of related deferred tax liability)	1,098,117	-	-	-
- All other intangibles (net of any associated deferred tax liability)	787,888	-	881,664	-
- Shortfall in provisions against classified assets	297,581	-	40,481	-
- Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	1,219,006	2,031,677	281,134	421,701
- Defined-benefit pension fund net assets	-	-	-	-
- Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities	-	-	-	-
- Cash flow hedge reserve	-	-	-	-
- Investment in own shares/ CET1 instruments	-	-	-	-
- Securitization gain on sale	-	-	-	-
- Capital shortfall of regulated subsidiaries	-	-	-	-
- Deficit on account of revaluation of investments classified as AFS	-	-	14,415	-
- Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	-
- Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	-	-
- Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	125,012	208,353	8,977	13,466
- Amount exceeding 15% threshold	-	-	-	-
- of which: significant investments in the common stocks of financial entities	-	-	-	-
- of which: deferred tax assets arising from temporary differences	-	-	-	-
- National specific regulatory adjustments applied to CET1 capital	-	-	-	-
- Investments in TFCs of other banks exceeding the prescribed limit	-	-	-	-
- Any other deduction specified by SBP	-	-	-	-
- Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-	-	-	-
Total regulatory adjustments applied to CET1	3,527,604	2,240,030	1,226,671	435,167

40.4.2 Additional Tier-1 & Tier-1 Capital: regulatory adjustments

- Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment]	-	-	-	-
- Investment in own AT1 capital instruments	-	-	-	-
- Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial and insurance entities	-	-	-	-
- Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	-
- Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-	-
- Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from additional tier-1 capital	-	-	-	-
- Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-	-	-
Total regulatory adjustment applied to AT1 capital	-	-	-	-

0.4.3 Tier 2 Capital: regulatory adjustments

Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital

Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities

Investment in own Tier 2 capital instrument

Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)

Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation

Total regulatory adjustment applied to T2 capital

-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-

0.4.4 Additional Information

2016

2015

Risk Weighted Assets subject to pre-Basel III treatment

Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment) of which: deferred tax assets

812,671

435,158

of which: Defined-benefit pension fund net assets

of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity

of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity

Amounts below the thresholds for deduction (before risk weighting)

Non-significant investments in the capital of other financial entities

Significant investments in the common stock of financial entities

Deferred tax assets arising from temporary differences (net of related tax liability)

30,156

28,972

676,959

669,071

Applicable caps on the inclusion of provisions in Tier 2

Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)

Cap on inclusion of provisions in Tier 2 under standardized approach

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

Cap for inclusion of provisions in Tier 2 under internal ratings-based approach

-
-
-
-

-
-
-
-

Step 1

As per published financial statements	Under regulatory scope of consolidation	As per published financial statements	Under regulatory scope of consolidation
2016		2015	

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

Assets

Cash and balances with treasury banks
Balanced with other banks
Due to financial institutions
Investments
Islamic financing and related assets
Operating fixed assets
Deferred tax assets
Other assets
Total assets

18,725,350	18,725,350	10,847,429	10,847,429
984,125	984,125	1,560,544	1,560,544
2,692,703	2,692,703	3,911,763	3,911,763
24,601,518	24,601,518	15,278,354	15,278,354
66,785,266	66,785,266	47,644,690	47,644,690
4,502,269	4,502,269	2,671,911	2,671,911
2,873,137	2,873,137	1,392,003	1,392,003
5,634,265	5,634,265	3,625,816	3,625,816
126,798,633	126,798,633	86,932,510	86,932,510

Liabilities

Bills payable
Due to financial institutions
Deposits and other accounts
Sub-ordinated loans
Liabilities against assets subject to finance lease
Deferred tax liabilities
Other liabilities
Total liabilities

1,386,390	1,386,390	883,698	883,698
3,223,109	3,223,109	2,108,255	2,108,255
105,843,084	105,843,084	71,644,386	71,644,386
1,428,568	1,428,568	3,756,734	3,756,734
-	-	-	-
-	-	-	-
3,527,979	3,527,979	2,266,200	2,266,200
115,409,130	115,409,130	80,659,273	80,659,273

Represented by

Share capital (including advance against issuance of shares and discount)
Reserves
Accumulated loss
Minority Interest
Surplus / (deficit) on revaluation of Investments-net of tax
Total equity

13,106,862	13,106,862	8,263,614	8,263,614
159,348	159,348	159,348	159,348
(2,281,369)	(2,281,369)	(2,135,310)	(2,135,310)
-	-	-	-
404,662	404,662	(14,415)	(14,415)
11,389,503	11,389,503	6,273,237	6,273,237

Total liabilities & equity

126,798,633	126,798,633	86,932,510	86,932,510
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Step 2

As per published financial statements	Under regulatory scope of consolidation	As per published financial statements	Under regulatory scope of consolidation	Ref
2016		2015		

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

Assets

Cash and balances with treasury banks
Balanced with other banks
Due from Financial institutions
Investments
of which: Non-significant investments in the capital instruments of
banking, financial and insurance entities exceeding 10% threshold
of which: significant investments in the capital instruments issued by
banking, financial and insurance entities exceeding regulatory threshold
of which: Mutual Funds exceeding regulatory threshold
of which: reciprocal crossholding of capital instrument (separate for CET1,
AT1, T2)
of which: others (mention details)
Islamic financing and related assets
shortfall in provisions against classified assets
general provisions reflected in Tier 2 capital
Operating fixed assets
Deferred Tax Assets
of which: DTAs that rely on future profitability excluding those arising from
temporary differences
of which: DTAs arising from temporary differences exceeding regulatory
threshold
Other assets
of which: Goodwill
of which: Intangibles
of which: Defined-benefit pension fund net assets
Total assets

18,725,350	18,725,350	10,847,429	10,847,429
984,125	984,125	1,560,544	1,560,544
2,692,703	2,692,703	3,911,763	3,911,763
24,601,518	24,601,518	15,278,354	15,278,354
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
66,785,266	66,785,266	47,644,690	47,644,690
297,581	297,581	40,481	40,481
86,969	86,969	28,386	28,386
4,502,269	4,502,269	2,671,911	2,671,911
2,873,137	2,873,137	1,392,003	1,392,003
2,031,677	2,031,677	702,835	702,835
885,312	885,312	8,978	8,978
5,634,265	5,634,265	3,625,816	3,625,816
1,098,117	1,098,117	-	-
787,888	787,888	881,664	881,664
-	-	-	-
126,798,633	126,798,633	86,932,510	86,932,510

