



MCB ISLAMIC BANK LIMITED

| CREDIT RATING | |
|---------------|-----|
| Long Term | A |
| Short Term | A-1 |
| by PACRA | |

FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2019

| Note | 2019 | 2018 |
|---|---------------------|-------------|
| | Rupees in thousands | |
| ASSETS | | |
| Cash and balances with treasury banks | 10,252,547 | 6,990,369 |
| Balances with other banks | 8,822,985 | 1,422,701 |
| Due from financial institutions | 5,851,664 | 4,675,000 |
| Investments - net | 16,309,800 | 12,713,954 |
| Islamic financing and related assets - net | 51,309,967 | 62,907,204 |
| Fixed assets | 5,779,772 | 2,552,600 |
| Intangible assets | 719,723 | 582,171 |
| Deferred tax assets - net | 921,017 | 751,085 |
| Other assets - net | 5,049,786 | 2,289,371 |
| | 105,017,261 | 94,894,435 |
| LIABILITIES | | |
| Bills payable | 973,627 | 1,303,992 |
| Due to financial institutions | 4,127,526 | 7,800,628 |
| Deposits and other accounts | 81,853,511 | 73,307,185 |
| Liabilities against assets subject to finance lease | - | - |
| Sub-ordinated debts | - | - |
| Deferred tax liabilities - net | - | - |
| Other liabilities | 7,595,796 | 2,413,116 |
| | 94,550,460 | 84,824,921 |
| NET ASSETS | 10,466,801 | 10,069,514 |
| REPRESENTED BY | | |
| Share capital | 11,550,000 | 11,200,000 |
| Reserves | 26,444 | 26,444 |
| Surplus on revaluation of assets - net of tax | 422,326 | 132,272 |
| Accumulated loss | (1,531,969) | (1,289,202) |
| | 10,466,801 | 10,069,514 |
| CONTINGENCIES AND COMMITMENTS | | |
| | | |

The annexed notes 1 to 45 form an integral part of these financial statements.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2019

| Note | 2019 | 2018 |
|---|---------------------|---------------|
| | Rupees in thousands | |
| Profit / return earned | 9,848,819 | 4,208,875 |
| Profit / return expensed | 5,855,061 | 2,304,950 |
| Net spread earned | 3,993,758 | 1,903,925 |
| OTHER INCOME | | |
| Fee and commission income | 294,491 | 162,245 |
| Dividend income | 75,383 | 58,031 |
| Foreign exchange income | 63,685 | 148,228 |
| (Loss) / gain on securities | (109,983) | 17,738 |
| Other income | 19,743 | 13,020 |
| Total other income | 343,319 | 399,262 |
| Total income | 4,337,077 | 2,303,187 |
| OTHER EXPENSES | | |
| Operating expenses | 4,478,636 | 3,083,172 |
| Workers welfare fund | - | - |
| Other charges | 24,386 | 4,582 |
| Total other expenses | 4,503,022 | 3,087,754 |
| Loss before provisions | (165,945) | (784,567) |
| Provisions and write offs - net | 199,814 | 895,646 |
| Extra ordinary / unusual items | - | - |
| LOSS BEFORE TAXATION | (365,759) | (1,680,213) |
| Taxation | (122,147) | (584,231) |
| LOSS AFTER TAXATION | (243,612) | (1,095,982) |
| | | Rupees |
| Basic and diluted loss per share - after tax | (0.217) | (0.967) |

The annexed notes 1 to 45 form an integral part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2019

| Note | 2019 | 2018 |
|---|---------------------|--------------|
| | Rupees in thousands | |
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Loss before taxation | (365,759) | (1,680,213) |
| Less: Dividend income | 75,383 | 58,031 |
| | (441,142) | (1,738,244) |
| Adjustments | | |
| Depreciation - Owned assets | 11.2 | 286,448 |
| Depreciation - Right of use of assets | 29 | 442,016 |
| Depreciation - Ijarah assets | 10.4.1 | 992,687 |
| Amortization | 12 | 111,650 |
| Unwinding of liability against right of use assets | 25 | 374,201 |
| Provision and written off - net | 31 | 199,814 |
| Unrealized loss / (gain) on forward exchange contracts - net | | 22,812 |
| Gain on sale of fixed assets - net | 28 | (161) |
| (Loss) / gain on sale of securities - net | 27 | 109,983 |
| | 2,539,450 | 1,563,839 |
| | 2,098,308 | (174,405) |
| (Increase) / decrease in operating assets | | |
| Due from financial institutions | (1,176,664) | (3,275,000) |
| Islamic financing and related assets | 10,582,005 | (32,156,158) |
| Other assets | (2,915,763) | (982,606) |
| | 6,489,578 | (36,413,766) |
| Increase / (decrease) in operating liabilities | | |
| Bills payable | (330,365) | (224,428) |
| Due to financial institutions | (3,591,233) | (208,031) |
| Deposits and other accounts | 8,546,326 | 18,698,051 |
| Other liabilities | 2,120,700 | 915,170 |
| | 6,745,428 | 19,180,762 |
| Net cash generated from / (used) in operating activities | 15,193,939 | (17,450,371) |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Net investments in available-for-sale securities | (9,934,368) | (3,427,344) |
| Net investments in held-to-maturity securities | (1,310,891) | (929,936) |
| Dividend received | 75,383 | 78,407 |
| Proceeds from scheme of merger | - | 22,214,180 |
| Proceeds from sale of securities | 7,609,162 | 480,324 |
| Investments in fixed assets | (476,164) | (522,121) |
| Proceeds from sale of fixed assets | 518 | 634 |
| Investments in intangible assets | (239,202) | (129,255) |
| Net cash (used in) / generated from investing activities | (4,275,562) | 17,764,889 |
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Proceeds from issue of share capital | 20 | 350,000 |
| Payment against ROU asset | (524,046) | - |
| Net cash generated from financing activities | (174,046) | 1,200,000 |
| Increase in cash and cash equivalents during the year | 10,744,331 | 1,514,518 |
| Cash and cash equivalents at the beginning of the year | 8,331,201 | 6,094,004 |
| Cash and cash equivalents acquired under scheme of merger | - | 722,679 |
| Cash and cash equivalents at the end of the year | 34 | 19,075,532 |
| | | 8,331,201 |

The annexed notes 1 to 45 form an integral part of these financial statements.

Syed Itfikhkar Hussain Rizvi
Chief Financial Officer

Muhtashim Ahmad Ashai
President / Chief Executive

Omar Safdar
Director

Dr. Khalid Zaheer
Director

Aftab Ahmad Khan
Director

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President / Chief Executive

Omar Safdar
Director

Dr. Khalid Zaheer
Director

Aftab Ahmad Khan
Director

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2019

| | 2019 | 2018 |
|--|---------------------|-------------|
| | Rupees in thousands | |
| Loss after taxation for the year | (243,612) | (1,095,982) |
| Other comprehensive income | | |
| Items that may be reclassified to profit and loss account in subsequent periods: | | |
| Movement in surplus / (deficit) on revaluation of investments | 247,001 | 514,950 |
| Related deferred tax asset / (liability) | (86,450) | (180,233) |
| | 160,551 | 334,717 |
| Items that will not be reclassified to profit and loss account in subsequent periods: | | |
| Movement in surplus on revaluation of operating fixed assets | 148,977 | - |
| Related deferred tax liability | (18,629) | - |
| | 130,348 | - |
| Total comprehensive income / (loss) | 47,287 | (761,265) |

The annexed notes 1 to 45 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2019

| | Share Capital | Statutory Reserve | Surplus / (deficit) on revaluation of | | | Total |
|---|---------------------|-------------------|---------------------------------------|--------------|------------------|-------------|
| | | | Investments | Fixed Assets | Accumulated Loss | |
| | Rupees in thousands | | | | | |
| Balance as at December 31, 2017 | 10,000,000 | 26,444 | (386,764) | 185,164 | (194,065) | 9,630,779 |
| - Restated | | | | | | |
| Loss after taxation for the year ended December 31, 2018 | - | - | - | - | (1,095,982) | (1,095,982) |
| Other comprehensive income - net of tax | - | - | 334,717 | - | - | 334,717 |
| Transfer from surplus on revaluation of fixed assets to unappropriated profit in respect of incremental depreciation - net of tax | - | - | 334,717 | - | (1,095,982) | (761,265) |
| Transactions with owners, recorded directly in equity | | | | | | |
| Issue of right shares | 1,200,000 | - | - | - | - | 1,200,000 |
| Balance as at December 31, 2018 | 11,200,000 | 26,444 | (52,047) | 184,319 | (1,289,202) | 10,069,514 |
| Loss after taxation for the year ended December 31, 2019 | - | - | - | - | (243,612) | (243,612) |
| Other comprehensive income - net of tax | - | - | 160,551 | 130,348 | - | 290,899 |
| Transfer from surplus on revaluation of fixed assets to unappropriated profit in respect of incremental depreciation - net of tax | - | - | 160,551 | 130,348 | (243,612) | 47,287 |
| Transactions with owners, recorded directly in equity | | | | | | |
| Issue of right shares | 350,000 | - | - | - | - | 350,000 |
| Balance as at December 31, 2019 | 11,550,000 | 26,444 | 108,504 | 313,822 | (1,531,969) | 10,466,801 |

The annexed notes 1 to 45 form an integral part of these financial statements.

