



PURITY IN EVERYTHING



Registered office

59-T, Phase 2, DHA, Lahore

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ANNUAL REPORT 2016

PURITY IN ESSENCE

TABLE OF CONTENTS

1. About MCB Islamic Bank	2
2. What is Islamic Banking	4
3. Mission Statement	6
4. Our Vision	8
5. Our Values	10
6. Corporate Strategy	12
7. Corporate Information	14
8. Credit Rating	16
9. Board of Directors	18
10. Board Committees	22
11. Management	24
12. Management Committee	30
13. Shari'ah Board	32
14. Chairman's Message	34
15. President's Review	36
16. Directors' Report to the Members	38
17. Report of Shari'ah Board	56
18. Notice of 3rd Annual General Meeting	60
19. Statement of Internal Controls	62
20. Report of the Audit Committee	64
21. Statement of Compliance with Best Practices of CCG	66
22. Auditor Review Report with CCG	68
23. Auditors' Report to the Members	70
24. Financial Statements	72
25. Branch Network	134
26. Proxy Form	144

PURITY IN IDENTITY

ABOUT MCB ISLAMIC BANK

MCB Islamic Bank Ltd. is the wholly owned subsidiary of MCB Bank Ltd. and commenced its operations in 2015. MCB Islamic Bank has a nationwide network of branches across Pakistan.

MCB Islamic Bank is successfully providing Shari'ah compliant products and services to its customers in all provinces of Pakistan.

PURITY IN FAITH

WHAT IS ISLAMIC BANKING?

Islamic banking is defined as a banking system, which is in consonance with the spirit, ethos and value system of Islam and governed by the principles laid down by the Shari'ah.

Islamic banking, the more general term, is based not only to avoid interest-based transactions prohibited in Shari'ah but also to avoid unethical and un-social practices. In practical sense, Islamic Banking is the transformation of conventional money lending into transactions based on tangible assets and real services.

The model of Islamic banking system leads towards the achievement of a system which helps achieve economic prosperity.

PURITY IN MISSION

MISSION STATEMENT

- To provide innovative Shari'ah compliant financial solutions and quality services to our customers.
- To maximize Halal returns for our shareholders.
- To nurture an internal environment of qualified professionals and cutting-edge technology.

PURITY IN VISION

VISION STATEMENT

To be the leading provider of Shari'ah Compliant Innovative financial products with a focus on service quality and providing superior value for our customers, shareholders, employees and the community.

PURITY IN VALUES

OUR VALUES

We are Shari'ah Driven

Following the Shari'ah we will conduct our activity in a fair, ethical and socially responsible manner

Dedicated and Dependable

We will build strong, enduring relationships, delivering an experience that delights our customers

Aspirational

We will be professional and fulfil our commitments, delivering high quality products and services

PURITY IN THOUGHT

CORPORATE STRATEGY

MCB Islamic Bank's corporate strategy has three pillars, which will be pursued concurrently and focused in chronological order:

A. Build market leadership within Pakistan

- Grow network
- Financial Inclusion
- Product Development
- Customer Satisfaction
- Technological Innovation

B. Create a Shari'ah compliant integrated financial services group

Create a model that offers customers access to a diversified Shari'ah compliant financial services.

C. Pursue international growth opportunities

With the growing acceptance of Islamic Banking worldwide, MCBIBL will turn its attention to replicating its business model through systemic geographic expansion.

PURITY

IN COMMUNICATION

CORPORATE INFORMATION

Registered office

59-T
Phase 2, DHA
Lahore

Head Office

339-Z
1st and 2nd Floor
Phase 3, DHA
Lahore

Shari'ah Compliance Department

339-Z
2nd Floor
Phase 3, DHA
Lahore

Contact Information

UAN: +92-42-111-622-425
Website: www.mcbislamicbank.com
Email: info@mcbislamicbank.com

Legal Advisors

M/s Cornelius, Lane & Mufti
Advocates & Solicitors

External Auditors

M/s A.F. Fergusons & Co.,
Chartered Accountants

Chief Financial Officer

Syed Iftikhar Hussain Rizvi

Company Secretary

Maimoona Cheema

PURITY IN BUSINESS

CREDIT RATING

Long Term

A

Short Term

A - 1

PURITY IN DIRECTION

BOARD OF DIRECTORS

Raza Mansha
Chairman & Non-Executive Director

Ali Muhammad Mahoon
President & Executive Director

M.U.A. Usmani
Non-Executive Director

Omair Safdar
Non-Executive Director

Khalid Mahmood Bhaimia
Independent Director

Ibrahim Shamsi
Non-Executive Director

Ahmed Ebrahim Hasham
Independent Director



Raza Mansha
Chairman

Raza Mansha has more than 21 years of diversified professional experience in various business sectors including Banking, Textile, Power, Cement, Insurance, Hotels, Properties, Natural Gas, Agriculture, Dairy etc.

He received his Bachelor degree from the University of Pennsylvania, USA. Currently he is on the Board of MCB Islamic Bank Limited, Nishat Hotels & Properties Limited, Sui Northern Gas Pipeline Limited, Adamjee Life Assurance Company Limited, MNET Services (Pvt.) Limited & Nishat (Raiwind) Hotels and Properties Ltd.



Ahmed Ebrahim Hasham
Director

Ahmed Ebrahim Hasham is the Managing Director of Mehran Sugar Mills Limited. He is a board member of Pakistan Molasses Company Limited, Unicol Limited, UniEnergy Limited and Mehran Sugar Mills Limited. In addition, he is also a member of the Executive Committee of the Pakistan Sugar Mills Association and a Board member of Young President Organization Pakistan (YPO- Pakistan). He is an active contributor towards social and academic services, a board member of Hasham Foundation and Usman Memorial Foundation which in turns manages to the Usman Institute of Technology. He is a graduate in International Relations (IR) and Economics from Tufts University, USA.



Khalid Mahmood Bhaimia
Director

Khalid Mahmood Bhaimia, has extensive experience in both Islamic and conventional banking in multinationals, Middle Eastern and Malaysian banks. Having held the position of CEO of Dallah Albaraka (Europe), CEO of Unicorn Islamic Bank and other senior positions at Gulf Bank, Kuwait and Citibank, Middle East and Hong Kong over the last 16 years, he had successfully established and professionally managed standalone businesses. Before joining HLIB, Khalid was the CEO of RHB Islamic Bank, Malaysia where he was responsible for the transformation of RHB Bank's Islamic window into a full service standalone bank. He graduated from Institute of Business Administration (IBA) Karachi, Pakistan with a Masters of Business Administration in 1971.



M.U.A Usmani
Director

MUA Usmani has over 50 years of diverse national and international experience in Corporate, Treasury & FX, Capital Markets, Compliance, Trade Finance, Loan Administration (CAD), and Financial Institutions. Having started his career with American Express Bank, Pakistan in 1963, he worked in various capacities before moving to Dubai as Vice President and Manager Correspondent Banking, Gulf and Pakistan. He also served as Acting Country Head of American Express Bank, Pakistan. Later, he joined Deutsche Bank, Pakistan in 1993 as Chief Manager and later was promoted to Director Global Markets & General Manager Treasury. During his career with these two foreign banks, Mr. Usmani was deputed on special assignments in New York, London and Frankfurt.

He joined MCB Bank in 1999 as Group Head Treasury & FX and Capital Markets. Subsequently, he was assigned the responsibility of Compliance, FI and International & Overseas Branches and retired on December 21, 2006. He rejoined MCB in January 2009 as Group Head, Treasury & FX and was recently appointed as President / CEO of MCB Bank Limited in June 2010. He also enjoyed the privilege of being a member of SBP's DRAFT Committee on Foreign Exchange and was also member of Process Improvement Team (LC) at American Express, New York.



Omair Safdar
Director

Omair Safdar has more than 12 years of experience in the banking industry. He has been associated with MCB Bank for the past decade, and currently heads the Capital Markets Division of the Bank. Omair holds a Bachelor's Degree in Economics from LUMS and is also a CFA Charter holder. He has thorough understanding of business, risk and investment dynamics, having been involved in Retail, Corporate, Investment Banking and Capital Markets transactions across industrial sectors and national boundaries.

He currently serves on a number of Management Committees in MCB Bank including Credit, Investment and Write-Off. On behalf of MCB Bank, Omair also serves, as a Director, on the Board of MCB Islamic Bank and MCB Leasing Azerbaijan.



Ibrahim Shamsi
Director

Ibrahim Shamsi has strong experience of modern management and effective control management. He is Chief Executive of Aladin Water & Amusement Park, Karachi and Joyland, Lahore and also Chariman of Cotton Web (Pvt) Limited. He is also serving his responsibilities as the Director of on the Board of Adamjee Insurance Company Limited the largest insurance company of Pakistan. By qualification Mr. Shamsi is Master of Business Administration from LUMS Lahore. He Joined Siddiq Sons Tin Plate Limited Board in 1997.



Ali Muhammad Mahoon
Director

Ali Muhammad, President & CEO of MIB, has over 20 years of banking experience with leading international and local financial institutions. With an MBA from LUMS and Associate Membership of the Chartered Institute of Management Accountants, England, his career started from Citibank from where he moved on to ABN Amro Bank.

Ali joined MCB Bank Ltd in 2005, where he served as SEVP and Group Head of Risk Management for 3 years. He was then taken on board by a leading bank (SAMBA) in Saudi Arabia in the area of risk management. After spending six years abroad, he returned to MCB to head the Islamic Banking Group w.e.f. Jan 01, 2015 and entrusted with the tough task of carving out the Islamic banking window for the purpose of creating a totally independent and full-fledged Islamic bank.

Ali's work philosophy is to keep things simple and sensible. He has formed the foundation of this bank on a customer-centric model and is relentlessly engaged in ensuring that the entire organization is infused with the credo of customer service and fully understands that this is MIBs unique selling proposition. He is committed to making MIB a success and a force to be reckoned with in the local banking industry.

BOARD COMMITTEES



NAME	DESIGNATION	SPECIAL INVITEE(S)
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AUDIT COMMITTEE

Khalid Mahmood Bhaimia	Chairman	President
Omair Safdar	Member	Chief Financial Officer
Ibrahim Shamsi	Member	Head of Audit Function

RISK MANAGEMENT & PORTFOLIO REVIEW COMMITTEE

Ahmed Ebrahim Hasham	Chairman	Any other board member, Shari'ah Board member or staff member can be invited with the approval of the Chairman of the Committee.
M.U.A Usmani	Member	
Omair Safdar	Member	
Ali Muhammad Mahoon	Member	

HUMAN RESOURCE & REMUNERATION COMMITTEE

Raza Mansha	Chairman & Member	Group Head of Human Resource Management Function
Ahmed Ebrahim Hasham	Member	Any other board member or staff member can be invited with the approval of the Chairman of the Committee.
Khalid M. Bhaimia	Member	
Ali Muhammad Mahoon	Member	

BUSINESS STRATEGY & SERVICE QUALITY REVIEW COMMITTEE

Raza Mansha	Chairman	Any other board member, Shari'ah board member, executive or staff member can be invited with the approval of the Chairman of the Committee.
Khalid Mahmood Bhaimia	Member	
Ahmed Ebrahim Hasham	Member	
Ali Muhammad Mahoon	Member	

BOARD EVALUATION COMMITTEE

Ahmed Ebrahim Hasham	Chairman
Omair Safdar	Member

PURITY IN MANAGEMENT



Ali Muhammad Mahoon

President & CEO

Ali Muhammad, President & CEO of MIB, has over 20 years of banking experience with leading international and local financial institutions. With an MBA from LUMS and Associate Membership of the Chartered Institute of Management Accountants, England, his career started from Citibank from where he moved on to ABN Amro Bank.

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Abdul Aziz Memon

Country Head Business Distribution

Abdul Aziz Memon is a senior banker, possessing local as well as international Banking experience of over 40 years in middle and senior management positions. Presently, he is Country Head Distribution and Senior Executive Vice President at MCB Islamic Bank Limited.

Memon started his banking career as Management Trainee Officer in 1973 from Habib Bank Limited Pakistan. He joined Habib Bank AG Zurich-Zurich in 1979 and was posted at Kuwait in their associate company as Manager of Main Branch. In 1990, he was posted as Chief Manager at Mombasa Branch, Kenya. He was transferred to Pakistan Operation of Habib Bank AG Zurich as Head of Credit & Operations of Main Branch Karachi in 1993. After Merger of Habib Bank AG Zurich Pakistan operation with and into Habib Metropolitan Bank Ltd (subsidiary of Habib Bank AG Zurich) in 2006, He established and Headed Credit Division at Head Office. He was then elevated to the position of Chief Risk Officer in August 2013. He separated from Habib Metropolitan Bank Limited as Group Head of Credit.

Mr. Memon holds Bachelor of Science degree from Karachi University.



Syed Iftikhar Hussain Rizvi

Chief Financial Officer

Syed Iftikhar Hussain Rizvi leads the Financial Management of the Bank and responsible to develop, implement and control all financial-related activities of the bank in line with its business plans and strategy.

Iftikhar is a Fellow Member of the Institute of Chartered Accountants of Pakistan and has over 25 years of well diversified experience in the accounts and finance disciplines with added exposure in HR & corporate governance. Prior to joining the MIB, he worked with MCB Bank for 20 years in various capacities, lastly as Head – Central Accounts. His professional career began at Khalid Majid Hussain Rahman & Co., Chartered Accountants.



Shahid Mahmood

Chief Information Officer

Shahid Mahmood has over 22 years of Management experience. He has cultivated his ability to combine his broad-based technology, business and financial knowledge to both develop and implement enterprise wide short and long-term technology solutions. And in the field of entrepreneurship, he has led several cutting edge technology initiatives from Teradata SaaS BI/Data Warehouse solutions, GIS Mapping, IOS/Android and Oculus Rift VR development.

He has worked as a successful COO/Group Director of IT for several major technology organizations. Shahid started his career with an American Satellite mapping company. The company used GPS devices and data loggers to construct digital maps of electrical power distribution for the incumbent utility company. He then joined a bank in the corporate finance division. Later at a telecommunications organization he led various projects including a web portal, a scratch card billing system, an in-house developed telecommunications billing system (60 million CDRs per month), a SMS TV game interactive application, and ran a Satellite Business Channel company (as COO).

Shahid has an MBA from Lahore University of Management Sciences (LUMS) and is a Bachelor in Mechanical Engineering from UET Lahore. He also completed the Bachelor's degree course in Double Maths and Physics from Punjab University.



Khawaja Khalil Shah

Chief Risk Officer

Khalil Shah leads the risk management function which encompasses credit appraisal / administration, market risk and operational risk. He also has responsibility for Business Continuity Planning and Fraud Risk Management as these are layers of operations risk. His department also performs regulatory reporting including Credit Information Bureau pertaining to financing.

Khalil has around 25 years of banking experience most of which is in corporate banking and risk management. Prior to joining MIB, he was serving as Business Head-Portfolio Management, Wholesale Banking Group in MCB Bank Ltd since 2008. He has also spent considerable time at Al Faysal Investment Bank and Faysal Bank Ltd before becoming part of MCB clan.



Muhammad Saeed Raja

Group Head - Operations

M. Saeed Raja leads the operations group of MCB Islamic Bank LTD. Core responsibilities of the group includes centralized branch operations, centralized trade operations, centralized credit operations, treasury operations, swift operations, digital & remote banking operations, static data management, bank wide reconciliation and business process development & re-engineering.

Saeed has a diversified experience of over 26 years in the areas of Retail, Corporate and Islamic Banking. He is a diversified banker with core competencies of branch banking, centralized operations, trade finance, treasury & credit operations, Internal controls and core banking system implementation.

Prior to joining MIB, he was associated with MCB Bank Ltd. and was serving as country Head - Islamic banking operations, systems and controls. His 25 years of services and contribution towards achievement of MCB's strategic goals were recognized by the bank at the highest level and was conferred with the PRESIDENT AWARD twice.

Academically, he holds an EMBA degree in banking & finance and is a gold medalist. He is also a certified Islamic banker from National institute of banking & finance (NIBAF).



Kashif Ahmed

Group Head - Compliance and Controls

Kashif Ahmed is a fellow member of the Institute of chartered accountants of Pakistan with more than twenty-two years of working experience including over eleven years in the banking sector. At present, he holds the position of executive Vice President and Group Head Compliance and Controls/ Chief Compliance Officer at MCB Islamic Bank Limited (MIB).

Prior to joining MIB, Kashif was Executive Vice President at MCB Bank Limited (MCB). During more than eight years stay at MCB, he has mostly worked in Audit & RAR Group with a brief stint at RBG Operations. He has previously served at Deloitte Pakistan, Deloitte Bahrain, Deloitte Bermuda, Mashreq Bank Pakistan Limited, Crescent Commercial Bank Limited and Noman Abid Investment Management Limited.



Salman Qutb

Group Head - Human Resource Management & GSD

Salman Qutb holds a Master's Degree in Business Administration from Lahore University of Management Sciences (LUMS) and Bachelors of Engineering from University of Engineering and Technology, Lahore, Pakistan. He possesses an overall professional experience of over twenty two years and is currently working as Group Head, Human Resource Management, General Services & Security at MCB Islamic Bank Ltd.

Previously, he has worked with MCB Bank Ltd., for ten years within Risk Management at different key positions; Head of Credit Risk Management Division, Head of Consumer Risk Management Division, Head of Basel – II & Special Projects Division and Head of Credit Risk Control. Prior to MCB, he has experience related to Sub-Prime & wholesale mortgage sector.

He is also a member of MIB Management Committee, Branch Expansion Committee, Purchase Committee, and Disciplinary Action Committee.



Syed Salman Ali

Group Head - Treasury & FI

Syed Salman Ali has over 31 years of extensive experience of national and international Treasuries especially of Islamic Banking. Currently, he is looking after Treasury, Capital Market and FI as a Group Head since one year at MCB Islamic Bank Limited. He established the Bank's treasury & FI and allied formations converting Islamic banking Division to full-fledged Islamic bank. Before this, he had served Al-Baraka Bank (Pakistan) Ltd., which is one of the pioneers of Islamic banks in Pakistan. He is also the member of different committees of the bank such as ALCO, Management committee, Investment committee, Management Finance Committee and Trustee of Bank's Provident fund.



Muhammad Tariq Gondal

Group Head - Internal Audit & Risk Asset Review

Muhammad Tariq Gondal is a business graduate from Lahore University of Management Sciences (LUMS) along with Masters in Statistics from GC University Lahore. He is a Certified Internal Auditor (CIA), also hold Banking Diploma and Post graduate diploma in Islamic Banking and Insurance.

Mr. Gondal has a diversified experience of more than twenty two years in areas audit & inspection, risk, compliance and operations both in Central and Commercial Banking.



Mohammad Mujeeb Beig

Group Head - Product Management & Shari'ah Structuring

Mohammad Mujeeb Beig leads Product Development & Research Group of MCB Islamic Bank Limited, with his rich experience of working with different Islamic Banking Institutions (IBIs). Besides being a business graduate, Mr. Beig has also passed intermediate level Chartered Accountants examination and holds Post Graduate Diploma in Islamic Finance from CIE, Dar-ul-Uloom, Karachi, with silver medal/ second position. He has developed full range of asset & liability side products along with products for Islamic Treasury operations. The innovative Shari'ah compliant products he has developed include inter-banks clean and secured funds placements based on Mudarabah, short term Sukuk based on Istisna and Salam to efficiently manage liquidity of IBIs, Musharakah Running Finance, Musharakah for specific goods to finance exportable consignments and long term liability side products.

As a researcher in the field of Islamic Finance, Mr. Beig has presented his research papers at different international conferences/forums held in Malaysia, Singapore Hong Kong, UAE, South Africa, Maldives and Pakistan. To deliver his lectures on Islamic Banking & Finance, he has visited different universities/Business Schools including but not limited to IBA, SZABIST, Karachi University, Hamdard University, Sheikh Zayed Islamic Centre of Karachi University, Bahria University, National Institute of Banking & Finance (NIBAF) of SBP and IBP.



Mufti Syed Sabir Hussain

Head of Shari'ah Compliance Department

Mufti Syed Sabir Hussain, working with MCB Islamic Bank since September 2015, is a prominent Shari'ah Scholar and experienced Islamic Banker with 12 years of teaching, 10 years of Fatawa and Islamic banking experience. He holds Shahadat-Al-Alimiyah, M.A Islamic Studies, M.Phill is Islamic Banking & Finance and and M.S (I.T) degrees.

He is ex-member of Shar'iah Advisory Board of SECP, Member of the Committee on Accounting and Auditing Standards of ICAP and invitee participant of Shari'ah Board of State Bank of Pakistan and Member of several committees constituted by SBP on AAOIFI Shari'ah standards. Further, he is member of AAOIFI Shari'ah Standard's committee for Urdu translation of Standards. He is author of 13 books on Islamic economics & banking and other social issues, He is also delivering lectures in different Dar-ul-Ulooms and Universities.



Maimoona Cheema

Company Secretary & Head of Legal

Maimoona Cheema is currently working as Company Secretary & Head of Legal Affairs at MCB Islamic Bank Limited. Ms. Cheema has a Bachelor's Degree in Law (LLB) and a Master's of Science in Finance & Financial Law from University of London.

Ms. Cheema has extensive experience in the field of law and has worked in highly esteemed organizations including MCB Bank Limited, Telenor Pakistan (Pvt) Limited and Lahore Stock Exchange (G) Limited.

MANAGEMENT COMMITTEE

Ali Muhammad Mahoon
President & CEO

Abdul Aziz Memon
Country Head Business Distribution

Syed Iftikhar Hussain Rizvi
Chief Financial Officer

Shahid Mahmood
Chief Information Officer

Khawaja Khalil Shah
Chief Risk Officer

Muhammad Saeed Raja
Group Head - Operations

Kashif Ahmed
Group Head - Compliance and Controls

Salman Qutb
Group Head - Human Resource Management & GSD

Syed Salman Ali
Group Head - Treasury & FI

Muhammad Tariq Gondal
Group Head - Internal Audit & Risk Asset Review

Mohammad Mujeeb Beig
Group Head - Product Management & Shari'ah Structuring

Mufti Syed Sabir Hussain
Head of Shari'ah Compliance Department

SHARI'AH BOARD



Prof. Mufti Munib-Ur-Rehman

Chairman Shari'ah Board

Prof. Mufti Munib-ur-Rehman, working with MCB Islamic Bank since September 2015, is a renowned Shari'ah scholar with a vast 45 years' teaching and 30 years' Fatawa issuance experience.

He is the member of Shari'ah Advisory Board of Securities and Exchange Commission of Pakistan (SECP), and the Chairman, Central Moon Sighting Committee Pakistan, prior to this he was a member of Islamic Ideology Council, Pakistan and Director of Islamic Studies, Hong Kong



Mufti Syed Sabir Hussain

Resident Shari'ah Board Member

Mufti Syed Sabir Hussain, working with MCB Islamic Bank Ltd. since September 2015, is a prominent Shari'ah Scholar and experienced Islamic Banker with 16 years of teaching, 12 years of Fatawa and Islamic banking experience. He holds Shahadat-Al-Alimiyah, M.A Islamic Studies, M.Phil is Islamic Banking & Finance and and M.S (I.T) degrees.

He is ex-member of Shar'iah Advisory Board of SECP, Member of the Committee on Accounting and Auditing Standards of ICAP and invitee participant of Shari'ah Board of State Bank of Pakistan and Member of several committees constituted by SBP on AAOIFI Shari'ah standards. Further, he is member of review committee for Urdu translation of AAOIFI Shari'ah standards. He is author of 14 books on Islamic economics & banking and other social issues, He is also delivering lectures in different Dar-ul-Ulooms and Universities.



Mufti Mahmood Ahmad

Shari'ah Board Member

Mufti Mahmood Ahmad is the Shari'ah Board member of MCB Islamic Bank Ltd., and Allied Bank Ltd., (Islamic Banking). He graduated as a Scholar in Shahadat-ul-Aalamiah (Master in Arabic and Islamic studies) from Wifaq-ul-Madaris Al-Arabia (1996), and Master in Arabic from Punjab University, Lahore. He also has done Master of Philosophy (M.Phil.) in Islamic banking and finance from University of Management and Technology (UMT), Takhassus-fi-Al-Funoon from Jamia Khair-ul-madaris, Multan and Takhassus-fi-Al-Ifta (in Islamic Fiqh and fatwa) from Jamia Dar-ul-Uloom, Karachi. He is currently enrolled in PhD program of UMT in Islamic Banking and Finance. He has 18 years' teaching and Fatawa issuance experience, and 7 years' experience as a Shari'ah consultant with Ghani Global Group and some other Islamic financial institutions.

He is a Lecturer of Tafsir, Hadith, Fiqh in world-renowned Islamic university Al-Jamia Al-Ashrafia Lahore since August 2005 and a Mufti (Trainer/Consultant) in Al-Jamia Al-Ashrafia also since August 2005. Fatawas issued by him are published in the book of Ashraf-ul-Fataawa (2 volumes) published by the management of Jamia Ashrafia Lahore. He also serves as a lecturer on different subjects of Shari'ah & Islamic Finance. He is a visiting faculty member at the College of accountancy and finance, University of Lahore and delivers lectures on subjects of Islamic commercial laws and Takaful. He also delivers Friday khutbah and leads Friday prayer at a Jamia Mosque for about 17 years. His areas of working have been Tafsir Quran, Hadith, religious education, Islamic jurisprudence, Islamic law, Islamic banking and Takaful.

He presented academic papers at different conferences such as the Muslim World League' conference. He has also contributed by getting published his 8-volume based edited compilation of Mufti Taqi Usmani's writings on Islamic economics and finance, titled (Islam aur Jadid Ma'ashi Masail) published by Idara-e-Islamiaat Lahore. He is also a writer of many articles on different Shari'ah related issues and topics.

CHAIRMAN'S MESSAGE

It is encouraging to see that global financial assets of Islamic Banks had multiplied 12 times in a span of 25 years, since 1990, reaching USD 1.88 trillion by 2015. With a CAGR of over 17% the global institutions and rating agencies (Ernst & Young and PricewaterhouseCoopers) expect Islamic Bank assets to cross USD 3.4 trillion by 2018. Whereas South Asia still contributes the lowest to the growth in Islamic Banking, there is immense untapped potential that can surface by increase in outreach and range of Islamic Banking proposition due to its wide appeal on economic grounds and faith.

Increasing share of Islamic finance industry in global financial system speaks about growing popularity and acceptability of Islamic Banking. Despite this industry being in evolutionary stage in Pakistan as well, initiatives and interest taken by the SBP lends credence to the future outlook of Islamic Banking. There are substantial business practices that can be learnt/adapted from market leaders in GCC & ASEAN countries for which the State Bank of Pakistan is seen to make concerted efforts. Standardization & harmonization of product suite and services with supportive legal and regulatory framework promise a bright future for this sector in Pakistan. The country, by virtue of its demographic, political and socio-economic factors is considered as one of the potential leaders of Islamic finance as per Islamic Financial Services Board (IFSB) as well as global analytics.

Besides Saudi Arabia & Qatar, Pakistan is the third country recording a double-digit growth in Islamic Assets. Due to global & local preference towards Islamic Banking, especially post financial crisis era, Islamic finance industry poses a viable competition to conventional banking. With diversification, harmonization & digitization of Islamic mode of banking, its contribution to economic uplifting is expected to increase manifold.

On the economic landscape, as China becomes active on its **Belt & Road** initiatives, the shape of global economy is going through an immense change. Notable projects, China-Pakistan Economic Corridor (CPEC) and Bangladesh-China-India-Myanmar (BCIM) Economic Corridor are expected to reposition trade & commerce on massive scale with transportation & communication flows observing a rise in multiples. Whereas it may be a challenge for a nascent sector such as Islamic Banking to fully capitalize on such economic developments; these developments will open up avenues for Islamic banking industry to exploit and occupy its share of business from.

In this context, it gives me immense confidence that MCB Islamic Bank has taken its birth with favorable circumstances - internally with government's pro-growth strategies, relatively stable macroeconomic environment and conducive global developments. Although the continuous falling of policy rates is a concern when it comes to cost-effectiveness, with the organization's determination towards attaining sustainable growth model, MCB Islamic Bank has expanded both its asset base and network considerably in a year's time. Insha Allah the Bank with the strong commitment of its shareholders, Board of Directors and employees, will be a force to be reckoned with in the Islamic Banking space in Pakistan within the span of three years.

Continuing this pace of growth, with appropriate governance, enhanced infrastructural developments and capacity building initiatives, coupled with the support and guidance of the State Bank of Pakistan & Shari'ah Advisors, I see MCB Islamic Bank pave its way effectively to market leadership while enabling important sectors such as retail, transportation, telecommunication, SMEs, alongside addressing consumer financial needs through innovative Shari'ah compliant products & services.



Raza Mansha
Chairman
MCB Islamic Bank Ltd.

PRESIDENT'S REVIEW

Alhumdulillah, we have completed our first full year of business operations, subsequent to honorable Court's approval under the **Scheme of Compromise, Arrangement and Reconstruction** with **MCB Bank Ltd.** being conferred in May 2016. Since then MCB Islamic Bank Ltd. (MIB) has officially taken over operational control of 34 branches along with expanding its network to 66 by end of year. De-merger activities have been the focal point of the organization in order to provide seamless service to our customers and reinforcing their confidence and trust in our ability to be sensitive to their financial needs and faith.

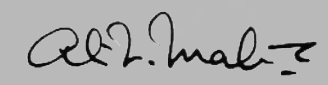
Whereas market dynamics for Islamic Banking are encouraging and promising, pressure from competition and regulator is immense. In the last year, while remaining committed to our strategic interest in alternate and digital modes of banking, the Bank has strived to form alliances with top-of-the-line institutions that can help us take leverage of state-of-the-art technology platforms and business models. Developments in ADC & IT domain, on fast-track basis, have taken place in this regard in the form of significant agreements and sign-ups with nationally and internationally recognized organizations such as **TPS, UnionPay, Inov8** and **1Link**. We are confident that with these arrangements, we have established a secure, stable and synthesized platform to run the Bank.

Along with network expansion and technology investments, human resource & intellectual development have been other key areas of attention. Quality and experienced resources have been recruited to handle daily affairs of the Bank and deliver service as per management & customer expectations. Continuous trainings, awareness & evaluation tools have been introduced to keep our front-end staff informed in line with many of SBP's initiatives including **Consumer Protection & Fair Treatment** vis-à-vis putting in place a strategic think-tank that continuously undertakes research and evaluates the most practical and logical delivery models to run various functions of the Bank efficiently.

Due to the influx of Telcos in the banking sector, under SBP's agenda of financial inclusion, it is clear that traditional models for doing banking business in Pakistan are likely to be significantly challenged. During 2016, the bank embarked on identifying its medium term strategy. The result of this strategy formulation exercise was to focus on four areas: (a) Engaging with our customers through digital channels, and finding new ways of doing this, (b) focusing on financial inclusion, with SME and Microfinance platforms, (c) building alliances with other players; and playing on our strengths, which we perceive to be our nimble organization structure, and our risk focus, and (d) continue to invest on the network, as it is our belief that MIB will achieve an optimal network size at around 250 odd branches. While network growth is a key strategic objective, it will be balanced with P & L considerations.

In 2017, we expect to be faced with a plethora of challenges both internal and external, as we strive to achieve a sizable growth in our balance sheet without compromising controls. Notwithstanding, I am optimistic that with the continued support of our customers, shareholders, directors, and Shariah Scholars, we shall be able to overcome these challenges for the long term benefit of all stakeholders.

I would like to thank all our stakeholders, employees and customers for their continued support and trust in our journey of pure Islamic Banking.


Ali Muhammad Mahoon
 President & CEO
 MCB Islamic Bank Ltd.

DIRECTORS' REPORT TO THE MEMBERS

On behalf of the Board of Directors, I am pleased to present the Annual Report of MCB Islamic Bank Limited ('the Bank'), containing the Audited Financial Statements for the year ended December 31, 2016. The State Bank of Pakistan (SBP) granted 'Commencement of Business' to the Bank effective September 14, 2015 and issued notification declaring the Bank as Scheduled Islamic Bank on October 15, 2015. Accordingly, the Bank formally started its commercial operations effective November 16, 2015 by opening its first branch in Lahore. During the year, the Bank acquired Domestic Islamic Banking Operations of MCB Bank Limited (MCB) consisting 34 Islamic Banking Branches with effect from September 30, 2015 under the "Scheme of Compromise, Arrangements and Reconstructions" between the Bank and MCB. Accordingly, the comparative balances as at December 31, 2015 have been restated.

As at December 31, 2016, the Bank was operating with 66 branches across Pakistan.

Global & National Economy

A series of major events, that took place in the year 2016, affected the Global Growth rate which fell to 3.1% in 2016. However, it is predicted that growth rate will increase to 3.4% in the year 2017. The June UK vote in favor of leaving the European Union (Brexit) made major headlines across the Globe; meanwhile China continued to widen its market access more aggressively ever after being declared as the largest manufacturer of the world by the IMF and UN, a position previously held by the US for over 3 decades. Economies in the Middle East suffered from the slowdown in Oil prices, as well as the war in Yemen. Interest in emerging markets declined as commodity prices fell worldwide. Notwithstanding, towards the end of 2016, there were signs of a US recovery. This was accentuated by the victory of Donald Trump in the US elections.

For economy in Pakistan, the year 2016 brought with it some major improvements as well as varied vulnerable circumstances. Despite the fact that significant economic, governance and security challenges were encountered, it still managed to gain a favorable number when it comes to major economic indicators. In terms of GDP, growth was marked at 4.5% for the FY16 (an increase over last year's GDP of 4.2%).

As projects like CPEC accelerate in activity and progress towards an advanced stage, it is projected that the economy would generally see an improvement as services are demanded especially for construction and power generation (Large Scale Manufacturing-LSM). Vis-à-vis uptick in demand side, relatively lower import prices of inputs, low interest rates, and better energy supplies are expected to boost supply from the manufacturing sector.

On the negative side, continued falling exports, remittances and lack of significant FDI pose challenges on the external account side.