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Step 2

Liabilities & Equity

	As per published financial statements 2016	Under regulatory scope of consolidation	As per published financial statements 2015	Under regulatory scope of consolidation 2015	Ref
	-----Rupees in '000-----				
Bills payable	1,386,390	1,386,390	883,698	883,698	
Due to Financial institutions	3,223,109	3,223,109	2,108,255	2,108,255	
Deposits and other accounts	105,843,084	105,843,084	71,644,386	71,644,386	
Sub-ordinated loans	1,428,568	1,428,568	3,756,734	3,756,734	
of which: eligible for inclusion in AT1	-	-	2,042,450	2,042,450	m
of which: eligible for inclusion in Tier 2	1,428,568	1,428,568	1,714,284	1,714,284	n
Liabilities against assets subject to finance lease	-	-	-	-	
Deferred tax liabilities	-	-	-	-	
of which: DTLs related to goodwill	-	-	-	-	o
of which: DTLs related to intangible assets	-	-	-	-	p
of which: DTLs related to defined pension fund net assets	-	-	-	-	q
of which: other deferred tax liabilities	-	-	-	-	r
Other liabilities	3,527,979	3,527,979	2,266,200	2,266,200	
Total liabilities	115,409,130	115,409,130	80,659,273	80,659,273	
Share capital					
of which: amount eligible for CET1	13,106,862	13,106,862	8,263,614	8,263,614	s
of which: amount eligible for AT1	-	-	-	-	t
Reserves	159,348	159,348	159,348	159,348	u
of which: portion eligible for inclusion in CET1 (provide breakup)	159,348	159,348	159,348	159,348	v
of which: portion eligible for inclusion in Tier 2	-	-	-	-	w
Accumulated losses	(2,281,369)	(2,281,369)	(2,135,310)	(2,135,310)	
Minority Interest	-	-	-	-	x
of which: portion eligible for inclusion in CET1	-	-	-	-	y
of which: portion eligible for inclusion in AT1	-	-	-	-	z
of which: portion eligible for inclusion in Tier 2	-	-	-	-	
Surplus on revaluation of assets					
of which: Revaluation reserves on Fixed Assets	404,662	404,662	-	-	aa
of which: Unrealized Gains/Losses on AFS	-	-	(14,415)	(14,415)	ab
In case of Deficit on revaluation (deduction from CET1)	-	-	-	-	
Total equity and liabilities	11,389,503	11,389,503	6,273,237	6,273,237	
Total Equity	126,798,633	126,798,633	86,932,510	86,932,510	

Step 3

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

Share capital (including advance against issuance of shares)	13,739,628		11,073,354	
Discount against issuance of shares	(632,766)	(s)	(767,290)	(s)
Reserve for issue of Bonus Shares	-		-	
Statutory Reserves	159,348	(u)	159,348	(u)
Gain/(Losses) on derivatives held as Cash Flow Hedge	-		-	
Accumulated losses	(2,281,369)	(w)	(2,135,310)	(w)
Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	(x)	-	(x)
CET 1 before Regulatory Adjustments	10,984,841		8,330,102	

Common Equity Tier 1 capital: Regulatory adjustments

Goodwill (net of related deferred tax liability)	1,098,117	(j) - (o)	-	(j) - (o)
All other intangibles (net of any associated deferred tax liability)	787,888	(k) - (p)	881,664	(k) - (p)
Shortfall of provisions against classified assets	297,581	(f)	40,481	(f)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	1,219,006	{{(h) - (r)} * 60%	281,134	{{(h) - (r)} * 40%
Defined-benefit pension fund net assets	-	{{(l) - (q)} * 0%	-	{{(l) - (q)} * 0%
Reciprocal cross holdings in CET1 capital instruments	-	(d)	-	(d)
Cash flow hedge reserve	-		-	
Investment in own shares/ CET1 instruments	-		-	
Securitization gain on sale	-		-	
Capital shortfall of regulated subsidiaries	-		-	
Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	-	(ab)	14,415	(ab)
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(a) - (ac) - (ae)	-	(a) - (ac) - (ae)
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	(b) - (ad) - (af)	-	(b) - (ad) - (af)
Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	125,012	(i)	8,977	(i)
Amount exceeding 15% threshold	-		-	
of which: significant investments in the common stocks of financial entities	-		-	
of which: deferred tax assets arising from temporary differences	-		-	
National specific regulatory adjustments applied to CET1 capital	-		-	
of which: Investment in TFCs of other banks exceeding the prescribed limit	-		-	
of which: Any other deduction specified by SBP (mention details)	-		-	
Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-		-	
Total regulatory adjustments applied to CET1	3,527,604		1,226,671	

Common Equity Tier 1	7,457,237		7,103,431	
Additional Tier 1 (AT 1) Capital				
Qualifying Additional Tier-1 Instruments plus any related share premium				
of which: Classified as equity		(t)	-	(t)
of which: Classified as liabilities	-		-	
Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-	(y)	-	(y)
of which: instrument issued by subsidiaries subject to phase out	-		-	
AT1 before regulatory adjustments	-		-	
Additional Tier 1 Capital: regulatory adjustments				
Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-		-	
Investment in own AT1 capital instruments	-		-	
Reciprocal cross holdings in Additional Tier 1 capital instruments	-		-	
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ac)	-	(ac)
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(ad)	-	(ad)
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital	-		-	
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-		-	
Total of Regulatory Adjustment applied to AT1 capital	-		-	
Additional Tier 1 capital	-		-	
Additional Tier 1 capital recognized for capital adequacy	-		-	
Tier 1 Capital (CET1 + admissible AT1)	7,457,237		7,103,431	
Tier 2 Capital				
Qualifying Tier 2 capital instruments under Basel III plus any related share premium	1,142,854	(n)	1,714,284	(n)
Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-		-	
Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	-	(z)	-	(z)
of which: instruments issued by subsidiaries subject to phase out	-		-	
General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	86,969	(g)	28,386	(g)
Revaluation Reserves	-		-	
of which: Revaluation reserves on fixed assets	-		-	
of which: Unrealized Gains/Losses on AFS	58,985	portion of (aa)	-	portion of (aa)
Foreign Exchange Translation Reserves	-	(v)	-	(v)
Undisclosed/Other Reserves (if any)	-		-	
T2 before regulatory adjustments	1,288,808		1,742,670	
Tier 2 Capital: regulatory adjustments				
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	-		-	
Reciprocal cross holdings in Tier 2 instruments	-		-	
Investment in own Tier 2 capital instrument	-		-	
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ae)	-	(ae)
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(af)	-	(af)
Amount of Regulatory Adjustment applied to T2 capital	-		-	
Tier 2 capital (T2)	1,288,808		1,742,670	
Tier 2 capital recognized for capital adequacy	1,288,808		1,742,670	
Excess Additional Tier 1 capital recognized in Tier 2 capital	-		-	
Total Tier 2 capital admissible for capital adequacy	1,288,808		1,742,670	
TOTAL CAPITAL (T1 + admissible T2)	8,746,045		8,846,101	