NOTES TO AND FORMING PART OF THESE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

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 (repealed after the enactment of the Companies Act, 2017) 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, micro finance, investment and retail banking activities.

1.3 The Bank is operating through 185 branches in Pakistan (December 31, 2018: 176 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.

1.4 Pakistan Credit Rating Agency (PACRA) has maintained the Bank's medium to long-term rating as "A" and the short-term rating as "A-1" with positive outlook.

2 BASIS OF PRESENTATION

2.1 The Bank provides financing through Shari'ah compliant financing products mainly through Murabaha, Istisna, Salam, Ijarah, Diminishing Musharaka, Running Musharaka and Export Refinance under Islamic Export Refinance Scheme.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS

Opinion

We have audited the annexed financial statements of MCB Islamic Bank Limited ("the Bank"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit and loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, along with unaudited certified returns received from the branches except for 20 branches which have been audited by us and notes to the financial statements, including a summary of significant accounting policies and other explanatory information 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 the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the statement of profit and loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan, and, give the information required by the Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at 31 December 2019 and of the loss and other comprehensive loss, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the Financial Statements and Auditor's Report thereon
Management is responsible for the other information. The other information comprises the information included in the Bank's Annual Report but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan, the requirements of Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Board of directors is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are

considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion:

- proper books of account have been kept by the Bank as required by the Companies Act, 2017 (XIX of 2017) and the returns referred above from the branches have been found adequate for the purpose of our audit;
- the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
- investments made, expenditure incurred and guarantees extended during the year were in accordance with the objects and power of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank; and
- 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.

We confirm that for the purpose of our audit we have covered more than sixty per cent of the total loans and advances of the Bank.

The engagement partner on the audit resulting in this independent auditor's report is M. Rehan Chughtai.

Lahore
Date: 14 February 2020

KPMG Taseer Hadi & Co.
Chartered Accountants

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 in accordance with the format as prescribed by State Bank of Pakistan through BPRD Circular No.2 dated January 25, 2018.

3 STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards as applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Act, 2017;
- Provisions of and directives issued under the Banking Companies Ordinance, 1962 and the Companies Act, 2017; and
- Directives issued by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP).

Wherever the requirements of the Banking Companies Ordinance, 1962, Companies Act, 2017 or the directives issued by the SBP and the SECP differ with the requirements of IFRS or IFAS, requirements of the Banking Companies Ordinance, 1962, the Companies Act, 2017 and the said directives shall prevail.

The State Bank of Pakistan has deferred the applicability of IFAS 3 'Profit and Loss Sharing on Deposits', through BPRD Circular No.04 dated February 25, 2015, International Financial Reporting Standard 9, 'Financial Instruments' through BPRD Circular No. 04 of 2019 dated October 23, 2019 and International Accounting Standards 40, 'Investment Property' for Banking Companies through 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.

MCB ISLAMIC BANK LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

>>>>> Continued

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 periods beginning on or after January 1, 2020:

| | Effective date (annual periods beginning on or after) |
|---|---|
| IFRS 3, Business Combinations - (Amendments) | January 1, 2020 |
| IAS 1, Presentation of Financial Statements (Amendments) | January 1, 2020 |
| IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors (Amendments) | January 1, 2020 |

The SECP, through SRO 229(1)/2019 dated February 14, 2019, has notified that IFRS 9, Financial Instruments, is applicable for accounting periods ending on or after June 30, 2019. However, as per BPRD Circular No. 04 of 2019 dated October 23, 2019 of SBP, effective date of IFRS 9 implementation is January 01, 2021.

IFRS 9, Financial Instruments: Classification and Measurement, addresses recognition, classification, measurement and derecognition of financial assets and financial liabilities. The standard has also introduced a new impairment model for financial assets which requires recognition of impairment charge based on an 'expected credit losses' (ECL) approach rather than the 'incurred credit losses' approach as currently followed. The ECL approach has an impact on all assets of the Bank which are exposed to credit risk. The Bank is in the process of assessing the full impact of this standard.

There are other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2020 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 consolidated financial statements.

4 BASIS OF MEASUREMENT

4.1 These financial statements have been prepared under the historical cost convention, except that certain classes of fixed assets are stated at revalued amounts and 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 38 keeping in view the measurement requirements specified in note 3.1.

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

4.3 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 / profit 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.

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 5.5.2.

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 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.

f) Lease term

The Bank applies judgment to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Bank is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those of the previous financial year except for the changes explained in note 5 (a).

5(a) Change in accounting policy

IFRS 16 introduces an on balance sheet accounting model for long term Ijarahs (short-term and having underlying assets of low value continue to be treated as Ijarah of Musta'jir under IFRS 02). Musta'jir recognizes a right-of-use asset representing its right of using the underlying asset and a corresponding Ijarah liability representing its obligations to make Ujrah (lease) payments. However, accounting for Ijarah of Muj'ir (lessors) remains the same as required under IFRS 02 i.e. Muj'ir continue to present assets subject to Ijarah according to the nature of the asset, distinguished from the assets in own use.

The Bank has adopted IFRS 16 from January 1, 2019, and has not restated comparatives for the 2018 reporting period, using modified retrospective approach.

On adoption of IFRS 16, the Bank has recognised liabilities in respect of Ijarahs of Musta'jir which had previously been shown off-balance sheet. These liabilities were measured as the present value of the remaining Ijarah payments, discounted using the Bank's incremental borrowing rate. The associated right-of-use assets were measured at the amount equal to the Ijarah liability, adjusted by the amount of prepaid Ujrah payments recognised in the statement of financial position immediately before the date of initial application.

The Ijarah liability is subsequently measured at amortized cost using the effective borrowing rate. The right-of-use assets are depreciated on a straight line basis over the Ijarah term. The right-of-use assets are reduced by impairment losses, if any, and adjusted for certain remeasurements of lease liability.

The change in accounting policy affected the following items in the statement of financial position as on January 01, 2019:

- Right-of-Use (RoU) assets recognized as Fixed assets – increased by Rs 2,937.162 million which includes prepayments of Rs. 141.839 million; previously, included in advances, deposits, advance rent and other prepayments as at December 31, 2018;
- Lease liabilities recognized as Other liabilities – increased by Rs 2,795.322 million.

The impact on profit and loss account for the year ended December 31, 2019 is an increase in loss after tax by Rs. 181.766 million and loss per share by Rs. 0.16.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss.

5.1 Business acquisition

Business acquisition from Group companies are recognized at carrying values.

5.2 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury banks and balances with other banks in current (net of overdrawn Nostro balances) and deposit accounts.

5.3 Funds due to / from financial institutions

Bai Mu'ajjal

In Bai Mu'ajjal, 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 / Wakala

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

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.

5.4 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, rate of return movements, dealers margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.

b) 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 included in statement of comprehensive income and is shown in the statement of financial position as part of equity. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account.

c) 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 stated at cost. Investments classified as 'held to maturity' are carried at amortized cost less accumulated impairment losses, if any.

5.4.1 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 gain or loss that has been recognised directly in surplus / (deficit) on revaluation of securities on the statement of financial position 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.

5.5 Islamic financing and related assets

5.5.1 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 remained unsold at the statement of financial position date are recorded as inventories. Deferred income on Murabaha financing is adjusted against Murabaha receivable.

The Bank values its inventories at the lower of cost and net realizable value. The net realizable value is the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale. Cost of inventories represents actual purchases made by the Bank / customers as the agent of the Bank for subsequent sale.

Istisna

In Istisna financing, the Bank acquires the described goods to be manufactured by the customer from raw material of its own and deliver to the Bank within an agreed time. The goods are then sold and the amount financed is received back by the Bank alongwith profit.

Salam

In Salam financing, the Bank pays full in advance to its customer for buying specified goods / commodities 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.

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 Musta'jir. Ijarah assets are depreciated over the period of Ijarah using the straight line method. 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'.

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.

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.

Running Musharaka

In Running Musharaka based financing, the Bank enters into financing with the customer based on Shirkat-ul-Aqd or Business Partnership in the customer's operating business where the funds can be withdrawn or refunded during the Musharakah period.

5.5.2 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, Small Enterprise (SE) and Micro financings 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.

5.6 Fixed and intangible assets

5.6.1 Fixed assets

5.6.1.1 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.

5.6.1.2 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 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 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.

5.6.2 Intangible assets

5.6.2.1 Advance against purchase of software

Advance against purchase of software is stated at cost less accumulated impairment losses, if any. These are transferred to computer software as and when the related asset is received.

5.6.2.2 Computer software

Computer softwares 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.

5.6.3 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 fair value 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.