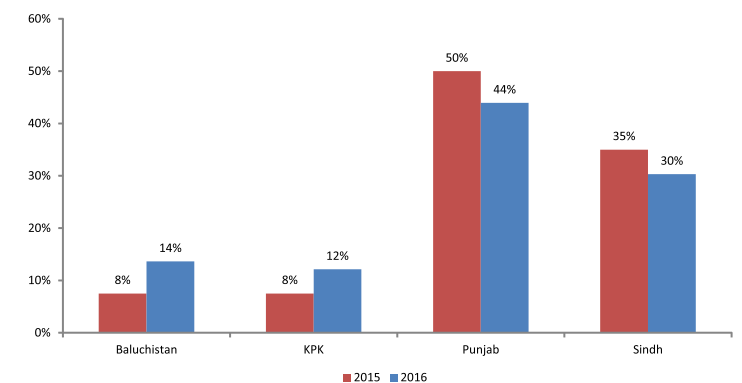
Islamic Banking, continued an upward trend in 2016. It is forecasted to grow at a CAGR of 20% over the period 2013–2020 worldwide.

In Pakistan, Islamic Banking showed a similar trend whereby it gained a 13% market share in just over a decade. With strong support from State Bank of Pakistan, it is expected to reach 15% market share by the year 2018. Also, as per the Islamic Finance Country Index (IFCI), Pakistan gained a 5.51 point increase over last year, placing it on 9th rank globally. Going forward, Islamic banking is expected to grow strongly on the back of an economy where access to the financial sector is only around 17%, and SME / Micro-financing are on the rise.

Bank's Performance

The year 2016 has been marked as the first year of full operations in our journey of Islamic Banking. The Bank's performance has built a reasonable pace in FY16. Branch network expansion in strategically relevant locations was a priority for the Bank. This year 26 new branches were opened, spanning across all four provinces. Regional branch composition showed a greater penetration in Baluchistan & KPK.

Network Growth

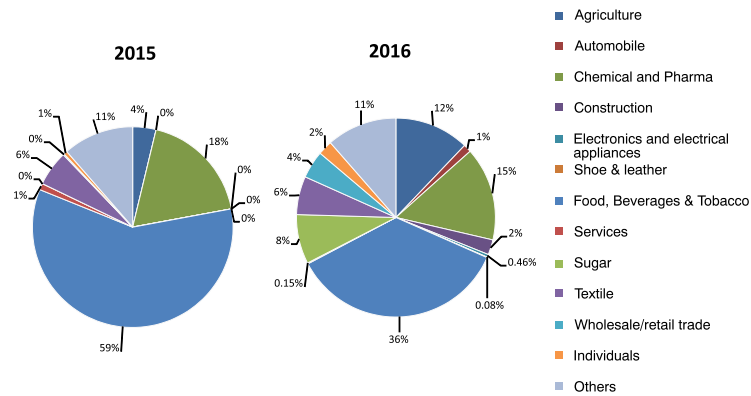


The Bank is at a firm standing with an asset base of Rs.28.6 billion which is an increase of 6.2%, from last year's Rs.26.9 billion.

The Bank had a noticeable increase in total deposits, adding to Rs.14.3 billion, an increase of 51.1% over last year's figure. This is primarily because of the introduction of wider base of products, encompassing a myriad of options that the customer can attain along with branch expansion. The Bank posted an encouraging profit after tax of Rs.79.9 million at year end.

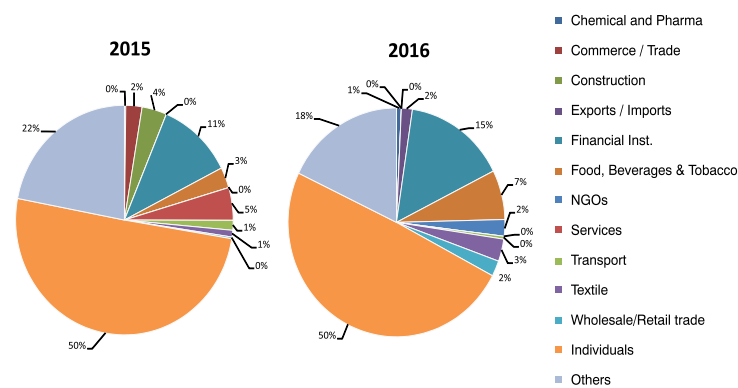
The Bank had a shift in financing industry-wise breakup for the FY16, whereby new industries were tapped into. There were Rs.2.0 billion finances given out to the automobile, construction, electronics, shoe & leather garments and sugar industry, whereby these industries were previously untapped for the FY15.

Islamic financing and related assets (Industry Wise)



Individuals maintained their dominance over other customer segments in terms of Bank's deposit, with a contribution of nearly 49.6%. Trade volumes more than doubled during 2016.

Deposits (Industry Wise)



Financial Highlights

	December 31, 2016	Restated December 31, 2015	Growth (%)
Rs. in Million			
Balances with other banks	2,750.9	6,347.5	-56.7%
Investments – net	5,769.7	5,995.5	-3.8%
Islamic financings and related assets – net	16,172.7	12,473.8	29.7%
Deposits	14,279.4	9,450.1	51.1%
Profit before taxation	113.9	57.6	97.8%
Profit after taxation	79.9	52.3	52.8%
Book value per share (Rupees)	10,266	9,983	2.8%
Earnings per share after tax (Rupees)	0.08	0.052	52.8%
Number of Branches (Number)	66	40	65.0%

Statement under Code of Corporate Governance

- The financial statements prepared by the management of the Bank present its state of affairs fairly, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Bank have been maintained.

- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- Approved Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there-from has been adequately disclosed and explained.
- No dividend/bonus shares have been declared for the year.
- There is no doubt upon the Bank's ability to continue as going concern.
- Key operating and financial data since incorporation is presented in the report.
- The system of internal controls is in place and has been effectively implemented and monitored.
- There has been no material departure from best practices of corporate governance.
- The value of investments of the Bank's Provident Fund based on unaudited accounts at December 31, 2016 amounted to Rs.22.2 million.
- There is no overdue statutory payment on account of taxes, duties, levies and charges.

Compliance with Corporate Governance

The Bank has complied with the requirements of the Code of Corporate Governance relevant for the year ended December 31, 2016. A prescribed statement together with the Auditors Review Report thereon is included in the Annual Report.

Statement of Internal Control

The Board is pleased to endorse the statement made by the management. The Management's Statement of Internal Controls is included in the Annual Report.

Credit Rating

The Bank has been assigned long term credit rating "A" and short term credit rating "A – 1" with stable outlook by Pakistan Credit Rating Agency Limited (PACRA).

Risk Management

The Board of Directors of MCB Islamic Bank drive the risk management framework and have instituted relevant guidelines keeping in view the size and complexity of the organization.

Independence and empowerment in risk management is the pivot that is applied as the fundamental part of BOD's vision. We have in place a mechanism which ensures independence to Risk Management Group in measuring, analyzing, controlling and monitoring risk from the frontline risk takers i.e. business soliciting groups. This separation of functions

between the risk takers and the risk managers provides sufficient independence and yet joint responsibility to business & risk approving authorities for all related risks.

The Bank aims to align the Risk Management Framework with the international best practices and the guidelines of State Bank of Pakistan through various policy documents approved by the BOD. Management Finance Committee for risk is an additional platform to ascertain, discuss and deliberate key risk issues in the portfolio at the management level. RMG provides updates to Risk Management & Portfolio Review Committee, a specialized sub-committee of Board, through regular meetings and obtains guidance and direction from it as well.

Capital Assessment and Adequacy

The Bank remains well-capitalized with capital base above the regulatory limits and Basel capital requirements. The Bank's Tier-1 to total risk weighted assets ratio is well within the comfortable zone and regulatory limits.

Liquidity Management

Asset Liability Committee (ALCO) is responsible for the formulation of overall liquidity strategy and oversight of the asset-liability management function. Asset-Liability Management Framework/ Liquidity Strategy & Contingency Funding Plan is in place, to ensure that the Bank can meet its liquidity needs on a timely basis while optimizing contribution towards the profitability of the Bank. Further, ALCO has approved a framework for regular assessment and monitoring of contractual / non-contractual assets and liabilities for better liquidity and yield / profit rate sensitivity Gap reporting. This is a regulatory requirement and the Bank is compliant on this front.

Business Continuity Plan

We have in place Board approved Business Continuity Plan which is implemented through Risk Management Group. Business Continuity Management Committee, a specialized sub-committee, is in place to oversee implementation matters. The committee meets on a regular basis to steer and monitor BCP imperatives. BCP Office also provides regular updates to Management Committee from time to time.

Core Banking System

As a part of our strategy to be the leading Shari'ah compliant financial institution in the country, the Bank has invested in the best technologies across the world. Oracle Corporation which is well known as the largest enterprise software company has provided us their world leading Islamic Banking Solution FLEXCUBE and the underlying best of class technology platform. The Oracle FLEXCUBE platform is being used by over 500 leading financial institutions across 150 countries. With this implementation, the Bank

will be able to set up a platform which ensures provision of best-in-class services to its customers. Islamic core banking solution will facilitate our needs in the areas of corporate and retail financing, trade finance operations, branch automation, investment banking, risk management structure with a pool of best talent from the Bank's cross functional departments and experts from Techlogix Pakistan Private Limited (Implementation Partner).

In year 2016, with the close and assiduous coordination between the business and support groups, 25 new branches, across the country, were successfully opened on FLEXCUBE.

Trading of Shares of the Bank

Bank is currently a non-listed concern; hence no trades in the shares of the Bank were carried out by the Directors, executives and their spouses and minor children during the year 2016.

Number of Board and sub-committee meetings held and attendance by each Director

Members	BOD		AC		HR & RC		RMPC	
	Meetings held: 4		Meetings held: 4		Meetings held: 2		Meetings held: 3	
	Members	Attendance	Members	Attendance	Members	Attendance	Members	Attendance
Muhtashim Ahmad Ashai	Resigned	1	-	-	-	-	-	-
Usman Hassan	Resigned	0	Resigned	1	Resigned	0	Resigned	0
Mohammad Nauman Chughtai	Resigned	1	Resigned	1	-	-	Resigned	0
Omar Safdar	◆	4	◆	4	◆	2	◆	3
M.U.A Usmani	◆	4	-	-	◆	0	-	-
Khalid Mahmood Bhaimia	◆	4	◆	4	-	-	-	-
Ahmed Ebrahim Hasham	◆	4	-	-	◆	2	◆	3
Ali Muhammad Mahoon	◆	4	-	-	-	-	-	-

Change in Directors

The outgoing directors resigned on March 15, 2016 and the new directors were brought onto the Board on January 11, 2017

Outgoing Directors		Proposed Directors	
1.	Mr. Muhtashim Ahmad Ashai (Nominee) CNIC: 61101-2561967-9	Mr. Raza Mansha (Nominee) CNIC: 35202-2539500-5	
2.	Mr. Usman Hassan (Nominee) CNIC: 61101-1420308-1	Mr. Ibrahim Shamsi (Nominee) CNIC: 42301-4652147-5	
3.	Mr. Mohammad Nauman Chughtai (Nominee) CNIC: 35202-2397704-3	Mr. Aftab Ahmad Khan (Nominee) CNIC: 35202-2938228-3	Transfer not processed till date

Directors Training Program

The following directors have attended the below mentioned SECP certified training programs:

- Corporate Governance Leadership Skills training – Mr. Ahmed Ebrahim Hasham
- Shari'ah Corporate Governance For BOD of IFIS- Mr. Khalid Mahmood Bhaimia
- Corporate Governance Leadership Skills training – Mr. Ali Muhammad Mahoon
- Shari'ah training by RSBM for entire Board – one session

Performance Evaluation of Board of Directors

The Board's key purpose is to ensure the company's prosperity by collectively directing the company's affairs, whilst meeting the appropriate interests of its shareholders and stakeholders, as well as devising a roadmap for attaining the strategic plan while ensuring regulatory compliance. The Board's fiduciary duty is to provide entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed.

An effective Board therefore continually needs to monitor and improve its performance to proactively gauge the contribution of individual board members and committees towards achieving the strategic goals of the financial institution in the long run.

MCB Islamic Bank Ltd. (MIB) Board of Directors has put in place a mechanism for an annual evaluation of its own performance based on the Guidelines on Performance Evaluation of Board of Directors (the "Guidelines") issued by the State Bank of Pakistan through BPRD Circular No. 11 of 2016 dated August 22, 2016. The Board evaluates its performance by looking at the overall performance of the Bank as well as whether the Board members have the requisite skills/expertise, competency, knowledge and diversified experience considered relevant in the context of the Bank's operations and to make the Board an effective governing body. For this purpose, the Board has set up a Board Evaluation Committee.

The Board Evaluation Committee evaluates the Board's performance based on the criteria provided by the Guidelines.

Pursuant to requirements of the Guidelines, the Board has set the following evaluation criteria to judge its performance:

- Is the composition of the Board appropriate, having the right mix of knowledge, expertise and skills to maximize performance?
- How well the Board exercises its role ensuring that the organization supports and upholds the vision and mission, core values etc.?
- Is the policy framework of the Bank developed appropriately?
- What has been the Board's contribution towards developing strategies?
- Is the Board able to make timely strategic decisions ensuring operations are in line with strategies?
- Is the information provided to the Board appropriate, accurate, timely and unbiased?
- What has been the Board's contribution in ensuring robust and effective risk management?
- Has the Board ensured that internal control and the audit function are conducted in an effective manner?
- Has the Board ensured timely and accurate disclosure on all material information?
- Is the Board as a whole, up-to-date with latest developments in the regulatory environment?
- Are the procedures conducive to effective performance and flexible enough to deal with all eventualities?
- Is the Board effective in adherence to the code of conduct?

The Guidelines have provided different approaches for Board's performance evaluation. The MIB Board has adopted an 'In house Approach' for its performance evaluation. The formation of the Board Evaluation Committee in itself endeavors to rule out conflict of interest in the evaluation process and plays a vital role in guaranteeing an effective Board. The Company Secretary assists the Board Evaluation Committee in the performance evaluation.

The assessment exercise performed annually by the Board Evaluation Committee helps by identifying performance determinants followed by rating the Board's efforts through a rating scale, provided for in the Guidelines. The Board Evaluation Committee adopts a mix of both quantitative and qualitative techniques centering on the overall performance of the bank, the developed collective vision and values promoted in conducting the business of the bank as well as decisions made for the business by the Board.

The Board Evaluation Committee performs an annual evaluation of the overall Board, the Chairman, the Board Committees as well as the individual directors. As required by the Guidelines, an external independent evaluator shall be appointed to undertake the evaluation at least every three years.

Pattern of Shareholding

The aggregate shares held by Directors and other shareholders as of December 31, 2016 are as follows:

	Name of Shareholders	No. of Shares
1.	Mr. Muhtashim Ahmad Ashai	01
2.	Mr. Muhammad Nauman Chughtai	01
3.	Mr. Usman Hassan	01
4.	Mr. Omar Safdar	01
5.	Mr. M.U.A. Usmani	01
6.	Mr. Khalid Mahmood Bhaimia	01
7.	Mr. Ahmed Ebrahim Hasham	01
8.	MCB Bank Limited	999,999,993

Appointment of External Auditors

The retiring auditor M/s A.F Ferguson & Co. Chartered Accountants, being eligible for the next term have offered themselves for reappointment. Upon recommendation of the Audit Committee, the Board of Directors recommends M/s A.F Ferguson & Co., Chartered Accountants, as the statutory auditors for the year ending December 31, 2017.

Future Outlook

In line with optimistic economic reviews on Pakistan and particularly future of Islamic Banking whilst keeping alert about the country's volatile law & order situation, the Bank is constructing itself to deliver on sustainable grounds with a long-term approach. Our immediate focus is on development of products suite attending to the diverse needs of customers introducing digital innovation to their lifestyle; while expanding our footprint particularly to financially excluded segments and regions. As we evolve through this process of development and expansion, we ought to go through infancy challenges yet giving us leverage of our size, eventually helping us impact positively more and more lives and business concerns.

As we sailed through 2016 with tremendous learning and setting precedence for the industry by virtue of being the first ever Islamic Bank to spring out of a conventional Bank, our determination to deliver as per the expectations of our customers and stakeholders has further strengthened. 2017 shall be another year in making our long-term objectives a reality while managing challenges on internal and external fronts.

Acknowledgment

On behalf of the Board of Directors and management, I wish to express our sincere gratitude to our customers, business partners and shareholders for their continued patronage and trust. I would also like to thank State Bank of Pakistan, Securities and Exchange Commission of Pakistan and other regulatory authorities for their continuous guidance and support. The Board of Directors sincerely appreciates the significant contribution by all its staff members to the growth of this franchise under challenging business conditions.



Raza Mansha
Chairman
MCB Islamic Bank Ltd.
February 06, 2017
Lahore.

اراکین کے لیے ڈائریکٹرز کی رپورٹ

کمپنی کے بورڈ آف ڈائریکٹرز کی جانب سے میں ایم سی بی اسلامک بینک لمیٹڈ (دی بینک) کی سالانہ رپورٹ پیش کرتا ہوں جو کہ مالیاتی گوشوارہ جات کے آڈٹ بابت سال اختتام پذیر 31 دسمبر 2016ء پر مشتمل ہے۔

اسٹیٹ بینک آف پاکستان (SBP) کی جانب سے دی گئی اجازت کی بابت کاروبار کا آغاز بینک نے مؤثر انداز میں مورخہ 14 ستمبر 2015ء کو شروع کیا اور اس حوالے سے ایک نوٹیفکیشن جاری کیا گیا، جس میں اس امر کی وضاحت کی گئی ہے کہ بینک ہذا شیڈول کے مطابق مورخہ 15 اکتوبر 2015ء سے ایک اسلامی بینک ہے۔ بینک نے باقاعدہ اپنے کاروبار کا آغاز مؤثر انداز سے اپنی ایک برانچ لاہور میں 16 نومبر 2015ء کو کھولنے سے کیا۔ اس عرصہ کے دوران بینک نے ایم سی بی بینک لمیٹڈ کی اسلامی بینکاری پر مشتمل 34 برانچوں کا حصول ایک مقامی اسلامی بینکاری کے پیشے سے وابستہ نظام کے تحت کیا جو کہ بینک ہذا اور ایم سی بی بینک کے مابین ”اسکیم برائے سمجھوتہ و منصوبہ بندی اور تعمیر نو“ کے تحت مورخہ 30 ستمبر 2015ء سے مؤثر ہے۔ اس ضمن میں مورخہ 31 دسمبر 2015ء تک کے تقابلی بقایا جات کو از سر نو ترتیب دیا گیا ہے۔

31 دسمبر 2016ء تک بینک ہذا پورے پاکستان میں اپنی 66 برانچوں کے ساتھ کاروبار کر رہا تھا۔

عالمی اور ملکی معیشت

سال 2016ء میں ہونے والے یکے بعد دیگرے واقعات نے عالمی معیشت پر گہرے اثرات مرتب کیے ہیں، جس کی وجہ سے سال 2016ء میں 3.1 فیصد تک اقتصادی شرح کم ہوئی ہے۔ تاہم یہ پیش گوئی کی گئی ہے کہ اس شرح میں سال 2017ء تک 3.4 فیصد تک اضافہ ہوگا۔ ماہ جون میں یو کے (UK) کی جانب سے یورپی یونین (Brexit) کے چھوڑنے کے حق میں ووٹ دیا اور اس اقدام کو دنیا بھر میں بڑی شہ سرخیوں کے ساتھ بیان کیا گیا۔ IMF اور UN کی جانب سے عالمی سطح کا صنعت کار تسلیم کیے جانے کے بعد چین نے بین الاقوامی مارکیٹ میں اپنی رسائی کو وسعت دینے کے لیے انتہائی جارحانہ انداز جاری رکھا اس سے قبل یہ مقام گزشتہ تین دہائیوں سے امریکہ کو حاصل رہا ہے۔ مشرق وسطیٰ کی معیشت تیل کی قیمتوں میں کمی اور یمن کی جنگی صورتحال کے باعث متاثر رہی۔ عالمی مارکیٹ میں اجناس کی قیمتوں میں کمی کے رجحان کی وجہ سے ابھرتی ہوئی مارکیٹس میں شرح منافع میں کمی واقع ہوئی۔ باوجود اس کے 2016ء کے اختتام پر امریکہ میں معاشی بحالی کے آثار نمایاں ہوئے ہیں۔ اس کا موجب ڈولڈ ٹرمپ کی کامیابی ہے۔

پاکستان میں معیشت کے حوالے سے سال 2016ء میں وسیع پیمانے پر کچھ بڑے شعبہ جات میں بہتری لانے کے لیے کوششیں کی گئیں ہیں۔ اس حقیقت کے باوجود کہ ملک کو اہم اقتصادی، بہتر گورننس اور سیکورٹی چیلنجز کے معاملات کا سامنا تھا، GDP کے لحاظ سے اقتصادی شرح پر FY16 کے لیے 4.5 فیصد تک نشاندہی کی گئی۔ (پچھلے سال GDP میں 4.2 فیصد تک اضافہ ہوا)۔ CPEC جیسے منصوبہ جات کی سبک رفتاری اور پیشگی مراحل کی طرف ترقی کے نتیجے میں شعبہ تعمیر اور بجلی کی پیداوار (وسیع پیمانے پر صنعت کاری) سے معاشی خدمات کی طلب میں اضافہ متوقع ہے اور اس کے ساتھ ساتھ خام مال کی برآمدات کی نسبتاً کم لاگت، کم شرح منافع، توانائی اور بجلی کی بہتر فراہمی معاشی رسد میں نمایاں بہتری لانے کے خواہاں ہیں۔

جبکہ منفی نقطہ نظر سے، برآمدات میں تسلسل کے ساتھ کمی، ترسیلات اور خاطر خواہ غیر ملکی ملکی سرمایہ کاری کی کمی بیرونی اکاؤنٹ کے لئے چیلنج کا سبب بنیں گے۔

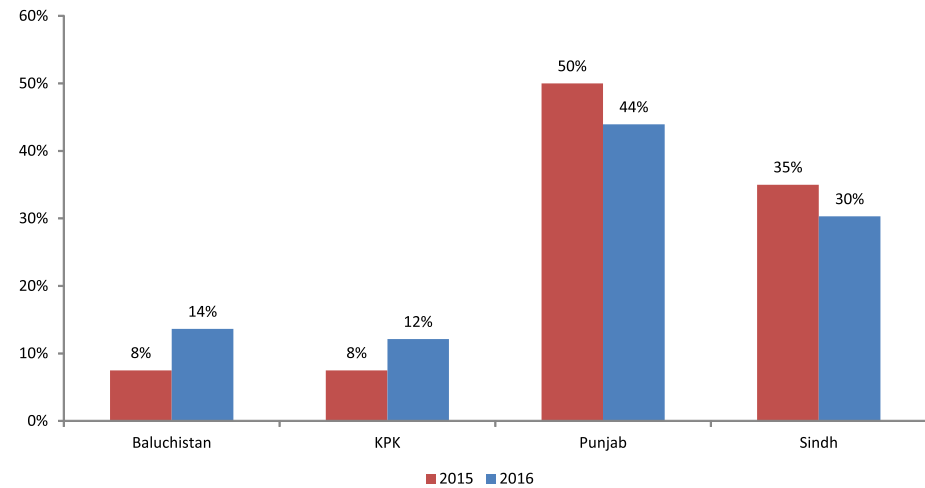
اسی طرح اسلامی بینکاری میں ایک عالمی رجحان پایا جاتا ہے، یہ رجحان سال 2016ء میں بلندی کی جانب گامزن رہا۔ مزید برآں 2013ء تا 2020ء یہ شرح نمو 20% تک بڑھائی جائے گی۔

پاکستان میں اسلامی بینکاری کے شعبے میں اس جیسے رجحان کو دیکھا گیا ہے اور اس سلسلے میں بینک کی جانب سے اس ہدف کو صرف ایک دہائی کے عرصہ کے دوران مارکیٹ میں 13 فیصد حصہ کے طور پر حاصل کیا گیا ہے۔ اسٹیٹ بینک آف پاکستان کی جانب سے قابل قدر تعاون کی بدولت، 2018ء تک مارکیٹ میں اس کا حصہ 15% تک لے جانے کی توقع ہے۔ مزید برآں آئی ایف سی آئی (IFCI) کے مطابق پچھلے ایک سال میں پوری دنیا میں نو سو نمبر پر رہتے ہوئے پاکستان میں 5.51 اسکور سے بہتری آئی ہے۔ آگے کی جانب گامزن رہتے ہوئے توقع کی جاتی ہے کہ اسلامی بینکاری میں مستحکم بنیاد پر ترقی اور بڑھوتری ہوگی کیونکہ معاشی طور پر رسائی ابھی تک 17% تک محدود ہے۔ ایس ایم ای (SME) اور مائکرو فنانس میں بہتری کے نمایاں امکانات موجود ہیں۔

بینک کی کارکردگی

سن 2016ء ایم سی بی اسلامی بینک کے لئے اسلامی بینکاری کے سفر کا پہلا سال رہا ہے۔ 2016ء میں بینک کی کارکردگی کی رفتار ایک مناسب حد تک رہی۔ موزوں اور مناسب جگہوں پر شاخیں کھولنے کو بینک کی حکمت عملی میں ترجیح حاصل رہی ہے۔ اس سال 26 برانچوں کا آغاز کیا گیا ہے، جو چاروں صوبوں میں پھیلی ہوئی ہیں۔ برانچوں کی صوبائی بناوٹ کے پی کے (KPK) اور بلوچستان میں بڑی شمولیت کو ظاہر کر رہی ہے۔

Network Growth

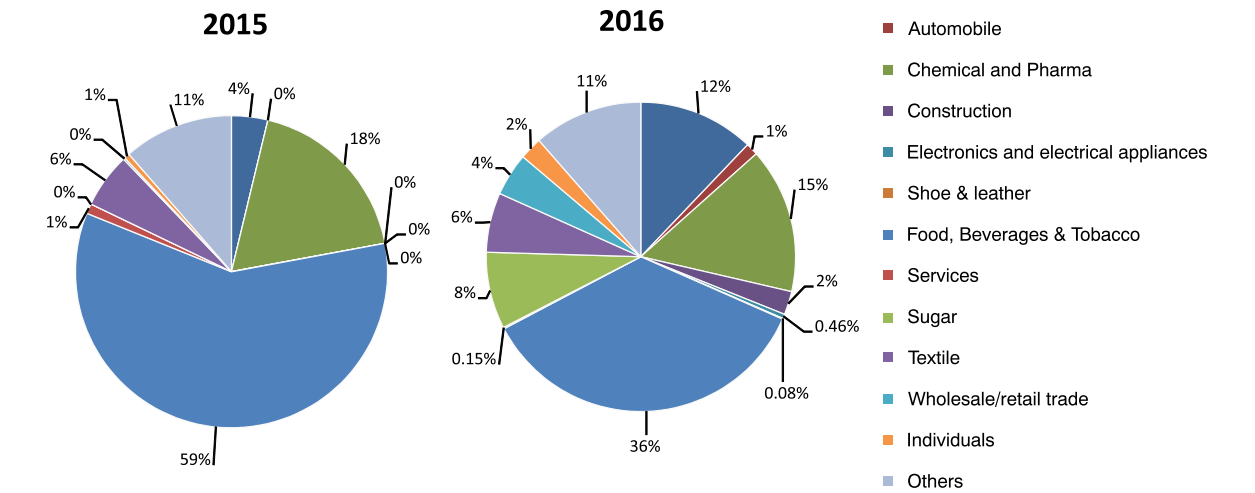


بینک مستحکم بنیادوں پر چل رہا ہے، جس کے اثاثہ جات کی مالیت 28.6 بلین روپے ہیں، جو کہ گزشتہ سال کے مقابلے میں 6.2% زیادہ ہے جبکہ گزشتہ سال یہ 26.9 بلین روپے تھے۔

بینک کے مجموعی ڈپازٹس میں اس سال 14.3 بلین روپے کا نمایاں اضافہ ہوا ہے جو کہ گزشتہ سال کے مقابلے میں 51.1% زیادہ ہے۔ بنیادی طور پر یہ مختلف النوع پروڈکٹس کے متعارف کرانے اور برانچوں کی تعداد میں اضافے کی وجہ سے ہے جن پروڈکٹس کو صارفین باآسانی حاصل کر سکتے ہیں۔ اس سال کے آخر میں بینک نے 79.9 بلین روپے کا حوصلہ افزاء منافع بھی کمایا ہے۔

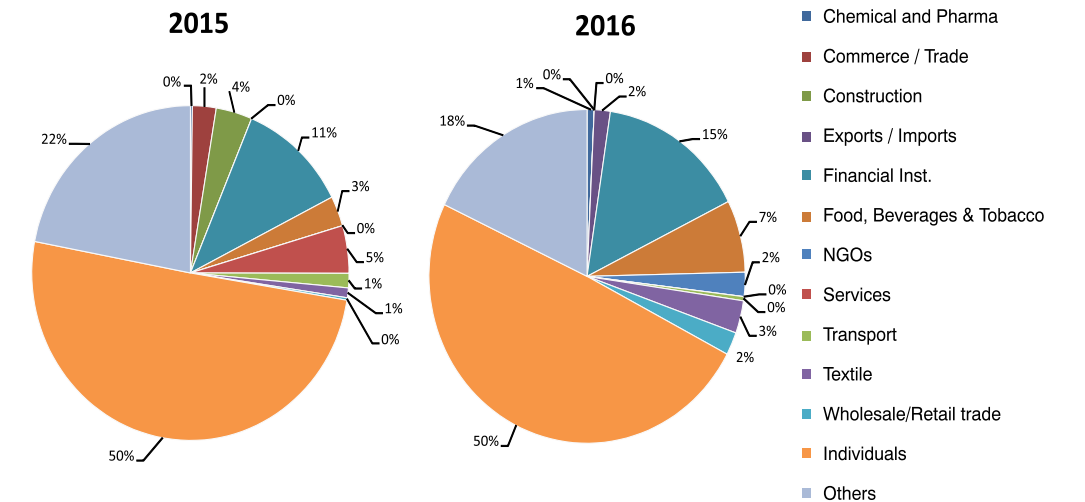
بینک کی صنعتی شعبوں کے اعتبار سے فنانسنگ کی تقسیم میں نمایاں تبدیلی آئی ہے، جس میں دیگر صنعتوں کو بھی شامل کیا گیا ہے۔ اس سلسلے میں 2.0 بلین کی فنانسنگ آٹوموبائل، تعمیراتی، الیکٹرونکس، نعل سازی ولیدر گارمنٹس اور شوگر انڈسٹریز کو دی گئی ہے۔ یہ انڈسٹریز 2015ء میں شامل نہیں تھیں۔

Islamic financing and related assets (Industry Wise)



انفرادی سطح کے اکاؤنٹ ہولڈرز کو مجموعی کسٹمر کی تعداد میں ایک غالب حیثیت حاصل ہے، جس کا حصہ 49.6% ہے۔ ٹریڈ کا حصہ 2016ء میں دگنا ہوا ہے۔

Deposits (Industry Wise)



مالیاتی جائزہ

	December 31, 2016	Restated December 31, 2015	Growth (%)
		Rs. in Million	
Balances with other banks	2,750.9	6,347.5	-56.7%
Investments – net	5,769.7	5,995.5	-3.8%
Islamic financings and related assets – net	16,172.7	12,473.8	29.7%
Deposits	14,279.4	9,450.1	51.1%
Profit before taxation	113.9	57.6	97.8%
Profit after taxation	79.9	52.3	52.8%
Book value per share (Rupees)	10.266	9.983	2.8%
Earnings per share after tax (Rupees)	0.08	0.052	52.8%
Number of Branches (Number)	66	40	65.0%

کارپوریٹ گورننس کے تحت مالیاتی گوشوارہ

- (1) بینک کے گوشوارہ جات کو انتظامیہ کی جانب سے تیار کیا گیا ہے اور ان گوشوارہ جات کے معاملات کو شفافیت کے ساتھ پیش کیا گیا ہے تاکہ بینک کی جانب سے کیے گئے کاروباری نتائج، رقم کے بہاؤ اور حصص کے سلسلے میں کی جانے والی تبدیلیوں کا تعین کیا جاسکے۔
- (2) بینک کے کھاتہ جات کے حساب و کتاب کو ہر لحاظ سے برقرار رکھا گیا ہے۔
- (3) مالیاتی گوشوارہ جات کی تیاری میں موزوں اکاؤنٹنگ پالیسیوں کا مسلسل اطلاق کیا گیا ہے اور حساب و کتاب کے کھاتہ جات کے متعلق تخمینہ جات معقول دلائل اور محتاط فیصلوں پر منحصر ہیں۔
- (4) پاکستان میں نافذ العمل منظور شدہ کھاتہ جات کے معیارات کو ہر پہلو سے مالی کھاتہ جات کی تیاری میں ملحوظ رکھا گیا ہے اور اس سلسلے میں تمام صورت حال کو موزوں طریقے سے بیان کیا گیا ہے۔
- (5) سال میں کسی بھی قسم کے منافع / ازاد حصص کو تقسیم کرنے کا اعلان نہیں کیا گیا۔
- (6) بلاشبہ بینک اپنی اہلیت اور قابلیت کے بل بوتے پر کاروباری معاملات کو جاری رکھے ہوئے ہے۔
- (7) ادارے کے قیام سے لے کر اب تک کی تمام تر اہم کاروباری و مالیاتی معلومات اس رپورٹ میں پیش کر دی گئی ہیں۔
- (8) اندرونی اصول و ضوابط کو اس کی متعلقہ جگہوں پر احسن انداز سے لاگو کیا گیا ہے اور اس کی نگرانی بھی کی گئی ہے۔
- (9) کارپوریٹ گورننس کے حوالے سے کسی بھی قسم کا کوئی منفی مواد موجود نہیں ہے۔
- (10) بینک کے پروویڈنٹ فنڈ کی مالیاتی حیثیت آڈٹ کے بغیر 31 دسمبر 2016ء تک 22.2 ملین ہے۔
- (11) ٹیکسوں، واجبات اور جرمانہ کی رقم کی مد میں بینک پر کسی قسم کے واجبات نہیں ہیں۔

