

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed statement of financial position of MCB Islamic Bank Limited as at June 30, 2015 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 (herein-after referred to as the 'financial statements') for the period from 14 May, 2014 to June 30, 2015 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 management 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 financial 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, we report that:

- (a) in our opinion, proper books of account have been kept by the bank as required by the Companies Ordinance, 1984 (XLVII of 1984),
- (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;
 - (ii) the expenditure incurred during the period from 14 May, 2014 to June 30, 2015 was for the purpose of the bank's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the period from 14 May, 2014 to June 30, 2015 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 June 30, 2015 and its true balance of loss, its comprehensive income, its cash flows and changes in equity for the period from 14 May, 2014 to June 30, 2015; and
- (d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Chartered Accountants
Engagement Partner: Imran Farooq Mian


Dated:
Lahore

MCB ISLAMIC BANK LIMITED

STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2015

	Notes	2015 Rupees in '000
ASSETS		
Cash and balance with treasury banks		-
Balances with other banks	6	10,000,000
Due from financial institutions		-
Investments - net		-
Islamic financing & related assets		-
Operating fixed assets		-
Deferred tax assets		-
Other assets		-
		10,000,000
LIABILITIES		
Bills payable		-
Due to financial institutions		-
Deposits and other accounts		-
Subordinated loans		-
Liabilities against assets subject to finance lease		-
Deferred tax liability		-
Other liabilities	7	37,693
		37,693
NET ASSETS		9,962,307
REPRESENTED BY		
Share capital		10,000,000
Reserves		-
Accumulated loss		(37,693)
		9,962,307
Surplus on revaluation of assets - net of tax		-
		9,962,307
Contingencies and commitments	8	

The annexed notes 1 to 14 form an integral part of these financial statements.


Al-Z. Malik
President and
Chief Executive


Director


Director


Director

MCB ISLAMIC BANK LIMITED

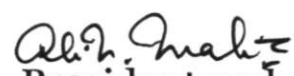
PROFIT AND LOSS ACCOUNT FOR THE PERIOD FROM MAY 14, 2014 TO JUNE 30, 2015

May 14, 2014 to
June 30, 2015

Rupees in '000

	Notes	
Profit / return earned on financings, investments and placements		-
Return on deposits and other dues expensed		-
Provision against non-performing Islamic financing and related assets		-
Provision for diminution in the value of investments		-
Bad debts written off directly		-
Net profit / income after provisions		-
Other income		
Fee, commission and brokerage income		-
Dividend income		-
Income from dealing in foreign currencies		-
Capital gain on sale of investments (net)		-
Other income		-
Total other income		-
Other expenses		
Administrative expenses	9	37,693
Other provisions / write offs		-
Other charges		-
Total other expenses		37,693
Extra ordinary / unusual items		-
Loss before taxation		(37,693)
Taxation - Current		-
- Prior years		-
- Deferred		-
Loss after taxation		(37,693)

The annexed notes 1 to 14 form an integral part of these financial statements.


President and
Chief Executive


Director


Director


Director

MCB ISLAMIC BANK LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM MAY 14, 2014 TO JUNE 30, 2015

May 14, 2014 to
June 30, 2015

Rupees in '000

Loss for the period (37,693)

Other comprehensive income -

Total comprehensive loss for the period - net of tax (37,693)

The annexed notes 1 to 14 form an integral part of these financial statements.

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Ali Z. Malik
President and
Chief Executive

Amir H. Khan
Director

M. Usman Khan
Director

M. Usman Khan
Director

MCB ISLAMIC BANK LIMITED

CASH FLOW STATEMENT FOR THE PERIOD FROM MAY 14, 2014 TO JUNE 30, 2015

Rupees in '000

Cash flows from operating activities

Loss before taxation	(37,693)
Less: Dividend income	-
	<u>(37,693)</u>
Adjustments for non-cash charges	
Depreciation on fixed assets	-
Provision against non-performing Islamic financing and related assets	-
Provision / (reversal) for diminution in the value of investments - net	-
Other provisions / (reversals)	-
Bad debts written off directly	-
Gain on disposal of fixed assets - net	-
	<u>(37,693)</u>
(Increase) / decrease in operating assets	
Net investment in held for trading securities	-
Islamic Financing & Related Assets	-
Other assets - net	-
	<u>-</u>
Increase / (decrease) in operating liabilities	
Bills payable	-
Due to Financial Institution	-
Deposits and other accounts	-
Other liabilities	37,693
	<u>37,693</u>
Income tax paid	-
Net cash flows from operating activities	<u>-</u>