5.7 Leases

During the year, the State Bank of Pakistan vide its BPRD Circular Letter No. 8 dated April 30, 2019 and BPRD Circular No. BPRD/RPD/2019/17 dated July 26, 2019 has directed all Islamic Banks to apply IFRS 16 - "Leases" in all Ijarah (lease) contracts where the Islamic Banks act in capacity of Musta'jir (lessee) and accordingly, the Bank has adopted the standard.

IFRS 16 introduces an on balance sheet accounting model for long term Ijarahs (short-term and having underlying assets of low value continue to be treated as Ijarah of Musta'jir under IFRS 02). Musta'jir recognizes a right-of-use asset representing its right of using the underlying asset and a corresponding Ijarah liability representing its obligations to make Ujrah (lease) payments. However, accounting for Ijarah of Muj'ir (lessors) remains the same as required under IFRS 02 i.e. Muj'ir continue to present assets subject to Ijarah according to the nature of the asset, distinguished from the assets in own use.

On adoption of IFRS 16, the Bank has recognised liabilities in respect of Ijarahs of Musta'jir which had previously been shown off-balance sheet. These liabilities were measured as the present value of the remaining Ijarah payments, discounted using the Bank's incremental borrowing rate. The associated right-of-use assets were measured at the amount equal to the Ijarah liability, adjusted by the amount of prepaid Ujrah payments recognised in the statement of financial position immediately before the date of initial application.

The Ijarah liability is subsequently measured at amortized cost using the effective borrowing rate. The right-of-use assets are depreciated on a straight line basis over the Ijarah term. The right-of-use assets are reduced by impairment losses, if any, and adjusted for certain remeasurements of lease liability.

Payments associated with short-term Ijarahs and having low-value assets are recognized on a straight-line basis as an expense in profit or loss.

5.8 Deposits

Deposits are generated on the basis of two modes i.e. Qard and Mudaraba. Deposits are recorded at the proceeds received. The cost of deposits is recognized as an expense in the period in which this is incurred.

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.

5.9 Pool Management

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

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

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 maintains an 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 Mudarb 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 Mudarb 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 financings are exclusively financed from the equity pool.

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

5.10 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'.

5.11 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 15% 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.

5.12 Acceptances

Acceptances comprise of undertakings by the Bank to pay bills of exchange drawn on customers. Acceptances are recognized as financial liability in the statement of financial position with a contractual right of reimbursement from the customer as a financial asset.

5.13 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.

5.14 Foreign currencies

5.14.1 Transactions and balance

Transactions in foreign currencies (other than the results of operations of foreign operations) are translated to Rupees at the foreign exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in Rupee terms at the rates of exchange prevailing at the balance sheet date. Foreign bills purchased and forward foreign exchange contracts (unilateral wa'd) other than those relating to foreign currency deposits are valued at the rates applicable to their respective maturities. Transnational gains / losses and any change in fair value of forward exchange contracts are credited / charged to profit and loss account.

5.14.2 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.

5.15 Revenue recognition

- Profit on investments in Sukuks is recognised on time proportion 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 Musharaka placements with financial institutions is recognised on time proportion basis.
- Profit from Bai-Mu'ajjal is recognised on time proportion basis.
- Profit from Murabaha financing is accounted for on culmination of the Murabaha transaction. Profit on Murabaha is recognised on time proportion 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 Running Musharaka financing is booked on an accrual basis and is subject to adjustment (if any) upon declaration of profit by Musharakah partners.
- Profit on Istisna financing is recognised on time proportion basis.
- Profit on Salam financing is recognised on time proportion 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 to which it arises.

5.16 Assets acquired in satisfaction of claims

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

5.17 Financial instruments

5.17.1 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 (excluding inventories), other assets (excluding balances related to tax), bills payables, due to financial institutions, deposits and other liabilities (excluding balances related to tax). The particular recognition methods adopted for significant financial assets and liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

5.17.2 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.



MCB ISLAMIC BANK LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

Continued

| | Note | 2019 | 2018 |
|---|------|---------------------|------------------|
| | | Rupees in thousands | |
| 8 DUE FROM FINANCIAL INSTITUTIONS | | | |
| Secured | | | |
| Bai Mu'ajjal receivable - with State Bank of Pakistan | 8.1 | 3,371,664 | - |
| Unsecured | | | |
| Musharaka arrangements | 8.2 | 2,480,000 | 4,675,000 |
| | | <u>5,851,664</u> | <u>4,675,000</u> |

8.1 This represents Bai Mu'ajjal with State Bank of Pakistan carrying profit at average rate of 10.34% per annum (2018: Nil) and having maturity till February 07, 2020.

8.2 This represents Musharaka arrangements with banks carrying profit at expected rates ranging from 10.80% to 11.00% per annum (2018: 9.25% to 9.55% per annum) and having maturity till January 20, 2020.

| | 2019 | 2018 |
|---|---------------------|------------------|
| | Rupees in thousands | |
| 8.3 Particulars of due from financial institutions | | |
| - local currency | 5,851,664 | 4,675,000 |
| - foreign currencies | - | - |
| | <u>5,851,664</u> | <u>4,675,000</u> |

| 9.1 INVESTMENTS | 2019 | | | |
|--------------------------------------|-----------------------|--------------------------|---------------------|-------------------|
| | Cost / Amortised cost | Provision for diminution | Surplus / (Deficit) | Carrying Value |
| Investments by type: | Rupees in thousands | | | |
| Available-for-sale securities | | | | |
| Federal Government securities | 10,899,070 | - | (7,384) | 10,891,686 |
| Shares | 1,908,146 | 1,059,172 | 175,625 | 1,024,599 |
| Non Government securities | 1,119,000 | - | (1,312) | 1,117,688 |
| | 13,926,216 | 1,059,172 | 166,929 | 13,033,973 |
| Held-to-maturity securities | | | | |
| Federal Government securities | 2,700,827 | - | - | 2,700,827 |
| Non Government securities | 575,000 | - | - | 575,000 |
| | 3,275,827 | - | - | 3,275,827 |
| Total Investments | <u>17,202,043</u> | <u>1,059,172</u> | <u>166,929</u> | <u>16,309,800</u> |

| 9.1 INVESTMENTS | 2018 | | | |
|--------------------------------------|-----------------------|--------------------------|---------------------|-------------------|
| | Cost / Amortised cost | Provision for diminution | Surplus / (Deficit) | Carrying Value |
| Investments by type: | Rupees in thousands | | | |
| Available-for-sale securities | | | | |
| Federal Government securities | 8,452,080 | - | (41,163) | 8,410,917 |
| Shares | 1,831,580 | 881,903 | (43,325) | 906,352 |
| Non Government securities | 1,427,333 | - | 4,416 | 1,431,749 |
| | 11,710,993 | 881,903 | (80,072) | 10,749,018 |
| Held-to-maturity securities | | | | |
| Federal Government securities | 1,159,936 | - | - | 1,159,936 |
| Non Government securities | 805,000 | - | - | 805,000 |
| | 1,964,936 | - | - | 1,964,936 |
| Total Investments | <u>13,675,929</u> | <u>881,903</u> | <u>(80,072)</u> | <u>12,713,954</u> |

| 9.2 Investments by segments: | 2019 | | | |
|--------------------------------------|-----------------------|--------------------------|---------------------|-------------------|
| | Cost / Amortised cost | Provision for diminution | Surplus / (Deficit) | Carrying Value |
| Investments by type: | Rupees in thousands | | | |
| Federal Government securities | | | | |
| GOP Ijarah Sukuks | 10,842,866 | - | (8,095) | 10,834,771 |
| WAPDA Sukuks | 56,404 | - | 711 | 57,115 |
| Bai Mu'ajjal | 2,700,827 | - | - | 2,700,827 |
| Shares | | | | |
| Listed companies | 1,908,146 | 1,059,172 | 175,625 | 1,024,599 |
| Non Government securities | | | | |
| Listed | 854,000 | - | 1,309 | 855,309 |
| Un listed | 840,000 | - | (2,621) | 837,379 |
| Total Investments | <u>17,202,043</u> | <u>1,059,172</u> | <u>166,929</u> | <u>16,309,800</u> |

| 9.2 Investments by segments: | 2018 | | | |
|--------------------------------------|-----------------------|--------------------------|---------------------|-------------------|
| | Cost / Amortised cost | Provision for diminution | Surplus / (Deficit) | Carrying Value |
| Investments by type: | Rupees in thousands | | | |
| Federal Government securities | | | | |
| GOP Ijarah Sukuks | 8,366,893 | - | (41,185) | 8,325,708 |
| WAPDA Sukuks | 85,187 | - | 22 | 85,209 |
| Bai Mu'ajjal | 1,159,936 | - | - | 1,159,936 |
| Shares | | | | |
| Listed companies | 1,831,580 | 881,903 | (43,325) | 906,352 |
| Non Government securities | | | | |
| Listed | 1,159,000 | - | 4,367 | 1,163,367 |
| Un listed | 1,073,333 | - | 49 | 1,073,382 |
| Total Investments | <u>13,675,929</u> | <u>881,903</u> | <u>(80,072)</u> | <u>12,713,954</u> |