کارپوریٹ گورننس سے مطابقت

بینک کی جانب سے کارپوریٹ گورننس کے وضع کردہ اصول و ضوابط کے تحت 31 دسمبر 2016ء تک کے تمام مطلوبہ معاملات کی پاسداری کی گئی ہے۔ ضابطہ کے تحت طے شدہ گوشوارہ جات کا آڈیٹرز کی جانب سے جائزہ لیا گیا ہے جو کہ رپورٹ کے ساتھ منسلک ہے۔

اندرونی معاملات کو کنٹرول کرنے کا بیان

انتظامیہ کی جانب سے تیار کردہ گوشوارہ جات کو بورڈ کی حمایت حاصل ہے۔ اسی طرح اندرونی معاملات کے بارے میں انتظامیہ کی جاری کردہ رپورٹ کو بھی سالانہ رپورٹ کا حصہ بنایا گیا ہے۔

کریڈٹ کی درجہ بندی

بینک کو پاکستان کریڈٹ ریٹنگ ایجنسی (PACRA) کی جانب سے طویل عرصہ کی بنیاد پر کریڈٹ کی درجہ بندی "A" اور قلیل عرصہ کی بنیاد پر کریڈٹ کی درجہ بندی "A-1" دی گئی ہیں۔

رиск مینجمنٹ

اسلامی بینک کے بورڈ آف ڈائریکٹرز کی جانب سے متعلقہ رہنما اصولوں کو ترتیب دیتے ہوئے رиск مینجمنٹ پر مشتمل ڈھانچہ کو تشکیل دیا گیا ہے، تاکہ وہ ادارے کے پیچیدہ معاملات کا احاطہ کر سکیں۔

رиск مینجمنٹ کی آزادی اور خود مختاری بورڈ آف ڈائریکٹرز کے وٹن کا بنیادی اور اہم جزو ہے۔ ہمارے ہاں ایک منظم طریقہ کار ہے جو رиск مینجمنٹ گروپ کو آزادانہ طور پر صرف اول کے رиск ٹیکرز کے ذریعے موازنہ و تجزیہ، کنٹرول اور نگرانی کرنے کو یقینی بناتا ہے۔ یہ نظام رиск ٹیکرز اور رиск مینیجرز کے مابین باہمی آزادی اور ذمہ داری کو بروئے کار لانے کا موجب بنتا ہے۔ بینک کی منصوبہ بندی یہ ہے کہ وہ رиск مینجمنٹ کے ڈھانچے کو بین الاقوامی سطح کے بہترین عملی نمونوں اور اسٹیٹ بینک آف پاکستان کی جانب سے وضع کردہ رہنما اصول و ضوابط کے مطابق ڈھالے اور اس عمل کو پایا تکمیل تک پہنچانے کے لئے بورڈ سے منظور شدہ پالیسی و ستاویزات تشکیل دے۔ رиск کی مینجمنٹ فنانس کمیٹی ایک اہم پلیٹ فارم ہے جہاں رиск کے اہم مسائل کا مینجمنٹ کی سطح پر موازنہ اور غور و فکر کیا جاسکتا ہے۔ رиск مینجمنٹ گروپ (RMG)، رиск مینجمنٹ اینڈ پورٹفولیو ریویو کمیٹی کو، جو بورڈ کی ایک ذیلی کمیٹی ہے، باقاعدہ میٹنگز کے ذریعے موجودہ حالات سے آگاہ کرتے ہوئے رہنمائی حاصل کرتا ہے۔

سرمایہ کاری کی مطابقت

بینک نے مناسب سرمایہ کاری کی بنیاد کو ریگولیٹری سطح اور BASEL کی سرمایہ کاری کی ضروریات کے مطابق رکھا ہے۔ بینک کا Tier-1 کا مجموعی risk weighted assets ratio ریگولیٹری سطح کے عین مطابق ہے۔

لیکویڈیٹی مینجمنٹ

ایسٹ لائیبیلیٹی کمیٹی بینک کا وہ شعبہ ہے جو بینک کے مجموعی اثاثہ جات و واجبات کے حوالے سے جامع حکمت عملی اور نگرانی کے معاملات کو سرانجام دیتا ہے۔ Asset-Liability Management Framework / Liquidity

Strategy & Contingency Funding Plan موجود ہے جو اس امر کو یقینی بناتا ہے کہ بینک اپنی لیکویڈٹی کی ضروریات کو وقتاً فوقتاً پورا کر سکے اور بینک کو منافع بخش بنانے میں مددگار ثابت ہو۔ مزید برآں ایسٹ لائیکویڈٹی کمیٹی نے ایک ڈھانچہ منظور کر لیا ہے جو معاہداتی / غیر معاہداتی اثاثہ جات و واجبات کے معاہدوں کی بہتر لیکویڈٹی اور شرح منافع کے لئے تجزیہ اور نگرانی کر سکے۔ یہ ایک ریگولیٹری مطالبہ ہے اور بینک اس سے مطابقت رکھتا ہے۔

کاروباری تسلسل (بزنس کنٹینوئٹی) کی منصوبہ بندی

کاروباری تسلسل کی منصوبہ بندی بورڈ سے منظور شدہ ہے، جس کا نفاذ رسک مینجمنٹ گروپ کے ذریعے کیا جاتا ہے۔ بزنس کنٹینوئٹی کمیٹی بورڈ کی ایک ذیلی کمیٹی ہے جو اس کام کو سرانجام دیتی ہے۔ یہ کمیٹی باقاعدگی سے ملاقات کرتی ہے تاکہ کاروباری تسلسل کی ترجیحات کی موثر انداز سے رہنمائی اور نگرانی کی جاسکے۔ بی سی پی آف بینک کی مینجمنٹ کمیٹی کو وقتاً فوقتاً متعلقہ پیشرفت سے آگاہ کرتا ہے۔

بنیادی بینکاری نظام

جیسا کہ بینک کی یہ حکمت عملی ہے کہ ملک میں شرعی اصول و ضوابط کے مطابق ایک معروف بینک قائم کیا جاسکے۔ بینک نے اسی نقطہ نظر کو ملحوظ خاطر رکھتے ہوئے دنیا کی بہترین ٹیکنالوجی کا انتخاب کیا ہے۔ Oracle Corporation جو کہ ایک عالمی شہرت یافتہ اور وسیع پیمانے پر کام کرنے والا ادارہ ہے، جس نے ایم سی بی اسلامی بینک کو دنیا میں سب سے زیادہ استعمال ہونے والا بینکنگ سلوشن (Banking Solution) فلیکس کیوب (Flexcube) فروخت کیا ہے۔ یہ سسٹم دنیا کے 150 ممالک کے 500 معروف مالیاتی اداروں میں استعمال کیا جاتا ہے۔ اس سسٹم کے اطلاق سے بینک اپنے صارفین کو بہترین خدمات کی فراہمی کو یقینی بنا سکے گا۔ یہ بنیادی بینکاری کا نظام کارپوریٹ اور ریٹیل فنانسنگ، ٹریڈ فنانس آپریشنز، برانچ آٹومیشن، انوسٹمنٹ بینکنگ، رسک مینجمنٹ اسٹرکچر جیسے شعبوں کو فعال بنانے میں کارآمد ثابت ہوگا۔ فلیکس کیوب (Flexcube) کے کامیاب اطلاق کے لئے بینک کے مختلف شعبوں سے تعلق رکھنے والے پیشہ ورانہ ماہرین اور Techlogix Pakistan Pvt. Ltd. (اطلاقی شریک) کے ماہرین اپنی بہترین صلاحیتوں کو بروئے کار لارہے ہیں۔

سال 2016ء میں بزنس اور سپورٹ گروپ کے باہمی تعاون کے ذریعے ملک بھر میں 25 نئی برانچوں کا فلیکس کیوب پر کامیابی سے آغاز ہو چکا ہے۔

بینک کے حصص کی تجارت

بینک فی الحال ایک غیر مندرج کمپنیوں کی فہرست میں شامل ہے تاہم اس وجہ سے بینک کے ڈائریکٹرز اور ایگزیکٹو منتظمین، ان کی بیگمات اور نابالغ بچوں کی جانب سے سال 2016ء میں بینک کے حصص میں کسی بھی قسم کی تجارت کا تحرک نہیں کیا گیا ہے۔

بورڈ اور ذیلی کمیٹیوں کی میٹنگز اور ڈائریکٹرز کی حاضری

Members	BOD Meetings held: 4		AC Meetings held: 4		HR & RC Meetings held: 2		RMPC Meetings held: 3	
	Members	Attendance	Members	Attendance	Members	Attendance	Members	Attendance
Muhtashim Ahmad Ashai	Resigned	1	-	-	-	-	-	-
Usman Hassan	Resigned	0	Resigned	1	Resigned	0	Resigned	0
Mohammad Nauman Chughtai	Resigned	1	Resigned	1	-	-	Resigned	0
Omalr Safdar	◆	4	◆	4	◆	2	◆	3
M.U.A Usmani	◆	4	-	-	◆	0	-	-
Khalid Mahmood Bhalmia	◆	4	◆	4	-	-	-	-
Ahmed Ebrahim Hasham	◆	4	-	-	◆	2	◆	3
All Muhammad Mahoon	◆	4	-	-	-	-	-	-

ڈائریکٹرز کی تبدیلی

15 مارچ 2016ء کو سبکدوش ہونے والے ڈائریکٹرز اور 11 جنوری 2017ء کو مجوزہ ڈائریکٹرز کی تفصیل درج ذیل ہے:-

Outgoing Directors		Proposed Directors	
1.	Mr. Muhtashim Ahmad Ashai (Nominee) CNIC: 61101-2561967-9	Mr. Raza Mansha (Nominee) CNIC: 35202-2539500-5	
2.	Mr. Usman Hassan (Nominee) CNIC: 61101-1420308-1	Mr. Ibrahim Shamsi (Nominee) CNIC: 42301-4652147-5	
3.	Mr. Mohammad Nauman Chughtai (Nominee) CNIC: 35202-2397704-3	Mr. Aftab Ahmad Khan (Nominee) CNIC: 35202-2938228-3	Transfer not processed till date

ڈائریکٹرز کے تربیتی پروگرام

مندرجہ ذیل ڈائریکٹرز نے مذکورہ SECP سے تصدیق شدہ تربیتی پروگراموں میں شرکت کی ہے:-

- کارپوریٹ گورننس لیڈرشپ سکول ٹریننگ - جناب احمد ابراہیم ہشام
- شریعہ کارپوریٹ گورننس فار BOD آف IFIS - جناب خالد محمود بھائی میاں
- کارپوریٹ گورننس لیڈرشپ سکول ٹریننگ - جناب علی محمد ماہون
- تمام بورڈ ممبران کے لیے بینک کے RSBM کی جانب سے شریعہ ٹریننگ - ایک نشست

بورڈ آف ڈائریکٹرز کی کارکردگی کا جائزہ

کمپنی کے معاملات میں باہمی رہنمائی سے اخذ ہونے والی کمپنی کی کامیابی، شیئرز ہولڈرز اور سٹیک ہولڈرز کے مفادات کا حصول اور مستقبل کے لائحہ عمل کی تشکیل، جو ریگولیٹر کے اصول و ضوابط سے مطابقت رکھتا ہو، بورڈ کے اولین مقاصد میں شامل ہے۔ بورڈ کی قانونی ذمہ داری ہے کہ وہ محتاط اور موثر اصول و ضوابط کی حدود میں رہتے ہوئے ادارے کے رسک کی تشخیص اور انتظامی امور میں قائدانہ رہنمائی فراہم کرے۔

ایک موثر بورڈ مستقل بنیادوں پر نگرانی کرتا ہے اور انفرادی بورڈ ممبران اور کمیٹیوں کی کارکردگی اور اعانت کو بہتر بنانے کے لئے سرگرم رہتا ہے تاکہ مستقبل میں بہتر حکمت عملی سے مقاصد حاصل کئے جاسکیں۔

ایم سی بی اسلامی بینک کے بورڈ آف ڈائریکٹرز نے اپنی سالانہ کارکردگی کے جائزے کے لئے ایک منظم طریقہ کار ترتیب دیا ہے، جو اسٹیٹ بینک آف پاکستان کے جاری کردہ Guidelines on Performance Evaluation of Board of Directors. (the "Guidelines") of Directors. بذریعہ BPRD Circular No. 11 of 2016 بتاریخ 22 اگست 2016ء کے تحت ہے۔ بورڈ اپنی کارکردگی کا جائزہ بینک کی مجموعی کارکردگی کو مد نظر رکھتے ہوئے کرتا ہے۔ مزید برآں یہ کہ بورڈ ممبران کی مطلوبہ قابلیت و مہارت اور بینک کے متعلقہ معاملات پر متنوع تجربات بورڈ کی کارکردگی کے جائزے میں اہم کردار ادا کرتے ہیں، جس کی بدولت بورڈ ایک موثر گورننگ باڈی بنتا ہے۔ اس مقصد کو حاصل کرنے کے لئے بورڈ نے ایک ”بورڈ ای ویلوشن“ کمیٹی بنائی ہے۔

بورڈ ای ویلوشن کمیٹی بورڈ کی کارکردگی کا جائزہ (the "Guidelines") میں فراہم کئے گئے معیارات کے مطابق کرتی ہے۔ انہیں معیارات کو مد نظر رکھتے ہوئے بورڈ نے مندرجہ ذیل نقاط تشکیل دیئے ہیں۔

- ۱- کیا بورڈ کی تشکیل میں قابلیت و مہارت، تجربے کی مطلوبہ مناسبت ہے، جو بینک کی کارکردگی کو فروغ دے سکے؟
- ۲- بورڈ کس حد تک موثر انداز سے بینک کے وژن، مشن، بنیادی اقدار جیسے امور کو سرانجام دینے میں کردار ادا کرتا ہے؟
- ۳- کیا بینک کی حکمت عملی کو مناسب انداز سے ترتیب دیا گیا ہے؟
- ۴- بینک کے لائحہ عمل کو تشکیل دینے میں بورڈ کس حد تک معاون ثابت ہوتا ہے؟
- ۵- کیا بورڈ بروقت فیصلہ کن حکمت عملی اختیار کرتا ہے تاکہ بینک کے معاملات اس کے وضع کردہ لائحہ عمل کے مطابق قائم رہیں؟
- ۶- کیا بورڈ کو مہیا کی جانے والی معلومات بروقت، درست اور غیر جانبدارانہ ہوتی ہیں؟
- ۷- کامل اور موثر رسک مینجمنٹ کو ترتیب دینے میں بورڈ کا کیا کردار رہا ہے؟
- ۸- کیا بورڈ نے اس امر کو یقینی بنایا ہے کہ بینک کے اندرونی ضوابط اور آڈٹ فنکشن موثر انداز سے سرانجام دیئے جاسکیں؟
- ۹- کیا بورڈ نے اس امر کو یقینی بنایا ہے کہ بینک کی اہم معلومات بروقت اور درستگی سے شائع کی جاسکیں؟
- ۱۰- کیا بورڈ مجموعی طور پر ریگولیٹری معاملات سے بروقت آگاہ رہتا ہے؟

- ۱۱- کیا بینک کے طریقہ کار موثر کارکردگی کے ضامن ہیں اور آیا یہ اس قدر پکدار ہیں کہ کسی بھی قسم کی ناگہانی صورتحال کا سامنا کر سکیں؟
- ۱۲- کیا بورڈ با اثر طریقے سے کوڈ آف کنڈکٹ پر عملدرآمد ہے؟

یہ رہنما اصول بورڈ کی کارکردگی کا تعین کرنے کے لئے مختلف راہیں ہیں۔ ایم آئی بی بورڈ نے اپنی کارکردگی کا تعین کرنے کے لئے "In house Approach" کو اختیار کیا ہے۔ بورڈ ای ویلوشن کمیٹی کا قیام اس بات کو یقینی بناتا ہے کہ تجزیے کے عمل میں مفاد کا تصادم نہ ہو اور یہ بورڈ کو موثر بنانے میں اہم کردار ادا کرتا ہے۔ اس کارکردگی کے جائزے میں کمپنی سیکرٹری بورڈ ای ویلوشن کمیٹی کو معاونت فراہم کرتی ہے۔

بورڈ ای ویلوشن کمیٹی کا سالانہ تجزیہ کارکردگی کے اہم عناصر کی شناخت اور بورڈ کی کوششوں کو رہنما اصولوں سے اخذ ہونے والے ریٹنگ سکیل کے تحت ریٹ کرنے میں معاون ثابت ہوتا ہے۔ کارکردگی کا تعین کرنے کے لئے بورڈ ای ویلوشن کمیٹی نے معیاری اور مقداری عوامل پر مشتمل ایک مجموعی طریقہ کار اختیار کیا ہے۔ جس کا مرکز بینک کی مجموعی کارکردگی، نیز کمیٹی کا مجموعی وژن، اور وہ اقدار جو کاروباری امور کو سرانجام دینے میں فروغ پاتی ہیں اور وہ فیصلے جو بینک کے حق میں لئے گئے ہیں۔

بورڈ ای ویلوشن کمیٹی ہر سال بورڈ کی مجموعی کارکردگی، چیئرمین، بورڈ کمیٹیز اور ڈائریکٹرز کی انفرادی کارکردگی کا جائزہ لیتی ہے۔ جیسا کہ رہنما اصولوں میں مطلوب ہے کہ ایک بیرونی، غیر جانبدار اور آزاد تجزیہ کار کا تقرر کیا جائے گا، جو کم از کم 3 سال میں ایک مرتبہ کارکردگی کا جائزہ لے گا۔

حصص کے تقسیم

ڈائریکٹرز اور مجموعی طور پر حصص کے مالکان کی 31 دسمبر 2016ء پر تفصیل درج ذیل ہے:

Name of Shareholders	No. of Shares
1. Mr. Muhtashim Ahmad Ashai	01
2. Mr. Muhammad Nauman Chughtai	01
3. Mr. Usman Hassan	01
4. Mr. Omair Safdar	01
5. Mr. M.U.A. Usmani	01
6. Mr. Khalid Mahmood Bhaimia	01
7. Mr. Ahmed Ebrahim Hasham	01
8. MCB Bank Limited	999,999,993

بیرونی آڈیٹرز کی تقرری

ریٹائر ہونے والے آڈیٹر فرم میسرز A.F فرگوسن اینڈ کمپنی چارٹرڈ اکاؤنٹنٹس کا ادارہ، جو کہ اگلی میعاد کے لیے موزوں ہے، اس ادارے کی جانب سے اپنی خدمات پیش کی گئی ہیں۔ آڈٹ کمیٹی کی سفارش پر بورڈ کے ڈائریکٹرز نے فرم میسرز A.F فرگوسن اینڈ کمپنی چارٹرڈ اکاؤنٹنٹس کو بینک کے کاروباری سال 2017ء کے لیے قانونی آڈیٹر مقرر کیا ہے۔

مستقبل کا نقطہ نظر

پاکستان کی پُر امید اقتصادی، بالخصوص اسلامی بینکاری کی صورت حال، اور ملک کے غیر مستحکم حالات کے پیش نظر بینک اپنی تعمیراتی خدمات کو لمبے عرصہ تک برقرار رکھنے کے لئے کوشاں ہے۔ بینک اپنی پروڈکٹس کی ترویج پر توجہ مرکوز کئے ہوئے ہے۔ یہ پروڈکٹس صارفین کی وسیع تر ضروریات کو جدید ٹیکنالوجی کے ذریعے پورا کرتے ہوئے ان کی طرز زندگی پر اثر انداز ہوں گے۔ بینک نے مثبت اقدامات کو بروئے کار لاتے ہوئے اپنے بینکاری نظام کو وسعت دی ہے بالخصوص ان علاقہ جات میں جو مالیاتی خدمات سے محروم ہیں۔ بینک جیسے جیسے اس ترقی اور توسیع کے عمل سے گزر رہا ہے یہ بات لازم ہے کہ بینک اپنے اوائل دور کے چیلنجز سے گزرے گا تاہم بینک کا موجودہ حجم اس سلسلے میں معاون اور مددگار ثابت ہوگا جس کے نتیجے میں بینک کے مثبت اثرات کا دائرہ کار وسیع ہوگا۔

ایم سی بی اسلامی بینک کی تخلیق اپنی نوعیت کی پہلی مثال ہے جو ایک روایتی بینک سے علیحدہ ہو کر ایک مکمل اسلامی بینک بنا۔ جیسا کہ 2016ء کے اس سفر میں بینک کو بے بہا تجربات کا سامنا ہوا جو کہ بینک کے تخلیقی سفر میں ایک مقدم حثیت رکھتے ہیں۔ ان تجربات کے باعث بینک کو اپنے صارفین اور اسٹیک ہولڈرز کی توقعات پر پورا اترنے کے عزم میں تقویت ملی ہے۔ لہذا یہ امید کی جاتی ہے کہ 2017ء میں بھی بینک اندرونی اور بیرونی چیلنجز کا سامنا کرتے ہوئے اپنے طویل المیعاد مقاصد کے حصول کے لئے بخوبی کوشاں رہے گا۔

اظہارِ اعتراف

بورڈ اور منتظمین کی جانب سے بینک کے معزز صارفین، کاروباری پارٹنرز اور حصص مالکان کی مسلسل سرپرستی اور بینک پر بھروسہ کرنے پر میں نیک خواہشات کا اظہار کرتا ہوں۔ نیز اسٹیٹ بینک آف پاکستان، سیکوریٹیز اینڈ ایکسچینج کمیشن آف پاکستان اور دیگر اعلیٰ حکام کی مسلسل رہنمائی اور تعاون کا بے حد شکر گزار ہوں۔ بورڈ آف ڈائریکٹرز کی مخلصانہ کاوشوں اور اپنے عملے کے بھرپور تعاون کا معترف ہوں، جن کی بدولت بینک کاروباری چیلنجز کا بھرپور انداز سے مقابلہ کرتے ہوئے ایک خود مختار ادارے کے طور پر ابھرا ہے۔



رضا منشاء
چیئر مین

ایم سی بی اسلامی بینک لمیٹڈ

تاریخ اجراء: 06 فروری، 2017ء

لاہور۔

REPORT OF SHARI'AH BOARD

(For the year ended December 31, 2016)

IN THE NAME OF ALLAH, THE BENEFICENT, THE MERCIFUL

The Shari'ah Board of MCB Islamic Bank Ltd. (MIB) was established in September 2015, which comprises of respected Professor Mufti Munib-ur-Rehman as Chairman Shari'ah Board, Mufti Syed Sabir Hussain as Resident Shari'ah Board Member (RSBM) and Mufti Mahmood Ahmad as Member Shari'ah Board. In the year 2016 Shari'ah Board meetings were held on the following dates:

First Shari'ah Board Meeting – January 27, 2016

Second Shari'ah Board Meeting – May 16, 2016

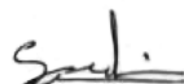
Third Shari'ah Board Meeting – October 04, 2016

- 1 While the Board of Directors and Executive Management are solely responsible to ensure that the operations of MIB are conducted in a manner that comply with Shari'ah principles at all times, we are required to submit a report on the overall Shari'ah compliance environment of MIB.
- 2 To form our opinion as expressed in this report, the Shari'ah Compliance & Shari'ah Training Department (SC&STD) of MIB carried out reviews, of each class of transactions, products, process flows/modus operandi and concepts. In order to enhance the Islamic banking knowledge and expertise, Islamic banking trainings, in general as well as product wise, were made mandatory for all staff of the Bank with the coordination of HR department. The Shari'ah Board of the MIB has issued Four (4) Instructions & Guidelines & Two (2) Fatawas during the period.
- 3 SC&STD with the coordination of management has reviewed the existing legal documents of financing products namely Diminishing Musharakah, Ijarah, Musharakah Running Finance, Musharakah Export Finance and Staff Financing based on Diminishing Musharakah. Legal documents of remaining products are in process of review. .
- 4 SC&STD has also conducted Islamic Banking training sessions for the front and back offices staff of MIB. Further, SC&STD has taken initiative to establish an effective and comprehensive Islamic Banking training mechanism for all business centers, Branch Managers/ Branch Operation Managers, Executive Management and Board of Directors.
- 5 Shari'ah Board has reviewed & advised corrective measures on the report of Internal Shari'ah Audit and Shari'ah Compliance Inspection reports and is of the view that:
 - i. MIB has complied with Shari'ah rules and principles in the light of Fatawa, Instructions and Guidelines issued by Shari'ah Board.
 - ii. MIB has complied with directives, regulations, instructions and guidelines related to Shari'ah compliance issued by SBP in accordance with the rulings of SBP's Shari'ah Board.
 - iii. MIB has a comprehensive mechanism in place to ensure Shari'ah compliance in their overall operations.
 - iv. During the course of Shari'ah compliance of the transactions, it was realized that MIB earned Non Shari'ah compliant income Rs.10.7 million from different heads which was instructed to transfer to the Charity account. The bank has disbursed the Charity amount to Shari'ah approved charitable organizations as per MIB's charity policy and SBP's guidelines.
 - v. MIB has complied with the SBP instructions on profit and loss distribution and pool management.
 - vi. While the Bank is actively pursuing training of its human resources about various aspects of Islamic Banking & Finance through training sessions/seminars, however further improvement is required in the level of awareness of Islamic Banking & Finance of the staff, management and the BOD through enhanced training mechanism for each level. The management and the BOD has made sincere efforts and appreciates the importance of Shari'ah compliance in overall operations of MIB.
 - vii. The Shari'ah Board has been provided adequate resources enabling it to discharge its duties effectively.

Shari'ah Board would like to take this opportunity to offer praise to Almighty ALLAH and seek his guidance and tawfeeq, and to express its wishes for further progress, development and prosperity of Islamic Banking, Alhamdulillah under the sincere efforts of senior management, and Islamic Banking industry in Pakistan as a whole.



Professor Mufti Munib-ur-Rehman
Chairman Shari'ah Board

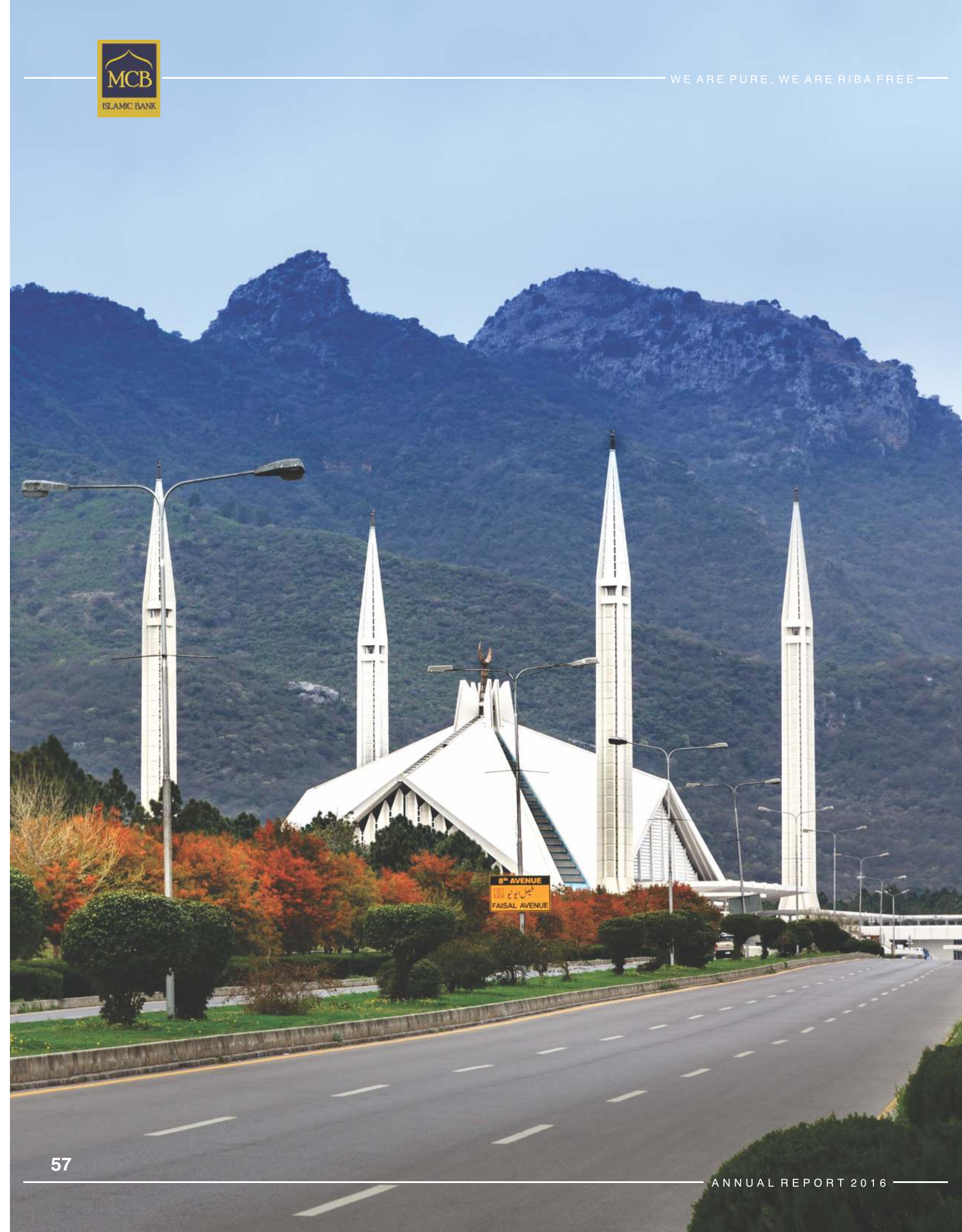


Mufti Syed Sabir Hussain
Resident Shari'ah Board Member



Mufti Mahmood Ahmad
Member Shari'ah Board

January 24, 2017



شریعی بورڈ رپورٹ

(مالی سال اختتام پذیر 31 دسمبر 2016ء)

اللہ کے نام سے شروع، جو انتہائی مہربان اور رحم کرنے والا ہے۔

ایم سی بی اسلامی بینک (ایم آئی بی) کا شریعی بورڈ 14 ستمبر 2015ء کو تشکیل پایا، جو پروفیسر مفتی منیب الرحمن چیئرمین شریعی بورڈ، مفتی سید صابر حسین ریزیڈنٹ شریعی بورڈ ممبر اور مفتی محمود احمد، ممبر شریعی بورڈ پر مشتمل ہے۔ 2016ء میں شریعی بورڈ کے اجلاس درج ذیل تاریخوں میں منعقد ہوئے:

☆ شریعی بورڈ کا پہلا اجلاس، 27 جنوری، 2016ء

☆ شریعی بورڈ کا دوسرا اجلاس، 16 مئی، 2016ء

☆ شریعی بورڈ کا تیسرا اجلاس، 14 اکتوبر، 2016ء

(1) چونکہ بورڈ آف ڈائریکٹرز اور ایگزیکٹو منتظمین اس امر کے ذمہ دار ہیں کہ ایم آئی بی کے جملہ معاملات شریعی کے اصولوں کے عین مطابق ہوں، لہذا ہم

(شریعی بورڈ) ایم آئی بی کے شریعی کمپلائنس کی صورتِ حال کے بارے میں ایک رپورٹ جمع کرانے کے ذمہ دار ہیں۔

(2) اس رپورٹ میں اظہار کے طور پر عرض یہ ہے کہ ایم آئی بی کے شریعی کمپلائنس اور شریعی ٹریننگ ڈیپارٹمنٹ نے تمام قسم کے مالی معاملات، پروڈکٹس،

معاملات کے مراحل اور نظریات کا جائزہ لیا ہے۔ اسلامی بینکاری کے بارے میں علم اور مہارت کو بڑھانے کی غرض سے بالعموم اسلامی بینکاری اور بالخصوص پروڈکٹس

کی تربیت ہیومن ریسورس ڈیپارٹمنٹ (HRD) کے تعاون سے تمام اسٹاف کے لئے لازمی ہے۔ ایم آئی بی کے شریعی بورڈ نے اس دوران چار ہدایات و لائحہ عمل

اور دو فتاویٰ جات جاری کئے ہیں۔

(3) بینک کے منتظمین کے تعاون سے شریعی کمپلائنس اور شریعی ٹریننگ ڈیپارٹمنٹ نے موجودہ تمام قانونی کاغذات جیسے شرکتِ متناقصہ، اجارہ، جاری

مشارکہ، برآمدی مشارکہ اور شرکتِ متناقصہ پر مبنی اسٹاف فائننسنگ کا شرعی اعتبار سے جائزہ لیا ہے۔ اس سلسلے میں بقیہ قانونی کاغذات ابھی جائزے کے مراحل میں

ہیں۔

(4) شریعی کمپلائنس اور شریعی ٹریننگ ڈیپارٹمنٹ نے بینک کے فرنٹ آفس اور بیک آفس اسٹاف کے لئے اسلامی بینکاری کی ٹریننگ کے کئی

پروگرام منعقد کئے ہیں۔ مزید برآں شریعی کمپلائنس اور شریعی ٹریننگ ڈیپارٹمنٹ نے کاروباری معاملات انجام دینے والے اسٹاف، برانچ مینجرز، آپریشن مینجرز،

ایگزیکٹو منتظمین اور بورڈ آف ڈائریکٹرز کی ٹریننگ کے سلسلے میں ایک پراثر اور جامع پروگرام ترتیب دیا ہے۔

(5) شریعی بورڈ نے انٹرنل شریعی آڈٹ اور شریعی کمپلائنس کی رپورٹس کو دیکھنے کے بعد اصلاحی اقدامات کے لئے ہدایات دیں، لہذا شریعی بورڈ کے مطابق:

(الف) ایم آئی بی نے شریعی بورڈ کے جاری کردہ فتاویٰ جات اور ہدایات و لائحہ عمل کے مطابق شرعی اصول و ضوابط کو پورا کیا ہے۔

(ب) ایم آئی بی، اسٹیٹ بینک آف پاکستان کے احکامات، قوانین و ہدایات اور لائحہ عمل (جو اسٹیٹ بینک آف پاکستان کے شریعی بورڈ کے احکام کے

مطابق ہیں) سے ہم آہنگ ہے۔

(ج) شریعی کمپلائنس کو یقینی بنانے کے لئے ایم آئی بی کے پاس ایک جامع طریقہ کار موجود ہے۔

(د) مالی معاملات کے شریعی کمپلائنس کے دوران یہ معلوم ہوا کہ ایم آئی بی نے مختلف مدّت سے 10.7 ملین کی غیر شرعی آمدنی حاصل کی، جسے چیریٹی

اکاؤنٹ میں ڈال دیا گیا ہے۔ علاوہ ازیں بینک نے ایم آئی بی کی چیریٹی پالیسی اور اسٹیٹ بینک آف پاکستان کے اصولوں کے مطابق شریعی بورڈ سے

منظور شدہ مختلف خیراتی اداروں کو چیریٹی اکاؤنٹ سے رقم ادا کی۔

(ه) ایم آئی بی کے نفع و نقصان کی تقسیم اور پول کی انتظام کاری اسٹیٹ بینک آف پاکستان کی ہدایات کے عین مطابق ہے۔

(و) اگرچہ بینک فعال طریقے سے اپنے افراد کو اسلامی بینکاری اور مالیاتی نظام کے بارے میں تربیت دے رہا ہے، تاہم افراد کا، انتظامیہ اور بورڈ

آف ڈائریکٹرز میں آگہی پیدا کرنے کی غرض سے اسلامی بینکاری کی تربیت میں مزید اضافے کی ضرورت ہے۔ انتظامیہ اور بورڈ آف ڈائریکٹرز نے اخلاص

پڑی کوششیں کی ہیں اور انہوں نے ایم آئی بی میں شریعی کمپلائنس کی اہمیت کو تسلیم کیا ہے۔

(ز) شریعی بورڈ کو اپنی ذمہ داریوں سے عہدہ برآں ہونے کے لئے خاطر خواہ وسائل فراہم کئے گئے ہیں۔

شریعی بورڈ اللہ تعالیٰ کی بارگاہ میں اُس کی تعریف پیش کرنے اور اُس سے ہدایت اور توفیق کا خواہاں ہے اور سینئر منتظمین اور اسلامی بینکاری انڈسٹری کی

مخلصانہ کوششوں سے ان شاء اللہ اسلامی بینکاری نظام کی مزید پیشرفت، ترقی اور خوشحالی کا متمنی ہے۔

Munir ur Rehman

پروفیسر مفتی منیب الرحمن

چیئرمین شریعی بورڈ

مفتی محمود احمد

شریعی بورڈ ممبر

مفتی سید صابر حسین

ریزیڈنٹ شریعی بورڈ ممبر

تاریخ اجراء: 24 جنوری، 2017ء

NOTICE OF 3rd ANNUAL GENERAL MEETING

Notice is hereby given that the 3rd Annual General Meeting of MCB Islamic Bank Limited will be held on Monday, March 27, 2017 at 10:00a.m. at MCB House, 15-Main Gulberg, Lahore to transact the following businesses:

Ordinary Business:

- 1 To confirm the minutes of the 2nd Annual General Meeting held on March 14, 2016.
- 2 To receive, consider and adopt the Audited Financial Statements of MCB Islamic Bank Limited for the year ended December 31, 2016 together with Directors' and Auditors' Reports thereon.
- 3 To appoint Auditors for the year ended December 31, 2017 and fix their remuneration. The retiring Auditors, M/s A.F. Ferguson & Company, Chartered Accountants being eligible, have offered themselves for re-appointment.