40.6 Risk-Weighted Exposures

Risk-Weighted Exposures	2016	2015		
	-----Rupees in '000-----			
Credit Risk	Capital Requirement	Risk weighted Assets	Capital Requirement	Risk weighted Assets
On-Balance sheet				
Portfolios subject to standardized approach (Simple or Comprehensive)				
Cash and cash equivalents	-	-	-	-
Sovereign	234	2,336	448	3,199
Public Sector entities	50,563	505,628	53,284	380,598
Banks	128,405	1,284,047	111,326	795,184
Corporate	4,342,225	43,422,254	5,321,939	38,013,852
Retail	638,049	6,380,493	239,471	1,710,508
Residential mortgages	127,566	1,275,662	58,312	416,516
Past due loans	384,002	3,840,019	171,782	1,227,012
Operating fixed assets	261,627	2,616,272	250,634	1,790,246
Other assets	813,308	8,133,077	795,806	5,684,327
	6,745,979	67,459,788	7,003,002	50,021,442
Portfolios subject to Internal Rating Based (IRB) Approach				
Corporate, Sovereign, Corporate, Retail, Securitization etc.	-	-	-	-
Off-Balance sheet				
Non-market related				
Financial guarantees, acceptances, performance related commitments, trade related etc.	798,160	7,981,603	693,942	4,956,728
Market related				
Foreign exchange contracts	3,513	35,127	4,634	33,098
Equity Exposure Risk in the Banking Book				
Under simple risk weight method				
- Listed	5,529	55,288	10,140	72,429
- Unlisted	7,539	75,390	7,922	56,587
Under Internal models approach				
Market Risk				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	7,178	71,778	6,344	45,317
Equity position risk	155,938	1,559,378	68,762	491,157
Foreign Exchange risk	4,923	49,232	5,611	40,075
Capital Requirement for portfolios subject to Internal Models Approach	-	-	-	-
Operational Risk				
Capital Requirement for operational risks	794,770	7,947,695	717,693	5,126,377
	1,777,550	17,775,491	1,515,048	10,821,768
Total Risk-Weighted Exposures	8,523,529	85,235,279	8,518,050	60,843,210

40.6.1 Capital Adequacy Ratios

	2016		2015	
	Required	Actual	Required	Actual
CET1 to total RWA	6.00%	8.75%	6.00%	11.67%
Tier-1 capital to total RWA	7.50%	8.75%	7.50%	11.67%
Total capital to total RWA	10.65%	10.26%	10.25%	14.54%

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40.7 Main Features Template of Regulatory Capital Instruments

		COMMON SHARES	TIER II SUKUK
1	Issuer	Al Baraka Bank (Pakistan) Limited	Al Baraka Bank (Pakistan) Limited
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	Not Applicable	AlBaraka Bank (Pakistan) Limited - Tier II Sukuk
3	Governing law(s) of the instrument	Laws applicable in Pakistan	Laws applicable in Pakistan
Regulatory treatment			
4	Transitional Basel III rules	Common equity Tier 1	Tier 2
5	Post-transitional Basel III rules	Common equity Tier 1	Ineligible
6	Eligible at solo / group / group&solo	Solo	Solo
7	Instrument type	Common shares	Subordinated Debt
8	Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting date)	7,457,237	1,142,854
9	Par value of instrument	Rs 10 per share	Rs 1 million per certificate
10	Accounting classification	Shareholder equity	Liability - subordinated loans
11	Original date of issuance	2005-2016	September 2014
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	26 September 2021
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	Not Applicable	25 September 2019
16	Subsequent call dates, if applicable	Not Applicable	Any time after the option call date
Coupons / dividends			
17	Fixed or floating dividend/ coupon	Not Applicable	Floating
18	coupon rate and any related index/ benchmark	Not Applicable	6 months Kibor + 1.25% per annum
19	Existence of a dividend stopper	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully Discretionary	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Non cumulative	Non cumulative
23	Convertible or non-convertible	Non Convertible	Convertible
24	If convertible, conversion trigger (s)	Not Applicable	The Instrument is subject to loss absorbency, under which SBP may convert the instrument, fully or partially, into common ordinary shares upon the occurrence of a non-viability trigger event (the "PONV"). The conversion shall be based on the price as agreed with SBP.
25	If convertible, fully or partially	Not Applicable	May convert fully or partially upon the occurrence of PONV.
26	If convertible, conversion rate	Not Applicable	To be determined in the case of Trigger event.
27	If convertible, mandatory or optional conversion	Not Applicable	Mandatory
28	If convertible, specify instrument type convertible into	Not Applicable	Common Equity Tier 1
29	If convertible, specify issuer of instrument it converts into	Not Applicable	AlBaraka Bank (Pakistan) Limited
30	Write-down feature	NO	
31	If write-down, write-down trigger(s)	Not Applicable	The Instrument is subject to loss absorbency, under which SBP, may either convert into common ordinary shares or immediately write off upon the occurrence of a non-viability trigger event (the "PONV").
32	If write-down, full or partial	Not Applicable	May be written down fully or may be written off partially
33	If write-down, permanent or temporary	Not Applicable	Permanent
34	If temporary write-down, description of write-up mechanism	Not Applicable	Not Applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated debt as shareholders' equity represents residual interest	Subordinate to all other indebtedness to the Bank including depositors
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	Not Applicable	Not Applicable

0.8 Leverage ratio

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

	2016	2015
	Rupees in '000	
Tier-1 Capital	7,457,237	7,103,432
Total Exposures	142,028,873	99,035,459
Leverage Ratio	5.25%	7.17%

41. RISK MANAGEMENT

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

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

- Credit risk is the risk of loss resulting from client or counterparty default (note 41.1).
- Market risk is exposure to market variables such as benchmark rates, exchange rates and equity indices (note 43).
- Liquidity risk is the potential loss arising from Bank's inability to meet its obligations when due (note 45).
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events and Shariah non compliance (note 47).