9.2.1 There were no investment given as collateral as at December 31, 2019 (2018: Nil).

| 9.3 Provision for diminution in value of investments | 2019 | | 2018 | |
|--|-----------------|---------------------|-----------------|---------|
| | Opening balance | Charge for the year | Closing balance | |
| | 881,903 | 177,269 | 881,903 | |
| | - | 1,059,172 | - | 881,903 |

9.4 Quality of Available for Sale Securities

Details regarding quality of Available for Sale (AFS) securities are as follows:

| Federal Government Securities - Government guaranteed | Note | 2019 | 2018 |
|---|------|--------------------------|-------------------|
| | | Cost Rupees in thousands | |
| GOP Ijarah Sukuks | | 10,842,666 | 8,366,893 |
| WAPDA Sukuks | | 56,404 | 85,187 |
| Unlisted - AAA (2018: AAA) | | 10,899,070 | 8,452,080 |
| Shares | | | |
| Listed | | | |
| Automobile Assembler | | 154,313 | 154,313 |
| Cable & Electric Goods | | 136,403 | 136,403 |
| Engineering | | 266,165 | 266,165 |
| Fertilizer | | 171,055 | 167,693 |
| Oil & Gas Marketing Companies | | 308,072 | 285,187 |
| Paper & Board | | 308,108 | 308,108 |
| Pharmaceuticals | | 161,717 | 161,716 |
| Power Generation & Distribution | | 99,803 | 186,607 |
| Refinery | | 94,081 | 94,081 |
| Textile Composite | | 91,354 | 71,307 |
| Oil & Gas Exploration Companies | | 116,705 | - |
| Chemical | | 370 | - |
| | | 1,908,146 | 1,831,580 |
| Non Government Securities | | | |
| Listed | | | |
| A+ | | 129,000 | 129,000 |
| AA- | | 150,000 | 225,000 |
| | | 279,000 | 354,000 |
| Un listed | | | |
| AA | | 740,000 | 973,333 |
| A | | 100,000 | 100,000 |
| | | 840,000 | 1,073,333 |
| | | <u>13,926,216</u> | <u>11,710,993</u> |

9.5 Particulars relating to Held to Maturity securities are as follows:

| Federal Government Securities - Government guaranteed | Note | 2019 | 2018 |
|---|-------|------------------|------------------|
| Bai Mu'ajjal | 9.5.1 | 2,700,827 | 1,159,936 |
| Non Government Securities | | | |
| Listed | | | |
| AA+ | 9.5.2 | 575,000 | 805,000 |
| | | <u>3,275,827</u> | <u>1,964,936</u> |

9.5.1 Bai Mu'ajjal receivable

9.5.1.1 Less: Deferred Income

Bai Mu'ajjal at cost

9.5.1.1 This represents receivable from Government of Pakistan against sale of GoP Ijarah Sukuk certificates (GIS - 16). The credit price will be recovered at the time of maturity.

9.5.2 The market value of non Government securities classified as held-to-maturity as at December 31, 2019 amounted to Rs.578.398 million (2018: Rs.814.422 million).

10 ISLAMIC FINANCING AND RELATED ASSETS - NET

| Note | Performing | | Non performing | | Total | |
|--|---------------------|-------------------|----------------|---------------|-------------------|-------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | Rupees in thousands | | | | | |
| Murabaha | 7,605,280 | 17,096,368 | 4,550 | 759 | 7,609,830 | 17,097,127 |
| Musawamah | 2,000 | - | - | - | 2,000 | - |
| Istisna | 2,603,493 | 1,793,878 | - | - | 2,603,493 | 1,793,878 |
| Salam | 111,287 | 4,118 | - | - | 111,287 | 4,118 |
| Ijarah | 4,878,702 | 4,269,903 | 2,698 | - | 4,881,400 | 4,269,903 |
| Running Musharaka | 16,669,096 | 19,441,575 | - | - | 16,669,096 | 19,441,575 |
| Diminishing Musharaka | 17,802,303 | 19,047,410 | 374,179 | 10,007 | 18,176,482 | 19,057,417 |
| Staff finance | 1,293,082 | 1,258,046 | - | - | 1,293,082 | 1,258,046 |
| Total | <u>50,965,243</u> | <u>62,911,298</u> | <u>381,427</u> | <u>10,766</u> | <u>51,346,670</u> | <u>62,922,064</u> |
| Less: Provision against non-performing Islamic financing and related assets | | | | | | |
| - Specific | (33,363) | (14,102) | (3,340) | (758) | (33,363) | (758) |
| - General | (33,363) | (14,102) | (3,340) | (758) | (33,363) | (14,102) |
| | (66,726) | (28,204) | (6,680) | (1,516) | (66,726) | (14,860) |
| Islamic financing and related assets - net of provisions | <u>50,931,880</u> | <u>62,883,094</u> | <u>374,747</u> | <u>9,250</u> | <u>51,279,944</u> | <u>62,907,204</u> |

| | Note | 2019 | 2018 |
|---|--------|---------------------|-------------------|
| | | Rupees in thousands | |
| 10.1 Murabaha | | | |
| - Murabaha financing | 10.1.1 | 4,671,163 | 7,334,021 |
| - Murabaha inventory | | 2,649,423 | 6,625,790 |
| - Advances against Murabaha financing | 10.1.5 | 239,244 | 3,056,316 |
| - Murabaha financing under Islamic export refinance scheme | | - | - |
| - Advances against Murabaha financing under Islamic export refinance scheme | | 50,000 | 81,000 |
| | | <u>7,609,830</u> | <u>17,097,127</u> |

| 10.1.1 | 2019 | 2018 |
|--------------------------------|------------------|------------------|
| Murabaha receivable - gross | 5,005,449 | 7,674,572 |
| Less: Deferred Murabaha income | 334,286 | 340,551 |
| Murabaha financing | <u>4,671,163</u> | <u>7,334,021</u> |

| 10.1.2 | 2019 | 2018 |
|--|------------------|------------------|
| Movement in Murabaha receivable during the year: | | |
| Opening balance | 7,674,572 | 4,860,060 |
| Sales during the year | 25,845,273 | 23,655,655 |
| Adjusted during the year | (28,514,396) | (20,841,143) |
| | <u>5,005,449</u> | <u>7,674,572</u> |

| 10.1.3 | 2019 | 2018 |
|---|------------------|------------------|
| Murabaha sale price during the year | 25,845,273 | 23,655,655 |
| Murabaha purchase price during the year | (24,447,190) | (22,644,766) |
| | <u>1,398,083</u> | <u>1,010,889</u> |

| 10.1.4 | 2019 | 2018 |
|----------------------------|----------------|----------------|
| Deferred Murabaha income | | |
| Opening balance | 340,551 | 158,456 |
| Arising during the year | 1,398,083 | 1,010,889 |
| Recognised during the year | (1,404,348) | (828,794) |
| | <u>334,286</u> | <u>340,551</u> |

| 10.1.5 | 2019 | 2018 |
|---|------|------|
| Murabaha receivable under Islamic export refinance scheme - gross | - | - |
| Less: Deferred income | - | - |
| Murabaha financing under Islamic export refinance scheme | - | - |

| 10.1.6 | 2019 | 2018 |
|---|----------|-----------|
| Movement in Murabaha receivable under IERS during the year: | | |
| Opening balance | - | 101,575 |
| Sales during the year | - | 242,026 |
| Adjusted during the year | - | (343,601) |
| | <u>-</u> | <u>-</u> |

| 10.1.7 | 2019 | 2018 |
|---|----------|--------------|
| Murabaha sale price under Islamic export refinance scheme during the year | - | 242,026 |
| Murabaha purchase price under Islamic export refinance scheme during the year | - | (239,601) |
| | <u>-</u> | <u>2,425</u> |

| 10.1.8 | 2019 | 2018 |
|--|----------|----------|
| Deferred Murabaha income under Islamic export refinance scheme | | |
| Opening balance | - | 1,075 |
| Arising during the year | - | 2,425 |
| Recognised during the year | - | (3,500) |
| | <u>-</u> | <u>-</u> |

| 10.2 | 2019 | 2018 |
|-----------------------|--------------|----------|
| Musawamah | | |
| - Musawamah inventory | 2,000 | - |
| | <u>2,000</u> | <u>-</u> |

| 10.3 | 2019 | 2018 |
|--|------------------|------------------|
| Istisna | | |
| - Istisna financing | 60,146 | - |
| - Istisna inventory | 616,127 | - |
| - Advances against Istisna financing | 1,052,399 | 594,687 |
| - Istisna financing under Islamic export refinance scheme | 56,929 | 24,244 |
| - Advances against Istisna financing under Islamic export refinance scheme | 817,892 | 1,174,947 |
| | <u>2,603,493</u> | <u>1,793,878</u> |

| 10.4 | 2019 | 2018 |
|---|------------------|------------------|
| Ijarah financing and related assets | | |
| - Net book value of assets in Ijarah under IFAS 2 | 4,190,369 | 2,948,075 |
| - Advances against Ijarah | 691,031 | 1,321,828 |
| | <u>4,881,400</u> | <u>4,269,903</u> |