Special Business:

- 4 To approve the remuneration paid/payable to the Non-Executive Directors including the Chairman of the Bank for the year ended December 31, 2016 for attending the Board and/or Board Committee Meetings held during the year and to pass the following resolution, as an Ordinary Resolution:

“Resolved that the remuneration paid/payable to the Non-Executive Directors including the Chairman of the Bank during the year 2016, for attending the Board and/or Board Committee Meetings, as disclosed in note 36 of the Audited Financial Statements of the Bank for the year ended December 31, 2016, be and is hereby confirmed and approved on post facto basis.”

Other Business:

- 5 To transact any other ordinary business with the permission of the Chair.

March 03, 2017
Lahore.

By Order of the Board
Maimoona Cheema
Ms. Maimoona Cheema
Company Secretary

NOTES:

- 1 Member whose name appears in the register of members on March 06, 2017 will be entitled to attend the proceedings of the meeting.
- 2 A member entitled to attend and vote at the 3rd Annual General Meeting is entitled to appoint another member as his/her proxy to attend, speak and vote instead of him/her at the meeting. No person shall act as a proxy, who is not a member, except corporate entity which can appoint a person who is not a member.
- 3 The instrument appointing a proxy should be signed by the member or his/her attorney duly authorized in writing. If the member is a corporate entity, its common seal should be affixed on the instrument.
- 4 The instrument appointing a proxy, together with Power of Attorney, if any, under which it is signed or a notarially certified copy thereof, should be deposited, with the Company Secretary, MCB Islamic Bank Limited, 339, Z Block, DHA Phase III, Lahore not less than 48 hours before the time of holding the meeting.
- 5 If a member appoints more than one proxy, and more than one instrument of proxy is deposited by a member, all such instruments of proxy shall be rendered invalid.

STATEMENT UNDER SECTION 160 (1) (b) OF THE COMPANIES ORDINANCE, 1984

This statement sets out the material facts concerning the resolution contained in item (4), of the Notice pertaining to the special business to be transacted at the Annual General Meeting of the Bank to be held on March 27, 2017.

Directors' Remuneration

The remuneration paid/payable to the non-executive Directors **including the Chairman of the Bank** was approved by the Board of Directors in terms of Article 75 of the Articles of Association of the Bank. The remuneration requires approval (which is permissible on post facto basis) of the shareholders in Annual General Meeting in terms of requirements of the Prudential Regulations for Corporate/Commercial Banking issued by the State Bank of Pakistan.



STATEMENT ON INTERNAL CONTROLS

An Internal control system is a set of processes designed to identify, evaluate and mitigate the risk of failures and to achieve overall business objective of the Bank. The Board exercises overall responsibility in ensuring that Bank's system of internal controls is adequate and effective to manage the risk profiles within Bank's risk appetite.

The Bank's management is responsible to establish and maintain an adequate and effective system of internal controls and procedures, under the policies approved by the Board, with the main objectives of ensuring effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. However, any system of internal control can only be designed to manage, rather than eliminate the risk of failure to achieve objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The scope of Internal Audit includes, review and assessment of the adequacy and effectiveness of the control activities across the Bank as well as evaluation of implementation of and compliance with all the prescribed policies and procedures. All significant and material findings of the internal audit activities are reported to the Board Audit Committee on a periodic basis.

Compliance function of the Bank is entrusted with the responsibility to minimize compliance risk by ensuring adherence to laws and regulations, with a strong emphasis on KYC and AML. Based on observation and weaknesses identified by the Internal and External Auditors and the Compliance & Shariah Compliance teams, improvements are brought about by the management in internal controls to minimize, prevent and rectify control lapses.

Bank's Risk Management function is entrusted with the responsibility to overview and strengthens the internal controls of the bank, including performance of risk and control self-assessment. The Bank has established Internal Control units within each Group. As a relatively new Bank, initially top down approach is being used for Risk Assessment; however the Bank intends to adopt Integrated Framework on Internal Controls issued by the Committee of Sponsoring Organizations of Treadway Commission in accordance with the Guidelines on Internal Controls issued by State Bank of Pakistan.

The Bank has been granted exemption from submission of Long Form Report for the year 2016 by SBP and has already started implementation as per the roadmap of Internal Controls over Financial Reporting (ICFR) submitted to SBP.

Based upon the results derived through ongoing testing of financial reporting controls and internal audits carried out during the year, the management considers that the Bank's existing internal control system is adequate and has been effectively implemented and monitored. The management will continue enhancing its coverage and compliance with the SBP guidelines on Internal Controls and further strengthen its control environment on an ongoing basis. Further management is committed to take reasonable steps to ensure that the timeline for completion of all stages of ICFR as per time bound action plan is adhered to.

Based on above, the Board of Directors endorses the management evaluation of Internal Controls.



Kashif Ahmed
Group Head – Compliance & Controls



Syed Iftikhar Hussain Rizvi
Chief Financial Officer



Khawaja Khalil Shah
Chief Risk Officer



Muhammad Tariq Gondal
Group Head – Audit & Risk Assets Review

January 24, 2017

REPORT OF THE AUDIT COMMITTEE

The Audit Committee comprises experienced and qualified directors with Independent Director, being Chairman of the Audit Committee. Moreover, the Chairman of the Audit Committee has four decades of professional experience. Chairman of the Audit Committee has served in various global institutions including conventional and Islamic banks in various capacities including CEO of various entities.

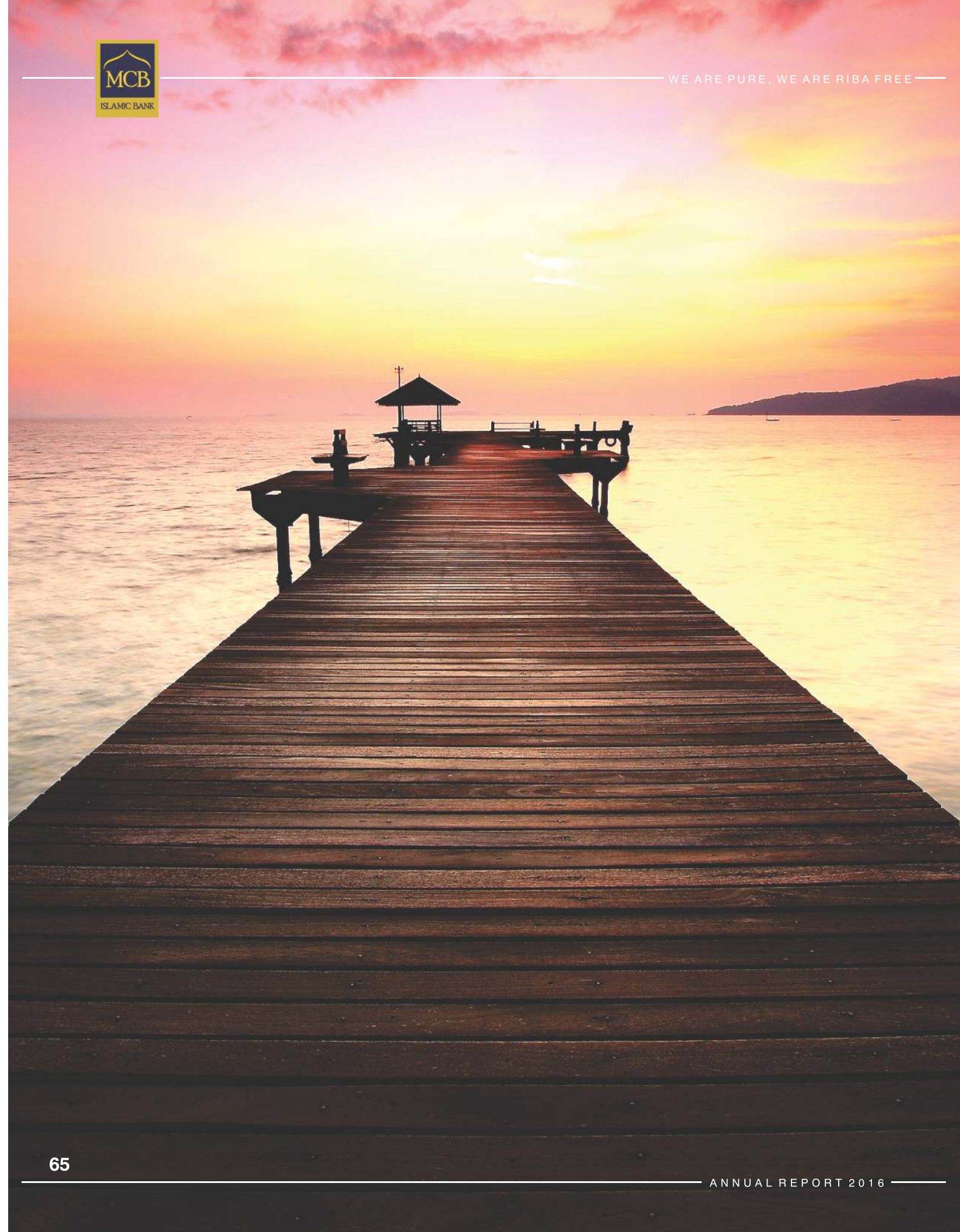
The Head of Internal Audit has direct access to the Board's Audit Committee. The Committee ensures staffing of the internal audit function with personnel of sufficient internal audit acumen, and that the function is equipped with the necessary resources and authority to execute their responsibilities independently and objectively. Audit Committee remained actively engaged in the review of the Bank's financial statements as well as audit activities in accordance with the requirements of Code of Corporate Governance and that of Charter of the Audit Committee, duly approved by the Board of Directors. Audit Committee held four meetings, during the year 2016. Significant agenda items of the meetings are:

- Review of the Bank's periodic financial statements, including disclosure of related party transactions prior to their approval by the Board of Directors (BOD).
- Review of status of compliance against observations highlighted by internal and external auditors, including regular updates on the rectification actions taken by the management in response to the audit findings.
- Review of status of implementation of decisions of BOD and its Sub-Committees.
- Review of significant issues highlighted by internal auditors during audits / reviews of branches and other functions of the Bank.
- Review and recommendation of the Bank's revised Internal Audit Policy and Internal Audit Manual including incorporation of State Bank's Shari'ah Governance Framework requirements; and the Whistle Blowing Program for BOD approval.
- Review, approval and oversight of Annual Audit Plan and along with resource requirements of Audit & RAR Group.
- Approval of compensation of Head of Internal Audit & RAR.
- Recommendation of scope and appointment of external auditors, including finalization of audit and consultancy fee.
- Review of statement on Internal Control Systems, prior to endorsement by the BOD.



Chairman Audit Committee
MCB Islamic Bank Limited

February 03, 2017
Karachi





STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

For the year ended December 31, 2016

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in Regulation No. G-1 of the Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan (SBP) for the purpose of establishing a framework of good governance, whereby the Bank is managed in compliance with the best practices of Corporate Governance.

MCB Islamic Bank Limited (The Bank) has applied the principles contained in the CCG in the following manner:

1 The Bank encourages representation of independent non-executive Directors on its Board of Directors. As at December 31, 2016 Board includes:

CATEGORY	NAMES
Independent Directors	Khalid Mahmood Bhaimia & Ahmed Ebrahim Hasham
Executive Directors	Ali Muhammad Mahoon
Non-executive Directors	Omair Safdar & M.U.A Usmani

The independent Directors meet the criteria of independence as defined in the Prudential Regulations issued by the SBP and the Board complies with the requirement stipulated in the Code of Corporate Governance.

- 2 The Directors have confirmed that none of them is serving as a Director on more than seven listed companies, including this Bank (excluding the listed subsidiaries of listed holding companies where applicable).
- 3 All the resident Directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- 4 Three casual vacancies arose on the Board of Directors during the year 2016. A waiver of the requirement for filling of casual vacancy within ninety (90) days was obtained from State Bank of Pakistan having validity till October 30, 2016. A further waiver has been requested from State Bank of Pakistan on November 23, 2016. At the date of signing of the report the casual vacancies were filled by the Bank.
- 5 The Bank has prepared a “Code of Conduct” and has ensured that appropriate steps are taken to disseminate it throughout the Bank along with its supporting policies and procedures.
- 6 The Board has developed a vision /mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
- 7 All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms & conditions of the employment of the Chief Executive Officer, other executive and non-executive Directors, have been taken by the Board/shareholders.
- 8 The meetings of the Board were presided over by the Chairman and, in his absence, by a Director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
- 9 The Board arranged one (01) training program with respect to Shari'ah matters, for its Directors in 2016.
- 10 The Board has approved appointment of the Chief Financial Officer, Company Secretary and Head of Internal Audit, including their remuneration and terms & conditions of employment.
- 11 The Director's report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.



- 12 The financial statements of the Bank were duly endorsed by the CEO and CFO before approval of the Board.
- 13 The Directors, CEO and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
- 14 The Bank has complied with all the corporate and financial reporting requirements of the CCG.
- 15 The Board has formed an Audit Committee. As at December 31, 2016 there were two members of Committee who were non-executive Directors including the Chairman who is an independent non-executive Director. However, as per clause xxiv of the Code of Corporate Governance the Bank shall establish an Audit Committee, having at least three members comprising of non-executive Directors and at least one independent Director. At the date of signing of the report there were three members of the Committee who are non-executive Directors including the Chairman who is an independent non-executive Director.
- 16 The meetings of the Audit Committee were held once in every quarter prior to approval of interim and final results of the Bank. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
- 17 The Board has formed Human Resources and Remuneration Committee. It comprises of three members who are non-executive Directors including the Chairman who is an independent non-executive Director.
- 18 The Board has set up an effective internal audit function which is staffed by suitably qualified and experienced persons for the purpose and is conversant with the policies and procedures of the Bank.
- 19 The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
- 20 The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
- 21 We confirm that all other material principles enshrined in the CCG have been complied with except for the following which are not applicable as Bank is not listed on the stock exchange(s):

- Intimation of the 'closed period' to Directors, employees and stock exchange(s), prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of the Bank's securities.
- Dissemination of material/price sensitive information among all market participants at once through stock exchange(s).

For and on behalf of the Board

Ali Muhammad Mahoon
President & CEO
MCB Islamic Bank Ltd.
February 06, 2017
Lahore.



A.F. FERGUSON & CO.

AUDITORS' REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of MCB Islamic Bank Limited ("the Bank"), for the year ended December 31, 2016, to comply with Regulation G-1 of the Prudential Regulations for Corporate/ Commercial Banking issued by the State Bank of Pakistan.

The responsibility for compliance with the Code is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiries of the Bank's personnel and review of various documents prepared by the Bank to comply with the Code.

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

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

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

Further we highlight below instances of non-compliance with the requirements of the Code as reflected in the note/ paragraph reference where these are stated in the Statement of Compliance:

Note/ Paragraph reference	Description
i. Note 4	<p>Three casual vacancies arose on the Board of Directors during the year 2016. A waiver of the requirement for filling of casual vacancy within ninety (90) days was obtained from State Bank of Pakistan having validity till October 30, 2016. A further waiver has been requested from State Bank of Pakistan on November 23, 2016.</p> <p>At the date of signing of the report the casual vacancies were filled by the Bank.</p>

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
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KARACHI LAHORE ISLAMABAD



A.F. FERGUSON & CO.

ii. Note 15

The Board has formed an Audit Committee. As at December 31, 2016 there were two members of Committee who were non-executive Directors including the Chairman who is an independent non-executive Director. However, as per clause xxiv of the Code of Corporate Governance the Bank shall establish an Audit Committee, having at least three members comprising of non-executive Directors and at least one independent Director.

At the date of signing of the report there were three members of the Committee who are non-executive Directors including the Chairman who is an independent non-executive Director.



Chartered Accountants
Engagement Partner: Hammad Ali Ahmad

Dated: February 7, 2017
Lahore



A.F. FERGUSON & CO.

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed statement of financial position of MCB Islamic Bank Limited (the Bank) as at December 31, 2016 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with notes forming part thereof (herein-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 ten 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 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 of 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 the case of Islamic financing and related assets covered more than sixty percent of the total Islamic financing and related assets of the Bank, 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), and the returns referred to above received from the branches have been found adequate for the purpose 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;
 - (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 Bank's affairs as at December 31, 2016 and its true balance of profit, its 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.

Emphasis of matter

We draw attention to note 4 of the financial statements which details the effect of restatement of corresponding figures consequent to Scheme of Compromise, Arrangement and Reconstruction with MCB Bank Limited. Our opinion is not qualified in respect of this matter.



Chartered Accountants

Engagement Partner: Hammad Ali Ahmad

Dated: February 7, 2017

Lahore

FINANCIAL STATEMENTS

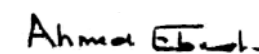
STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2016

	Note	2016 Rupees in thousands	Restated 2015
ASSETS			
Cash and balances with treasury banks	7	1,509,804	698,123
Balances with other banks	8	2,750,998	6,347,459
Due from financial institutions		-	-
Investments - net	9	5,769,675	5,995,470
Islamic financing and related assets - net	10	16,172,727	12,473,797
Operating fixed assets	11	2,104,250	1,192,382
Deferred tax assets - net	17	-	9,388
Other assets - net	12	261,048	170,922
		28,568,502	26,887,541
LIABILITIES			
Bills payable	14	447,776	89,864
Due to financial institutions	15	2,785,650	631,520
Deposits and other accounts	16	14,279,436	9,450,072
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net	17	40,524	-
Other liabilities	18	749,243	6,733,333
		18,302,629	16,904,789
NET ASSETS		10,265,873	9,982,752
REPRESENTED BY			
Share capital	19	10,000,000	10,000,000
Reserves	20	26,444	10,461
Unappropriated profit		68,087	4,153
		10,094,531	10,014,614
Surplus / (deficit) on revaluation of assets - net of tax	21	171,342	(31,862)
		10,265,873	9,982,752
CONTINGENCIES AND COMMITMENTS	22		

The annexed notes 1 to 43 and Annexure - 1 form an integral part of these financial statements.



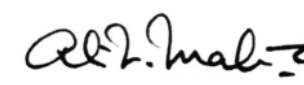
RAZA MANSHA
CHAIRMAN



AHMED EBRAHIM HASHAM
DIRECTOR



OMAIR SAFDAR
DIRECTOR



ALI MUHAMMAD MAHOON
PRESIDENT / CEO

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	January 01, 2016 to December 31, 2016	Restated July 01, 2015 to December 31, 2015
		Rupees In thousands	
Profit / return earned	23	1,526,778	376,295
Profit / return expensed	24	576,544	101,057
Net spread earned		950,234	275,238
Provision against non-performing Islamic financing and related assets - net	10.6	(94,137)	30,591
Provision for diminution in the value of investments - net		-	9,310
Bad debts written off directly		-	-
		(94,137)	39,901
Net spread after provisions		1,044,371	235,337
Other income			
Fee, commission and brokerage income		34,678	9,874
Dividend income		58,802	7,511
Income from dealing in foreign currencies		17,322	3,968
Unrealized gain / (loss) on revaluation of investments classified as held for trading		-	-
Gain on sale of securities - net	25	137,370	2,928
Other income	26	10,992	787
Total other income		259,164	25,068
		1,303,535	260,405
Other expenses			
Administrative expenses	27	1,187,266	200,698
Other provision - net		-	-
Other charges	28	2,296	2,076
Total other expenses		1,189,562	202,774
Extra ordinary / unusual items		-	-
Profit before taxation		113,973	57,631
Taxation			
- Current		(17,859)	(924)
- Prior periods		(4,866)	-
- Deferred		(11,331)	(4,400)
	29	(34,056)	(5,324)
Profit after taxation		79,917	52,307
Unappropriated profit / (accumulated loss) brought forward		4,153	(37,693)
Unappropriated profit carried forward		84,070	14,614
		Rupees	
Basic / diluted earnings per share - after tax	32	0.080	0.052

The annexed notes 1 to 43 and Annexure - 1 form an integral part of these financial statements.



RAZA MANSHA
CHAIRMAN

Ahmed Elbakh

AHMED EBRAHIM HASHAM
DIRECTOR

Ami Bapla

OMAIR SAFDAR
DIRECTOR

Alt. Mah. 2

ALI MUHAMMAD MAHOON
PRESIDENT / CEO

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Note	January 01, 2016 to December 31, 2016	Restated July 01, 2015 to December 31, 2015
		Rupees In thousands	
Profit after taxation		79,917	52,307
Other comprehensive income		-	-
Total comprehensive profit for the year / period transferred to equity		79,917	52,307
Items that may be reclassified to profit and loss account			
Components of comprehensive Income not reflected In equity			
Deficit on revaluation of available for sale investments	21.2	(3,663)	(45,650)
Related deferred tax asset		1,282	13,788
		(2,381)	(31,862)
Total comprehensive income for the year / period		77,536	20,445

The annexed notes 1 to 43 and Annexure - 1 form an integral part of these financial statements.



RAZA MANSHA
CHAIRMAN

Ahmed Elbesh.

AHMED EBRAHIM HASHAM
DIRECTOR

Luigi Buffa

OMAIR SAFDAR
DIRECTOR

Alt. Maß:

ALI MUHAMMAD MAHOON
PRESIDENT / CEO

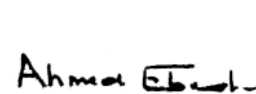
CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2016

Note	January 01, 2016 to December 31, 2016 Rupees in thousands	Restated July 01, 2015 to December 31, 2015 Rupees in thousands
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	113,973	57,631
Less: Dividend income	(58,802)	(7,511)
	<u>55,171</u>	<u>50,120</u>
Adjustments for non-cash and other items		
Depreciation - Owned assets	11.2 51,955	13,743
Depreciation - Ijarah assets	10.2.1 466,708	111,281
Amortization	11.3 15,699	7,725
Provision against non-performing Islamic financing and related assets - net	10.6 (94,137)	30,591
Provision for diminution in the value of investments - net	9.8 -	9,310
Provision against other assets	-	-
Provision for Workers' Welfare Fund	2,279	1,058
Gain on sale of securities - net	25 (137,370)	(2,928)
	<u>305,134</u>	<u>170,780</u>
	<u>360,305</u>	<u>220,900</u>
(Increase) / decrease in operating assets		
Islamic financing and related assets net off other adjustment	(4,071,501)	1,366,767
Other assets - net	(48,807)	(3,703)
	<u>(4,120,308)</u>	<u>1,363,064</u>
Increase / (decrease) in operating liabilities		
Bills payable	357,912	(18,128)
Due to financial institutions	2,154,130	(1,981,892)
Deposits and other accounts	4,829,364	(2,550,749)
Other liabilities	(84,381)	56,116
	<u>7,257,025</u>	<u>(4,494,853)</u>
	<u>3,497,022</u>	<u>(2,910,689)</u>
Income tax paid	(62,076)	(26,161)
Net cash (used in) / generated from operating activities	<u>3,434,946</u>	<u>(2,936,850)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment in securities	(1,185,531)	(812,814)
Dividend income received	58,834	-
Proceeds from sale of available for sale securities	1,590,684	230,518
Payment against demerger scheme	(5,901,988)	-
Investment in operating fixed assets net off other adjustment	(779,725)	(197,479)
Net cash generated from / (used in) investing activities	<u>(6,219,726)</u>	<u>(779,775)</u>
Increase / (decrease) in cash and cash equivalents during the year / period	<u>(2,784,780)</u>	<u>(3,716,625)</u>
Cash and cash equivalents at the beginning of the year / period	7,045,582	10,000,000
Cash and cash equivalents acquired under demerger scheme	-	762,207
Cash and cash equivalents at the end of the year / period	<u>33 4,260,802</u>	<u>7,045,582</u>

The annexed notes 1 to 43 and Annexure - 1 form an integral part of these financial statements.



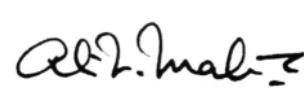
RAZA MANSHA
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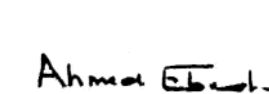
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016

	Share Capital	Statutory Reserve	Revenue Reserve	Unappropriated Profit / (Loss)	Total
Rupees in thousands					
Balance as at July 01, 2015	10,000,000	-	-	(37,693)	9,962,307
Profit after taxation for the period ended December 31, 2015	-	-	-	52,307	52,307
Transfer to statutory reserves	-	10,461	-	(10,461)	-
Other comprehensive income for the period	-	-	-	-	-
Balance as at December 31, 2015 Restated	<u>10,000,000</u>	<u>10,461</u>	<u>-</u>	<u>4,153</u>	<u>10,014,614</u>
Profit after taxation for the year ended December 31, 2016	-	-	-	79,917	79,917
Transfer to statutory reserves	-	15,983	-	(15,983)	-
Other comprehensive income for the year	-	-	-	-	-
Balance as at December 31, 2016	<u>10,000,000</u>	<u>26,444</u>	<u>-</u>	<u>68,087</u>	<u>10,094,531</u>

The annexed notes 1 to 43 and Annexure - 1 form an integral part of these financial statements.



RAZA MANSHA
CHAIRMAN



AHMED EBRAHIM HASHAM
DIRECTOR



OMAIR SAFDAR
DIRECTOR



ALI MUHAMMAD MAHOON
PRESIDENT / CEO

NOTES TO AND FORMING PART OF THESE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

1 STATUS AND NATURE OF BUSINESS

- 1.1 MCB Islamic Bank Limited (the Bank) was incorporated in Pakistan as an unlisted public limited company on May 15, 2014 under the Companies Ordinance, 1984 to carry out the business of an Islamic commercial Bank in accordance and in conformity with the principles of Islamic Shari'ah and in accordance with regulations and guidelines of the State Bank of Pakistan. The Securities and Exchange Commission of Pakistan granted "Certificate of Commencement of Business" to the Bank on January 30, 2015. The Bank is a wholly owned subsidiary of MCB Bank Limited (MCB).
- 1.2 The State Bank of Pakistan (SBP) granted a "Certificate of Commencement of Banking Business" to the Bank on September 14, 2015 under Section 27 of the Banking Companies Ordinance, 1962. The Bank formally commenced operations as a Scheduled Islamic Commercial Bank with effect from October 15, 2015 upon receiving notification in this regard from SBP under section 37 of the State Bank of Pakistan Act, 1956. Currently, the Bank is engaged in corporate, commercial, consumer, investment and retail banking activities.
- 1.3 The Bank is operating through 66 branches in Pakistan (December 31, 2015: 40 branches). The Registered Office of the Bank is situated at 59 Block T, Phase II, DHA, Lahore Cantt and Principal Office is situated at 339 Block Z, Phase III, DHA Lahore Cantt. The Bank acquired Domestic Islamic Banking Operations of MCB under the "Scheme of Compromise, Arrangements and Reconstructions" effective September 30, 2015.

2 BASIS OF PRESENTATION

- 2.1 The Bank provides financing through Shari'ah compliant financing products mainly through Murabaha, Istisna, Ijarah, Diminishing Musharaka and Export Refinance under Islamic Export Refinance Scheme.
- 2.2 The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of profit thereon. The income on such Islamic financing is recognised in accordance with the principles of Islamic Shari'ah and in accordance with regulations and guidelines of the State Bank of Pakistan. However, income, if any, received which does not comply with the principles of Islamic Shari'ah is recognised as charity payable if so directed by the Shari'ah Board of the Bank.
- 2.3 These financial statements have been prepared for the twelve months, covering period from January 01, 2016 to December 31, 2016 with comparative period from July 01, 2015 to December 31, 2015 as the Bank was operating with Financial Year ending June 30. Subsequent to the year ended June 30, 2015, the Bank has changed its Financial Year from June 30 to December 31.
- 2.4 The comparative balances of these financial statements represent merged balances of the Bank as at December 31, 2015 and balances acquired from the MCB's domestic Islamic banking operations under the "Scheme of Compromise, Arrangements and Reconstructions" effective September 30, 2015. As a result the comparative balances of the Bank have been restated.

3 STATEMENT OF COMPLIANCE

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

The State Bank of Pakistan has deferred the applicability of IFAS 3 'Profit and Loss Sharing on Deposits', International Accounting Standard (IAS) 39 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for Banking Companies through BPRD Circular No. 04 of 2015 dated February 25, 2015 and BSD Circular No. 10 dated August 26, 2002. The Securities and Exchange Commission of Pakistan (SECP) has deferred applicability of IFRS 7 "Financial Instruments: Disclosures" on banks through S.R.O 411(1) /2008 dated April 28, 2008. 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 prescribed by the State Bank of Pakistan through various circulars.

IFRS 8 'Operating Segments' is effective for the Bank's accounting period beginning on or after January 1, 2009. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006 'Revised Forms of Annual Financial Statements', effective from the accounting year ended December 31, 2006. The management of the Bank believes that as SBP has defined the segment categorisation in the above mentioned circular, its requirements will prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these financial statements is based on the requirements laid down by the SBP.

3.2 Standards, Interpretations and amendments to published approved accounting standards that are effective in the current year

There are certain other new and amended standards, interpretations and amendments that are mandatory for the Bank's accounting period beginning on or after January 1, 2016 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

3.3 Standards, Interpretations and amendments to published approved accounting standards that are not yet effective

The following other standards, amendments and interpretations of approved accounting standards are effective for accounting period beginning on or after January 1, 2017:

	Effective date (accounting periods beginning on or after)
- IAS 7 Statement of cash flow (amendments)	January 1, 2017
- IAS 12 Income taxes (amendments)	January 1, 2017
- IFRS 2 Share based payments (amendments)	January 1, 2018
- IFRS 9 Financial Instruments: Classification and Measurement	January 1, 2018
- IFRS 15 Revenue from contracts	January 1, 2018
- IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception (Amendment)	January 1, 2018
- IFRS 16 Leases	January 1, 2019

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

The management anticipates that the adoption of the above standards, amendments and interpretations in future periods, will have no material impact on these financial statements other than in presentation / disclosures.

4 SCHEME OF COMPROMISE, ARRANGEMENT AND RECONSTRUCTION WITH MCB BANK LIMITED

The Board of Directors in their meeting held on October 19, 2015 approved a Scheme of Compromise, Arrangement and Reconstruction (the Scheme) with MCB Bank Limited (MCB). Under the Scheme, assets and liabilities related to MCB's domestic Islamic Banking operations were to be transferred to the Bank subject to approval by the Bank's shareholders and sanction of the Scheme by the Honorable Lahore High Court. The Scheme was approved by the Bank's shareholders in their Extra Ordinary General Meeting dated January 8, 2016.

Subsequent to the authorization of financial statements for the period ended December 31, 2015, the Honourable Lahore High Court has granted sanction of, and ordered for implementation of the Scheme through its order (Certified True Copy received on April 19, 2016) whereby assets and liabilities of MCB's domestic Islamic Banking Operations were to be transferred as at the effective date September 30, 2015. The Bank in accordance with the aforesaid Court order incorporated the balances at their carrying values as appearing in the financial statements of MCB Islamic Banking Group (MCB IBG) as at September 30, 2015. Accordingly the comparative financial statements of the Bank have been restated.