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

Risk management principles

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

Risk management organization

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

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

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

Name of the committees**Chaired by**

Credit committee
Asset and liability management committee (ALCO)

Chief Executive Officer
Chief Executive Officer

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

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

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

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

41.1 Credit Risk

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

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

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

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

The Board of Directors has approved the Internal Credit Risk Rating Policy for customers, establishing a rating mechanism for identifying and measuring the credit risk against each obligor / transaction. The mechanism considers factors such as management, financial health and macro / micro economic factors and the facility structuring. The Internal Credit Risk Rating System which has been implemented in the Bank assigns risk grades to credit portfolio in nine categories whereas three grades have been assigned to classified Islamic financing and related assets. The system has played a significant role in the decision making, monitoring and capital adequacy processes relating to credit risk management.

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

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

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

41.1.1 Segmental information

41.1.1.1 Segments by class of business

	2016					
	Islamic financing and related assets (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Agriculture, forestry, hunting and fishing	1,533,866	2.16%	793,821	0.75%	2,235,087	9.15%
Mining and quarrying	1,124,644	1.58%	361,991	0.34%	19,000	0.08%
Textile	8,490,615	11.94%	1,529,161	1.44%	598,391	2.45%
Chemical and pharmaceuticals	6,467,564	9.10%	1,628,474	1.54%	2,737,750	11.21%
Cement	250,000	0.35%	106,310	0.10%	118,839	0.49%
Sugar	2,511,371	3.53%	520,586	0.49%	45,238	0.19%
Footwear and leather garments	797,436	1.12%	297,342	0.28%	129,139	0.53%
Automobile and transportation equipment	971,248	1.37%	310,648	0.29%	452,609	1.85%
Electronics and electrical appliances	1,902,529	2.68%	641,006	0.61%	1,075,602	4.40%
Construction	1,763,022	2.48%	2,093,462	1.98%	2,108,514	8.63%
Power (electricity), gas, water and sanitary	2,978,349	4.19%	168,253	0.16%	357,963	1.47%
Wholesale and retail trade	3,011,697	4.24%	351,559	0.33%	1,588,774	6.50%
Exports / imports	760,341	1.07%	969,762	0.92%	459,165	1.88%
Transport, storage and communication	1,868,448	2.63%	525,000	0.50%	96,593	0.40%
Financial	311,092	0.44%	10,632,448	10.05%	7,184,555	29.41%
Insurance	-	0.00%	517,035	0.49%	-	0.00%
Services	5,247,872	7.38%	11,665,264	11.02%	673,585	2.76%
Individuals / staff	13,186,495	18.55%	46,556,707	43.99%	350	0.00%
Food products and beverages	7,871,588	11.07%	639,460	0.60%	481,032	1.97%
Others	10,042,011	14.13%	25,534,795	24.12%	4,067,214	16.65%
	71,090,188	100.00%	105,843,084	100.00%	24,429,400	100.00%

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2015					
Islamic financing and related assets (Gross)		Deposits		Contingencies and commitments	
Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
1,118,080	2.21%	784,072	1.09%	163,937	1.03%
162,981	0.32%	1,001,098	1.40%	-	0.00%
6,687,114	13.23%	1,263,951	1.76%	546,871	3.44%
6,009,172	11.89%	1,773,145	2.47%	2,273,059	14.31%
311,207	0.62%	441,232	0.62%	67,281	0.42%
3,487,646	6.90%	313,985	0.44%	19,796	0.12%
860,047	1.70%	341,715	0.48%	147,707	0.93%
1,255,193	2.48%	40,429	0.06%	248,954	1.57%
1,464,871	2.90%	324,031	0.45%	1,198,822	7.55%
1,833,644	3.63%	903,871	1.26%	1,436,435	9.04%
3,041,464	6.02%	75,282	0.11%	398,335	2.51%
2,048,237	4.05%	1,493,382	2.08%	593,367	3.74%
1,155,219	2.29%	793,642	1.11%	208,394	1.31%
1,741,255	3.44%	269,079	0.38%	99,856	0.63%
216,549	0.43%	3,609,229	5.04%	4,599,439	28.95%
-	0.00%	475,212	0.66%	-	0.00%
4,330,884	8.57%	9,666,836	13.49%	180,519	1.14%
3,357,643	6.64%	32,217,476	44.97%	7,000	0.04%
6,450,914	12.76%	6,847,147	9.56%	939,150	5.91%
5,016,022	9.92%	9,009,572	12.57%	2,756,931	17.36%
50,548,142	100.00%	71,644,386	100.00%	15,885,853	100.00%

41.1.1.2 Segment by sector

		2016					
		Islamic financing and related assets (Gross)		Deposits		Contingencies and commitments	
		Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Public / government		5,921,170	8.33%	3,753,126	3.55%	1,628,111	6.66%
Private		65,169,018	91.67%	102,089,958	96.45%	22,801,289	93.34%
		71,090,188	100.00%	105,843,084	100.00%	24,429,400	100.00%

		2015					
		Islamic financing and related assets (Gross)		Deposits		Contingencies and commitments	
		Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Public / government		1,931,211	3.82%	3,154,018	4.40%	252,717	1.59%
Private		48,616,931	96.18%	68,490,368	95.60%	15,633,136	98.41%
		50,548,142	100.00%	71,644,386	100.00%	15,885,853	100.00%