| 10.4.1 Net book value of assets in Ijarah under IFAS 2 | 2019 | | | | | |
|--|-----------------------|------------------------|-------------------------|-----------------------|------------------------------------|-------------------------|
| | Cost | | Depreciation | | Book Value as at December 31, 2019 | |
| | As at January 1, 2019 | Additions / (Disposal) | As at December 31, 2019 | As at January 1, 2019 | Charge / (Disposal) | As at December 31, 2019 |
| Vehicles | 2,882,357 | 1,501,816 | 3,999,646 | 654,281 | 629,680 | 1,039,780 |
| | | (384,527) | | | (244,181) | 2,959,866 |
| Equipment and Plant and Machinery | 1,203,656 | 970,541 | 1,689,096 | 483,657 | 363,007 | 458,593 |
| | | (485,101) | | | (388,071) | 1,230,503 |
| Total | <u>4,086,013</u> | <u>2,472,357</u> | <u>5,688,742</u> | <u>1,137,938</u> | <u>992,687</u> | <u>1,498,373</u> |
| | | (869,628) | | | (632,252) | <u>4,190,369</u> |

| 10.4.2 Future Ijarah payments receivable | 2018 | | | | | |
|--|------|--|--------------|--|------------------------------------|--|
| | Cost | | Depreciation | | Book Value as at December 31, 2018 | |
| | | | | | | |

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MCB Islamic Bank Ltd.

FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

>>>> Continued

| | Note | 2019 Rupees in thousands | 2018 Rupees in thousands |
|--|------------------|------------------------------|------------------------------|
| 14 OTHER ASSETS | | | |
| Profit / return accrued in local currency | 2,434,000 | 1,058,880 | |
| Advances, deposits, advance rent and other prepayments | 164,697 | 267,118 | |
| Advance taxation (payments less provisions) | 11,097 | 24,606 | |
| Branch adjustment account | 40,206 | - | |
| Receivable against ATM transactions | 156,474 | 288,577 | |
| Receivable under home remittances | 11,851 | 13,945 | |
| Mark to market gain on forward foreign exchange contracts | - | 169,697 | |
| Acceptance | 2,194,173 | 409,429 | |
| Others | 37,288 | 57,119 | |
| | | <u>5,049,786</u> | <u>2,289,371</u> |
| 15 CONTINGENT ASSETS | | | |
| There were no contingent assets of the Bank as at December 31, 2019 (2018: Nil). | | | |
| 16 BILLS PAYABLE | | | |
| In Pakistan | 973,627 | 1,303,992 | |
| Outside Pakistan | - | - | |
| | | <u>973,627</u> | <u>1,303,992</u> |
| 17 DUE TO FINANCIAL INSTITUTIONS | | | |
| In Pakistan | 4,127,526 | 7,718,759 | |
| Outside Pakistan | - | 81,869 | |
| | | <u>4,127,526</u> | <u>7,800,628</u> |
| 17.1 Particulars of due to financial institutions with respect to currencies | | | |
| In local currency | 4,127,526 | 7,718,759 | |
| In foreign currencies | - | 81,869 | |
| | | <u>4,127,526</u> | <u>7,800,628</u> |
| 17.2 Details of due to financial institutions - Secured / Unsecured | | | |
| Secured | | | |
| Musharaka with the State Bank of Pakistan under Islamic Export Refinance Scheme | 17.2.1 | 2,650,821 | 1,987,408 |
| Unsecured | | | |
| Musharaka arrangements | 17.2.2 | 1,380,853 | 5,731,351 |
| Musharaka arrangements with other institution | | 95,853 | - |
| Overdrawn nostro | | - | 81,869 |
| | | <u>4,127,527</u> | <u>7,800,628</u> |
| 17.2.1 These Musharaka arrangements are on a profit and loss sharing basis maturing between January 01, 2020 to June 29, 2020 (2018: February 24, 2019 to June 26, 2019) and are secured against demand promissory notes executed in favour of the SBP. A limit of Rs. 2,760 million has been allocated to the Bank by SBP under Islamic Export Refinance Scheme. | | | |
| 17.2.2 This represents Musharaka arrangements with banks carrying profit at expected rates ranging from 8.5% to 9.0% per annum (2018: 9.40% to 9.80% per annum) and having maturity till January 15, 2020. | | | |
| 18 DEPOSITS AND OTHER ACCOUNTS | | | |
| | | 2019 | 2018 |
| | | In Local currency | In Local currency |
| | | In Foreign currencies | In Foreign currencies |
| | | Total | Total |
| | | 2019 | 2018 |
| | | Rupees in thousands | Rupees in thousands |
| Customers | | | |
| Current deposits | | 20,470,659 | 1,721,169 |
| Savings deposits | | 31,830,709 | 2,065,896 |
| Term deposits | | 15,049,977 | 72,099 |
| Others | | 4,918,750 | - |
| | | <u>72,070,095</u> | <u>3,879,164</u> |
| Financial Institutions | | | |
| Current deposits | | 98,729 | 1,605 |
| Savings deposits | | 1,986,733 | 1,554 |
| Term deposits | | 3,815,631 | - |
| | | <u>5,901,093</u> | <u>3,159</u> |
| | | <u>77,971,188</u> | <u>3,882,323</u> |
| | | <u>81,853,511</u> | <u>73,307,185</u> |
| 18.2 This includes deposits eligible to be covered under takaful arrangements amounting to Rs.51,165.607 million (2018: Rs.40,534.489 million). | | | |
| 19 OTHER LIABILITIES | | | |
| Profit / return payable in local currency | 19.1 | 679,292 | 390,522 |
| Profit / return payable in foreign currencies | | 9,437 | 4,871 |
| Accrued expenses | | 333,136 | 324,388 |
| Income received in advance | | 71,091 | 30,365 |
| Acceptance | | 2,194,173 | 409,429 |
| Branch adjustment account | | - | 191,069 |
| Payable under inter-bank fund transfer | | 3,805 | 71,960 |
| Advance receipt against Islamic financing and related assets | | 6,154 | 3,319 |
| Charity fund balance | 19.2 | 57,782 | 25,402 |
| Security deposits against Ijarah financing | | 1,005,930 | 812,429 |
| Retention money payable | | - | 17,780 |
| Payable under purchase of securities | | - | 14,910 |
| Withholding tax, Federal excise duty and other payable | | 21,685 | 7,778 |
| Mark to market loss on forward foreign exchange contracts | | 22,812 | - |
| Liability against ROU asset | 19.3 | 3,039,168 | - |
| Others | | 151,331 | 108,894 |
| | | <u>7,595,796</u> | <u>2,413,116</u> |
| 19.1 It includes Rs. 10.086 million (2018: Rs. 8.916 million) in respect of profit / return accrued on Musharaka with SBP under Islamic Export Refinance Scheme. | | | |
| 19.2 Reconciliation of charity fund balance | | | |
| Opening balance | | 25,402 | 5,513 |
| Additions during the year | | | |
| - Received from customers against late payment | | 45,958 | 25,548 |
| - Dividend purification amount | | 7,383 | 2,133 |
| - Profit on charity saving account | | 1,539 | 308 |
| | | <u>54,880</u> | <u>27,989</u> |
| Charity paid during the year | 19.2.1 | (22,500) | (8,100) |
| Closing balance | | <u>57,782</u> | <u>25,402</u> |
| 19.2.1 Charity was paid to the following institutions: | | | |
| Arthritis Care | | 1,000 | - |
| Aziz Jehan Begum Trust for the Blind | | 1,000 | 700 |
| Care Foundation Pakistan | | - | 700 |
| Chiniot Anjuman Islami | | - | 600 |
| Family Welfare Society | | 1,000 | 600 |
| Fast - NU Chiniot - Faisalabad Campus | | - | 600 |
| Fatmid Foundation | | 1,000 | 700 |
| Indus Hospital | | 2,000 | - |
| Infaq Memorial Trust | | 1,000 | 700 |
| Layton Rehmatullah Benevolent Trust | | 2,000 | - |
| Mind Organization | | 1,000 | - |
| Pink Ribbon | | 5,000 | - |
| Rising Sun Education & Welfare Society | | - | 700 |
| Sindh Institute of Urology & Transplantation (SIUT) | | 2,000 | 700 |
| Shaukat Khanam Memorial Cancer Hospital | | 2,000 | 1,000 |
| The Citizens Foundation | | 2,000 | 600 |
| The Lahore Hospital Welfare Society | | 500 | 500 |
| The Patient Behood Society for AKUH | | 1,000 | - |
| | | <u>22,500</u> | <u>8,100</u> |
| 19.2.2 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. | | | |
| 19.3 Ijarah of Mustajir meeting the criteria prescribed by IFRS 16 "Leases" are presented as on-balance sheet item. | | | |
| 20 SHARE CAPITAL | | | |
| Authorised capital | | | |
| 2019 | 2018 | 2019 | 2018 |
| Number of shares | Number of shares | Rupees in thousands | Rupees in thousands |
| 1,500,000,000 | 1,500,000,000 | 15,000,000 | 15,000,000 |
| Issued, subscribed and paid up capital | | | |
| 2019 | 2018 | 2019 | 2018 |
| Number of shares | Number of shares | Rupees in thousands | Rupees in thousands |
| 1,120,000,000 | 1,000,000,000 | 11,200,000 | 10,000,000 |
| 35,000,000 | 120,000,000 | 350,000 | 1,200,000 |
| 1,155,000,000 | 1,120,000,000 | 11,550,000 | 11,200,000 |
| 20.1 The Bank's shares are 100 percent held by MCB Bank Limited (MCB) - the parent company and its nominee directors. | | | |
| 21 RESERVES | | | |
| Statutory Reserves | | 26,444 | 26,444 |
| 21.1 Statutory reserve represents amount set aside as per the requirements of section 21 of the Banking Companies Ordinance, 1962. | | | |