Details of assets and liabilities transferred to the Bank and the related adjustment made in the statement of financial position as at 31 December 2015 are as follows:

Statement of Financial Position

Note	(Audited) December 31, 2015	Net Assets MCB IBG December 31, 2015	Adjustments / Reclassification	Restated (Audited) December 31, 2015
Rupees In thousands				
ASSETS				
Cash and balances with treasury banks	56,880	641,243	-	698,123
Balances with other banks	4.1 8,150,590	70,708	(1,873,839)	6,347,459
Due from financial institutions	4.2 -	2,264,735	(2,264,735)	-
Investments - net	4.2 624,159	3,106,576	2,264,735	5,995,470
Islamic financing and related assets - net	4.3 972,634	10,029,289	1,471,874	12,473,797
Operating fixed assets	4.3 170,119	2,456,473	(1,434,210)	1,192,382
Deferred tax assets - net	9,388	-	-	9,388
Other assets - net	124,121	52,343	(5,542)	170,922
	10,107,891	18,621,367	(1,841,717)	26,887,541
LIABILITIES				
Bills payable	-	86,461	3,403	89,864
Due to financial institutions	-	631,520	-	631,520
Deposits and other accounts	4.1 37,669	11,286,242	(1,873,839)	9,450,072
Sub-ordinated loan	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-
Deferred tax liabilities - net	-	-	-	-
Other liabilities	4.4 85,939	428,642	6,218,752	6,733,333
	123,608	12,432,866	4,348,316	16,904,789
NET ASSETS	9,984,283	6,188,501	(6,190,033)	9,982,752
Add: Deficit on revaluation of investments		6,255		
Less: Profit for the period October 01, 2015 till December 31, 2015		(4,723)		
		1,532		
NET AMOUNT TO BE SETTLED WITH MCB		6,190,033		
REPRESENTED BY				
Share capital	10,000,000			10,000,000
Reserves	9,517			10,461
Unappropriated profit	373			4,153
	10,009,890			10,014,614
Deficit on revaluation of assets - net of tax	(25,807)			(31,862)
	9,984,283			9,982,752

- 4.1 This represents deposits placed by the Bank with MCB included in deposits of the Islamic Banking group of MCB.
- 4.2 This represents reclassification of Bai-Mu'ajjal as per State Bank of Pakistan BPRD circular letter number 5 of 2016.
- 4.3 This represents Ijarah assets reclassified from operating fixed assets to Islamic financings and related assets.
- 4.4 This includes consideration payable to MCB Bank Limited amounting to Rs. 6.190 billion.

5 BASIS OF MEASUREMENT

- 5.1 These financial statements have been prepared under the historical cost convention, except that certain investments, foreign currency balances and commitments in respect of certain foreign exchange contracts have been marked to market and carried at fair value in accordance with the requirements of the SBP.

Measurement of fair values

The Bank has an established control framework with respect to the measurement of fair values. The management regularly reviews significant observable and unobservable inputs and valuation adjustments. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques. The valuation of financial assets and financial liabilities are categorized and disclosed in note 37 keeping in view the measurement requirements specified in note 3.1.

- 5.2 These financial statements are presented in Pak Rupees, which is the Bank's functional and presentation currency. The amounts are rounded off to the nearest thousand rupees unless otherwise stated.

5.3 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards 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. Estimates and judgments are continually evaluated and are based on historical experiences, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in the application of accounting policies are as follows:

a) Classification of investments

In classifying investments, the Bank follows the guidance provided in SBP circulars:

- Investments classified as 'held for trading', are securities which are acquired with an intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days of acquisition.
- Investments classified as 'held to maturity' are non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investment to maturity.
- The investments which are not classified as 'held for trading' or 'held to maturity' are classified as 'available for sale'.

b) Provision / Impairment against Investments

Provision for diminution in the value of Sukuk certificates is made as per the Prudential Regulations issued by the SBP. The Bank determines that 'available for sale' equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, the impairment may be appropriate when there is an evidence of deterioration in the financial health of the investee and sector performance, changes in technology and operational / financial cash flows. Impairment loss in respect of other investments classified as 'available for sale' and investments classified as 'held to maturity' is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. Provision for diminution in the value of Sukuk certificates is made as per the Prudential Regulations issued by the SBP.

c) Provision against Islamic financing and related assets

The Bank reviews its Islamic financing and related assets portfolio to assess amount of non-performing Islamic financing and related assets and determine provision required there against on regular basis. While assessing this requirement various factors including the delinquency in the account, financial position of the customer and the requirements of the Prudential Regulations are considered.

The amount of general provision is determined in accordance with the relevant regulations and management's judgment as explained in note 6.4.2.

d) Taxation

In making the estimates for income taxes currently payable by the Bank, the management considers the current income tax laws. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

e) Depreciation, amortization and revaluation of operating fixed assets

In making estimates of the depreciation / amortization method, the management uses the 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 is changed to reflect the changed pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Further, the Bank estimates the revalued amount of land and buildings on a regular basis. The estimates are based on valuations carried out by independent professional valuers under the market conditions.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Business acquisition

Business acquisition from Group companies are recognized at carrying values.

6.2 Cash and cash equivalents

Cash and cash equivalents shall include cash and balances with treasury banks, and balances with other banks in current and deposit accounts.

6.3 Investments

The Bank classifies its investments as follows:

a) Held for trading

These are securities, which are either acquired for generating profit from short-term fluctuations in market prices, profit rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.

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 to maturity. Bai-Mu'ajjal receivables from Government of Pakistan are measured at cost.

c) Available for sale

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

Investments are initially recognized at cost which in case of investments other than 'held for trading' include transaction costs associated with the investment.

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

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than those classified as 'held to maturity' are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the balance sheet below equity. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account.

6.3.1 Provision / Impairment

Provision for diminution in the value of Sukuk certificates is made as per the Prudential Regulations issued by the SBP. In case of impairment of available for sale securities, the cumulative loss that has been recognised directly in surplus / (deficit) on revaluation of securities on the statement of financial position below equity is transferred to the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in the profit and loss account.

6.4 Islamic financing and related assets

6.4.1 These are financial products offered by the Bank and are stated net of specific and general provision against non performing Islamic financing and related assets, if any. A brief description of the products are given below:

Murabaha

In Murabaha transactions, the Bank purchases the goods through its agent or client and after taking the possession, sells them to the customer on cost plus profit basis either in a spot or credit transaction.

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. Goods purchased but remaining unsold at the statement of financial position date are recorded as inventories.

Ijarah

In Ijarah financing, the Bank provides the asset on pre-agreed rentals for specific tenors to the customers. Ijarah assets are stated at cost less depreciation and are disclosed as part of 'Islamic financing and related assets'.

The rental on Ijarah under Islamic Financial Accounting Standard - 2 Ijarah (IFAS 2) are recorded as income / revenue. The Bank charges depreciation from the date of recognition of Ijarah of respective assets to Mustajir. Ijarah assets are depreciated over the period of Ijarah using the straight line method.

The significant Ijarah contracts entered into by the Bank are with respect to vehicles, plant and machinery and equipment and are for periods ranging from 1 to 7 years.

Impairment of Ijarah assets is determined in accordance with the Prudential Regulations issued by the SBP. The provision for impairment of Ijarah assets is shown as part of 'Islamic financing and related assets'.

Diminishing Musharaka

In Diminishing Musharaka based financing, the Bank enters into Musharaka based on Shirkat-ul-Milk 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.

Istisna

In Istisna 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 and the amount financed is received back by the Bank alongwith profit.

6.4.2 Provision

Islamic financing and related assets are stated net of specific and general provisions. Specific provision is determined on the basis of the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses include general provision against Consumer and Small Enterprise (SEs) loans made in accordance with the requirements of the Prudential Regulations issued by SBP and provision based on historical loss experience on Islamic financing and related assets. Islamic financing and related assets are written off when there is no realistic prospect of recovery.

6.5 Operating fixed assets

6.5.1 Capital work-in-progress

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. These are transferred to specific assets as and when assets become available for use.

6.5.2 Property and equipment

Property and equipment, other than land carrying value which is not amortized, are stated at cost or revalued amount less accumulated depreciation and accumulated impairment losses, if any. Land is carried at revalued amount.

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

Depreciation on all operating fixed assets is charged using the straight line method in accordance with the rates specified in note 11.2 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 balance sheet 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.

Surplus on revaluation of land and buildings is credited to the surplus on revaluation account. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. To the extent of the incremental depreciation charged on the revalued assets, the related surplus on revaluation of land and buildings (net of deferred taxation) is transferred directly to unappropriated profit.

Gains / losses on sale of property and equipment are currently credited / charged to the profit and loss account, except the related surplus on revaluation of land and buildings (net of deferred taxation) which is transferred directly to unappropriated profit.

6.5.3 Intangible assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized from the month when these assets are available for use, using the straight line method, whereby the cost of the intangible assets are amortized over its estimated useful lives over which economic benefits are expected to flow to the Bank. The useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

6.5.4 Impairment

The carrying amount of assets are reviewed at each balance sheet 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 amounts. Recoverable amount is the greater of net selling price and value in use. The resulting impairment loss is taken to the profit and loss account except for impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

6.6 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into consideration available tax credits and rebates. The charge for current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments framed / finalized during the year.

Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The Bank records deferred tax assets / liabilities using the tax rates, enacted or substantively enacted by the balance sheet date expected to be applicable at the time of its reversal. 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. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The Bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of securities and deferred tax liability on surplus on revaluation of fixed assets which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard (IAS) 12 'Income Taxes'.

6.7 Staff retirement benefits

Defined contribution plan

The Bank operates a recognised contributory provident fund scheme for all its permanent employees. Equal monthly contributions are made both by the Bank and its permanent employees, to the Fund at the rate of 8.33% of the basic salaries of employees. However, an employee has an option to increase his/her contribution upto 12.5% but the Bank will still contribute 8.33% of the employee's basic salary. The Bank has no further payment obligation once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

6.8 Provisions and contingent assets and liabilities

Provisions are recognized when the Bank has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimates.

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

6.9 Funds due to / from financial institutions

Bai Muajjal

In Bai Muajjal, 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 the credit period.

Musharaka / Mudaraba

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

Musharaka with State Bank of Pakistan under IERS

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

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 deposits' or 'Fixed deposits'. No profit or loss is passed to current account depositors.

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

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

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

6.11 Pool Management

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

Under the general deposits pool, the Bank accepts funds on Mudaraba basis from depositors (Rabb-ul-Maal) where the Bank acts as Manager (Mudarib) and invests the funds in the Shari'ah Compliant modes of financings, investments and placements. When utilising investing funds, the Bank prioritizes the funds received from depositors over the funds generated from own sources.

Specific pools may be operated for funds acquired / accepted from the State Bank of Pakistan and other banks for Islamic Export Refinance to Bank's customers and liquidity management respectively under the Musharaka / Mudaraba modes. The Bank also maintain Equity Pool which consists of Bank's equity and funds accepted on Qard (non-remunerative current deposit account) basis.

The profit of each deposit pool is calculated on all the remunerative assets booked by utilising the funds from the pool after deduction of expenses directly incurred in earning the income of such pool, if any. The directly related costs comprise of depreciation on Ijarah assets, takaful premium, documentation charges etc. No general or administrative nature of expense is charged to pool. No provision against any non-performing asset of the pool is passed on to the pool except on the actual loss / write-off of such non-performing asset. The profit of the pool is shared between equity and other members of the pool on the basis of Musharaka at gross level (before charging of Mudarib fee) as per the investment ratio of the equity. The profit of the pool is shared among the members of the pool on pre-defined mechanism based on the weightages announced before the profit calculation period after charging of Mudarib fee.

The deposits and funds accepted under the above mentioned pools are provided to diversified sectors and avenues of the economy / business as mentioned in the notes and are also invested in Government of Pakistan backed Ijarah Sukuks. Staff loans is exclusively financed from the equity pool.

The risk characteristic of each pool mainly depends on the assets and liability profile of each pool.

6.12 Revenue recognition

- Profit on investments in Sukuks is recognised on an accrual basis. Where Sukuks (excluding those classified as held for trading) are purchased at a premium or discount, such premiums / discounts are amortised through the profit or loss account using the effective yield method.
- Profit from Bai-Mua'jjal is recognised on an accrual basis.
- Profit from Murabaha financing is accounted for on culmination of Murabaha transaction. Profit on Murabaha is recognised on an accrual basis. Profit on Murabaha transactions for the period from the date of disbursement to the date of culmination of Murabaha is recognised immediately on the later date.
- Rental income from Ijarah financing is recognised on an accrual basis. Depreciation on Ijarah asset is charged to income (net of with rental income) over the period of Ijarah using the straight line method.
- Profit on Diminishing Musharaka is recognised on an accrual basis.
- Profit on Istisna financing is recognised on an accrual basis.
- Commission income is recognized on a time proportionate basis.
- Dividend income is recognised when the Bank's right to receive dividend is established.
- Gain or loss on sale of investments is recognised in the profit and loss account in the year in which it arises.

6.13 Acceptances

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

6.14 Foreign currencies

6.14.1 Transactions and balance

Transactions in foreign currencies (other than the results of operations of foreign operations) shall be translated to Rupees at the foreign exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies shall be expressed in Rupee terms at the rates of exchange prevailing at the balance sheet date and the currency fluctuation shall be reflected in the exchange translation reserve in equity. Foreign bills purchased and forward foreign exchange contracts other than those relating to foreign currency deposits shall be valued at the rates applicable to their respective maturities.

6.14.2 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in these financial statements at committed amounts. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in Rupee terms at the rates of exchange prevailing at the date of the statement of financial position.

6.15 Assets acquired in satisfaction of claims

The Bank occasionally acquires assets in settlement of certain advances. These are stated at lower of the carrying value or current fair value of such assets.

6.16 Financial Instruments

6.16.1 Financial assets and financial liabilities

Financial instruments carried on the statement of financial position includes cash and balances with treasury banks, balances with other banks, due from financial institutions, investments, Islamic financings and related assets, other assets (excluding balances related to tax), bills payables, due to financial institutions, deposits and other liabilities (excluding balances related to tax).

6.16.2 Offsetting

Financial assets and financial liabilities are off set and the net amount is reported in the financial statements when there is a legally enforceable right to set off and the Bank intends either to settle on a net basis, or to realize the assets and settle the liabilities, simultaneously.

6.17 Dividend distribution and appropriation

Dividend declared and other appropriations (other than appropriations required by law) approved subsequent to the balance sheet date are considered as non-adjusting events and are not to be recorded in the financial statements. However, a separate disclosure of the fact should be made in the financial statements.

6.18 Earnings / (loss) per share

The Bank presents basic and diluted earnings per share (EPS). Basic EPS 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.

6.19 Segment reporting

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

6.19.1 Business segments

- Corporate finance

Corporate finance includes underwriting, securitization, investment banking, syndications, IPO related activities (excluding investments) and secondary private placements.

Trading and sales

It includes equity, foreign exchanges, commodities, own securities, placements and due to / from financial institutions.

Retail banking

It includes retail financings and deposits, banking services, private financings and deposits, banking services and retail offered to its retail customers and small and medium enterprises.

Commercial banking

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

6.19.2 Geographical segments

The Bank operates only in Pakistan.

	Note	2016 Rupees In thousands	Restated 2015 Rupees In thousands
7 CASH AND BALANCES WITH TREASURY BANKS			
In hand			
- local currency		526,373	114,209
- foreign currencies		64,502	19,147
		<u>590,875</u>	<u>133,356</u>
With the State Bank of Pakistan (SBP) in			
- local currency current account	7.1	609,301	551,151
- foreign currency current account		12,126	-
- foreign currency deposit accounts			
cash reserve account	7.2	13,702	7,436
special cash reserve account	7.3	16,422	6,180
		<u>30,124</u>	<u>13,616</u>
With National Bank of Pakistan in			
- local currency current account		267,378	-
		<u>1,509,804</u>	<u>698,123</u>

7.1 The local currency current account is maintained with the SBP as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve in the current account opened with the SBP at a sum not less than such percentage of its time and demand liabilities in Pakistan as may be prescribed by the SBP.

7.2 As per BSD Circular No. 15 dated June 21, 2008, cash reserve of 5% is required to be maintained with the SBP on deposits held under the New Foreign Currency Accounts Scheme (FE-25 deposits). This account is non-remunerative in nature.

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

	Note	2016 Rupees In thousands	Restated 2015 Rupees In thousands
8 BALANCES WITH OTHER BANKS			
In Pakistan			
- deposit account	8.1	2,316,562	6,276,751
Outside Pakistan			
- current account		434,436	70,708
		<u>2,750,998</u>	<u>6,347,459</u>

8.1 This represents savings accounts carrying profit at rates ranging from 0.6% to 5.64% per annum (2015: 3.23% to 6.90% per annum).

9 INVESTMENTS - NET

9.1 Investments by types	Note	2016			2015 - Restated		
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
Rupees In thousands							
Available-for-sale securities							
Shares in listed companies		1,096,829	-	1,096,829	663,554	-	663,554
Sukuk certificates		3,526,509	-	3,526,509	1,944,211	-	1,944,211
		4,623,338	-	4,623,338	2,607,765	-	2,607,765
Held to maturity							
Sukuk certificates		1,150,000	-	1,150,000	1,187,241	-	1,187,241
Bai Muajjal with Government of Pakistan (GOP)		-	-	-	2,264,735	-	2,264,735
		1,150,000	-	1,150,000	3,451,976	-	3,451,976
Investments at cost		5,773,338	-	5,773,338	6,059,741	-	6,059,741
Less: Provision for diminution in the value of investments	9.8	-	-	-	(18,621)	-	(18,621)
Investments (net of provisions)		5,773,338	-	5,773,338	6,041,120	-	6,041,120
Deficit on revaluation of investments classified as available-for-sale securities	21.2	(3,663)	-	(3,663)	(45,650)	-	(45,650)
Total Investments at market value		5,769,675	-	5,769,675	5,995,470	-	5,995,470

	Note	2016 Rupees In thousands	Restated 2015 Rupees In thousands
9.2 Investments by segment			
Federal Government Securities			
GOP Ijarah Sukuk		2,517,047	1,872,430
Bai Muajjal with GOP	9.2.1	-	2,264,735
		<u>2,517,047</u>	<u>4,137,165</u>
Fully paid up ordinary shares			
Listed companies		1,096,829	663,554
Sukuk certificates			
Sukuk certificates		2,159,462	1,259,022
		<u>5,773,338</u>	<u>6,059,741</u>
Investments at cost		<u>5,773,338</u>	<u>6,059,741</u>
Less: Provision for diminution in the value of investments	9.8	-	(18,621)
Investments (net of provisions)		<u>5,773,338</u>	<u>6,041,120</u>
Deficit on revaluation of available for sale securities - net	21.2	(3,663)	(45,650)
Total investments at market value		<u>5,769,675</u>	<u>5,995,470</u>

9.2.1 The rate of return is Nil (2015: 5.99%).

9.3 Investments include certain approved / government securities which are held by the Bank to comply with the Statutory Liquidity Reserve requirement determined on the basis of the Bank's demand and time liabilities as set out under section 29 of the Banking Companies Ordinance, 1962.

9.4 Particulars of Federal Government Securities - Unlisted, Secured

Face value of Rs. 100,000 each unless otherwise stated.

				2016	Restated 2015
Particulars	Collateral	Profit rate	Profit payment	Carrying value	
				Rupees in thousands	
GOP IJARAH SUKUK - 15	Government of Pakistan	6 months			
19,050 (2015: 18,660) certificates	Sovereign guarantee	T-Bill minus	Semi-		
Maturity date: June 25, 2017		2%	annually	1,907,047	1,872,430
GOP IJARAH SUKUK - 16	Government of Pakistan	6 months			
5,500 (2015: Nil) certificates	Sovereign guarantee	T-Bill minus	Semi-		
Maturity date: December 18, 2018		0.5%	annually	553,334	-
GOP IJARAH SUKUK - 18	Government of Pakistan	6 months			
560 (2015: Nil) certificates	Sovereign guarantee	T-Bill minus	Semi-		
Maturity date: March 29, 2019		0.5%	annually	56,666	-
5. Particulars of investments in companies / mutual funds				2,517,047	1,872,430

9.5 Particulars of investments in companies / mutual funds

2016	Restated 2015		2016	Restated 2015
Number of shares / units			Carrying value Rupees in thousands	
		Listed companies - Fully paid up ordinary shares of Rs.10 each		
100,000	-	Abbot Laboratories Pakistan Limited	85,042	-
1,000,000	-	Al Shaheer Corporation Limited	56,610	-
100,000	-	Attock Refinery Limited	37,106	-
500,000	-	Dawood Hercules Corporation Limited	76,092	-
-	411,700	Engro Corporation Limited	-	124,877
3,792,000	953,500	Engro Fertilizer Limited	280,401	80,610
-	2,551,500	Fauji Cement Company Limited	-	91,618
1,792,000	1,792,000	Fauji Fertilizer Company Limited	224,635	224,635
-	848,000	K Electric Limited	-	6,385
626,000	-	Kohinoor Textile Mills Limited	49,362	-
1,000,000	-	Kot Addu Power Company Limited	86,804	-
4,980	-	Nestle Pakistan Limited	43,331	-
-	1,239,500	Pak Electron Limited	-	94,214
-	86,500	Pakistan State Oil Company Limited	-	29,295
	700,000	Pakistan Telecommunication Company Limited	-	11,920
1,000,000	-	Sui Northern Gas Pipeline Limited	65,576	-
2,000,500	-	Sui Southern Gas Corporation Limited	91,870	-
Face value of Rs. 10 each			<u>1,096,829</u>	<u>663,554</u>

* Face value of Rs. 10 each

9.6 Particulars of Sukuk Certificates - Unlisted, Secured

Face value of Rs. 5,000 each unless otherwise stated.

				2016	Restated 2015
Particulars	Collateral	Profit rate	Profit payment	Carrying value	
				Rupees in thousands	
WAPDA III Sukuk Certificates		6 months			
38,700 (2015: 16,000) certificates	Government of Pakistan	KIBOR plus	Semi-		
Maturity date: October 14, 2021	Sovereign guarantee	1%	annually	144,462	71,781
Face value Rs. 3,572 (2015: 4,642)					
Meezan Bank		6 months			
490 (2015: Nil) certificates		KIBOR plus	Semi-		
Maturity date: September 22, 2026	Tangible Assets	0.7%	annually	490,000	-
Face value Rs. 1,000,000 (2015: Nil)					
Fatima Fertilizer Company Limited		6 months			
75,000 (2015: Nil) certificates		KIBOR plus	Semi-		
Maturity date: November 28, 2021	Tangible Assets	1.1%	annually	375,000	-
K-Electric Limited		3 months			
230,000 (2015: 230,000) certificates		KIBOR plus			
Maturity date: June 17, 2022	Tangible Assets	1%	Quarterly	1,150,000	1,150,000
Quetta Textile Mills Limited		6 months			
Nil (2015: 15,000) certificates		KIBOR plus	Semi-		
Maturity date: March 26, 2020	Tangible Assets	1.5%	annually	-	37,241
				<u>2,159,462</u>	<u>1,259,022</u>

9.7 Quality of available for sale securities

	2016		2015 - Restated	
	Market value	Credit Rating	Market value	Credit Rating
	Rupees in thousands			
Sukuk certificates (at market value)				
GOP Ijarah Sukuk - 15	1,906,143	Unrated	1,866,252	Unrated
GOP Ijarah Sukuk - 16	563,475	Unrated	-	Not Applicable
GOP Ijarah Sukuk - 18	57,126	Unrated	-	Not Applicable
WAPDA III Sukuk Certificates	144,332	Unrated	71,704	Unrated
Meezan Bank Limited	510,335	AA-	-	AA / A1+
Fatima Fertilizer Company Limited	375,000	AA-	-	Not Applicable
	3,556,411		1,937,956	

Ordinary shares - listed (at market value)

Abbot Laboratories Pakistan Limited	95,709	Unrated	-	Unrated
Al Shaheer Corporation Limited	57,400	Unrated	-	Unrated
Attock Refinery Limited	42,530	AA / A1+	-	AA / A1+
Dawood Hercules Corporation Limited	72,165	AA- / A1+	-	AA- / A1+
Engro Corporation Limited	-	AA / A1+	115,025	AA / A1+
Engro Fertilizer Limited	257,780	AA- / A1+	80,218	AA- / A1+
Fauji Cement Company Limited	-	Unrated	93,946	Unrated
Fauji Fertilizer Company Limited	187,031	AA / A1+	211,420	AA / A1+
K Electric Limited	-	AA / A-1	6,309	A / A-1
Kohinoor Textile Mills Limited	72,741	A+ / A1	-	A+ / A1
Kot Addu Power Company Limited	78,800	AA+ / A1+	-	AA+ / A1+
Nestle Pakistan Limited	44,820	Unrated	-	Unrated
Pak Electron Limited	-	A+ / A1	77,519	A+ / A1
Pakistan State Oil Company Limited	-	AA / A1+	28,179	AA / A1+
Pakistan Telecommunication Company Limited	-	Unrated	11,543	Unrated
Sui Northern Gas Pipeline Limited	81,570	AA- / A1	-	AA- / A1
Sui Southern Gas Corporation Limited	72,718	A+ / A1	-	A+ / A1
	<u>1,063,264</u>		<u>624,159</u>	
	<u>4,619,675</u>		<u>2,562,115</u>	

9.8 Particulars of provision

	Note	2016	Restated 2015
Particulars of provision		Rupees In thousands	
Opening balance		18,621	-
Balance acquired under demerger scheme		-	9,311
Charge for the period		-	9,310
Reversals during the period		-	-
		-	9,310
Write offs / other adjustments	9.8.1	(18,621)	-
Closing balance		-	18,621

1 This represents amount transferred to Parent Company.

2 **Particulars of provision for diminution in the value of Investments by type and segment**

Unlisted sukuk certificates - held till maturity	-	18,621
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10 ISLAMIC FINANCING AND RELATED ASSETS

	Note	2016 Rupees In thousands	Restated 2015 Rupees In thousands
In Pakistan			
- Murabaha financing	10.1.2	2,719,939	1,352,558
- Inventory held under Murabaha		4,987,296	4,841,213
- Advances against Murabaha		804,071	204,217
- Murabaha under Islamic Export Refinance Scheme		87,003	412,366
- Advances against Murabaha under Islamic Export Refinance Scheme		299,650	34,000
- Diminishing Musharakah		4,392,900	2,572,200
- Advances against Diminishing Musharakah		1,222,733	1,423,937
- Net book value of assets in Ijarah under IFAS 2	10.2	1,243,897	1,434,211
- Advances against Ijarah		42,508	71,872
- Istisna		-	-
- Advances against Istisna		-	150,000
- Staff finance	10.3	374,004	72,634
Islamic financing and related assets - gross		16,174,001	12,569,208
Provision against non performing Islamic financing and related assets	10.6	(1,274)	(95,411)
Islamic financing and related assets - net of provision		16,172,727	12,473,797
10.1 Murabaha sale price		6,682,958	1,723,648
Murabaha purchase price		(6,493,825)	(1,586,844)
		189,133	136,804
10.1.1 Deferred murabaha Income			
Opening balance		37,665	-
Balance acquired under demerger scheme		-	12,250
Arising during the year		189,133	136,804
Recognised during the year		(182,983)	(111,389)
		43,815	37,665
10.1.2 Murabaha receivable			
Opening balance		1,352,558	-
Balance acquired under demerger scheme		-	1,457,866
Sales during the year		6,682,958	1,723,648
Received during the year		(5,315,577)	(1,828,956)
		2,719,939	1,352,558
10.2 Net book value of assets in Ijarah under IFAS 2			
10.2.1 Movement in net book value of Ijarah assets			
Assets under Ijarah			
Opening balance		2,220,003	-
Balance acquired under demerger scheme		-	2,265,131
Disbursed during the year		427,303	64,280
Disposals during the year		(435,885)	(109,408)
Closing balance		2,211,421	2,220,003
Accumulated depreciation			
Opening balance		785,792	-
Balance acquired under demerger scheme		-	737,119
Charged during the year		466,708	111,281
Adjustment during the year		(284,976)	(62,608)
Closing balance		967,524	785,792
Net investment in Ijarah		1,243,897	1,434,211

10.2.2

	2016				2015 - Restated			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
Rupees in thousands								
Ijarah rentals receivable	649,951	447,265	-	1,097,216	479,693	817,589	-	1,297,282

	Note	2016 Rupees In thousands	Restated 2015 Rupees In thousands
10.3 Staff finance			
Staff vehicle finance under diminishing musharakah		324,782	56,381
Staff housing finance under diminishing musharakah		49,222	16,253
		374,004	72,634
10.4 Particulars of Islamic financing and related assets - gross			
In local currency		16,174,001	12,356,496
In foreign currency		-	212,712
		16,174,001	12,569,208
Short term (upto one year)		8,897,959	6,994,354
Long term (over one year)		7,276,042	5,574,854
		16,174,001	12,569,208
Corporate financing		15,519,924	12,467,423
Consumer / SME financing		280,073	29,151
Staff financing		374,004	72,634
		16,174,001	12,569,208

10.5 Islamic financing and related assets include Rs. 1.029 million (2015: Rs. 1.129 million) which have been placed under non-performing status as detailed below:

2016									
Category of classification	Classified Islamic financing and related assets			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees In thousands									
OAEM	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Loss	1,029	-	1,029	1,029	-	1,029	1,029	-	1,029
	1,029	-	1,029	1,029	-	1,029	1,029	-	1,029

2015 - Restated									
Category of classification	Classified Islamic financing and related assets			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees In thousands									
OAEM	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Loss	1,129	-	1,129	1,129	-	1,129	1,129	-	1,129
	1,129	-	1,129	1,129	-	1,129	1,129	-	1,129

10.6 Particulars of provision against non-performing Islamic financing and related assets

	Note	2016			2015 - Restated		
		Specific	General	Total	Specific	General	Total
Rupees in thousands							
Opening balance		1,129	94,282	95,411	-	-	-
Balance acquired under demerger scheme				-	70,690	62,769	133,459
Charge for the year / period		-	38	38	-	31,513	31,513
Reversal during the year / period		(100)	(94,075)	(94,175)	(922)	-	(922)
		(100)	(94,037)	(94,137)	(922)	31,513	30,591
Write offs / other adjustments	10.6.2	-	-	-	(68,639)	-	(68,639)
Closing balance		1,029	245	1,274	1,129	94,282	95,411

10.6.1 The Bank has maintained general provision at an amount equal to 1% of the fully secured performing portfolio of consumer and small enterprise financing as required by the Prudential Regulations issued by the SBP.

10.6.2 This represents amount transferred to Parent Company.

10.7 Particulars of provision against Islamic financing and related assets with respect to currencies

	2016			2015 - Restated		
	Specific	General	Total	Specific	General	Total
	Rupees in thousands					
In local currency	1,029	245	1,274	1,129	94,282	95,411
In foreign currency	-	-	-	-	-	-
	1,029	245	1,274	1,129	94,282	95,411

10.8 Particulars of Islamic financing and related assets to directors, executives and officers.

10.8.1 Due from directors, executives or officers of the Bank or any of them either severally or jointly with any other persons.

	Directors		Executives / Officers	
	2016	Restated 2015	2016	Restated 2015
	Rupees in thousands			
Balance at the beginning of the year / period	22,304	-	50,330	-
Balance acquired under demerger scheme	-	-	107,966	-
Disbursements during the year / period	-	22,304	226,999	50,330
Repayments during the year / period	(8,369)	-	(25,226)	-
Balance at the end of the year / period	13,935	22,304	360,069	50,330

10.8.2 Due from companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members.

	2016	Restated 2015
	Rupees in thousands	
Balance at the beginning of the year / period	519,403	-
Balance acquired under demerger scheme	-	522,793
Disbursements during the year / period	452,350	34,000
Repayments during the year / period	(311,185)	(37,390)
Balance at the end of the year / period	660,568	519,403

10.8.3 The Bank does not have any subsidiary companies, controlled firms and managed modarabas. Further, as at December 31, 2016 and December 31, 2015, the Bank has no Islamic financing and related assets balance outstanding with any other related parties.