Cash flows from investing activities

Net investments in 'available-for-sale' securities	-
Net investments in 'held-to-maturity' securities	-
Sale proceeds of operating fixed assets disposed off	-
Investment in operating fixed assets	-

Net cash flows from investing activities

Cash flows from financing activities

Increase in share capital	<u>10,000,000</u>
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Net cash flows from financing activities

Increase in cash and cash equivalents


Cash and cash equivalents at beginning of the period	10,000,000
Cash and cash equivalents at end of period	<u><u>10,000,000</u></u>

6

The annexed notes 1 to 14 form an integral part of these financial statements.


**President and
 Chief Executive**


Director


Director




Director

MCB ISLAMIC BANK LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM MAY 14, 2014 TO JUNE 30, 2015

	Rupees in '000		
	Share capital	Revenue reserve - Accumulated loss	Total
Loss for the period	-	(37,693)	(37,693)
Other comprehensive income for the period	-	-	-
Total comprehensive loss for the period	-	(37,693)	(37,693)
Ordinary shares issued against cash	10,000,000	-	10,000,000
Balance as on June 30, 2015	10,000,000	(37,693)	9,962,307

The annexed notes 1 to 14 form an integral part of these financial statements.



**President and
Chief Executive**


Director


Director


Director

MCB ISLAMIC BANK LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM MAY 14, 2014 TO JUNE 30, 2015

1. Status and nature of business

MCB Islamic Bank Limited, a wholly owned subsidiary of MCB Bank Limited is incorporated with an authorized share capital of Rs. 15 billion in 2014. Subject to regulatory approvals, the operations of Islamic Banking Division of MCB Bank Limited will be transferred to MCB Islamic Bank Limited. The commercial operations of MCB Bank Limited will start after approval from State Bank of Pakistan. During the period from May 14, 2014 to June 30, 2015, MCB Bank Limited has injected equity of Rs.10 billion in MCB Islamic Bank Limited.

2. Basis of preparation

2.1 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, provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962. In case requirements differ, the provisions and directives given in Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 shall prevail.

The bank was incorporated on May 15, 2014. Consequently, these financial statements have been prepared for the period from May 14, 2014 to June 30, 2015.

2.2 Initial application of standards, amendments or an interpretation to existing standards

These financial statements are the bank's first issued financial statements. The bank has adopted all International Financial Reporting Standards (IFRS) as applicable in Pakistan.

The following amendments to existing standards have been published that are applicable to the bank's financial statements covering annual periods, beginning on or after the following dates:

2.2.1 Standards, amendments and interpretations to approved accounting standards that are effective in current period

Certain standards, amendments and interpretations to approved accounting standards are effective for accounting periods beginning on or after January 1, 2014 but are considered not to be relevant or to have any significant effect on the bank's operations and are, therefore, not detailed in these financial statements.

2.2.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the bank

Certain standards, amendments and interpretations to approved accounting standards are effective for accounting periods beginning on or after July 1, 2015 but are considered not to be relevant or to have any significant effect on the bank's operations and are, therefore, not detailed in these financial statements.

3. Basis of measurement

3.1 These financial statements have been prepared under the historical cost convention.

3.2 The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements, are disclosed in the respective notes to the financial statements.

4. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below.

4.1 Taxation

Current

Provision of current tax is based on the taxable income for the period determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the period if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous periods arising from assessments framed during the period for such periods.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction neither affects accounting nor taxable profit or loss. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except in the case of items credited or charged to equity in which case it is included in equity.

4.2 Cash and cash equivalents

Cash and cash equivalents includes balance with other banks on current accounts.

4.3 Financial Instruments

Financial assets and liabilities are recognised when the bank becomes a party to the contractual provisions of the instrument and de-recognised when the bank loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities is included in the profit and loss account currently.

4.4 Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognised amount and the bank intends either to settle on a net basis or to realise the assets and to settle the liabilities simultaneously.

4.5 Other liabilities

Other liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Exchange gains and losses arising on translation in respect of liabilities in foreign currency are added to the carrying amount of the respective liabilities.

4.6 Foreign currency transactions and translation

a) Functional and presentation currency

Items included in the financial statements of the bank are measured using the currency of the primary economic environment in which the bank operates (the functional currency). The financial statements are presented in Pak Rupees, which is the bank's functional and presentation currency.



b) Transactions and balances

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss.