| | Note | 2019 Rupees in thousands | 2018 Rupees in thousands |
|--|----------|-----------------------------|-----------------------------|
| 22 SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - NET OF TAX | | | |
| Surplus / (deficit) arising on revaluation of: | | | |
| - Fixed assets | 22.1 | 357,814 | 210,137 |
| - Available for sale securities | 22.2 | 166,929 | (80,072) |
| | | <u>524,743</u> | <u>130,065</u> |
| Deferred tax on surplus / (deficit) on revaluation of: | | | |
| - Fixed assets | 22.1 | (43,992) | (25,818) |
| - Available for sale securities | 22.2 | (58,425) | 28,025 |
| | | <u>(102,417)</u> | <u>2,207</u> |
| | | <u>422,326</u> | <u>132,272</u> |
| 22.1 Surplus on revaluation of fixed assets | | | |
| Surplus on revaluation of fixed assets as January 1 | | 210,137 | 211,437 |
| Recognised during the year | | 148,977 | - |
| Transferred to appropriated profit in respect of incremental depreciation charged during the year - net of deferred tax | | (845) | (845) |
| Related deferred tax liability on incremental depreciation charged during the year | | (455) | (455) |
| Surplus on revaluation of fixed assets as at December 31 | | 357,814 | 210,137 |
| Less: Related deferred tax liability on: | | | |
| revaluation as at January 1 | | 25,818 | 26,273 |
| revaluation recognised during the year | | 18,629 | - |
| incremental depreciation charged during the year | | (455) | (455) |
| | | <u>43,992</u> | <u>25,818</u> |
| | | <u>313,822</u> | <u>184,319</u> |
| 22.2 Surplus / (deficit) on revaluation of available for sale securities - net of tax | | | |
| Available for sale securities | | | |
| Listed shares | | 175,625 | (43,325) |
| Sukuk | | (8,696) | (36,747) |
| | | <u>166,929</u> | <u>(80,072)</u> |
| Related deferred tax asset | | (58,425) | 28,025 |
| | | <u>108,504</u> | <u>(52,047)</u> |
| 23 CONTINGENCIES AND COMMITMENTS | | | |
| Guarantees | 23.1 | 6,467,046 | 3,092,537 |
| Commitments | 23.2 | 11,498,973 | 18,593,888 |
| Other contingent liabilities | 23.3 | 431,439 | 425,820 |
| | | <u>18,397,458</u> | <u>22,112,245</u> |
| 23.1 Guarantees: | | | |
| Performance guarantees | | 3,431,726 | 1,099,947 |
| Other guarantees | | 3,035,320 | 1,992,590 |
| | | <u>6,467,046</u> | <u>3,092,537</u> |
| 23.2 Commitments: | | | |
| Documentary credits and short-term trade-related transactions | | | |
| Letters of credit | | 7,818,321 | 11,639,176 |
| Commitments in respect of: | | | |
| Forward foreign exchange contracts | 23.2.1 | 3,363,957 | 4,693,353 |
| Commitments for acquisition of: | | | |
| Fixed assets | | - | 10,395 |
| Intangible assets | | 8,940 | 29,647 |
| Other commitments | 23.2.2 | 307,755 | 2,221,317 |
| | | <u>11,498,973</u> | <u>18,593,888</u> |
| 23.2.1 Commitments in respect of forward foreign exchange contracts | | | |
| Purchase | | 882,210 | 3,465,359 |
| Sale | | 2,481,747 | 1,227,994 |
| | | <u>3,363,957</u> | <u>4,693,353</u> |
| 23.2.2 Other Commitments | | | |
| Commitments to extend credit | 23.2.2.1 | 307,755 | 2,221,317 |
| 23.2.1 Other than those stated above, 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. | | | |
| 23.3 Other contingent liabilities | | | |
| Claims against the Bank not acknowledged as debt | | 431,439 | 425,820 |
| This includes claim by a third party against the Bank, amounting to Rs.425.820 million which is being contested in the Court of law. The suit has been disposed off by the Court vide Order dated May 10, 2019 wherein the status quo has been ordered to be maintained with respect to bank guarantee and the matter has been referred to arbitration with the consent of the parties. However the Bank has not received any official notice to attend the arbitration proceedings till date. | | | |
| In addition to the above, this includes claim by a customer against the bank amounting to Rs.5.6 million which is pending before the court. | | | |
| 23.4 The Sindh Revenue Board (SRB) has issued order under "Sindh Sales Tax on Services Act, 2011", for the year 2016 thereby raising demand of Rs.0.642 million. The Bank has filed appeal before Commissioner of Inland Revenue Appeals which is pending adjudication. The management of the Bank, in consultation with its tax advisor, is confident that the decision in respect of the above matter would be in the Bank's favor and accordingly no provision has been made in these financial statements with respect thereto. | | | |
| 24 PROFIT / RETURN EARNED | | | |
| Financings | | 7,288,776 | 3,419,424 |
| Investments in | | | |
| - available for sale securities | | 1,411,649 | 562,606 |
| - held to maturity securities | | 400,202 | 82,370 |
| | | <u>1,811,851</u> | <u>644,976</u> |
| Musharaka arrangements with financial institutions | | 555,462 | 97,176 |
| Deposits with financial institutions | | 192,730 | 47,299 |
| | | <u>9,848,819</u> | <u>4,208,875</u> |
| 25 PROFIT / RETURN EXPENSED | | | |
| Deposits and other accounts | | 4,936,521 | 1,648,860 |
| Musharaka arrangements with the State Bank of Pakistan under IFRS | | 45,860 | 24,067 |
| Musharaka arrangements with other financial institutions | | 490,506 | 632,023 |
| Musharaka arrangements with other institution | | 7,973 | - |
| Unwinding of liability against right-of-use of asset | 25.1 | 374,201 | - |
| | | <u>5,855,061</u> | <u>2,304,950</u> |
| 25.1 Ijarah of Mustajir meeting the criteria prescribed by IFRS 16 "Leases" are presented as on-balance sheet item. | | | |
| 26 FEE & COMMISSION INCOME | | | |
| Branch banking customer fees | | 12,407 | 9,589 |
| Consumer finance related fees | | 19,584 | 7,326 |
| Card related fees | | 67,794 | 41,247 |
| Credit related fees | | 4,755 | - |
| Digital banking fees | | 12,429 | 10,359 |
| Commission on trade | | 71,407 | 49,196 |
| Commission on guarantees | | 23,475 | 15,465 |
| Commission on cash management | | 134 | - |
| Commission on remittances including home remittances | | 9,439 | 3,340 |
| Commission on banca takaful | | 70,021 | 25,549 |
| Others | | 3,046 | 174 |
| | | <u>294,491</u> | <u>162,245</u> |
| 27 GAIN / (LOSS) ON SECURITIES | | | |
| Realised | 27.1 | (109,983) | 17,738 |
| 27.1 Realised gain / (loss) on: | | | |
| Federal Government Securities - Sukuk certificates | | (78,014) | (57) |
| Shares | | (31,969) | 17,795 |
| | | <u>(109,983)</u> | <u>17,738</u> |
| 28 OTHER INCOME | | | |
| Rental income | | 9,741 | 8,855 |
| Locker rent | | 9,250 | 3,770 |
| Gain on sale of fixed assets - net | | 161 | 208 |
| Fees and charges recovered | | 591 | 187 |
| | | <u>19,743</u> | <u>13,020</u> |
| 29 OPERATING EXPENSES | | | |
| Total compensation expense | 29.1 | 2,065,081 | 1,319,145 |
| Property expense | | | |
| Rent and taxes | | 72,448 | 412,615 |
| Takaful expenses | | 35,998 | 54,436 |
| Utilities cost | | 131,317 | 79,440 |
| Security (including guards) | | 205,897 | 139,129 |
| Repair and maintenance (including janitorial charges) | | 112,505 | 67,728 |
| Depreciation on right-of-use assets | 29.3 | 442,016 | - |
| Depreciation | 11.2 | 155,773 | 109,109 |
| | | <u>1,155,954</u> | <u>862,457</u> |
| Information technology expenses | | | |
| Software maintenance | | 91,106 | 57,674 |
| Hardware maintenance | | 73,910 | 43,600 |
| Takaful expenses | | 2,069 | 2,236 |
| Depreciation | 11.2 | 117,339 | 97,334 |
| Amortisation | 12.1 | 111,850 | 90,482 |
| Network charges | | 109,407 | 79,455 |
| | | <u>505,481</u> | <u>370,781</u> |
| Other operating expenses | | | |
| Directors' fees and allowances | | 850 | 900 |
| Remuneration to Shariah Board members | | 8,147 | |