11 OPERATING FIXED ASSETS

Capital work-in-progress	11.1	804,094	226,148
Property and equipment	11.2	1,192,512	890,072
Intangible assets	11.3	107,644	76,162
		<u>2,104,250</u>	<u>1,192,382</u>

11.1 Capital work-in-progress

Advance for computer software	267,673	116,699
Advance to suppliers and contractors	293,713	85,813
Civil works	115,585	22,886
Others	127,123	750
	804,094	226,148

11.2 Property and equipment

	2016									
	Cost			Accumulated Depreciation				Book value		
	As at January 1, 2016	Additions / (other adjustment)	Surplus arising on revaluation	As at December 31, 2016	As at January 1, 2016	Charge / (other adjustment)	Adjustment arising on revaluation	As at December 31, 2016	As at December 31, 2016	Rate of depreciation %
	Rupees in thousand									
Land-Freehold	474,704	-	125,301	600,005	-	-	-	-	600,005	0%
Buildings-Freehold	244,176	-	67,577	311,753	1,384	5,535	(6,919)	-	311,753	Upto 50 years
Leasehold Improvements	30,554	50,409 -	-	80,963	557	10,320 -	-	10,877	70,086	Upto 50 years
Furniture and fixtures	19,557	9,967 (15)	-	29,509	446	3,433 -	-	3,879	25,630	10%
Electrical, office and computer equipments	113,319	92,831 (4,166)	-	201,984	2,191	29,833 (698)	-	31,326	170,658	10% to 25%
Vehicles	12,702	5,434 (2,803)	-	15,333	362	2,834 (2,243)	-	953	14,380	20%
Total	895,012	158,641 (6,984)	192,878	1,239,547	4,940	51,955 (2,941)	(6,919)	47,035	1,192,512	

	2015 - Restated									
	Cost				Accumulated Depreciation			Book value		
	As at January 1, 2015	Additions / (other adjustment)	Balance acquired under demerger scheme	As at December 31, 2015	As at January 1, 2015	Charge / (other adjustment)	Adjustments under demerger scheme	As at December 31, 2015	As at December 31, 2015	Rate of depreciation %
	Rupees in thousand									
Land-Freehold	-	-	474,704	474,704	-	-	-	-	474,704	0%
Buildings-Freehold	-	888	243,288	244,176	-	1,384	-	1,384	242,792	Upto 50 years
Leasehold Improvements	-	10,756 (5,143)	24,941	30,554	-	5,700 (5,143)	-	557	29,997	Upto 50 years
Furniture and fixtures	-	1,380 (323)	18,500	19,557	-	766 (320)	-	446	19,111	10%
Electrical, office and computer equipment	-	51,445 (3,943)	65,817	113,319	-	5,531 (3,340)	-	2,191	111,128	10% to 25%
Vehicles	-	8,442	4,260	12,702	-	362	-	362	12,340	20%
Total	-	72,911 (9,409)	831,510	895,012	-	13,743 (8,803)	-	4,940	890,072	

11.2.1 The land and buildings of the Bank are revalued in December 2016 by independent valuers (Tristar International Consultant (Private) Limited and Sardar Enterprises), valuation and engineering consultants, on the basis of market value. The information relating to location of revalued assets is given in Annexure I. The details of revalued amounts are as follows:

	Rupees in thousands
Total revalued amount of land	800,005
Total revalued amount of buildings	311,753

Had the land and buildings not been revalued, the total carrying amounts of revalued properties as at December 31, 2016 would have been as follows:

	Rupees in thousands
Land	474,704
Building	238,641

11.3 Intangible assets

	2016							
	Cost		Accumulated Amotization			Book value		Amortization
	As at January 1, 2016	Additions	As at December 31, 2016	As at January 1, 2016	Charge	As at December 31, 2016	As at December 31, 2016	
Rupees in thousand								
Computer software	83,887	47,181	131,068	7,725	15,699	23,424	107,644	7 years
	2015 - Restated							
	Cost		Accumulated Amotization			Book value		Amortization
	As at January 1, 2015	Additions / balance acquired under demerger scheme	As at December 31, 2015	As at January 1, 2015	Charge	As at December 31, 2015	As at December 31, 2015	
Rupees in thousand								
Computer software	-	2,192	83,887	-	7,725	7,725	76,162	7 years
		81,695			-			

11.4 The gross carrying amount (cost) of fully depreciated / amortized assets that are in use as at December 31, 2016 are as follows:

	Rupees in thousands
Electrical, office and computer equipments	30,502
Furniture and fixture	3,306
Leasehold Improvements	34,447
Computer software	54,693

12 OTHER ASSETS

	2016	Restated 2015
	Rupees in thousands	
Profit / return accrued in local currency	82,575	66,133
Advances, deposits, advance rent and other prepayments	64,877	60,301
Advance taxation	71,467	32,116
Dividend receivable	9,480	7,512
Rental receivable	8,925	-
Receivable against ATM transactions	21,725	-
Stationary and stamps	1,766	519
Others	233	4,341
	261,048	170,922

13 CONTINGENT ASSETS

There were no contingent assets of the Bank as at December 31, 2016 (2015: Nil).

14 BILLS PAYABLE

	2016	Restated 2015
	Rupees in thousands	
In Pakistan	447,776	89,864
Outside Pakistan	-	-
	447,776	89,864

15 DUE TO FINANCIAL INSTITUTIONS

	2016	Restated 2015
	Rupees in thousands	
In Pakistan	2,785,650	631,520
Outside Pakistan	-	-
	2,785,650	631,520

15.1 Particulars of due to financial institutions with respect to currencies

Note	2016	Restated 2015
	Rupees in thousands	
In local currency	2,785,650	419,700
In foreign currency	-	211,820
	2,785,650	631,520

15.2 Details of due to financial institutions - Secured / Unsecured

Note	2016	Restated 2015
	Rupees in thousands	
Secured		
Musharakah with the State Bank of Pakistan under Islamic Export Refinance Scheme	15.2.1	385,650
		419,700
Unsecured		
Musharakah	15.2.2	2,400,000
Mudaraba	15.2.3	-
		211,820
	2,785,650	631,520

15.2.1 These Musharakah are on a profit and loss sharing basis maturing between March 6, 2017 to June 26, 2017 (2015: January 16, 2016 to June 10, 2016) and are secured against demand promissory notes executed in favour of the SBP. A limit of Rs. 600 million has been allocated to the Bank by the SBP under Islamic Export Refinance Scheme.

15.2.2 This represents Musharakah arrangements with banks carrying profit at rates ranging from 5.05% to 5.30% per annum (2015: Nil) and having maturity till March 03, 2017.

15.2.3 This represents Mudaraba arrangements with the parent company at profit rate Nil (2015: 1.25% per annum) and have matured during the year.

16 DEPOSITS AND OTHER ACCOUNTS

Note	2016	Restated 2015
	Rupees in thousands	
Customers		
Fixed deposits	3,951,572	3,715,718
Savings deposits	4,920,369	2,694,058
Current accounts - Non-remunerative	3,124,174	1,925,497
Margin deposits	99,668	53,661
	12,095,783	8,388,934

Financial Institutions		
Remunerative deposits	2,183,638	1,026,396
Non-remunerative deposits	15	34,742
	2,183,653	1,061,138
	14,279,436	9,450,072

16.1 Particulars of deposits

Note	2016	Restated 2015
	Rupees in thousands	
In local currency	14,013,771	9,343,334
In foreign currencies	265,665	106,738
	14,279,436	9,450,072

16.2 Deposits include deposits from related parties amounting to Rs. 171.846 million (2015: Rs. 51.592 million).

17 DEFERRED TAX LIABILITY / (ASSETS) - NET

Note	2016	Restated 2015
	Rupees in thousands	
Taxable temporary difference		
Surplus on revaluation of fixed assets	26,074	-
Accelerated tax depreciation	39,976	4,400
	66,050	4,400
Deductible temporary difference		
Workers welfare fund	(798)	-
Unused tax losses	(5,587)	-
Minimum tax	(17,859)	-
Deficit on revaluation of available for sale investments - net	(1,282)	(13,788)
	(25,526)	(13,788)
	40,524	(9,388)

18 OTHER LIABILITIES

	Note	2016 Rupees In thousands	Restated 2015 Rupees In thousands
Profit / return payable in local currency	18.1	67,623	54,404
Profit / return payable in foreign currencies		608	27
Accrued expenses		238,809	98,085
Deferred Murabaha income under Islamic financing and related assets	10.1.1	43,815	37,665
Payable against purchase of investments		-	25,178
Advance receipt against Islamic financing and related assets		13,374	1,447
Charity collection account	18.2	10,580	2,505
Income received in advance		38,078	7,762
Security deposits under Ijarah financing		301,901	310,827
Withholding tax, Federal excise duty and other tax payable		7,308	2,364
Payable to Parent Company	4	-	6,190,033
Others		27,147	3,036
		<u>749,243</u>	<u>6,733,333</u>

18.1 It includes Rs. 1.198 million (2015: Rs. 3.3 million) in respect of profit / return accrued on Musharakah with the SBP under Islamic Export Refinance Scheme.

18.2 Reconciliation of charity collection account

	Note	2016 Rupees In thousands	Restated 2015 Rupees In thousands
Opening balance		2,505	-
Balance acquired under demerger scheme		-	2,240
Additions during the year			
- Received from customers against late payment		6,002	245
- Dividend purification amount		4,808	-
- Income against void transactions		-	-
- Profit on charity saving account		65	20
		10,875	265
Charity paid during the year / period	18.2.1	(2,800)	-
Closing balance		<u>10,580</u>	<u>2,505</u>

18.2.1 Charity was paid to the following Institutions:

Qureshi Nazir Education Trust	1,000	-
Sindh Institute of Urology & Transplant (SIUT)	400	-
Aziz Jehan Begum Trust for the Blind	400	-
The Rising Sun	400	-
Mind Organization	400	-
	<u>2,800</u>	<u>-</u>

18.2.2 Charity was not paid to any staff of the Bank or to any individual / organisation in which a director or his spouse had any interest at any time during the year.

19 SHARE CAPITAL

19.1 Authorised capital

	2016 Number of shares	Restated 2015 Number of shares
1,500,000,000	1,500,000,000	Ordinary shares of Rs. 10/- each
	<u>15,000,000</u>	<u>15,000,000</u>

19.2 Issued, subscribed and paid up capital

	2016 Number of shares	Restated 2015 Number of shares
1,000,000,000	1,000,000,000	Ordinary shares of Rs. 10/- each
		Fully paid in cash
	<u>10,000,000</u>	<u>10,000,000</u>

19.3 The Bank's shares are 100 percent held by MCB Bank Limited (MCB) - the parent company and its nominee directors.

20 RESERVES

	Note	2016 Rupees in thousands	Restated 2015 Rupees in thousands
Statutory Reserves	20.1	<u>26,444</u>	<u>10,461</u>

20.1 Statutory reserve represents amount set aside as per the requirements of section 21 of the Banking Companies Ordinance, 1962.

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

Surplus / (deficit) arising on revaluation (net of tax) of:			
- Fixed assets	21.1	173,723	-
- Available for sale securities	21.2	(2,381)	(31,862)
		<u>171,342</u>	<u>(31,862)</u>

21.1 Surplus / (deficit) on revaluation of fixed assets - net of tax

Surplus on revaluation of fixed assets as January 1 / July 1		-	-
Surplus arises during the year / period		199,797	-
Related deferred tax liability	17	(26,074)	-
		<u>173,723</u>	<u>-</u>

21.2 Surplus / (deficit) on revaluation of available for sale securities - net of tax

Available for sale securities			
- Listed shares		(33,565)	(39,395)
- Sukuks		29,902	(6,255)
		(3,663)	(45,650)
Related deferred tax asset	17	1,282	13,788
		<u>(2,381)</u>	<u>(31,862)</u>

22 CONTINGENCIES AND COMMITMENTS

22.1 Transaction-related contingent liabilities

Guarantees favouring - beneficiary			
- Government		1,004,070	1,067,932
- Others		159,568	-
		<u>1,163,638</u>	<u>1,067,932</u>

22.2 Trade-related contingent liabilities

Import Letters of Credit		2,039,247	1,620,072
Acceptances		39,505	31,991
		<u>2,078,752</u>	<u>1,652,063</u>

22.3 Commitments for the acquisition of operating fixed assets

Acquisition of fixed assets		129,690	-
Acquisition of computer software		17,561	48,077
		<u>147,251</u>	<u>48,077</u>

22.4 Commitments to extend credit

The Bank makes commitment(s) to extend credit in the normal course of business including related parties but these being revocable commitments do not attract any penalty or expense if the facility is unilaterally withdrawn.

23 PROFIT / RETURN EARNED

	January 01, 2016 to December 31, 2016 Rupees In thousands	Restated July 01, 2015 to December 31, 2015 Rupees In thousands
On financings to customers	993,577	175,690
On investments in		
- available for sale securities	111,442	43,595
- held to maturity securities	201,935	39,029
	313,377	82,624
On deposits with financial institutions	213,887	117,981
On inter bank Modaraba / Musharakah agreements	5,937	-
	<u>1,526,778</u>	<u>376,295</u>

24 PROFIT / RETURN EXPENSED

On deposits and other accounts	394,723	66,615
On Musharakah with the State Bank of Pakistan under IERS	9,690	5,804
On other short term fund - Musharakah / Modarabas	172,131	28,638
	<u>576,544</u>	<u>101,057</u>

25 GAIN ON SALE OF SECURITIES - NET

Federal Government Securities - Sukuk certificates	(1,222)	(803)
Shares / units of open end mutual funds	138,592	3,731
	<u>137,370</u>	<u>2,928</u>

26 OTHER INCOME

Rental income	-	-
Locker rent	1,872	759
Fees and charges recovered	9,120	28
	<u>10,992</u>	<u>787</u>

27 ADMINISTRATIVE EXPENSES

Salaries and allowances	27.1	636,438	69,050
Remuneration to Shari'ah Board Members		6,450	1,425
Contribution to defined contribution plan		12,630	2,075
Non-executive directors' fees, allowances and other expenses		180	150
Rent, rates and taxes		120,030	24,206
Takaful expenses		8,920	872
Utilities		27,861	5,231
Legal and professional charges		12,604	8,819
Communication	27.2	49,845	19,382
Repairs and maintenance		44,733	10,759
Fee and subscription		2,231	1,366
Travelling and conveyance		34,097	5,339
Entertainment		9,536	1,647
Stationery and printing		14,623	3,840
Advertisement and publicity		10,654	507
Brokerage, commission, bank and clearing charges		8,922	4,552
Outsourced service utilisation charges		44,522	5,502
Auditor's remuneration	27.3	7,352	2,965
Depreciation	11.2	51,955	13,743
Amortisation of intangible assets	11.3	15,699	7,725
Security services including cash handling charges		48,020	8,357
Training expenses		6,154	521
Others		13,810	2,665
		<u>1,187,266</u>	<u>200,698</u>

- 27.1 This includes Rs. 2.986 million (2015: Rs. 0.361 million) in respect of Contribution to Employees' Old Age Benefit Institution.
- 27.2 This includes payment made to Eastnets amounting to Rs. 1.789 million (2015: Nil) in respect of Eastnets Gateway Connectivity Package with for SWIFT Connectivity.

27.3 Auditors' remuneration

	January 01, 2016 to December 31, 2016 Rupees In thousands	Restated July 01, 2015 to December 31, 2015 Rupees In thousands
Audit fee	1,750	1,300
Fee for interim review	750	-
Taxation services and other certifications	4,040	1,500
Sales tax on services	312	140
Out-of-pocket expenses	500	25
	<u>7,352</u>	<u>2,965</u>

28 OTHER CHARGES

Penalties imposed by the State Bank of Pakistan	17	1,018
Worker Welfare Fund	2,279	1,058
	<u>2,296</u>	<u>2,076</u>

29 TAXATION

For the year

- Current	17,859	924
- Deferred	11,331	4,400
	<u>29,190</u>	<u>5,324</u>

Prior

- Current	4,866	-
- Deferred	-	-
	<u>4,866</u>	<u>-</u>
	<u>34,056</u>	<u>5,324</u>

29.1 Relationship between tax charge and accounting profit

Profit before taxation	113,973	57,631
Tax at the applicable rate	35%	35%
Tax on income	39,891	20,171
Effect of:		
- permanent differences	(32,921)	-
- prior year tax charge	-	-
- others	27,086	(14,847)
Tax charge for the year / period	<u>34,056</u>	<u>5,324</u>

30 CREDIT RATING

PACRA has rated bank's long term credit rating of A and short-term credit rating of A-1.

31 BASIC AND DILUTED EARNINGS PER SHARE - PRE TAX

	January 01, 2016 to December 31, 2016 Rupees in thousands	Restated July 01, 2015 to December 31, 2015 Rupees in thousands
Profit before taxation	113,973	57,631
	Number of shares	
Weighted average number of ordinary shares	1,000,000,000	1,000,000,000
	Rupees	
Basic / diluted earnings per share - pre tax	0.114	0.058

32 BASIC AND DILUTED EARNINGS PER SHARE - AFTER TAX

	January 01, 2016 to December 31, 2016 Rupees in thousands	Restated July 01, 2015 to December 31, 2015 Rupees in thousands
Profit after taxation	79,917	52,307
	Number of shares	
Weighted average number of ordinary shares	1,000,000,000	1,000,000,000
	Rupees	
Basic / diluted earnings per share - after tax	0.080	0.052

33 CASH AND CASH EQUIVALENTS

	2016 Rupees in thousands	Restated 2015 Rupees in thousands
Cash and balances with treasury banks	1,509,804	698,123
Balances with other banks	2,750,998	6,347,459
	4,260,802	7,045,582

34 STAFF STRENGTH

Note	2016 Number	Restated 2015 Number
Permanent	589	324
Temporary / on contractual basis	12	4
Bank's own staff strength at the end of the year	601	328
Outsourced	89	30
Total staff strength	690	358

34.1 This excludes outsourced security guards and tea services staff.

35 DEFINED CONTRIBUTION PLAN

The Bank operates a provident fund scheme administered by the Board of Trustees for all of its permanent employees.

Equal monthly contributions are made both by the Bank and its permanent employees to the Fund at the rate of 8.33% of the basic salaries of employees. However, an employee has an option to increase his/her contribution upto 12.5% but the Bank will still contribute 8.33% of the employee's basic salary.

	January 01, 2016 to December 31, 2016 Rupees in thousands	Restated July 01, 2015 to December 31, 2015 Rupees in thousands
Contribution made by the Bank	12,630	2,075
Contribution made by the employees	13,525	1,979
	26,155	4,054

36 COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive Officer		Directors		Executives	
	January 01, 2016 to December 31, 2016	July 01, 2015 to December 31, 2015	January 01, 2016 to December 31, 2016	July 01, 2015 to December 31, 2015	January 01, 2016 to December 31, 2016	July 01, 2015 to December 31, 2015
	Rupees in thousands					
Fees	-	-	180	150	-	-
Managerial remuneration and bonus	35,055	2,541	-	-	203,330	21,700
Contribution to defined contribution plan	1,171	212	-	-	8,591	935
Rent and house maintenance	6,324	1,144	-	-	61,248	8,024
Utilities	1,405	254	-	-	13,611	1,783
Medical	-	-	-	-	3,425	448
Conveyance	-	-	-	-	46,808	6,957
Others	5	1	-	-	19,184	2,436
	43,960	4,152	180	150	356,177	42,283
Number of persons	1	1	6	7	171	78

36.1 The Bank has no executive director other than President / Chief Executive Officer. The President / Chief Executive Officer has been provided with free use of Bank maintained car.

37 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for tradable securities classified by the Bank 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 audited financial statements.

Fair value of Islamic financing & related assets, other 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 and related assets has been calculated in accordance with the Bank's accounting policy as in stated 6.4.

The repricing profile with effective rates and maturity are stated in notes 41.3 and 41.4.1 respectively.

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 financing and deposits are frequently re-priced.

37.1 The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using input for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The table below analyses the financial and non-financial assets carried at fair values, by valuation methods. For financial assets, the Bank essentially carries its investments in debt and equity securities at fair values. Valuation of investments is carried out as per guidelines specified by the SBP. In case of non-financial assets, the Bank has adopted revaluation model (as per IAS 16) in respect of land and building.

	Fair Value			
	Level 1	Level 2	Level 3	Total
	Rupees in thousands			
On-balance sheet financial Instruments				
Financial assets measured at fair value				
Available for sale securities				
Ordinary shares - listed	1,063,264	-	-	1,063,264
Sukuk certificates	-	3,556,411	-	3,556,411
	1,063,264	3,556,411	-	4,619,675
Non - Financial Assets measured at fair value				
Operating fixed assets (land and buildings)	-	-	911,758	911,758

The valuation techniques used for above assets are same as disclosed in note 6.3 & 6.5 of these financial statements.

The Bank's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred. There were no transfers between levels 1 and 2 during the year.

(a) Financial Instruments in level 1

Financial instruments included in level 1 comprise of investments in listed ordinary shares.

(b) Financial instruments in level 2

Financial instruments included in level 2 comprise of Sukuks Bonds and Forward Exchange Contracts.

(c) Financial Instruments in level 3

Currently, no financial instrument is classified in level 3.

Valuation techniques and inputs used in determination of fair values within level 2

Item	Valuation techniques and Input used
Fully paid-up ordinary shares	Fair values of investments in listed equity securities are valued on the basis of closing quoted market prices available at the Pakistan Stock Exchange.
Government of Pakistan (GoP) - Ijarah Sukuks	Fair values of GoP Ijarah Sukuks are derived using the PKISRV rates announced by the Financial Market Association (FMA) through Reuters. These rates denote an average of quotes received from eight different pre-defined / approved dealers / brokers.
Operating fixed assets (land and building)	Land and buildings are revalued every three years using professional valuers on the panel of Pakistan Banker's Association. The valuation is based on their assessment of market value of the properties.

38 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	2016			
	Corporate finance	Trading & sales	Retail banking	Commercial banking
	Rupees in thousands			
Total income	-	746,695	32,400	1,006,847
Total expenses	-	(621,905)	(530,563)	(519,501)
Income tax expense	-	-	-	-
Net income	-	124,790	(498,163)	487,346
Segment assets - gross	-	9,275,808	2,043,276	17,179,225
Advance taxation - net	-	-	-	-
Total assets	-	9,275,808	2,043,276	17,179,225
Segment non performing assets	-	-	-	1,029
Segment provision required and held	-	-	-	1,029
Segment liabilities	-	2,438,544	15,017,440	806,121
Deferred tax liability	-	-	-	-
Total liabilities	-	2,438,544	15,017,440	806,121
Segment return on assets (%)	-	6.69%	2.27%	6.65%
Segment cost of funds (%)	-	4.16%	3.34%	3.10%

	2015 - Restated			
	Corporate finance	Trading & sales	Retail banking	Commercial banking
	Rupees in thousands			
Total income	-	215,012	3,763	182,588
Total expenses	-	(147,829)	(66,632)	(129,271)
Taxation	-	-	-	-
Net income	-	67,183	(62,869)	53,317
Segment assets - gross	-	13,061,286	812,353	13,095,818
Advance taxation - net	-	-	-	-
Total assets	-	13,061,286	812,353	13,095,818
Segment non performing assets	-	-	-	1,129
Segment provision required and held	-	-	-	1,129
Segment liabilities	6,190,033	220,911	10,002,701	491,144
Deferred tax liability	-	-	-	-
Total liabilities	6,190,033	220,911	10,002,701	491,144
Segment return on assets (%)	-	6.58%	1.85%	5.58%
Segment cost of funds (%)	-	3.30%	3.17%	4.60%

* This represents consideration payable to Parent Company.

39 RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its parent company, associates, companies with common directorship, employee benefit plans and its directors and key management personnel and their close family members.

The Bank enters into transactions with related parties in the normal course of business.

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

39.1 The details of transactions with related parties and balances with them are given below:

	Parent company		Associated companies		Directors **		Key Management Personnel ***		Others ****	
	Restated December 31, 2016	Restated December 31, 2015	Restated December 31, 2016	Restated December 31, 2015	Restated December 31, 2016	Restated December 31, 2015	Restated December 31, 2016	Restated December 31, 2015	Restated December 31, 2016	Restated December 31, 2015
	Rupees in thousand									
Balances with other banks										
Opening balance	-	10,000,000	-	-	-	-	-	-	-	-
Deposits during the period	10,004	4,507,615	-	-	-	-	-	-	-	-
Withdrawal during the period	(6,335)	(9,404,231)	-	-	-	-	-	-	-	-
Adjustments *	-	(5,103,384)	-	-	-	-	-	-	-	-
Closing balance	3,669	-	-	-	-	-	-	-	-	-
Islamic financing and related assets										
Opening balance	-	-	519,403	-	22,304	-	45,402	-	-	-
Balance acquired under demerger	-	-	-	522,783	-	-	-	-	-	-
Disbursed during the period	-	-	452,350	34,000	-	22,304	29,367	45,427	-	-
Repaid during the period	-	-	(311,185)	(37,390)	(8,368)	-	(9,523)	(25)	-	-
Closing balance	-	-	660,568	519,403	13,936	22,304	65,246	45,402	-	-
Others										
Other receivables	8,925	-	4,447	16,220	-	97	1,515	28	-	-
Other payables	5,613	700	10,608	346	40	1,123	84	764	43	4
Due to Financial Institutions										
Opening balance	211,821	-	-	-	-	-	-	-	-	-
Balance acquired under demerger	-	1,963,412	-	-	-	-	-	-	-	-
Received during the period	1,922,345	-	-	-	-	-	-	-	-	-
Repaid during the period	(2,134,166)	(1,751,591)	-	-	-	-	-	-	-	-
Closing balance	-	211,821	-	-	-	-	-	-	-	-
Deposits										
Opening balance	-	-	20,236	-	1,163	-	25,455	-	4,738	-
Balance acquired under demerger	-	-	-	6,528	-	523	-	3,466	-	113
Received during the period	-	-	2,884,978	251,984	24,772	10,513	166,314	58,955	147,507	4,863
Withdrawal during the period	-	-	(2,782,097)	(238,276)	(25,505)	(9,873)	(172,136)	(36,966)	(123,577)	(238)
Closing balance	-	-	123,115	20,236	430	1,163	19,633	25,455	28,668	4,738
	Parent company		Associated companies		Directors **		Key Management Personnel ***		Others ****	
	Restated January 01, 2016 to December 31, 2016	Restated July 01, 2015 to December 31, 2015	Restated January 01, 2016 to December 31, 2016	Restated July 01, 2015 to December 31, 2015	Restated January 01, 2016 to December 31, 2016	Restated July 01, 2015 to December 31, 2015	Restated January 01, 2016 to December 31, 2016	Restated July 01, 2015 to December 31, 2015	Restated January 01, 2016 to December 31, 2016	Restated July 01, 2015 to December 31, 2015
	Rupees in thousand									
Transactions during the period										
Fee	-	-	-	-	180	150	-	-	-	-
Profit received	-	-	50,307	29,420	1,042	-	2,902	257	-	-
Profit paid	8,571	14,843	1,062	313	-	-	592	21	175	-
Repayment made against advance salary	-	-	-	-	-	-	200	-	-	-
Payment made against demerger scheme	5,901,988	-	-	-	-	-	-	-	-	-
Payment made against staff finance	113,434	-	-	-	-	-	-	-	-	-
Payment made against purchase of fixed asset	20,000	-	-	-	-	-	-	-	-	-
Payment made for expenses	1,010	-	33,690	-	-	-	-	-	-	-
Contribution paid to provident fund	-	-	-	-	-	-	-	-	20,841	1,529
Foreign currency purchase	4,873,774	-	-	-	-	-	-	-	-	-
Foreign currency sale	1,791,724	-	-	-	-	-	-	-	-	-

* This represents balance adjusted with MCB Bank Limited.

** Directors include the President / Chief Executive Officer.

*** Key management personnel includes certain head of departments who report directly to President / Chief Executive Officer.

**** This represents balances and transactions of staff retirement benefit plan and related parties other than those separately mentioned.

40 CAPITAL ASSESSMENT AND ADEQUACY

40.1 Scope of Applications

The Basel-III Framework as introduced by the State Bank of Pakistan (SBP) is applicable to the Bank on a standalone basis as the Bank does not have any subsidiary or affiliate for the purpose of consolidation. In this regards, the SBP has issued disclosure requirements which has formed the basis for preparation of these notes. The SBP has specified a transitional period till 2018 for full implementation of Basel III. Standardized Approach is used for calculating the Capital Adequacy for Credit and Market risk, whereas, Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purposes.

40.2 Capital management

Objectives and goals of managing capital

The Bank manages its capital to attain the following objectives and goals:

- an appropriately capitalized status, as defined by banking regulations;
- acquire strong credit ratings that enable an optimized funding mix and liquidity sources at lesser costs;
- cover all risks underlying business activities;
- retain flexibility to harness future investment opportunities; build and expand even in stressed times.

Statutory minimum capital requirement and Capital Adequacy Ratio (CAR)

The State Bank of Pakistan through its BPRD Circular No. 10 of 2014 dated October 17, 2014 requires Islamic Banking Subsidiary to raise its paid-up capital (net of losses) upto Rs.10 billion within a period of 5 years from the date of commencement of its operations. During the transitory period of five (5) years, the Islamic banking subsidiary shall maintain the following variable CAR requirement depending on the MCR level held:

Year	MCR Level	CAR Requirement
1st	Rs. 6 billion	16%
2nd	Rs. 7 billion	15%
3rd	Rs. 8 billion	14%
4th	Rs. 9 billion	13%
5th	Rs. 10 billion	As per CAR applicable under Basel-III rules

The capital adequacy ratio of the Bank was subject to the Basel III capital adequacy guidelines stipulated by the State Bank of Pakistan through its BPRD Circular No. 06 of 2013 dated August 15, 2013. These instructions are effective from December 31, 2013 in a phased manner with full implementation intended by December 31, 2019.

Phase-in arrangement and full implementation of the minimum capital requirements:

Ratio	Year End December 31,						As at Dec 31,
	2013	2014	2015	2016	2017	2018	2019
1 CET1	5.00%	5.50%	6.00%	6.00%	6.00%	6.00%	6.00%
2 ADT-1	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
3 Tier 1	6.50%	7.00%	7.50%	7.50%	7.50%	7.50%	7.50%
4 Total Capital	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
5 *CCB	-	-	0.25%	0.65%	1.275%	1.90%	2.50%
6 Total Capital plus CCB	10.00%	10.00%	10.25%	10.65%	11.275%	11.90%	12.50%

* Capital Conservation Buffer (CCB) Consisting of CET1 only

Under Basel III framework, Bank's regulatory capital is analysed into three tiers.

- Tier 1 capital (going concern capital) which is sub divided into:
 - a) Common Equity Tier 1 capital (CET1), which includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves, statutory reserves as per the financial statements and unappropriated profits (net of losses) after all regulatory adjustments applicable on CET1.
 - b) Additional Tier 1 Capital (AT1), which includes perpetual non-cumulative preference shares and share premium resulting from the issuance of preference shares balance in share premium account after all regulatory adjustments applicable on AT1.

Presently the Bank does not have any AT1 capital.

The deduction from Tier 1 Capital include mainly:

- i) Book value of goodwill / intangibles;
 - ii) Deficit on revaluation of available for sale investments;
 - iii) Defined-benefit pension fund net assets
 - iv) Reciprocal cross holdings in equity capital instruments of other banks, financial institutions and insurance companies;
 - v) Investment in mutual funds above a prescribed ceiling;
 - vi) Threshold deductions applicable from 2014 on deferred tax assets and certain investments;
 - vii) 30% of investments in majority owned securities or other financial subsidiaries not consolidated in the statement of financial position,
- Tier 2 capital, which includes subordinated debt/ instruments, share premium of issuance of subordinated debt/ instruments, general provisions against financing (up to a maximum of 1.25 % of credit risk weighted assets), Net of tax reserves on revaluation of fixed assets and investments up to a maximum of 45 % of the balance and 40% of remaining 55% for 2015 and foreign exchange translation reserves after all regulatory adjustments applicable on Tier-2.

The deductions from Tier 2 include mainly:

- Reciprocal cross holdings in other capital instruments of other banks, financial institution and insurance companies;
- 30% of investments in majority owned securities or other financial subsidiaries not consolidated in the statement of financial position, during transition phase.

The Bank is in compliance with the required capital adequacy ratio including CCB (10.65% of the risk-weighted assets) through improvement in the asset quality at the existing volume level, ensuring better recovery management and composition of asset mix with low risk. Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise of the credit risk, market risk and operational risk.

Basel-III Framework enables a more risk-sensitive regulatory capital calculation to promote long term viability of the Bank. As the Bank conducts business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across entire organization and aggregate the risks so as to take an integrated view. Maximization of the return on risk-adjusted capital is the principal basis to be used in determining how capital is allocated within the Bank to particular operations or activities.

The Bank remained compliant with all externally imposed capital requirements throughout the year. Further, there has been no material change in the Bank's management of capital during the year.