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

	2016		2015	
	Classified Islamic Financing	Specific Provisions Held	Classified Islamic Financing	Specific Provisions Held
	(Rupees in '000)			
Agriculture, forestry, hunting and fishing	353,202	335,665	34,751	30,995
Mining and quarrying	70,542	-	-	-
Chemical and pharmaceuticals	319,637	195,185	496,838	198,563
Textile	2,895,605	2,544,635	1,835,637	1,657,729
Sugar	962,521	110,600	329,644	40,980
Footwear and leather garments	60,080	34,872	40,591	34,873
Electronics and electrical appliances	349,621	48,239	25,731	21,595
Construction	116,022	21,937	378,536	294,761
Power (electricity), gas, water and sanitary	4,062	4,062	4,062	4,062
Wholesale / retail trade	181,691	109,151	210,844	111,153
Exports / imports	96,612	70,105	102,619	93,963
Transport, storage and communication	98,500	55,609	101,666	39,459
Financial	107,137	74,456	1,898	926
Services	376,900	51,955	85,215	60,443
Individuals	310,108	153,820	81,848	41,596
Food products and beverages	356,365	56,077	105,377	56,077
Others	487,422	351,585	207,304	187,891
	7,146,027	4,217,953	4,042,561	2,875,066

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

	2016		2015	
	Classified Islamic financing	Specific Provisions Held	Classified Islamic financing	Specific provisions held
	(Rupees in '000)			
Public / government	-	-	-	-
Private	7,146,027	4,217,953	4,042,561	2,875,066
	7,146,027	4,217,953	4,042,561	2,875,066

41.2 Credit Risk – General Disclosures

The Bank has adopted Standardised Approach, under Basel III.

41.3 Credit Risk: Standardized Approach

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

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

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

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

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

Exposure	Rating category No.	Amount outstanding	Deduction CRM* Rupees in '000	Net Amount
Corporate	1	2,735,191	293,557	2,441,634
	2	2,243,171	36,401	2,206,770
	3,4	80,754	-	80,754
	Unrated-1	29,804,111	1,411,120	28,392,991
	Unrated-2	11,531,447	1,037,419	10,494,028
		46,394,674	2,778,497	43,616,177
Banks	1,2,3	4,768,231	-	4,768,231
Sovereigns etc.		35,379,217	-	35,379,217
Public sector enterprises	1	2,682,277	2,682,277	-
	2,3	1,011,739	484	1,011,255
	Unrated	6,637,884	6,637,884	-
		10,331,900	9,320,645	1,011,255
Others		25,975,871	1,076,367	24,899,504
Total		122,849,893	13,175,509	109,674,384

* CRM= Credit Risk Mitigation

Main types of collateral taken by the Bank are:

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

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

41.4 Equity position in the banking and trading book

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

Trading book

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

Banking book

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

42. GEOGRAPHICAL SEGMENT ANALYSIS

	2016			
	Loss before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
Pakistan	Rupees in '000			
	(100,748)	126,798,633	11,389,503	24,429,400
	(100,748)	126,798,633	11,389,503	24,429,400
	2015			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
Pakistan	Rupees in '000			
	406,609	86,932,510	6,273,237	15,885,853
	406,609	86,932,510	6,273,237	15,885,853

43. MARKET RISK

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

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

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

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

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

43.2 Foreign Exchange Risk

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

	2016				2015			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000							
Pakistan rupee	122,258,283	109,899,471	(1,723,661)	10,635,151	82,162,304	74,317,865	(1,605,378)	6,239,061
United States dollar	4,018,270	3,792,079	1,157,200	1,383,391	4,509,118	5,724,816	1,079,163	(136,535)
Great Britain pound	245,112	483,776	404,198	165,534	101,649	341,888	335,321	95,082
Euro	79,183	1,108,627	237,766	(791,678)	61,850	188,037	183,923	57,736
Arab Emirates Dirham	171,855	105,612	(71,621)	(5,378)	84,830	67,649	-	17,181
Japanese Yen	23,611	19,565	-	4,046	11,356	19,018	6,971	(691)
Canadian Dollar	1,110	-	(3,882)	(2,772)	-	-	-	-
Saudi Riyal	160	-	-	160	-	-	-	-
Singapore Dollar	22	-	-	22	-	-	-	-
Swiss Frank	1,027	-	-	1,027	1,403	-	-	1,403
	126,798,633	115,409,130	-	11,389,503	86,932,510	80,659,273	-	6,273,237

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

43.3 Equity position risk

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

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

44. MISMATCH OF YIELD RATE SENSITIVE ASSETS AND LIABILITIES

2016

Exposed to Yield/ profit rate risk

Effective yield	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-profit bearing financial instruments

On-balance sheet financial instruments

Assets											
Cash and balances with treasury banks	18,725,350	697,457	-	-	-	-	-	-	-	-	18,725,350
Balances with other banks	984,125	-	-	-	-	-	-	-	-	-	286,668
Due from financial institutions	2,692,703	2,692,703	-	-	-	-	-	-	-	-	-
Investments	24,601,518	240,308	-	22,368,816	-	-	8,981	1,048,426	-	-	934,987
Islamic financing and related assets	66,785,266	14,136,367	20,379,194	16,406,400	11,061,946	826,773	182,350	174,663	334,517	433,951	2,849,105
Other assets	4,415,388	-	-	-	-	-	-	-	-	-	4,415,388
	118,204,350	15,074,132	23,071,897	38,775,216	11,061,946	826,773	191,331	1,223,089	334,517	433,951	27,211,498
Liabilities											
Bills payable	1,386,390	61,800	1,732,800	1,428,509	-	-	-	-	-	-	1,386,390
Due to financial institutions	3,223,109	80,149,754	-	-	-	-	-	-	-	-	25,693,330
Deposits and other accounts	105,843,084	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans	1,428,568	1,428,568	-	-	-	-	-	-	-	-	3,496,464
Other liabilities	3,496,464	-	-	-	-	-	-	-	-	-	3,496,464
	115,377,615	80,211,554	3,161,368	1,428,509	-	-	-	-	-	-	3,576,184
Finance sheet gap	2,826,735	(65,137,422)	19,910,529	37,346,707	11,061,946	826,773	191,331	1,223,089	334,517	433,951	(3,364,686)

Non financial assets	4,502,269
Operating fixed assets	1,218,877
Other assets	2,873,137
Deferred tax assets	8,594,283

Non financial liabilities	31,515
Other liabilities	-

Total net assets	11,389,503
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Off-balance sheet financial instruments

Forward lendings	-	-	-	-	-	-	-	-	-	-	-
Forward borrowings	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap	-	-	-	-	-	-	-	-	-	-	-

Total yield / profit risk sensitivity gap

(65,137,422) 19,910,529 37,346,707 11,061,946 826,773 191,331 1,223,089 334,517 433,951 (3,364,686)