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42.1.2 Maturities of assets and liabilities based on expected maturities

| | 2019 | | | | | | | | | |
|---|-------------------|-------------------|--------------------|--------------------|-------------------------|--------------------|--------------------|--------------------|--------------------|------------------|
| | Total | Up to 1 month | Over 1 to 3 months | Over 3 to 6 months | Over 6 months to 1 year | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 5 years | Over 5 to 10 years | Above 10 years |
| Rupees in thousands | | | | | | | | | | |
| Assets | | | | | | | | | | |
| Cash and balances with treasury banks | 10,252,547 | 10,252,547 | - | - | - | - | - | - | - | - |
| Balances with other banks | 8,822,985 | 8,822,985 | - | - | - | - | - | - | - | - |
| Due from financial institutions | 5,651,664 | 2,480,000 | 3,371,664 | - | - | - | - | - | - | - |
| Investments - net | 16,309,800 | 125,911 | 308,318 | 235,484 | 242,522 | 1,814,104 | 1,975,972 | 420,021 | 10,776,518 | 410,910 |
| Islamic financing and related assets - net | 51,309,367 | 6,495,432 | 11,359,887 | 10,224,361 | 2,507,611 | 3,744,110 | 5,040,382 | 6,713,499 | 3,152,441 | 2,181,684 |
| Fixed assets | 5,779,772 | 88,188 | 135,273 | 201,238 | 265,758 | 757,831 | 675,802 | 1,137,204 | - | 2,498,358 |
| Intangible assets | 719,723 | 11,080 | 22,302 | 35,130 | 70,783 | 141,504 | 134,288 | 232,269 | 71,727 | - |
| Deferred tax assets | 1,186,181 | - | - | - | 863 | 210,358 | 974,842 | - | - | - |
| Other assets | 5,046,786 | 1,695,758 | 831,433 | 478,242 | 571,122 | - | - | 1,473,231 | - | - |
| | 115,292,405 | 29,951,911 | 10,020,477 | 11,175,065 | 3,678,659 | 6,667,905 | 8,801,126 | 9,878,524 | 14,006,656 | 5,000,592 |
| Liabilities | | | | | | | | | | |
| Bills payable | 973,627 | 973,627 | - | - | - | - | - | - | - | - |
| Due to financial institutions | 4,127,526 | 1,576,705 | 1,301,124 | 1,209,697 | 40,000 | - | - | - | - | - |
| Deposits and other accounts | 81,853,511 | 12,877,081 | 6,040,767 | 1,061,440 | 4,546,361 | 14,314,682 | 14,427,030 | 14,294,825 | 14,291,325 | - |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | - |
| Subordinated loans | - | - | - | - | - | - | - | - | - | - |
| Deferred tax liability | 265,144 | 5,941 | 10,260 | 7,744 | 14,468 | 25,261 | 25,599 | 41,823 | 134,907 | - |
| Other liabilities | 7,595,796 | 2,946,357 | 296,542 | 216,365 | 1,591,620 | 289,204 | 332,325 | 787,754 | 1,452,029 | - |
| | 94,815,004 | 18,078,791 | 7,651,513 | 2,465,246 | 6,192,500 | 16,810,147 | 14,785,254 | 15,124,402 | 15,877,451 | - |
| Net assets | 10,466,801 | 11,873,120 | 8,378,964 | 8,679,819 | (9,519,841) | (7,842,242) | (5,984,128) | (5,245,878) | (1,870,795) | 5,000,592 |
| Share capital | 11,500,000 | - | - | - | - | - | - | - | - | - |
| Reserves | 26,444 | - | - | - | - | - | - | - | - | - |
| Surplus on revaluation of assets - net of tax | 422,336 | - | - | - | - | - | - | - | - | - |
| Accumulated loss | (1,531,969) | - | - | - | - | - | - | - | - | - |
| | 10,466,801 | - | - | - | - | - | - | - | - | - |

| | 2018 | | | | | | | | | |
|---|-------------------|----------------|--------------------|--------------------|-------------------------|--------------------|--------------------|--------------------|--------------------|----------------|
| | Total | Up to 1 month | Over 1 to 3 months | Over 3 to 6 months | Over 6 months to 1 year | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 5 years | Over 5 to 10 years | Above 10 years |
| Rupees in thousands | | | | | | | | | | |
| Assets | | | | | | | | | | |
| Cash and balances with treasury banks | 6,990,369 | 6,990,369 | - | - | - | - | - | - | - | - |
| Balances with other banks | 1,422,701 | 1,422,701 | - | - | - | - | - | - | - | - |
| Due from financial institutions | 4,675,000 | 4,675,000 | - | - | - | - | - | - | - | - |
| Investments - net | 12,713,654 | 54,380 | 5,033,424 | 2,232,242 | 419,647 | 3,989,173 | 1,632,209 | 253,219 | 796,571 | 318,110 |
| Islamic financing and related assets - net | 62,907,204 | 4,902,275 | 5,458,528 | 16,108,813 | 10,782,155 | 5,488,800 | 5,507,419 | 10,013,386 | 2,832,250 | 1,897,463 |
| Fixed assets | 2,552,800 | 21,454 | 42,308 | 65,055 | 137,381 | 205,993 | 294,989 | 376,429 | 348,255 | 1,099,130 |
| Intangible assets | 592,171 | 8,011 | 16,098 | 24,165 | 48,300 | 164,400 | 96,532 | 169,512 | 65,515 | - |
| Deferred tax assets | 692,240 | - | 2,788 | - | 7,582 | 559,810 | 355,860 | - | - | - |
| Other assets | 2,289,371 | 1,255,966 | 489,425 | 187,994 | 375,966 | - | - | - | - | - |
| | 85,690,810 | 19,510,156 | 11,040,515 | 16,608,889 | 11,771,861 | 10,418,016 | 7,847,115 | 10,812,545 | 4,027,591 | 3,225,722 |
| Liabilities | | | | | | | | | | |
| Bills payable | 1,303,992 | 1,303,992 | - | - | - | - | - | - | - | - |
| Due to financial institutions | 7,800,628 | 4,891,670 | 1,691,350 | 1,437,438 | - | - | - | - | - | - |
| Deposits and other accounts | 73,307,165 | 10,077,750 | 4,068,366 | 460,336 | 20,130,126 | 11,577,557 | 11,592,073 | 7,703,573 | 3,848,387 | 3,848,387 |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | - |
| Subordinated loans | - | - | - | - | - | - | - | - | - | - |
| Deferred tax liability | 175,175 | 2,889 | 5,778 | 8,863 | 17,327 | 115,749 | 1,991 | 2,389 | 10,091 | 10,091 |
| Other liabilities | 2,413,116 | 2,299,980 | 113,438 | - | - | - | - | - | - | - |
| | 85,000,096 | 18,386,180 | 5,869,958 | 1,907,007 | 20,147,453 | 11,693,306 | 11,594,064 | 7,706,172 | 3,858,478 | 3,858,478 |
| Net assets | 10,689,514 | 943,976 | 5,171,557 | 14,699,882 | (8,376,592) | (1,275,290) | (3,746,949) | (3,188,373) | 179,113 | 832,750 |
| Share capital | 11,200,000 | - | - | - | - | - | - | - | - | - |
| Reserves | 26,444 | - | - | - | - | - | - | - | - | - |
| Surplus on revaluation of assets - net of tax | 132,272 | - | - | - | - | - | - | - | - | - |
| Accumulated loss | (1,289,232) | - | - | - | - | - | - | - | - | - |
| | 10,689,514 | - | - | - | - | - | - | - | - | - |