40.3 Capital Adequacy Ratio

The capital to risk weighted assets ratio, calculated in accordance with the SBP guidelines on capital adequacy under Basel III treatment is presented below:

	2016	Restated 2015
	Rupees In thousands	
Common Equity Tier 1 capital(CET1): Instruments and reserves		
1 Fully Paid-up Capital / Capital deposited with SBP	10,000,000	10,000,000
2 Balance in Share Premium Account	-	-
3 Reserve for issue of Bonus Shares	-	-
4 Discount on Issue of shares	-	-
5 General/ Statutory Reserves	26,444	10,461
6 Gain/(Losses) on derivatives held as Cash Flow Hedge	-	-
7 Unappropriated/unremitted profits/ (losses)	68,087	4,153
8 Minority Interests arising from CET1 capital instruments issued to third parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	-
9 CET 1 before Regulatory Adjustments	10,094,531	10,014,614
10 Total regulatory adjustments applied to CET1 (Note 40.3.1)	377,698	224,722
11 Common Equity Tier 1	9,716,833	9,789,892
Additional Tier 1 (AT 1) Capital		
12 Qualifying Additional Tier-1 capital instruments plus any related share premium	-	-
13 of which: Classified as equity	-	-
14 of which: Classified as liabilities	-	-
15 Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)	-	-
16 of which: instrument issued by subsidiaries subject to phase out	-	-
17 AT1 before regulatory adjustments	-	-
18 Total regulatory adjustment applied to AT1 capital (Note 40.3.2)	-	-
19 Additional Tier 1 capital after regulatory adjustments	-	-
20 Additional Tier 1 capital recognized for capital adequacy	-	-
21 Tier 1 Capital (CET1 + admissible AT1)	9,716,833	9,789,892
Tier 2 Capital		
22 Qualifying Tier 2 capital instruments under Basel III plus any related share premium	-	-
23 Tier 2 capital instruments subject to phase-out arrangement issued under pre-Basel 3 rules	-	-
24 Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group tier 2)	-	-
25 of which: instruments issued by subsidiaries subject to phase out	-	-
26 General provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	-	-
27 Revaluation Reserves (net of taxes)	-	-
28 of which: Revaluation reserves on fixed assets	-	-
29 of which: Unrealized gains/losses on AFS	-	-
30 Foreign Exchange Translation Reserves	-	-
31 Undisclosed/Other Reserves (if any)	-	-
32 T2 before regulatory adjustments	-	-
33 Total regulatory adjustment applied to T2 capital (Note 40.3.3)	-	-
34 Tier 2 capital (T2) after regulatory adjustments	-	-
35 Tier 2 capital recognized for capital adequacy	-	-
36 Portion of Additional Tier 1 capital recognized in Tier 2 capital	-	-
37 Total Tier 2 capital admissible for capital adequacy	-	-
38 TOTAL CAPITAL (T1 + admissible T2)	9,716,833	9,789,892
39 Total Risk Weighted Assets (RWA) {for details refer Note 40.6}	24,452,715	21,055,400

	2016	Restated 2015
	Rupees in thousands	
Capital Ratios and buffers (in percentage of risk weighted assets)		
40 CET1 to total RWA	39.74%	46.50%
41 Tier-1 capital to total RWA	39.74%	46.50%
42 Total capital to total RWA	39.74%	46.50%
43 Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)	6.00%	6.00%
44 of which: capital conservation buffer requirement	-	-
45 of which: countercyclical buffer requirement	-	-
46 of which: D-SIB or G-SIB buffer requirement	-	-
47 CET1 available to meet buffers (as a percentage of risk weighted assets)	33.74%	40.50%
National minimum capital requirements prescribed by SBP		
48 CET1 minimum ratio	6.00%	6.00%
49 Tier 1 minimum ratio	7.50%	7.50%
50 Total capital minimum ratio	10.00%	10.00%
51 Total capital minimum ratio plus CCB	10.65%	10.25%

Leverage Ratio

Tier 1 Capital	9,716,833	9,789,892
Total Exposures	32,581,429	32,605,254
Leverage Ratio	29.82%	30.03%

	2016	Restated 2015
	Rupees in thousands	
Regulatory Adjustments and Additional Information	Amount	Amount
	Amount	Amount
	Amount	Amount
	Amount	Amount

40.3.1 Common Equity Tier 1 capital: Regulatory adjustments

1 Goodwill (net of related deferred tax liability)	-	-
2 All other intangibles (net of any associated deferred tax liability)	375,317	192,860
3 Shortfall in provisions against classified assets	-	-
4 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
5 Defined-benefit pension fund net assets	-	-
6 Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities	-	-
7 Cash flow hedge reserve	-	-
8 Investment in own shares/ CET1 instruments	-	-
9 Securitization gain on sale	-	-
10 Capital shortfall of regulated subsidiaries	-	-
11 Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	2,381	31,862
12 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)	-	-
13 Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
14 Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
15 Amount exceeding 15% threshold	-	-
16 of which: significant investments in the common stocks of financial entities	-	-
17 of which: deferred tax assets arising from temporary differences	-	-
18 National specific regulatory adjustments applied to CET1 capital	-	-
19 Investments in TFCs of other banks exceeding the prescribed limit	-	-
20 Any other deduction specified by SBP (mention details)	-	-
21 Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-	-
22 Total regulatory adjustments applied to CET1	377,698	224,722

	2016	Restated 2015
	Rupees in thousands	
Regulatory Adjustments and Additional Information	Amount	Amount
	Amount	Amount
	Amount	Amount
	Amount	Amount

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

23 Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment]	-	-
24 Investment in own AT1 capital instruments	-	-
25 Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial and insurance entities	-	-
26 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)	-	-
27 Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
28 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	-	-
29 Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
30 Total regulatory adjustment applied to AT1 capital	-	-

40.3.3 Tier 2 Capital: regulatory adjustments

31 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	-	-
32 Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities	-	-
33 Investment in own Tier 2 capital instrument	-	-
34 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)	-	-
35 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
36 Total regulatory adjustment applied to T2 capital	-	-

40.3.4 Risk Weighted Assets subject to pre-Basel III treatment

	2016	Restated 2015
	Rupees in thousands	
37 Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment)	-	-
i) of which: deferred tax assets	-	-
ii) of which: Defined-benefit pension fund net assets	-	-
iii) 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	-	-
iv) 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)		
38 Non-significant investments in the capital of other financial entities	-	-
39 Significant investments in the common stock of financial entities	-	-
40 Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
Applicable caps on the inclusion of provisions in Tier 2		
41 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	-	-
42 Cap on inclusion of provisions in Tier 2 under standardized approach	-	-
43 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
44 Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-

40.4 Capital Structure Reconciliation

	Balance sheet as per published financial statements	Under regulatory scope of consolidation	Ref
Step 1	As at December 31, 2016 Rupees in thousands		
Assets			
Cash and balances with treasury banks	1,509,804	1,509,804	
Balances with other banks	2,750,998	2,750,998	
Due from financial institutions	-	-	
Investments - net	5,769,675	5,769,675	
Islamic financing and related assets - net	16,172,727	16,172,727	
Operating fixed assets	2,104,250	2,104,250	
Deferred tax assets - net	-	-	
Other assets - net	261,048	261,048	
Total assets	28,568,502	28,568,502	
Liabilities and Equity			
Bills payable	447,776	447,776	
Due to financial institutions	2,785,650	2,785,650	
Deposits and other accounts	14,279,436	14,279,436	
Sub-ordinated loans	-	-	
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities - net	40,524	40,524	
Other liabilities	749,243	749,243	
Total liabilities	18,302,629	18,302,629	
Share capital	10,000,000	10,000,000	
Reserves	26,444	26,444	
Unappropriated profit	68,087	68,087	
Minority Interest	-	-	
Total Equity	10,094,531	10,094,531	
Surplus on revaluation of assets	171,342	171,342	
Total liabilities and equity	28,568,502	28,568,502	
Step 2	Balance sheet of the published financial statements	Under regulatory scope of consolidation	Ref
	As at December 31, 2016 Rupees in thousands		
Assets			
Cash and balances with treasury banks	1,509,804	1,509,804	
Balances with other banks	2,750,998	2,750,998	
Due to financial institutions	-	-	
Investments			
of which: non-significant investments in the capital instruments of banking, financial and insurance entities exceeding 10% threshold	-	-	a
of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold	-	-	b
of which: Mutual Funds exceeding regulatory threshold	-	-	c
of which: reciprocal crossholding of capital instrument (separate for CET1, AT1, T2)	-	-	d
of which: others	5,769,675	5,769,675	e

	Balance sheet of the published financial statements	Under regulatory scope of consolidation	Ref
Step 2	As at December 31, 2016 Rupees in thousands		
Islamic financing and related assets	16,172,727	16,172,727	
shortfall in provisions/ excess of total EL amount over eligible provisions under IRB	-	-	f
general provisions reflected in Tier 2 capital	-	-	g
Operating fixed assets	2,104,250	2,104,250	
of which: Intangibles	375,317	375,317	k
Deferred tax assets			
of which: DTAs that rely on future profitability excluding those arising from temporary differences	-	-	h
of which: DTAs arising from temporary differences exceeding regulatory threshold	-	-	i
Other assets	261,048	261,048	
of which: Goodwill	-	-	j
of which: Defined-benefit pension fund net assets	-	-	l
Total assets	28,568,502	28,568,502	
Liabilities and Equity			
Bills payable	447,776	447,776	
Due to financial institutions	2,785,650	2,785,650	
Deposits and other accounts	14,279,436	14,279,436	
Sub-ordinated loans	-	-	
of which: eligible for inclusion in AT1	-	-	m
of which: eligible for inclusion in Tier 2	-	-	n
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	40,524	40,524	
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	40,524	40,524	r
Other liabilities	749,243	749,243	
Total liabilities	18,302,629	18,302,629	
Share capital	10,000,000	10,000,000	
of which: amount eligible for CET1	10,000,000	10,000,000	s
of which: amount eligible for AT1	-	-	t
Reserves	26,444	26,444	
of which: portion eligible for inclusion in CET1	26,444	26,444	u
of which: portion eligible for inclusion in Tier 2	-	-	v
Unappropriated profit	68,087	68,087	w
Minority Interest	-	-	
of which: portion eligible for inclusion in CET1	-	-	x
of which: portion eligible for inclusion in AT1	-	-	y
of which: portion eligible for inclusion in Tier 2	-	-	z
Surplus / (deficit) on revaluation of assets	171,342	171,342	
of which: revaluation reserves on fixed assets	173,723	173,723	aa
of which: unrealized loss on AFS	(2,381)	(2,381)	
In case of deficit on revaluation (deduction from CET1)	-	-	ab
Total liabilities and Equity	10,265,873	10,265,873	

	Component of regulatory capital reported by bank	Source based on reference number from step 2
Step 3		
As at December 31, 2016 Rupees in thousands		
Common Equity Tier 1 capital (CET1): Instruments and reserves		
1 Fully Paid-up Capital	10,000,000	
2 Balance in share premium account	-	(s)
3 Reserve for issue of bonus shares	-	
4 General / Statutory Reserves	26,444	(u)
5 Gain/(Losses) on derivatives held as Cash Flow Hedge	-	
6 Unappropriated profit	68,087	(w)
7 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)
8 CET 1 before Regulatory Adjustments	-	
Common Equity Tier 1 capital: Regulatory adjustments	10,094,531	
9 Goodwill (net of related deferred tax liability)	-	(j) - (o)
10 All other intangibles (net of any associated deferred tax liability)	375,317	(k) - (p)
11 Shortfall of provisions against classified assets	-	(f)
12 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	(h) - (r) * 40%
13 Defined-benefit pension fund net assets	-	(l) - (q) * 40%
14 Reciprocal cross holdings in CET1 capital instruments	-	(d)
15 Cash flow hedge reserve	-	
16 Investment in own shares/ CET1 instruments	-	
17 Securitization gain on sale	-	
18 Capital shortfall of regulated subsidiaries	-	
19 Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	2,381	(ab)
20 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)
21 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)
22 Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	(i)
23 Amount exceeding 15% threshold	-	
24 of which: significant investments in the common stocks of financial entities	-	
25 of which: deferred tax assets arising from temporary differences	-	
26 National specific regulatory adjustments applied to CET1 capital	-	
27 of which: Investment in TFCs of other banks exceeding the prescribed limit	-	
28 of which: Any other deduction specified by SBP	-	
29 Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-	
30 Total regulatory adjustments applied to CET1	377,698	
31 Common Equity Tier 1	9,716,833	
Additional Tier 1 (AT 1) Capital		
32 Qualifying Additional Tier-1 instruments plus any related share premium	-	
33 of which: Classified as equity	-	(t)
34 of which: Classified as liabilities	-	(m)
35 Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-	(y)
36 of which: instrument issued by subsidiaries subject to phase out	-	
37 AT1 before regulatory adjustments	-	

Step 3		Component of regulatory capital reported by bank	Source based on reference number from step 2
		As at December 31, 2016 Rupees in thousands	
Additional Tier 1 Capital: regulatory adjustments			
38	Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	
39	Investment in own AT1 capital instruments	-	
40	Reciprocal cross holdings in Additional Tier 1 capital instruments	-	
41	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)
42	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(ad)
43	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	-	
44	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
45	Total of Regulatory Adjustment applied to AT1 capital	-	
46	Additional Tier 1 capital	-	
47	Additional Tier 1 capital recognized for capital adequacy	-	
48	Tier 1 Capital (CET1 + admissible AT1)	9,716,833	
Tier 2 Capital			
49	Qualifying Tier 2 capital instruments under Basel III plus any related share premium	-	(n)
50	Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-	(z)
51	Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	-	
52	of which: instruments issued by subsidiaries subject to phase out	-	
53	General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	-	(g)
54	Revaluation Reserves	-	
55	of which: Revaluation reserves on fixed assets	-	
56	of which: Unrealized Gains/Losses on AFS	-	portion of (aa)
57	Foreign Exchange Translation Reserves	-	(v)
58	Undisclosed/Other Reserves (if any)	-	
59	T2 before regulatory adjustments	-	
Tier 2 Capital: regulatory adjustments			
60	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	-	
61	Reciprocal cross holdings in Tier 2 instruments	-	
62	Investment in own Tier 2 capital instrument	-	
63	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)
64	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(af)
65	Amount of Regulatory Adjustment applied to T2 capital	-	

Step 3	Component of regulatory capital reported by bank	Source based on reference number from step 2
	As at December 31, 2016	
66 Tier 2 capital (T2)	-	-
67 Tier 2 capital recognized for capital adequacy	-	-
68 Excess Additional Tier 1 capital recognized in Tier 2 capital	-	-
69 Total Tier 2 capital admissible for capital adequacy	-	-
70 TOTAL CAPITAL (T1 + admissible T2)	9,716,833	

40.5 Main Features Template of Regulatory Capital Instruments

1	Issuer	MCB Islamic Bank Limited
2	Unique identifier (e.g. PSX Symbol)	MCBIBL
3	Governing law(s) of the instrument	Relevant Capital Market Laws
	Regulatory treatment	
4	Transitional Basel III rules	Common equity Tier 1
5	Post-transitional Basel III rules	Common equity Tier 1
6	Eligible at solo/ group/ group & solo	Standalone
7	Instrument type	Common Shares
8	Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting date)	10,000,000
9	Par value of instrument	PKR 10 per share
10	Accounting classification	Shareholder equity
11	Original date of issuance	2015
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Not applicable
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons / dividends	
17	Fixed or floating dividend/ coupon	Not applicable
18	coupon rate and any related index/ benchmark	Not applicable
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Not applicable
23	Convertible or non-convertible	Not applicable
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	Not applicable
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Common equity ranks after all creditors and depositors
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

40.6 Risk Weighted Assets

The risk weighted assets to capital ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy was as follows:

	2016		2015 - Restated	
	Risk weighted assets	Capital requirement	Risk weighted assets	Capital requirement
Rupees in thousands				
Risk-weighted exposures				
Credit risk				
Portfolios subject to standardised approach (Simple Approach)				
On-Balance sheet				
Corporate portfolio	15,557,263	1,555,726	13,720,610	1,372,061
Banks / DFIs	589,783	58,978	1,276,505	127,651
Public sector entities	196,599	19,660	-	-
Sovereigns / cash & cash equivalents	-	-	-	-
Loans secured against residential property	113,674	11,367	19,733	1,973
Retail	39,650	3,965	1,559	156
Past due loans	514	51	565	57
Operating fixed assets	1,721,962	172,196	999,523	99,952
Other assets	179,789	17,979	105,714	10,571
	18,399,234	1,839,922	16,124,209	1,612,421
Off-Balance sheet				
Non-market related	1,675,561	167,556	2,066,325	206,633
Market related	-	-	-	-
	1,675,561	167,556	2,066,325	206,633
Equity Exposure Risk in the Banking Book				
Listed	-	-	-	-
Unlisted	-	-	-	-
	-	-	-	-
Total Credit Risk	20,074,795	2,007,478	18,190,534	1,819,054
Market Risk				
Capital Requirement for portfolios subject to Standardized Approach				
Profit rate risk	369,572	36,957	111,288	11,129
Equity position risk	2,126,525	212,653	1,248,318	124,832
Foreign Exchange risk	387,688	38,769	11,125	1,113
Total Market Risk	2,883,785	288,379	1,370,731	137,074
Operational Risk				
Capital Requirement for operational risks	1,494,135	149,414	1,494,135	149,414
TOTAL	24,452,715	2,445,271	21,055,400	2,105,542
	2016		2015 - Restated	
	Required	Actual	Required	Actual
	%	%	%	%
Capital Adequacy Ratios				
CET1 to total RWA	6.00%	39.74%	6.00%	46.50%
Tier-1 capital to total RWA	7.50%	39.74%	7.50%	46.50%
Total capital to total RWA	10.00%	39.74%	10.00%	46.50%
Total capital plus CCB to total RWA	10.65%	39.74%	10.25%	46.50%

* As SBP capital requirement of 10.65% (2015: 10.25%) is calculated on overall basis therefore, capital charge for credit risk is calculated after excluding capital requirements against market and operational risk from the total capital required.

41 RISK MANAGEMENT

Risk is an inherent part of banking business activities. The risk management framework and governance structure at MCB Islamic Bank helps to mitigate and counter any foreseeable risk in its various lines of business. Risk awareness forms an integral part of strategic and operational activities of risk management. Through its risk management policy the Bank sets the best course of action to counter uncertainty by identifying, prioritizing, mitigating and monitoring risk issues, with the goal of enhancing shareholders' value. Bank's risk management structure is based on the following five guiding principles while conforming to the prescribed Shari'ah guidelines:

- Optimizing risk/return in a controlled manner
- Establishing clear responsibility and accountability
- Establishing independent and properly resourced risk management function.
- Promoting open risk culture
- Adopting international best practices in risk management

Keeping in view dynamics of internal and external environment, the bank regularly reviews and updates policy manuals / frameworks and procedures in accordance with domestic regulatory environment and international standards.

The Bank executes its risk strategy and undertakes controlled risk-taking activities within its risk management framework. The Board of Directors and its relevant committee, i.e. the Risk Management & Portfolio Review Committee (RM & PRC), the senior management and its relevant committees, i.e. the Risk Management Committee (RMC), Asset Liability Committee (ALCO), etc., are responsible to ensure formulation and implementation of a comprehensive Risk Management Framework. This framework is based on prudent risk identification, measurement, management and monitoring processes which are closely aligned with the activities of the Bank. The framework combines core policies, procedures and process designs with broad oversight and is supported by an efficient monitoring mechanism across the Bank to ensure that risks are kept within an acceptable level.

The Bank ensures that not only the relevant risks are identified but their implications are also considered and the basis provided for managing and measuring the risks. Through Internal Control units, the Bank ensures that effective controls are in place to mitigate each of the identified risks.

Independent from business groups, Head of Risk Management reports functionally to the Risk Management & Portfolio Review Committee (RM & PRC) and administratively to the President; the RM & PRC convenes regular meetings to evaluate the Bank's risk and portfolio concentrations. The Risk Management Group performs the following critical functions:

- Credit Risk Management
- Credit Review
- Credit Risk Control
- Market Risk Management
- Liquidity Risk Management
- Operational Risk Management

41.1 Credit Risk

Credit risk arises from our dealings with individuals, corporate clients, financial institutions, sovereigns etc. The Bank is exposed to credit risk through its financing and investment activities. It stems from the Bank's both, on and off-balance sheet activities. Credit risk makes up the largest part of the Bank's exposure. Purpose of Credit Risk Management function is to identify, measure, manage, monitor and mitigate credit risk. Organizational structure of this function ensures pre and post-facto management of credit risk. While, Credit Review function provides pre-fact evaluation of counterparties, the Credit Risk Control (CRC) performs post-fact evaluation of financing facilities and reviews clients' performance on an ongoing basis.

The Bank has adopted Standardized Approach to measure Credit risk regulatory capital charge in compliance with Basel-III requirements. The approach mainly takes into account the assessment of external credit rating agencies. In line with SBP guidelines on Internal Credit Risk Rating Systems, the Bank has developed rating systems and all its corporate and commercial financing customers are internally rated. The Bank is in the process of continuously improving the system and bringing it inline with the Basel framework requirements.

In order to manage the Bank's credit risk, following policies and procedures are in place:

- Individuals who take or manage risks clearly understand them in order to protect the Bank from avoidable risks;
- The approval of credit limits to counter parties are subject to pre-fact review;
- Extension in credit facility or material change to the credit facility is subject to credit review;
- Approval and review process is reviewed by RM&PRC and internal audit;

As a part of credit assessment the Bank uses an internal rating framework as well as the ratings assigned by the external credit rating agencies, wherever available.

Ongoing administration of the credit portfolio is an essential part of the credit process that supports and controls extension and maintenance of credit. The Bank's Credit Risk Control, being an independent function from the business and operations group, is responsible for performing the following activities:

- Credit disbursement authorization;
- Collateral coverage and monitoring;
- Compliance of loan covenants/ terms of approval;
- Maintenance/ custody of collateral and security documentation.

Credit Risk Monitoring is based on a comprehensive reporting framework. Continuous monitoring of the credit portfolio and the risks attached thereto are carried out at different levels including businesses, Audit & Risk Assets Review, Credit Risk Control, Credit Risk Management Division, etc.

To ensure a prudent distribution of asset portfolio, the Bank manages its lending and investment activities within an appropriate limits framework. Per party exposure limit is maintained in accordance with SBP Prudential Regulation R-1.

The Bank creates specific provision against Non- Performing Financings (NPFs) in accordance with the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses include general provision against consumer loans made in accordance with the requirements of the Prudential Regulations issued by SBP and provision based on historical loss experience on advances. Please refer note No. 10.6 for reconciliation of changes in specific and general provisions.

Management of Non Performing Financing

Non performing financings will be handled by Special Asset Management Department. It will be responsible for restructuring / rescheduling of problem financings, as well as litigation of both civil and criminal cases for collection of debt.

Stress Testing

Credit Risk stress testing is a regular exercise. Bank's all credit exposures including funded and non-funded facilities are subject to stress test. This exercise is conducted on a quarterly basis through assigning shocks to all assets of the Bank and assessing its resulting affect on capital adequacy inline with SBP requirements.

41.1.1 Segmental Information

Segmental Information is presented in respect of the class of business and geographical distribution of Islamic financing and related assets (gross), deposits, contingencies and commitments.

41.1.1.1 Segments by class of business

	2016					
	Islamic financing and related assets (Gross)		Deposits		Contingencies and commitments	
	Rupees in thousands	Percent	Rupees in thousands	Percent	Rupees in thousands	Percent
Agriculture, forestry and fishing	1,958,358	12.11%	38,428	0.27%	109,770	3.39%
Automobile and transportation equipment	210,032	1.30%	176	0.00%	35,745	1.10%
Cement	-	0.00%	3,209	0.02%	26,584	0.82%
Chemical and pharmaceuticals	2,461,820	15.22%	103,734	0.73%	106,528	3.29%
Commerce / Trade	-	0.00%	-	0.00%	-	0.00%
Construction	393,198	2.43%	-	0.00%	682,559	21.05%
Electronics and electrical appliances	73,743	0.46%	54,047	0.38%	212,192	6.54%
Exports / Imports	-	0.00%	236,116	1.65%	-	0.00%
Financial institutions (NBFIs, DFI, Banks)	-	0.00%	2,183,653	15.29%	-	0.00%
Food, Beverages & Tobacco	5,774,755	35.70%	1,005,700	7.04%	1,321,193	40.75%
Fuel, oil and gas exploration	-	0.00%	4,157	0.03%	-	0.00%
Insurance	-	0.00%	-	0.00%	-	0.00%
Mining & Quarrying	-	0.00%	20,822	0.15%	-	0.00%
Non-Government Organizations (NGOs)	-	0.00%	335,409	2.35%	-	0.00%
Paper Products	-	0.00%	5,309	0.04%	54,182	1.67%
Plastic products	-	0.00%	32,467	0.23%	-	0.00%
Production and transmission of energy	-	0.00%	2,428	0.02%	-	0.00%
Services	24,490	0.15%	-	0.00%	38,516	1.19%
Shoe & leather garments	12,628	0.08%	3,092	0.02%	3,404	0.10%
Ship-breaking	1,670,507	10.33%	19	0.00%	30,969	0.96%
Sugar	1,299,063	8.03%	45,154	0.32%	-	0.00%
Transport, Storage and Communication	-	0.00%	57,927	0.41%	4,400	0.14%
Textile	1,006,869	6.23%	453,595	3.18%	216,895	6.68%
Wholesale and retail trade	725,000	4.48%	317,754	2.23%	94,303	2.91%
Individuals	383,496	2.37%	7,083,295	49.60%	-	0.00%
Others	180,042	1.11%	2,292,945	16.06%	305,350	9.42%
	16,174,001	100.00%	14,279,436	100.00%	3,242,390	100.00%

	2015 - Restated					
	Islamic financing and related assets (Gross)		Deposits		Contingencies and commitments	
	Rupees in thousands	Percent	Rupees in thousands	Percent	Rupees in thousands	Percent
Agriculture, forestry and fishing	471,545	3.75%	18,936	0.20%	2,400	0.09%
Automobile and transportation equipment	-	0.00%	9,085	0.10%	-	0.00%
Cement	-	0.00%	-	0.00%	-	0.00%
Chemical and pharmaceuticals	2,305,532	18.34%	18,303	0.19%	57,227	2.10%
Commerce / Trade	9,263	0.07%	229,585	2.43%	-	0.00%
Construction	-	0.00%	347,624	3.68%	771,034	28.35%
Electronics and electrical appliances	-	0.00%	30,142	0.32%	120,127	4.42%
Exports / Imports	-	0.00%	-	0.00%	-	0.00%
Financial institutions (NBFIs, DFI, Banks)	-	0.00%	1,061,138	11.23%	-	0.00%
Food, Beverages & Tobacco	7,415,957	59.00%	275,867	2.92%	779,763	28.67%
Fuel, oil and gas exploration	-	0.00%	-	0.00%	-	0.00%
Insurance	-	0.00%	805	0.01%	-	0.00%
Mining & Quarrying	-	0.00%	8,129	0.09%	-	0.00%
Non-Government Organizations (NGOs)	-	0.00%	-	0.00%	-	0.00%
Plastic products	-	0.00%	-	0.00%	-	0.00%
Production and transmission of energy	-	0.00%	-	0.00%	-	0.00%
Services	130,355	1.04%	434,897	4.60%	161,840	5.95%
Shoe & leather garments	-	0.00%	4,909	0.05%	-	0.00%
Sugar	-	0.00%	11,210	0.12%	-	0.00%
Textile	715,233	5.69%	90,798	0.96%	465,800	17.12%
Transport, Storage and Communication	-	0.00%	131,532	1.39%	-	0.00%
Wholesale and retail trade	23,741	0.19%	21,052	0.22%	68,109	2.50%
Individuals	72,634	0.58%	4,770,319	50.48%	-	0.00%
Others	1,424,948	11.34%	1,985,741	21.01%	293,895	10.80%
	12,569,208	100.00%	9,450,072	100.00%	2,719,995	100.00%

41.1.1.2 Segment by sector

	2016					
	Islamic financing and related assets (Gross)		Deposits		Contingencies and commitments	
	Rupees in thousands	Percent	Rupees in thousands	Percent	Rupees in thousands	Percent
Public / Government	393,198	2.43%	1,171,650	8.21%	-	0.00%
Private	15,780,803	97.57%	13,107,786	91.79%	3,242,390	100.00%
	16,174,001	100.00%	14,279,436	100.00%	3,242,390	100.00%

	2015 - Restated					
	Islamic financing and related assets (Gross)		Deposits		Contingencies and commitments	
	Rupees in thousands	Percent	Rupees in thousands	Percent	Rupees in thousands	Percent
Public / Government	-	0.00%	1,027,510	10.87%	-	0.00%
Private	12,569,208	100.00%	8,422,562	89.13%	2,719,995	100.00%
	12,569,208	100.00%	9,450,072	100.00%	2,719,995	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 - Restated	
	Classified Islamic financing and related assets	Specific provision held	Classified Islamic financing and related assets	Specific provision held
	Rupees in thousands			
	1,029	1,029	1,129	1,129

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

	2016		2015 - Restated	
	Classified Islamic financing and related assets	Specific provision held	Classified Islamic financing and related assets	Specific provision held
	Rupees in thousands			
Public / Government	-	-	-	-
Private	1,029	1,029	1,129	1,129
	1,029	1,029	1,129	1,129

41.1.1.5 Geographical segment analysis

	2016			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees in thousands			
Pakistan	113,973	28,568,502	10,265,873	3,242,390

	2015 - Restated			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees in thousands			
Pakistan	57,631	26,887,541	9,982,752	2,719,995

41.1.2 Credit Risk - General Disclosures

The Bank has adopted Standardized approach of Basel II for calculation of capital charge against credit risk in line with SBP's requirements.

Credit Risk: Disclosures for portfolio subject to the Standardized Approach

Under standardized approach, the capital requirement is based on the credit rating assigned to the counter parties by the External Credit Assessment Institutions (ECAIs) duly recognized by SBP for capital adequacy purposes. The Bank utilizes, wherever available, the credit ratings assigned by the SBP recognized ECAIs, viz. PACRA (Pakistan Credit Rating Agency), JCR-VIS (Japan Credit Rating Company- Vital Information Systems), Fitch, Moody's and Standard & Poors. Credit rating data for financing is obtained from recognized External Credit Assessment Institutions and then mapped to State Bank of Pakistan's Rating Grades.

Type of Exposures for which the ratings from the External Credit Rating Agencies are used by the Bank.

Exposures	JCR-VIS	PACRA	Other (S&P / Moody's / Fitch)
Corporate	Yes	Yes	-
Banks	Yes	Yes	Yes
Sovereigns	-	-	Yes
SME's	Yes	Yes	-

The criteria for transfer of public issue ratings onto comparable assets in the banking book and the alignment of the alphanumerical scale of each agency used with risk buckets is the same as specified by the banking regulator SBP in BSD Circular No.8 table 2.3 dated June 27, 2008.

Long - Term Ratings Grades Mapping

SBP Rating Grade	PACRA	JCR-VIS	Fitch	Moody's	S&P	ECA Scores
1	AAA AA+ AA AA-	AAA AA+ AA AA-	AAA AA+ AA AA-	Aaa Aa1 Aa2 Aa3	AAA AA+ AA AA-	1
2	A+ A A-	A+ A A-	A+ A A-	A1 A2 A3	A+ A A-	2
3	BBB+ BBB BBB-	BBB+ BBB BBB-	BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-	3
4	BB+ BB BB-	BB+ BB BB-	BB+ BB BB-	Ba1 Ba2 Ba3	BB+ BB BB-	4
5	B+ B B-	B+ B B-	B+ B B-	B1 B2 B3	B+ B B-	5,6
6	CCC+ and below	CCC+ and below	CCC+ and below	Caa1 and Below	CCC+ and below	7

Short - Term Ratings Grades Mapping

SBP Rating Grade	PACRA	JCR-VIS	Fitch	Moody's	S&P
S1	A-1	A-1	F1	P-1	A-1+, A-1
S2	A-2	A-2	F2	P-2	A-2
S3	A-3	A-3	F3	P-3	A-3
S4	Others	Others	Others	Others	Others

Credit Exposures subject to Standardized approach

2016				
Exposures	Rating	Amount Outstanding	Deduction CRM	Net amount
Rupees in thousands				
Corporate	1	2,053,360		2,053,360
	2	1,096,611		1,096,611
	3,4	-		-
	5,6	-		-
	Unrated	13,447,997		13,447,997
Bank	1	2,627,233		2,627,233
	2	145,571		145,571
	3,4			
	5,6			
	Unrated			
Public Sector Entities in Pakistan	1			
	2			
	3,4			
	5,6			
	Unrated	393,198		393,198

2016 (continue ...)

Exposures	Rating	Amount Outstanding	Deduction CRM	Net amount
Rupees in thousands				
Sovereigns and on Government of Pakistan or provincial governments or SBP or Cash	1	1,497,678		1,497,678
	2			
	3,4			
	5,6			
	Unrated			
Mortgage		324,783		324,783
Retail		52,866		52,866

2015 - Restated

Exposures	Rating	Amount Outstanding	Deduction CRM	Net amount
Rupees in thousands				
Corporate	1	1,153,544		1,153,544
	2	675,859		675,859
	3,4	-		-
	5,6	-		-
	Unrated	11,873,481		11,873,481
Bank	1	5,011,822		5,011,822
	2,3	1,300,000		1,300,000
	4,5	-		-
	6	-		-
	Unrated	70,708		70,708
Public Sector Entities in Pakistan	1	-		-
	2,3	-		-
	4,5	-		-
	6	-		-
	Unrated	-		-
Sovereigns and on Government of Pakistan or provincial governments or SBP or Cash	1	2,962,859		2,962,859
	2	-		-
	3	-		-
	4,5	-		-
	6	-		-
	Unrated	-		-
Mortgage		-		-
Retail		56,381		56,381
		2,078		2,078

41.1.3 Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardized Approach

The Bank does not make use of on and off-balance sheet netting in capital charge calculations under Base-II's Standardized Approach for Credit Risk.

41.1.3.1 Credit Risk: Disclosures for portfolio subject to the Standardized Approach

The Bank has strong policies and processes for collateral valuation and collateral management thus ensuring that collateral valuation happens at regular defined intervals. Collaterals are normally held for the life of exposure. Regular monitoring of coverage of exposure by the collateral and lien / charge registered over the collaterals is carried out besides ensuring that collateral matches the purpose, nature and structure of the transaction and also reflect the form and capacity of the obligor, its operations, nature of business and economic environment. The Bank mitigates its risk by taking collaterals that may include assets acquired through the funding provided, as well as cash, government securities, marketable securities, current assets, fixed assets, and specific equipment, commercial and personal real estate.

The Standardized Approach of Basel-II guidelines allows the Bank to take benefit of credit risk mitigation of financial collaterals against total exposures in the related financing facilities.

MCB Islamic Bank manages limits and controls concentrations of credit risk as identified, in particular, to individual counterparties and groups, and also reviews exposure to industry sectors and geographical regions on a regular basis. Limits are applied in a variety of forms to portfolios or sectors where MCB Islamic Bank considers it appropriate to restrict credit risk concentrations or areas of higher risk, or to control the rate of portfolio growth.

Concentration of risk

Credit concentration risk arises mainly due to concentration of exposures under various categories viz., industry, geography, and single / group borrower obligor. Within credit portfolio, as a prudential measure aimed at better risk management and avoidance of concentration of risks, the SBP has prescribed regulatory limits on banks' maximum exposure to single and group obligors. Within the SBP limits, the Bank has further defined limits to avoid excessive concentration of portfolio.

Equity position risk in the banking book

The Bank takes proprietary equity positions for both trading and strategic purposes. As of December 31, 2016 the composition of equity investments is as follows:

Composition of equity investments exposures

	Held for trading	Available for Sale
	Rupees In thousands	
Equity investments – publicly traded	-	1,096,829
Equity investments - others	-	-
Total value	-	1,096,829

Classification of equity Investments

Bank classifies its equity investment portfolio in accordance with the directives of SBP as follows:

- Investments - Held for trading
- Investments - Available for sale
- Investments in subsidiaries
- Investments in Associates

Policies, valuation and accounting of equity Investments

The accounting policies for equity investments are designed and their valuation is carried out under the provisions and directives of State Bank of Pakistan, Securities and Exchange Commission of Pakistan and the requirements of approved International Accounting Standards as applicable in Pakistan.

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than investments in subsidiaries and investments in associates are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the statement of financial position below equity. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account directly.

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 audited financial statements.

Unrealized loss (net of deferred tax) of Rs. 21.817 million was recognized in the balance sheet in respect of "AFS" equity securities.

41.2 Market Risk Management

Market Risk arises from changes in market rates such as Profit / Yield Rates, Foreign Exchange Rates, Equity Prices, and/or commodity prices as well as their correlations and volatilities resulting in a loss to earnings and capital. MCB Islamic Bank is exposed to market risk primarily through its trading activities, which are centered in the Treasury and Capital Market Group.

The Bank's Market Risk Management structure consists of Risk Management & Portfolio Review Committee (RM&PRC) of the Board, Management Finance Committee of management, ALCO, Investment Committee and independent Market Risk Management Division reporting directly to Group Head Risk Management. Market Risk is an independent risk management function that works in close partnership with the business segments to identify and monitor market risks throughout the Bank and to define market risk policies and procedures. Market Risk seeks to facilitate efficient risk/return decisions, reduce volatility in operating performance and provide transparency into the Bank's market risk profile for senior management, the Board of Directors and regulators. Market risk authority, including both approval of market risk limits and approval of market risks is vested in the ALCO.