4.7 Share capital

Ordinary shares are classified as equity and recognised at their face value.

5. Issued, subscribed and paid up share capital

This represents 1,000,000,000 ordinary shares of Rs 10 each fully paid in cash, issued during the period, which are held by MCB Bank Limited, the holding company.

	2015 (Number of shares)
The reconciliation of ordinary shares is as follows :	
Opening balance	-
Add: Shares issued during the period	1,000,000,000
Closing balance	<u>1,000,000,000</u>

6. Cash and cash equivalents	2015 Rupees in '000
Balance with bank in current account	<u>10,000,000</u>

7. Other liabilities	2015 Rupees in '000
Payable to MCB Bank Limited	37,424
Accrued liabilities	269
	<u>37,693</u>

8. Contingencies and commitments

8.1 Contingencies - Nil

8.2 Commitments - Nil

9. Administrative expenses	May 14, 2014 to June 30, 2015 Rupees in '000
Salaries	559
Printing and stationery	110
Legal and professional charges	4,269
Advertisement	290
Links and connectivity	669
Fees and subscription	31,536
Others	260
	<u>37,693</u>

Am

May 14, 2014 to
June 30, 2015
Rupees in '000

9.1 Includes auditors' remuneration for the following:

Statutory audit fee	100
Annual Audit Fee	150
Out of pocket expenses	-19
	<u>269</u>

9.2 Fees and subscription

Registration fees for incorporation of company	27,536
Banking license fee paid to State Bank of Pakistan	4,000
	<u>31,536</u>

10. Transactions with related parties

The related party comprises MCB Bank Limited (Holding company). Transactions with the MCB Bank Limited during the period are:

2015
Rupees in '000

Capital injection by MCB Bank Limited	10,000,000
Payments made by MCB Bank on behalf of MCB Islamic Bank Limited	37,424

11. Financial risk management

11.1 Financial risk factors

Overall risks arising from the bank's financial assets and liabilities are limited.

(a) Market risk

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The bank is not exposed to currency risk since there are no foreign currency payable/receivable balances at the reporting date.

(ii) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The bank is not exposed to equity price risk since there are no investments in equity instruments traded in the market at the reporting date. The bank is also not exposed to commodity price risk since it does not hold any financial instrument based on commodity prices

(ii) **Interest rate risk**

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The bank has no long-term interest-bearing assets. The bank is not exposed to interest rate risk since there are no borrowings obtained or released.

(b) **Credit risk**

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The bank's credit risk is primarily attributable to its balance with bank. The credit risk is limited because the counter party is a bank with reasonably high credit rating.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate:

	Rating		Rating Agency	2015 Rupees in '000
	Short term	Long term		
MCB Bank Limited	A1+	AAA	PACRA	10,000,000

(c) **Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The bank's approach to managing liquidity is to ensure that, as far as possible, it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable loss or risking damage to the bank's reputation.

The following are the contractual maturities of financial liabilities as at June 30, 2015.

	Carrying amount	Less than one year	One to five years	More than five years
	Rupees in '000			
Other liabilities	37,693	37,693	-	-
	37,693	37,693	-	-

11.2 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is the amount for which an asset could be exchanged, or a liability can be settled between knowledgeable willing parties in an arms length transaction and is determined on the basis of objective evidence at each reporting date.

11.3 Financial instruments by categories

Assets as per balance sheet	Loans and receivables
	2015 Rupees in '000
Cash and bank balances	10,000,000
	10,000,000

	Financial liabilities at amortised cost
	2015
Liabilities as per balance sheet	Ruppes in '000
Other liabilities	37,693
	<u>37,693</u>

11.4 Capital Risk Management

The primary objective of the bank's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholders' value. The bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions. Capital includes ordinary share capital and reserves. The bank is not subject to any externally imposed capital requirements.


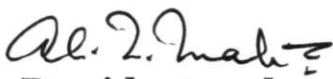
12. Number of employees	2015
Total number of employees as at period end	<u>3</u>
Average number of employees during the period	<u>3</u>

13. Date of authorisation for issue

These financial statements were authorised for issue on _____, 2015 by the Board of Directors of the bank.

14. General

Corresponding figures are not available as this is the first year of operations of the bank.



**President and
Chief Executive**


Director


Director


Director