Cumulative yield / profit risk sensitivity gap

(65,137,422) (45,226,893) (7,880,186) 3,181,760 4,008,533 4,199,864 5,422,953 5,757,470 6,191,421 2,826,735

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

2015

Exposed to Yield/ profit rate risk

On-balance sheet financial instruments	Effective yield	Rupees in '000											Non-profit bearing financial instruments
		Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years		
Assets													
Cash and balances with treasury banks	-	10,847,429	-	-	-	-	-	-	-	-	-	-	10,847,429
Balances with other banks	5.92%	1,560,544	1,041,214	-	-	-	-	-	-	-	-	-	519,330
Due from financial institutions	6.00%	1,831,716	-	-	-	-	-	-	-	-	-	-	-
Investments	5.02%	17,358,401	1,000,000	1,329,038	502,678	2,080,047	-	-	-	-	-	-	331,138
Islamic financing and related assets	9.25%	47,644,690	9,718,354	544,912	13,402,304	6,373,089	198,765	50,251	382,673	187,137	237,988	-	2,989,153
Other assets	-	3,052,218	-	-	-	-	-	-	-	-	-	-	3,052,218
		82,294,998	11,759,568	6,690,724	36,595,488	8,453,136	198,765	50,251	382,673	187,137	237,988	-	17,739,268
Liabilities													
Bills payable	-	883,698	-	-	-	-	-	-	-	-	-	-	883,698
Due to financial institutions	3.93%	2,108,255	110,590	1,106,065	891,600	-	-	-	-	-	-	-	-
Deposits and other accounts	4.63%	71,644,386	54,040,934	-	-	-	-	-	-	-	-	-	17,603,452
Sub-ordinated loans	7.85%	3,756,734	-	1,714,284	-	-	-	-	-	-	-	-	2,042,450
Other liabilities	-	2,252,493	-	-	-	-	-	-	-	-	-	-	2,252,493
		80,645,566	54,151,524	2,820,349	891,600	-	-	-	-	-	-	-	22,782,093
On-balance sheet gap		1,649,432	(42,391,956)	3,870,375	35,703,888	8,453,136	198,765	50,251	382,673	187,137	237,988	-	(5,042,825)

Non financial assets

Operating fixed assets	2,671,911
Other assets	573,598
Deferred tax asset	1,392,003
	4,637,512

Non financial liabilities

Other liabilities	13,707
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Total net assets	6,273,237
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Off-balance sheet financial instruments

Forward lendings	-	-	-	-	-	-	-	-	-	-	-	-
Forward borrowings	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap	-	-	-	-	-	-	-	-	-	-	-	-

Total yield / profit risk sensitivity gap

	(42,391,956)	3,870,375	35,703,888	8,453,136	198,765	50,251	382,673	187,137	237,988	(5,042,825)
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Cumulative yield / profit risk sensitivity gap

	(42,391,956)	(38,521,581)	(2,817,693)	5,635,443	5,834,208	5,884,459	6,267,132	6,454,269	6,692,257	1,649,432
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Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

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

45. LIQUIDITY RISK

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

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

46. MATURITIES OF ASSETS AND LIABILITIES**46.1 Maturities of assets and liabilities based on expected maturities**

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

2016

	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Rupees in '000										
ASSETS										
Cash and balances with treasury banks	18,725,350	18,725,350	-	-	-	-	-	-	-	-
Balances with other banks	984,125	984,125	-	-	-	-	-	-	-	-
Due from financial institutions	2,692,703	-	2,692,703	-	-	-	-	-	-	-
Investments	24,601,518	886,171	30,156	13,974,274	61,975	2,707,666	2,333,981	2,007,295	2,600,000	-
Islamic financing and related assets	66,785,266	13,013,281	9,297,719	9,952,866	6,497,529	8,536,495	7,460,114	8,961,533	1,844,143	1,221,586
Operating fixed assets	4,502,269	18,196	36,387	617,814	109,160	218,320	219,647	331,321	528,609	2,422,815
Deferred tax assets	2,873,137	-	-	-	50,743	282,316	653,543	1,017,971	868,564	-
Other assets	5,634,265	1,243,191	846,837	534,572	2,080,281	411,143	71,494	436,871	9,875	-
	126,798,633	34,870,314	12,903,802	25,079,526	8,799,688	12,155,940	10,738,779	12,754,991	5,851,192	3,644,401
LIABILITIES										
Bills payable	1,386,390	1,386,390	-	-	-	-	-	-	-	-
Due to financial institutions	3,223,109	61,800	1,732,800	1,428,509	-	-	-	-	-	-
Deposits and other accounts	105,843,084	14,950,322	15,959,235	8,722,394	12,167,426	12,579,337	12,537,063	13,095,028	11,874,209	3,958,070
Sub-ordinated loans	1,428,568	-	142,857	-	142,857	285,714	285,714	571,427	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	3,527,979	1,372,265	717,883	45,292	97,885	260,894	353,131	680,023	606	-
	115,409,130	17,770,777	18,552,775	10,196,195	12,408,168	13,125,945	13,175,908	14,346,478	11,874,815	3,958,070
NET ASSETS	11,389,503	17,099,537	(5,648,973)	14,883,331	(3,608,480)	(970,005)	(2,437,129)	(1,591,487)	(6,023,623)	(313,669)
REPRESENTED BY										
Share capital	13,739,628									
Advance against issuance of shares	-									
Discount on issuance of shares - net	(632,766)									
Reserves	159,348									
Accumulated loss	(2,281,369)									
Surplus on revaluation of assets - net of tax	404,662									
	11,389,503									