In line with regulatory requirements, MCB Islamic Bank has clearly defined, in its Risk Management policy, the positions which shall be subject to market risk. The definition covers the accounting classifications as well as positions booked by different business groups under "Available for Sale" category. The assets subject to trading book treatment are frequently, mostly on daily basis, valued and actively managed. The positions which does not fulfill the criteria of Trading book falls under the Banking Book and are treated as per SBP requirements.

The Bank measures and manages Market Risk by using conventional methods i.e. notional amounts, sensitivity and combinations of various limits. Bank has established a specific Market Risk Limit Policy providing guideline for assuming controlled market risk, its monitoring and management. These limits are compared with the numbers generated by the market risk management systems based on the trading activity and the outstanding positions.

Beside conventional methods, the Bank also uses VaR (Value at Risk) technique for market risk assessment of positions assumed by its treasury and capital market groups. In-house based solutions are used for calculating mark to market value of positions and generating VaR (value at risk) and sensitivity numbers. Thresholds for different positions are established to compare the expected losses at a given confidence level and over a specified time horizon.

A framework of stress testing, scenario analysis and reverse stress tests of both banking and trading books as per SBP guidelines is also in place. The results of the stress tests are reviewed by senior management and also reported to the SBP.

41.2.1 Foreign Exchange Risk Management

Foreign exchange risk exposes the bank to changes in the values of current holdings and future cash flows denominated in currencies other than home currency due to the exchange rate fluctuation and volatility. The types of instruments exposed to this risk include foreign currency-denominated financing, foreign currency-denominated deposits, future cash flows in foreign currencies arising from foreign exchange transactions, etc.

The core objective of foreign exchange risk management is to ensure the foreign exchange exposure of the Bank remain within defined risk appetite and insulate the Bank against undue losses that may arise due to volatile movements in foreign exchange rates or profit rates.

December 31, 2016				
Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure	
Rupees in thousands				
Pakistan Rupee	28,057,376	18,035,970	-	10,021,406
United States Dollar	350,903	218,822	-	132,081
Great Britain Pound	59,155	21,156	-	37,999
Euro	81,288	26,618	-	54,670
U.A.E Dirham	1,682	-	-	1,682
Swiss Franc	7,108	-	-	7,108
Japanese Yen	10,990	63	-	10,927
Total foreign currency exposure	511,126	266,659	-	244,467
Total currency exposure	28,568,502	18,302,629	-	10,265,873

December 31, 2015 - Restated				
Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure	
Rupees in thousands				
Pakistan Rupee	26,655,682	16,586,202	-	10,069,480
United States Dollar	223,438	284,720	-	(61,282)
Great Britain Pound	4,053	10,070	-	(6,017)
Euro	4,368	23,797	-	(19,429)
U.A.E Dirham	-	-	-	-
Swiss Franc	-	-	-	-
Japanese Yen	-	-	-	-
Total foreign currency exposure	231,859	318,587	-	(86,728)
Total currency exposure	26,887,541	16,904,789	-	9,982,752

41.2.2 Equity Price Risk

Bank's proprietary positions in the equity instruments expose it to the equity price risk in its trading and banking books. Equity price risk is managed by applying trading limit, scrip-wise and portfolio wise nominal limits. VaR analysis and stress testing of the equity portfolio are also performed and reported to senior management on daily basis. The stress test for equity price risk assesses the impact of the fall in the stock market index using internal based assumptions. In addition to this Stress Testing and historical scenario analysis on Equities are also performed periodically as advised by the State Bank of Pakistan through Guideline on Stress Testing.

41.2.3 Country Risk

The world is changing rapidly and interdependencies and inter linkages of banks operating in different countries are ever increasing. Thus banks having cross border exposures whether on-balance sheet or off-balance sheet are susceptible to the changing conditions in various countries of the world. Therefore, it becomes very important for institutions to effectively manage its cross border exposures to avoid any unfavorable situation.

MCB Islamic Bank understands the risks involved in taking cross border exposure and to cater it; Country Risk Policy, in line with SBP guidelines, is already in place.

Country Exposure Limits are in place, which broadly capture direct exposure on sovereigns.

41.3 Mismatch of Yield Rate Sensitive Assets and Liabilities

Yield rate sensitivity position for on-balance sheet instruments is based on the earlier of contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date.

2016												
Effective yield / profit rate	Total	Exposed to yield / profit risk								Non-profit bearing financial instruments		
		Upton 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 thousands										
On-balance sheet financial instruments												
Financial assets												
Cash and balances with treasury banks		1,509,804	-	-	-	-	-	-	-	-	-	1,509,804
Balances with other banks	0.6% to 5.64%	2,750,998	2,316,562	-	-	-	-	-	-	-	-	434,436
Investments - net	3.98% to 7.2%	5,769,675	-	-	1,920,576	14,434	592,341	85,992	432,733	1,660,335	-	1,063,264
Islamic financing and related assets - net	2.5% to 14.45%	16,172,727	2,360,272	2,641,104	8,407,181	2,390,166	-	-	-	-	-	374,004
Other assets		189,581	41,287	41,287	-	-	-	-	-	-	-	107,007
		26,392,785	4,718,121	2,682,391	10,327,757	2,404,600	592,341	85,992	432,733	1,660,335	-	3,488,515
Financial liabilities												
Bills payable		447,776	-	-	-	-	-	-	-	-	-	447,776
Due to financial institutions	2.08% to 5.30%	2,785,650	1,885,650	900,000	-	-	-	-	-	-	-	-
Deposits and other accounts		14,279,436	11,155,247	-	-	-	-	-	-	-	-	3,124,189
Other liabilities		749,243	-	-	-	-	-	-	-	-	-	749,243
		18,262,105	13,040,897	900,000	-	-	-	-	-	-	-	4,321,208
On-balance sheet gap												
		8,130,680	(8,322,776)	1,782,391	10,327,757	2,404,600	592,341	85,992	432,733	1,660,335	-	(832,693)
Off-balance sheet financial instruments												
Forward exchange contracts - purchase		-	-	-	-	-	-	-	-	-	-	-
Forward exchange contracts - sale		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap												
		-	-	-	-	-	-	-	-	-	-	-
Total yield / profit risk sensitivity gap												
		(8,322,776)	1,782,391	10,327,757	2,404,600	592,341	85,992	432,733	1,660,335	-	-	-
Cumulative yield / profit risk sensitivity gap												
		(8,322,776)	(6,540,385)	3,787,372	6,191,972	6,784,313	6,870,305	7,303,038	8,963,373	8,963,373	-	-

2015 - Restated												
Effective yield / profit rate	Total	Exposed to yield / profit risk								Non-profit bearing financial instruments		
		Upton 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 thousands										
On-balance sheet financial instruments												
Financial assets												
Cash and balances with treasury banks		698,123	-	-	-	-	-	-	-	-	-	698,123
Balances with other banks	2.60% to 6.90%	6,347,459	3,976,751	2,300,000	-	-	-	-	-	-	-	70,708
Investments - net	4.36% to 8.34%	5,995,470	-	18,621	5,996	2,270,731	2,050,493	241,993	483,985	299,492	-	624,159
Islamic financing and related assets - net	3.0% to 14.16%	12,473,797	3,299,950	1,946,983	5,019,991	2,051,151	-	83,088	-	-	-	72,634
Other assets		138,806	33,067	33,066	-	-	-	-	-	-	-	72,673
		25,653,655	7,309,768	4,298,670	5,025,987	4,321,882	2,050,493	325,081	483,985	299,492	-	1,538,297
Financial liabilities												
Bills payable		89,864	-	-	-	-	-	-	-	-	-	89,864
Due to financial institutions	1.25% to 3.80%	631,520	631,520	-	-	-	-	-	-	-	-	-
Deposits and other accounts		9,450,072	7,489,833	-	-	-	-	-	-	-	-	1,960,239
Other liabilities		6,733,333	-	-	-	-	-	-	-	-	-	6,733,333
		16,904,789	8,121,353	-	-	-	-	-	-	-	-	8,783,436
On-balance sheet gap												
		8,748,866	(811,585)	4,298,670	5,025,987	4,321,882	2,050,493	325,081	483,985	299,492	-	(7,245,139)
Off-balance sheet financial instruments												
Forward exchange contracts - purchase		-	-	-	-	-	-	-	-	-	-	-
Forward exchange contracts - sale		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap												
		-	-	-	-	-	-	-	-	-	-	-
Total yield / profit risk sensitivity gap												
		(811,585)	4,298,670	5,025,987	4,321,882	2,050,493	325,081	483,985	299,492	-	-	-
Cumulative yield / profit risk sensitivity gap												
		(811,585)	3,487,085	8,513,072	12,834,954	14,885,447	15,210,528	15,694,513	15,994,005	15,994,005	-	-

41.3.1 Reconciliation of assets and liabilities exposed to yield / profit rate risk with total assets and liabilities

	2016	Restated 2015
Rupees in thousands		
Total financial assets as per note 41.3	26,392,785	25,653,655
Add: Non financial assets		
Operating fixed assets	2,104,250	1,192,382
Deferred tax assets	-	9,388
Other assets	71,467	32,116
Total assets as per Statement of Financial Position	28,568,502	26,887,541
Total financial liabilities as per note 41.3	18,262,105	16,904,789
Add: Non financial liabilities		
Deferred tax liability	40,524	-
Total liabilities as per Statement of Financial Position	18,302,629	16,904,789

41.4 Liquidity Risk

Liquidity risk is the potential for loss to the Bank arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring an unacceptable cost. The Bank's Board of Directors sets Bank's policy for managing liquidity risk and entrusts accountability for supervision of the implementation of this strategy to senior management. Senior management exercises its responsibilities for managing market & liquidity risk through various committees including the Asset & Liability Management Committee (ALCO). Treasury department manages the Bank's liquidity position on a daily basis. The Bank's main approach of managing the liquidity risk is to make certain that it will always have adequate liquidity to meet its liabilities when they are due in normal and stressed scenarios without incurring any untoward expenditure or risking reputational harm. ALCO monitors the maintenance of liquidity ratios, depositor's concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual deposits. Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

41.4.1 Maturities of assets and liabilities

41.4.1.1 Maturities of assets and liabilities based on expected maturities

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 thousands										
Assets										
Cash and balances with treasury banks	1,509,804	1,509,804	-	-	-	-	-	-	-	-
Balances with other banks	2,750,998	2,750,998	-	-	-	-	-	-	-	-
Due from financial institutions	-	-	-	-	-	-	-	-	-	-
Investments - net	5,769,675	148,857	85,061	2,005,637	78,229	689,554	183,205	627,158	1,854,761	97,213
Islamic financing and related assets - net	16,172,727	1,143,200	2,238,250	4,402,986	3,458,470	1,836,273	1,442,976	1,053,849	301,573	295,150
Operating fixed assets	2,104,250	7,349	14,858	23,925	59,615	207,140	201,483	355,955	261,439	972,486
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	-
Other assets	261,048	31,375	36,295	41,989	50,958	23,131	19,325	19,325	19,325	19,325
	28,568,502	5,591,583	2,374,464	6,474,537	3,647,272	2,756,098	1,846,989	2,056,287	2,437,098	1,384,174
Liabilities										
Bills payable	447,776	447,776	-	-	-	-	-	-	-	-
Due to financial institutions	2,785,650	1,500,000	964,800	320,850	-	-	-	-	-	-
Deposits and other accounts	14,279,436	4,872,750	1,043,874	516,964	2,124,852	1,162,623	1,139,389	2,279,593	569,695	569,696
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liability - net	40,524	-	-	-	-	40,524	-	-	-	-
Other liabilities	749,243	83,249	83,249	83,249	83,249	83,249	83,250	83,250	83,249	83,249
	18,302,629	6,903,775	2,091,923	921,063	2,208,101	1,286,396	1,222,639	2,362,843	652,944	652,945
	10,265,873	(1,312,192)	282,541	5,553,474	1,439,171	1,469,702	624,350	(306,556)	1,784,154	731,229
Net assets										
Share capital	10,000,000									
Reserves	26,444									
Unappropriated profit	68,087									
Surplus on revaluation of assets - net of tax	171,342									
	10,265,873									
2015 - Restated										
Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
Rupees in thousands										
Assets										
Cash and balances with treasury banks	698,123	698,123	-	-	-	-	-	-	-	-
Balances with other banks	6,347,459	4,047,459	2,300,000	-	-	-	-	-	-	-
Due from financial institutions	-	-	-	-	-	-	-	-	-	-
Investments - net	5,995,470	642,780	-	5,995	2,270,731	2,050,493	241,993	483,985	299,493	-
Islamic financing and related assets - net	12,473,797	63,592	397,385	3,439,027	4,606,809	977,018	630,467	2,296,692	23,896	38,911
Operating fixed assets	1,192,382	5,215	10,426	15,633	32,851	82,631	87,488	116,819	95,501	745,818
Deferred tax assets - net	9,388	-	-	-	-	-	-	-	-	-
Other assets	170,922	44,823	42,381	33,073	50,645	-	-	-	-	-
	26,887,541	5,501,992	2,750,192	3,493,728	6,970,424	3,110,142	959,948	2,897,496	418,890	784,729
Liabilities										
Bills payable	89,864	89,864	-	-	-	-	-	-	-	-
Due to financial institutions	631,520	15,000	371,970	244,550	-	-	-	-	-	-
Deposits and other accounts	9,450,072	6,114,025	1,294,393	698,089	1,317,053	26,512	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liability - net	-	-	-	-	-	-	-	-	-	-
Other liabilities	6,733,333	52,262	113,954	6,308,833	156,646	25,443	15,710	59,015	501	969
	16,904,789	6,271,151	1,780,317	7,251,472	1,473,699	51,955	15,710	59,015	501	969
	9,982,752	(769,159)	969,875	(3,757,744)	5,496,725	3,058,187	944,238	2,838,481	418,389	783,760
Net assets										
Share capital	10,000,000									
Reserves	10,461									
Accumulated loss	4,153									
Deficit on revaluation of assets - net of tax	(31,862)									
	9,982,752									
2015 - Restated										
Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
Rupees in thousands										
Assets										
Cash and balances with treasury banks	698,123	698,123	-	-	-	-	-	-	-	-
Balances with other banks	6,347,459	4,047,459	2,300,000	-	-	-	-	-	-	-
Due from financial institutions	-	-	-	-	-	-	-	-	-	-
Investments - net	5,995,470	106,004	49,933	55,930	2,308,181	2,130,385	321,885	563,877	379,385	79,890
Islamic financing and related assets - net	12,473,797	63,592	397,385	3,439,027	4,606,809	977,018	630,467	2,296,692	23,896	38,911
Operating fixed assets	1,192,382	5,215	10,426	15,633	32,851	82,631	87,488	116,819	95,501	745,818
Deferred tax assets - net	9,388	-	-	-	-	-	-	-	-	-
Other assets	170,922	44,823	42,381	33,073	50,645	-	-	-	-	-
	26,887,541	4,965,216	2,800,125	3,543,663	7,007,874	3,190,034	1,039,840	2,977,388	498,782	864,619
Liabilities										
Bills payable	89,864	89,864	-	-	-	-	-	-	-	-
Due to financial institutions	631,520	15,000	371,970	244,550	-	-	-	-	-	-
Deposits and other accounts	9,450,072	2,214,663	1,294,394	698,089	1,317,053	806,386	779,872	1,559,744	389,936	389,935
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liability - net	-	-	-	-	-	-	-	-	-	-
Other liabilities	6,733,333	52,262	113,954	6,308,833	156,646	25,443	15,710	59,015	501	969
	16,904,789	2,371,789	1,780,318	7,251,472	1,473,699	831,829	795,582	1,618,759	390,437	390,904
	9,982,752	2,593,427	1,019,807	(3,707,809)	5,534,175	2,358,205	244,258	1,358,629	108,345	473,715
Net assets										
Share capital	10,000,000									
Reserves	10,461									
Accumulated loss	4,153									
Deficit on revaluation of assets - net of tax	(31,862)									
	9,982,752									

Liquidity Gap Reporting

Regarding behaviour of non-maturity deposits (non-contractual deposits), the Bank conducted a behavioural study using volatility methodology. On the basis of its findings 32% of current accounts and saving accounts are bucketed into Upto 1- year maturity while 68% of current accounts saving accounts are bucketed in over 1 year maturity.

41.4.1.2 Maturities of assets and liabilities based on contractual maturities

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 thousands										
Assets										
Cash and balances with treasury banks	1,509,804	1,509,804	-	-	-	-	-	-	-	-
Balances with other banks	2,750,998	2,750,998	-	-	-	-	-	-	-	-
Due from financial institutions	-	-	-	-	-	-	-	-	-	-
Investments - net	5,769,675	1,063,265	-	1,920,576	14,433	592,341	85,992	432,733	1,660,335	-
Islamic financing and related assets - net	16,172,727	1,143,200	2,238,250	4,402,986	3,458,470	1,836,273	1,442,976	1,053,849	301,573	295,150
Operating fixed assets	2,104,250	7,349	14,858	23,925	59,615	207,140	201,483	355,955	261,439	972,486
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	261,048	31,375	36,295	41,989	50,958	23,131	19,325	19,325	19,325	19,325
	28,568,502	6,505,991	2,289,403	6,389,476	3,583,476	2,658,885	1,749,776	1,861,862	2,242,672	1,286,961
Liabilities										
Bills payable	447,776	447,776	-	-	-	-	-	-	-	-
Due to financial institutions	2,785,650	1,500,000	964,800	320,850	-	-	-	-	-	-
Deposits and other accounts	14,279,436	10,569,698	1,043,874	516,964	2,124,852	23,234	814	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liability - net	40,524	-	-	-	-	40,524	-	-	-	-
Other liabilities	749,243	83,249	83,249	83,249	83,249	83,249	83,250	83,250	83,249	83,249
	18,302,629	12,600,723	2,091,923	921,063	2,208,101	147,007	84,064	83,250	83,249	83,249
	10,265,873	(6,094,732)	197,480	5,468,413	1,375,375	2,511,878	1,665,712	1,778,612	2,159,423	1,203,712
Net assets										
Share capital	10,000,000									
Reserves	26,444									
Unappropriated profit	68,087									
Surplus on revaluation of assets - net of tax	171,342									
	10,265,873									
2015 - Restated										
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Rupees in thousands										
Assets										
Cash and balances with treasury banks	698,123	698,123	-	-	-	-	-	-	-	-
Balances with other banks	6,347,459	4,047,459	2,300,000	-	-	-	-	-	-	-
Due from financial institutions	-	-	-	-	-	-	-	-	-	-
Investments - net	5,995,470	642,780	-	5,995	2,270,731	2,050,493	241,993	483,985	299,493	-
Islamic financing and related assets - net	12,473,797	63,592	397,385	3,439,027	4,606,809	977,018	630,467	2,296,692	23,896	38,911
Operating fixed assets	1,192,382	5,215	10,426	15,633	32,851	82,631	87,488	116,819	95,501	745,818
Deferred tax assets	9,388	-	-	-	9,388	-	-	-	-	-
Other assets	170,922	44,823	42,381	33,073	50,645	-	-	-	-	-
	26,887,541	5,501,992	2,750,192	3,493,728	6,970,424	3,110,142	959,948	2,897,496	418,890	784,729
Liabilities										
Bills payable	89,864	89,864	-	-	-	-	-	-	-	-
Due to financial institutions	631,520	15,000	371,970	244,550	-	-	-	-	-	-
Deposits and other accounts	9,450,072	6,114,025	1,294,393	698,089	1,317,053	26,512	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liability - net	-	-	-	-	-	-	-	-	-	-
Other liabilities	6,733,333	52,262	113,954	6,308,833	156,646	25,443	15,710	59,015	501	969
	16,904,789	6,271,151	1,780,317	7,251,472	1,473,699	51,955	15,710	59,015	501	969
	9,982,752	(769,159)	969,875	(3,757,744)	5,496,725	3,058,187	944,238	2,838,481	418,389	783,760
Net assets										
Share capital	10,000,000									
Reserves	10,461									
Accumulated loss	4,153									
Deficit on revaluation of assets - net of tax	(31,862)									
	9,982,752									

42 PROFIT / (LOSS) DISTRIBUTION TO DEPOSITORS' AND SPECIFIC POOLS

42.1 The Bank is maintaining the following types of pools for profit declaration and distribution:

- 1) General Pool
- 2) IERS Musharaka Pool
- 3) Treasury Musharaka / Mudaraba Pools
- 4) Equity Pool

Features, risks and rewards of each pool are given below:

1) General Pool

The Bank manages one general pool for its depositors' (Rabbul Mal) maintaining deposits in both local and foreign currencies and also commingled its equity in this pool. The income (gross income less direct expenses) generated from the pool is distributed between Bank's equity and depositors' fund in proportion to their respective share in the pool. Under the Mudaraba mechanism, the income so distributed to depositors' fund is shared between the Bank (Mudarib) and depositors' (Rabbul Mal) according to the pre-agreed profit sharing ratios and assigned weightages.

The deposits and funds accepted under the General Pool are deployed to diversified sectors and avenues of the economy / business mainly to 'Agriculture, forestry & fishing', 'Textile & Allied', 'Food & Allied', 'Distribution & Trade', 'Investment in Government of Pakistan Ijarah Sukuk', etc.

Parameters associated with risk and rewards

Following are the consideration attached with risk and reward of general pool:

- Period, return, safety, security and liquidity of investment.
- Financing proposals under process at various stages and likely to be extended in the near future.
- Expected amount of procurement of deposit during coming days as a result of concerted marketing efforts of the Bank.
- Element of risk attached to various types of investments.
- SBP rules and Shari'ah clearance.

2) Islamic Export Refinance Scheme (IERS) Musharaka Pool

The Bank manages IERS Musharaka Pool for funds accepted from SBP under IERS. Under the PLS mechanism, the Bank generates revenues from the pool funds which are shared with the SBP according to the pre-agreed profit sharing ratios. Musharaka investments from the SBP under IERS are channeled towards the export sector of the economy and other financings as per SBP guidelines.

3) Treasury Musharaka / Mudaraba Pools

The Bank accepts funds from other banks to manage its liquidity under Musharaka / Mudaraba mode. The funds accepted are tagged to remunerative assets having maturity on or after the period for which funds are accepted. The revenue generated from the pool asset is shared between the bank and other member of the pool according to pre-agreed profit sharing ratios or assigned weightages accordingly.

4) Equity Pool

The Equity Pool consists of Bank's equity and funds accepted on Qard (non-remunerative current deposit account) basis. The funds of this pool are invested in various assets or ventures which are higher in risk or having longer funding period. In addition to that all staff financings are financed by this pool. The risk of assets in the pool is borne by the Bank.

Charging of expenses

Direct expenses are being charged to respective pools, while indirect expenses such as general and administrative expenses are being borne by the Bank as Mudarib. No provision expense is charged to the pool unless it is written off. The direct expenses charged to the pool may include depreciation of Ijarah assets, premium amortization on Sukuk, impairment losses due to physical damages to specific assets in pools etc. However, this is not an exhaustive list; the Bank's pool management framework and the respective pool creation memo may identify and specify these and any other similar expenses to be charged to the pool.

42.2 Following are the detail of profit distribution among different pool maintained by the Bank:

2016							
General Pool	Profit Rate & weightage announcement period	Profit Rate Earned	Profit Sharing Ratio of Mudarib	Mudarib Fee	Profit Rate return distributed	General Hiba	Amount of General Hiba
		%	%	Rs. in thousands	%		Rs. in thousands

General Pool	Monthly	6.69%	50%	382,862	3.89%	14%	54,230
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General Pool	Profit Rate & weightage announcement period	Profit Rate Earned	Profit Sharing Ratio of Mudarib	Mudarib Fee	Profit Rate return distributed	General Hiba	Amount of General Hiba
		%	%	Rs. in thousands	%		Rs. in thousands

Islamic Export Refinance (IERS)	Monthly	5.58%			3.04%		
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Treasury Musharaka/ Mudaraba Pool	As required	6.85%			5.72%		
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Equity Pool	Monthly	17.91%					
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2015 - Restated							
General Pool	Profit Rate & weightage announcement period	Profit Rate Earned	Profit Sharing Ratio of Mudarib	Mudarib Fee	Profit Rate return distributed	General Hiba	Amount of General Hiba
		%	%	Rs. in thousands	%		Rs. in thousands

General Pool	Monthly	6.27%	50%	71,176	3.68%	48%	34,298
--------------	---------	-------	-----	--------	-------	-----	--------

General Pool	Profit Rate & weightage announcement period	Profit Rate Earned	Profit Sharing Ratio of Mudarib	Mudarib Fee	Profit Rate return distributed	General Hiba	Amount of General Hiba
		%	%	Rs. in thousands	%		Rs. in thousands


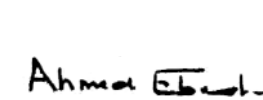

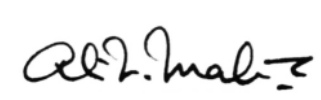
Islamic Export Refinance (IERS)	Monthly	6.66%			4.40%		
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Treasury Musharaka/ Mudaraba Pool	As required	6.49%	45.28%	27,389	3.55%	1%	345
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Equity Pool	Monthly	7.68%					
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43 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 06, 2017 by the Board of Directors of the Bank.

			
RAZA MANSHA CHAIRMAN	AHMED EBRAHIM HASHAM DIRECTOR	OMAIR SAFDAR DIRECTOR	ALI MUHAMMAD MAHOON PRESIDENT / CEO

Annexure - I

Summarized detail of the valuation of owned properties (refer note 11.2.1)

City	Land	Building	Total
	Rupees in thousands		
Faisalabad	156,253	21,556	177,809
Hyderabad	29,700	15,750	45,450
Karachi	74,997	178,000	252,997
Lahore	252,010	90,462	342,472
Rawalpindi	87,045	5,985	93,030
Grand Total	600,005	311,753	911,758

BRANCH NETWORK

PUNJAB

Peoples Colony	Faisalabad
Kotwali Road	Faisalabad
Sharif Pura Chowk, GT Road	Gujranwala
Bhimber Road	Gujrat
Jinnah Avenue, Blue Area	Islamabad
F-10 Markaz	Islamabad
G-11 Markaz	Islamabad
Quaidabad	Khushab
Liberty Market	Lahore
Z block DHA	Lahore
Shah Alam Market	Lahore
Allama Iqbal Town	Lahore
Maulana Shaukat Ali Road, Johar Town	Lahore
58 Main Gulberg	Lahore
Shan Arcade, New Garden Town	Lahore
Cavalry Ground	Lahore
Off Rawind Road, Dream Gardens	Lahore
Opposite Expo Centre, Johar Town	Lahore
PIA Housing Society	Lahore
Shah Rukh-e-Alam Colony	Multan
Nawan Shehar	Multan
Shahi Road	Rahim Yar Khan
Bank Road	Rawalpindi
Satellite Town	Rawalpindi
Chaklala Scheme III	Rawalpindi
Farid Town	Sahiwal
Club Road	Sargodha
Lahore-Sheikhupura Road	Sheikhupura
Mall Godam Road	Toba Tek Sing

SINDH

Thandi Sarak	Hyderabad
Main Saddar Bazar	Hyderabad
Latifabad	Hyderabad
Shahrah-e-Faisal	Karachi
Rashid Minhas Road	Karachi
Khayaban-e-Shamsheer	Karachi
M.A. Jinnah Road	Karachi
S.I.T.E.	Karachi
Khalid-Bin-Waleed Road	Karachi
Korangi Industrial Area	Karachi
North Nazimabad	Karachi
Dhooraji	Karachi
F.B Industrial Area	Karachi
Gulshan-e-Iqbal	Karachi
Abdullah Haroon Road, Saddar	Karachi
Anaj Mandi Road	Larkana
Masjid Road	Nawabshah
Station Road	Sukkur
Hyderabad Road	Tando Adam
Hyderabad Road	Tando Allahyar

BALOUCHISTAN

Taj Road	Chaman
Airport Road	Gawadar
Tehsil Road	Loralai
Band Road	Pishin
M.A Jinnah Road	Quetta
Hazara Town	Quetta
Sirki Road	Quetta
Main Road	Turbat
Tehsil Road	Zhob

KHYBER PAKHTUNKHWA

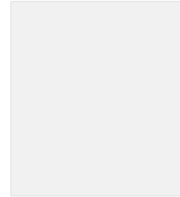
Pak Haider Market, GT Road	Batkhela
Shamsi Road	Mardan
Main Bazar	Mingora
Tasneem Plaza	Peshawar
Karkhano Market	Peshawar
Matta	Sawat
Kabal	Sawat
Zeb Plaza Balambat Road	Timergara

FORM OF PROXY

MCB Islamic Bank Limited

I/We _____ of _____ being member(s) of **MCB Islamic Bank Limited** ("the Company"), holding _____ Ordinary shares, do hereby appoint _____ of _____ or _____ of _____, who is also Member of the Company, as my / our proxy to vote for me / us, and on my / our behalf at the Annual General Meeting of the Company to be held on Monday, March 27, 2017 at 10:00 AM at MCB House, 15-D, Main Gulberg, Lahore and at any adjournment thereof.

As witness my/our hand this _____ day of _____, 2017.



Member's signature on
Rs. 5/- Revenue Stamp

Witness No. 1: _____
Name : _____
C.N.I.C. No./Passport No: _____
Address: _____

Witness No. 2: _____
Name : _____
C.N.I.C. No./Passport No: _____
Address: _____

NOTES

A General:

- 1 A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote for him/her. No person shall act as a proxy, who is not a member of the Company, except corporate entity which can may appoint a person who is not a member.
- 2 The instrument appointing a proxy should be signed by the member or his/her attorney duly authorized in writing. If the member is a corporate entity, its common seal should be affixed on the instrument.
- 3 The instrument appointing a proxy, together with Power of Attorney, if any, under which it is signed or a notarially certified copy thereof, should be deposited, with the Company Secretary, MCB Islamic Bank Limited, 339, Z Block, DHA Phase III, Lahore not less than 48 hours before the time of holding the meeting.
- 4 If a member appoints more than one proxy, and more than one instrument of proxy is deposited by a member, all such instruments of proxy shall be rendered invalid.

The Company Secretary
MCB Islamic Bank Limited
339- Z Block, DHA Phase III,
Lahore

پروکسی (نمائندگی/جانشینی) فارم

مسلم کمرشل بینک اسلامک بینک لمیٹڈ

میں / ہم _____ کو _____ بطور ایک ممبر مسلم کمرشل بینک

"اسلامک بینک لمیٹڈ" (دی کمپنی) حامل _____

کی جانب سے عارضی حصص کے لیے _____

اس مرد / عورت کو _____ کو مقرر کرتے ہیں جو کہ میرے / ہماری

پروکسی جو کہ میری / ہماری جانب سے، اور یا ہمارے ایما پر غیر معمولی طور پر ووٹ کے حق کو استعمال کریگا۔ کمپنی کی عمومی میٹنگ بروز سوموار

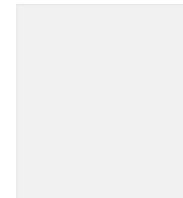
بتاریخ 27 مارچ 2017 کو بوقت 10:00 بجے صبح بر مقام مسلم کمرشل بینک ہاؤس 15-D مین گلبرگ لاہور میں منعقد ہوگی اور اس میٹنگ کو

کسی بھی غیر معینہ مدت تک التوا کیا سکتا ہے۔

جیسا کہ اس فارم کو بطور میری / ہمارے گواہی کے طور پر آج مورخہ _____ 2017، ممبر کیا گیا ہے۔

مذکورہ بالا ممبر کی طرف سے دستخط کیے گئے ہیں _____

پانچ روپے کا مالی ٹکٹ چسپاں کریں



گواہ نمبر 1 _____ گواہ نمبر 2 _____

گواہ کے دستخط _____ گواہ کے دستخط _____

نام _____ نام _____

پتہ _____ پتہ _____

شناختی کارڈ نمبر _____ شناختی کارڈ نمبر _____

نوٹ :-

A- عمومی :-

- 1- ایک ممبر جس کا تقرر بطور پراکسی کیا گیا ہوگا اس ممبر (مرد/عورت) کو استحقاق حاصل ہوگا کہ وہ میٹنگ میں شرکت کے ووٹ کا حق استعمال کرے۔ کوئی بھی ایسا فرد جو کمپنی کا ممبر نہ ہو اس فرد کو پراکسی کے حوالے کسی بھی فعل کی سرانجام دہی کرنے کا مجاز نہ ہوگا ماسوائے اس فرد جو کہ ممبر نہ ہو مگر ایسے فرد کا تقرر ادارے کے حوالے سے کیا جاسکتا ہو۔
- 2- پراکسی کے حوالے ایسی تمام دستاویز پر اس مرد/عورت کے دستخط کیے جائینگے جن کا تقرر پراکسی کی جانب سے تحریر طور پر کیا گیا ہوگا۔ اگر ایسا کوئی ممبر جو ادارہ کا استحقاق رکھتا ہو ایسے فرد (مرد/عورت) پراکسی کے حوالے تمام دستاویزات پر دستخط کرنے کا مجاز ہوگا۔
- 3- پراکسی کے حوالے سے کی گئی تقرر کی رو سے تمام دستاویزات جس میں شامل دستاویز مختار عام، اگر کوئی فرد مرد/عورت جو پراکسی کے حوالے سے دستاویزات اپنے دستخط یا قانونی تصدیق شدہ دستاویزات کا اہل ہے تو ایسا فرد (مرد/عورت) دستاویزات کو کمپنی سیکرٹری مسلم کمرشل بینک اسلامک بینک لمیٹڈ 339 زیڈ بلاک DHA فیئر-III لاہور کو میٹنگ شروع ہونے سے 48 گھنٹوں قبل جمع کروا سکتا ہے۔
- 4- اگر پراکسی کے حوالے سے ایک سے زائد ممبر کی تقرری کی جاتی ہے تو ایسی صورت میں اس ممبر کی بابت ایک دستاویز کو پراکسی کے حوالے سے تمام دستاویزات کے ساتھ جمع کروایا جائیگا بصورت دیگر تمام دستاویز غیر موزوں تصور کیا جائیگا۔

دی کمپنی سیکرٹری

مسلم کمرشل بینک اسلامک بینک لمیٹڈ

339- زیڈ بلاک DHA فیئر-III لاہور