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

2015

	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	Rupees in '000									
ASSETS										
Cash and balances with treasury banks	10,847,429	8,804,979	-	-	-	2,042,450	-	-	-	-
Balances with other banks	1,560,544	1,560,544	-	-	-	-	-	-	-	-
Due from financial institutions	1,831,716	-	1,329,038	502,678	-	-	-	-	-	-
Investments	17,358,401	294,481	573,884	-	2,080,047	12,466,643	-	1,000,000	943,346	-
Islamic financing and related assets	47,644,690	7,999,234	5,904,447	12,031,168	3,873,689	4,953,464	4,438,785	6,423,344	1,701,909	318,650
Operating fixed assets	2,671,911	14,087	28,174	348,007	84,522	169,043	169,343	318,314	207,241	1,333,180
Deferred tax assets	1,392,003	-	-	-	-	-	1,392,003	-	-	-
Other assets	3,625,816	473,967	552,565	330,346	1,111,799	681,005	469,829	6,305	-	-
	86,932,510	19,147,292	8,388,108	13,212,199	7,150,057	20,312,605	6,469,960	7,747,963	2,852,496	1,651,830
LIABILITIES										
Bills payable	883,698	883,698	-	-	-	-	-	-	-	-
Due to financial institutions	2,108,255	110,589	1,106,066	891,600	-	-	-	-	-	-
Deposits and other accounts	71,644,386	7,432,019	9,888,280	6,865,263	9,415,959	9,020,649	8,766,027	9,420,954	3,126,426	2,708,809
Subordinated loans	3,756,734	-	142,857	-	142,857	2,328,164	285,714	571,428	285,714	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	2,266,200	616,321	322,975	25,991	159,884	223,717	386,244	512,146	18,922	-
	80,659,273	9,042,627	11,460,176	7,782,854	9,718,700	11,572,530	9,437,985	10,504,528	8,431,062	2,708,809
NET ASSETS	6,273,237	10,104,665	(3,072,070)	5,429,345	(2,568,643)	8,740,075	(2,968,025)	(2,756,565)	(5,578,566)	(1,056,979)

46.2 Maturities of assets and liabilities based on contractual maturities

2016

Rupees in '000										
Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
ASSETS										
Cash and balances with treasury banks	18,725,350	18,725,350	-	-	-	-	-	-	-	-
Balances with other banks	984,125	984,125	-	-	-	-	-	-	-	-
Due from financial institutions	2,692,703	2,692,703	-	-	-	-	-	-	-	-
Investments	24,601,518	886,171	30,156	13,974,274	61,975	2,707,666	2,333,981	2,007,295	2,600,000	-
Islamic financing and related assets	66,785,266	13,013,281	9,297,719	9,952,866	6,497,529	8,536,495	7,460,114	8,961,533	1,844,143	1,221,586
Operating fixed assets	4,502,269	18,196	36,387	617,814	109,160	218,320	219,647	331,321	528,609	2,422,815
Deferred tax assets	2,873,137	-	-	-	50,743	282,316	653,543	1,017,971	868,564	-
Other assets	5,634,265	1,243,191	846,837	534,572	2,080,281	411,143	71,494	436,871	9,876	-
	126,793,633	34,870,314	12,903,802	25,079,526	8,799,688	12,155,940	10,738,779	12,754,991	5,851,192	3,644,401
LIABILITIES										
Bills payable	1,386,390	1,386,390	-	-	-	-	-	-	-	-
Due to financial institutions	3,223,109	61,800	1,732,800	1,428,509	-	-	-	-	-	-
Deposits and other accounts	105,843,084	86,195,575	9,626,324	3,181,097	4,251,287	705,128	662,854	1,220,819	-	-
Sub-ordinated loans	1,428,568	-	142,857	-	142,857	285,714	285,714	571,427	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	3,527,979	1,372,265	717,883	45,292	97,885	260,894	353,131	680,023	606	-
	115,409,130	89,016,030	12,219,864	4,654,898	4,492,029	1,251,736	1,301,699	2,472,269	606	-
NET ASSETS	11,389,503	(54,145,716)	683,938	20,424,628	4,307,659	10,904,204	9,437,080	10,282,722	5,850,586	3,644,401

REPRESENTED BY

Share capital	13,739,628
Advance against issuance of shares	-
Discount on issuance of shares - net	(632,766)
Reserves	159,348
Accumulated Loss	(2,281,369)
Surplus on revaluation of assets - net of tax	404,662
	<u>11,389,503</u>

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

2015

	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Rupees in '000										
ASSETS										
Cash and balances with treasury banks	10,847,429	8,804,979	-	-	-	2,042,450	-	-	-	-
Balances with other banks	1,560,544	1,560,544	-	-	-	-	-	-	-	-
Due from financial institutions	1,831,716	-	1,329,038	502,678	-	-	-	-	-	-
Investments	17,358,401	294,481	573,884	-	2,080,047	12,466,643	-	1,000,000	943,346	-
Islamic financing and related assets	47,644,690	7,999,234	5,904,447	12,031,168	3,873,689	4,953,464	4,438,785	6,423,344	1,701,909	318,650
Operating fixed assets	2,671,911	14,087	28,174	348,007	84,522	169,043	169,343	318,314	207,241	1,333,180
Deferred tax assets	1,392,003	-	-	-	-	-	1,392,003	-	-	-
Other assets	3,625,816	473,967	552,565	330,346	1,111,799	681,005	469,829	6,305	-	-
	86,932,510	19,147,292	8,388,108	13,212,199	7,150,057	20,312,605	6,469,960	7,747,963	2,852,496	1,651,830
LIABILITIES										
Bills payable	883,698	883,698	-	-	-	-	-	-	-	-
Due to financial institutions	2,108,255	110,589	1,106,066	891,600	-	-	-	-	-	-
Deposits and other accounts	71,644,386	56,190,574	5,554,187	3,072,931	3,998,342	894,223	639,601	1,294,528	-	-
Sub-ordinated loans	3,756,734	-	142,857	-	142,857	2,328,164	285,714	571,428	285,714	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	2,266,200	616,321	322,975	25,991	159,884	223,717	386,244	512,146	18,922	-
	80,659,273	57,801,182	7,126,085	3,990,522	4,301,083	3,446,104	1,311,559	2,378,102	304,636	-
NET ASSETS	6,273,237	(38,653,890)	1,262,023	9,221,677	2,848,974	16,866,501	5,158,401	5,369,861	2,547,860	1,651,830

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

47. OPERATIONAL RISK

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

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

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

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

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

48. PROFIT / (LOSS) DISTRIBUTION TO DEPOSITOR'S POOL**48.1 General remunerative depositors' pools / IERS pools / Treasury Pools**

2016

Remunerative pools	Period	Profit sharing ratio (average)	Profit rate and weightage announcement period	Mudarib share (Rupees in '000)	Percentage of Mudarib Share transferred through Hiba	Profit rate return earned	Profit rate return distributed
General Pool - PKR	Jan to Dec 2016	39%	Monthly	1,479,616	17.6%	6.7%	4.6%
General Pool - FCY	Jan to Dec 2016	65%	Monthly	16,456	32.1%	1.0%	0.6%
Islamic Export Refinance Pool	Jan to Dec 2016	82%	Monthly	-	-	5.9%	2.3%
Treasury Pool	Jan to Dec 2016	81%	Variable	-	-	9.4%	5.5%

Remunerative Pools (Ex-Burj Bank Limited)

General Pool	Nov to Dec 2016	50%	Monthly	1,359,091	5.9%	8.3%	4.1%
Islamic Export Refinance Pool	Nov to Dec 2016	84%	Monthly	-	-	6.2%	2.0%

49. COMPLAINT MANAGEMENT**49.1 Mechanism of the Complaint Management Unit**

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

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

49.2 Lodgement of complaints

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

The Bank receive complaints from following sources :

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

During 2016, the Bank received 3,879 complaints through different channels, out of which 97% were investigated and resolved. The Bank follows defined standards, practices and regulatory requirements in resolution of complaints lodged with the Bank.

49.3 Steps of complaint resolution or handling of complaint

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

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

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49.4 New initiatives

The Bank has started to present a progress report on complaint management to Board level sub-committee on a half yearly basis. The purpose is to have a Board level oversight on over all compliant handling and its resolution process to ensure customer satisfaction.

Further, to improve branch service quality and customer satisfaction, the Bank has introduced a report wherein branches with four or more complaints received during last six months are highlighted and Area Operation Managers are given task to analysis and report the root causes of such high number of complaints.

50. TRUST ACTIVITIES

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

Category	Type	2016	2015	2016	2015
		Number of IPS account		Face Value ----- (Rupees '000) -----	
Takaful Company	Government of Pakistan Ijara Sukuk	1	-	75,000	-
Employee Funds	Government of Pakistan Ijara Sukuk	1	-	50,000	-
		2	-	125,000	-

51. GENERAL

51.1 Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate the comparison. However, no significant reclassification were made during the year except as below:

SBP vide its BPRD Circular Letter No. 5 of 2016 dated 29 February 2016, has issued the revised forms of annual financial statements. As per the revised forms, Bai Muajjal transactions with Government of Pakistan will be reported under investments category as other Federal Government securities. Accordingly, below reclassifications have been made to comply with the revised forms of annual financial statements.

Reclassified from	Reclassified to	Amount Rs. in '000
Due from financial institutions	Investments	2,080,047

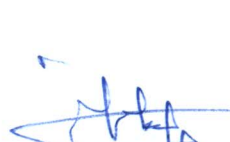
The above reclassification does not have an effect on the information in statement of financial position at the beginning of preceding year. Accordingly, a third statement of financial statement position as at beginning of the preceding year is not required.


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


52. DATE OF AUTHORISATION

These financial statements were authorized for issue on 10 March 2017 by the Board of Directors of the Bank.

EYF


Chairman


Chief Executive Officer


Director


Director

STATEMENT SHOWING WRITTEN-OFF FINANCING OR ANY OTHER FINANCIAL RELIEF OF RUPEES 500,000 OR ABOVE DURING THE YEAR ENDED 31 DECEMBER 2016

Annexure - I

Sr. No.	Name of the borrower	Name of individuals/ partners/ directors (with NIC No.)	Father's/ Husband's name	Outstanding Liabilities at beginning of year				Rupees in thousands			
				Principal	Profit	Other financial	Total	Written-off	Principal	Profit	Waiver Other financial
1	2	3	4	5	6	7	8	9	10	11	12
1	Faisal Vawda Construction	Muhammad Faisal Vawda (42301-5998288-5)	Muhammad Umer Vawda	275,000	38,781	347,022	660,803	-	34,670	349,344	384,014
2	Oslo Lighting Solutions (Pvt.) Ltd	Syed Baqir Ali Naqvi (42101-0519680-9)	Syed Muhammad Shabir Naqvi	49,998	3,230	24,300	77,528			24,300	24,300
3	Zeeshan Asif	Zeeshan Asif (42201-6788059-1)	Asif Iqbal	393	122	1,133	1,648	-	115	1,133	1,248
				325,391	42,133	372,455	739,979	-	34,785	374,777	409,562

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Annexure - II

STATEMENT SHOWING CHARITY PAID OF RUPEES 100,000 OR ABOVE DURING THE YEAR ENDED 31 DECEMBER 2016

Rupees in thousands

Names	31 December 2016	31 December 2015
Shaukat Khanum Memorial Trust	6,960	10,000
Children Hospital Quetta	3,000	-
Afzal Memorial Thalassemia Foundation	1,750	1,500
Family Educational Services Foundation	1,600	2,000
Sayeban Pakistan	1,470	1,470
Bakhtawar Amin Memorial Trust	1,000	-
Lahore Business Association For Rehabilitation Of The Disabled	1,000	-
Health and Nutrition Development Society	1,000	-
Sos Children's Village	500	-
Cancer Care Hospital and Research Centre	500	-
Sundas Foundation	500	500
Students Of Wah Engineering College	490	210
Estanara	250	-
Akhuwat	250	-
Shamima Begum	200	-
Zafar Iqbal	200	-
Shahnaz Begum	200	-
Association For Rehabilitation Of Challenging People	200	200
Green Crescent Trust	200	-
Fresh Foundation	200	-
Fauzia Ameer	150	-
Najum un Nisa	150	-
Mohammad Ameen	125	-
Nazakat Jehan	100	-
Ayesha Tahir	100	-
Abdul Rashed	100	-
Patients Aid Foundation	-	4,600
Citizens Foundation	-	2,750
Hands Pakistan	-	1,000
Burn and Children Care Welfare Organization	-	1,000
Care Foundation	-	1,000
Meher Un Nissa	-	1,000
Hira Foundation School	-	850
Lady Willingdon Hospital	-	550
Ihsan Trust	-	500
Samreen	-	400
Marie Adelaide Leprosy Centre	-	250
Mohammad Bashir	-	250
Muhammad Akram	-	250
Zeenat Ullah	-	200
Arif Ali	-	199
Abdul Qayyum	-	170
Hukum Rawa Bacha	-	125
Zahida Sohail	-	121
Razia Kausar	-	100
Muhammad Jameel	-	100
	22,195	31,295

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