| | 2018 | | | | | | | | | |
|---|-------------------|----------------|--------------------|--------------------|-------------------------|--------------------|--------------------|--------------------|--------------------|----------------|
| | Total | Up to 1 month | Over 1 to 3 months | Over 3 to 6 months | Over 6 months to 1 year | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 5 years | Over 5 to 10 years | Above 10 years |
| Rupees in thousands | | | | | | | | | | |
| Assets | | | | | | | | | | |
| Cash and balances with treasury banks | 6,990,369 | 6,990,369 | - | - | - | - | - | - | - | - |
| Balances with other banks | 1,422,701 | 1,422,701 | - | - | - | - | - | - | - | - |
| Due from financial institutions | 4,675,000 | 4,675,000 | - | - | - | - | - | - | - | - |
| Investments - net | 12,713,654 | 54,380 | 5,033,424 | 2,232,242 | 419,647 | 3,989,173 | 1,632,209 | 253,219 | 796,571 | 318,110 |
| Islamic financing and related assets - net | 62,907,204 | 4,902,275 | 5,458,528 | 16,108,813 | 10,782,155 | 5,488,800 | 5,507,419 | 10,013,386 | 2,832,250 | 1,897,463 |
| Fixed assets | 2,552,800 | 21,454 | 42,308 | 65,055 | 137,381 | 205,993 | 294,989 | 376,429 | 348,255 | 1,099,130 |
| Intangible assets | 592,171 | 8,011 | 16,098 | 24,165 | 48,300 | 164,400 | 96,532 | 169,512 | 65,515 | - |
| Deferred tax assets | 692,240 | - | 2,788 | - | 7,582 | 559,810 | 355,860 | - | - | - |
| Other assets | 2,289,371 | 1,255,966 | 489,425 | 187,994 | 375,966 | - | - | - | - | - |
| | 85,690,810 | 19,510,156 | 11,040,515 | 16,608,889 | 11,771,861 | 10,418,016 | 7,847,115 | 10,812,545 | 4,027,591 | 3,225,722 |
| Liabilities | | | | | | | | | | |
| Bills payable | 1,303,992 | 1,303,992 | - | - | - | - | - | - | - | - |
| Due to financial institutions | 7,800,628 | 4,891,670 | 1,691,350 | 1,437,438 | - | - | - | - | - | - |
| Deposits and other accounts | 73,307,165 | 10,077,750 | 4,068,366 | 460,336 | 20,130,126 | 11,577,557 | 11,592,073 | 7,703,573 | 3,848,387 | 3,848,387 |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | - |
| Subordinated loans | - | - | - | - | - | - | - | - | - | - |
| Deferred tax liability | 175,175 | 2,889 | 5,778 | 8,863 | 17,327 | 115,749 | 1,991 | 2,389 | 10,091 | 10,091 |
| Other liabilities | 2,413,116 | 2,299,980 | 113,438 | - | - | - | - | - | - | - |
| | 85,000,096 | 18,386,180 | 5,869,958 | 1,907,007 | 20,147,453 | 11,693,306 | 11,594,064 | 7,706,172 | 3,858,478 | 3,858,478 |
| Net assets | 10,689,514 | 943,976 | 5,171,557 | 14,699,882 | (8,376,592) | (1,275,290) | (3,746,949) | (3,188,373) | 179,113 | 832,750 |
| Share capital | 11,200,000 | - | - | - | - | - | - | - | - | - |
| Reserves | 26,444 | - | - | - | - | - | - | - | - | - |
| Surplus on revaluation of assets - net of tax | 132,272 | - | - | - | - | - | - | - | - | - |
| Accumulated loss | (1,289,232) | - | - | - | - | - | - | - | - | - |
| | 10,689,514 | - | - | - | - | - | - | - | - | - |

| | 2018 | | | | | | | | | |
|---|-------------------|----------------|--------------------|--------------------|-------------------------|--------------------|--------------------|--------------------|--------------------|----------------|
| | Total | Up to 1 month | Over 1 to 3 months | Over 3 to 6 months | Over 6 months to 1 year | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 5 years | Over 5 to 10 years | Above 10 years |
| Rupees in thousands | | | | | | | | | | |
| Assets | | | | | | | | | | |
| Cash and balances with treasury banks | 6,990,369 | 6,990,369 | - | - | - | - | - | - | - | - |
| Balances with other banks | 1,422,701 | 1,422,701 | - | - | - | - | - | - | - | - |
| Due from financial institutions | 4,675,000 | 4,675,000 | - | - | - | - | - | - | - | - |
| Investments - net | 12,713,654 | 54,380 | 5,033,424 | 2,232,242 | 419,647 | 3,989,173 | 1,632,209 | 253,219 | 796,571 | 318,110 |
| Islamic financing and related assets - net | 62,907,204 | 4,902,275 | 5,458,528 | 16,108,813 | 10,782,155 | 5,488,800 | 5,507,419 | 10,013,386 | 2,832,250 | 1,897,463 |
| Fixed assets | 2,552,800 | 21,454 | 42,308 | 65,055 | 137,381 | 205,993 | 294,989 | 376,429 | 348,255 | 1,099,130 |
| Intangible assets | 592,171 | 8,011 | 16,098 | 24,165 | 48,300 | 164,400 | 96,532 | 169,512 | 65,515 | - |
| Deferred tax assets | 692,240 | - | 2,788 | - | 7,582 | 559,810 | 355,860 | - | - | - |
| Other assets | 2,289,371 | 1,255,966 | 489,425 | 187,994 | 375,966 | - | - | - | - | - |
| | 85,690,810 | 19,510,156 | 11,040,515 | 16,608,889 | 11,771,861 | 10,418,016 | 7,847,115 | 10,812,545 | 4,027,591 | 3,225,722 |
| Liabilities | | | | | | | | | | |
| Bills payable | 1,303,992 | 1,303,992 | - | - | - | - | - | - | - | - |
| Due to financial institutions | 7,800,628 | 4,891,670 | 1,691,350 | 1,437,438 | - | - | - | - | - | - |
| Deposits and other accounts | 73,307,165 | 10,077,750 | 4,068,366 | 460,336 | 20,130,126 | 11,577,557 | 11,592,073 | 7,703,573 | 3,848,387 | 3,848,387 |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | - |
| Subordinated loans | - | - | - | - | - | - | - | - | - | - |
| Deferred tax liability | 175,175 | 2,889 | 5,778 | 8,863 | 17,327 | 115,749 | 1,991 | 2,389 | 10,091 | 10,091 |
| Other liabilities | 2,413,116 | 2,299,980 | 113,438 | - | - | - | - | - | - | - |
| | 85,000,096 | 18,386,180 | 5,869,958 | 1,907,007 | 20,147,453 | 11,693,306 | 11,594,064 | 7,706,172 | 3,858,478 | 3,858,478 |
| Net assets | 10,689,514 | 943,976 | 5,171,557 | 14,699,882 | (8,376,592) | (1,275,290) | (3,746,949) | (3,188,373) | 179,113 | 832,750 |
| Share capital | 11,200,000 | - | - | | | | | | | |

MCB ISLAMIC BANK LIMITED

MCB Islamic Bank Ltd.

FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

REVIEW REPORT ON THE STATEMENT OF COMPLIANCE CONTAINED IN LISTED COMPANIES (CODE OF CORPORATE GOVERNANCE) REGULATIONS, 2019

We have reviewed the enclosed Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019 (the Regulations) prepared by the Board of Directors of MCB Islamic Bank Limited ("the Bank") for the year ended 31 December 2019, in accordance with the requirements of regulation 36(2) of the Regulations, 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 Regulations is that of the Board of Directors of the Bank. Our responsibility is to review whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Regulations and report if it does not and to highlight any non-compliance with the requirements of the Regulations. 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 Regulations.

As a 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 Directors' 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 Regulations require the Bank to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval, its related party transactions and also ensure compliance with the requirements of section 208 of the Companies Act, 2017. 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 procedures to assess and determine the Bank's process for identification of related parties and that 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 requirements contained in the Regulations as applicable to the Bank for the year ended 31 December 2019.

Lahore

Date: 14 February 2020

KPMG Taseer Hadi & Co.
Chartered Accountants

CHAIRMAN'S MESSAGE

I am pleased to present this report on the overall performance of the Board and effectiveness of the role played by the Board in achieving the Bank's objectives. MCB Islamic Bank has witnessed another year of growth while establishing a solid financial standing in line with the Bank's strategy. Year 2019 has seen our bank to consolidate and further build on the last year's significant network expansion, with strengthening core deposit, balance sheet spreads and additional capital to leap forward towards a sound financial position.

MCB Islamic Bank is a growing institution and is constantly looking to innovate and implement customer centric services. Our Business team is continuously working to identify market opportunities and to vigilantly enhance the portfolio to obtain sustainable positive results. Our results for the year have shown promising signs with great potential to grow in coming years. In addition, we have a solid commitment for playing our constructive role towards the growth of Islamic financial system in Pakistan.

Pakistan has witnessed a deteriorated economic situation during 2019. Owing to the government's quest for structural economic reforms including an improved tax to GDP ratio, controlled fiscal deficit, and floating exchange rate regime along with the documentation of the economy and measures to curtail money laundering have all combined to bring down the GDP growth to 3.3% in the year 2019, as compared to 5.5% in 2018. We believe that 2020 will be the year when Pakistan's economy will start its growth curve again provided the stabilizing measures in terms of policy and administration taken by the government and SBP materialize. However, further immediate efforts are required to tackle the continuously rising inflation and the industrial economic revival.

Islamic banking has now become an integral part of global financial system and still growing at a reasonably good pace. According to Financial Stability Report 2019 issued

by Islamic Financial Services Board (IFSB), the total worth of the Islamic Financial Services Industry (IFSI) increased to US\$ 2.19 trillion in 2018 on the back of significant improvement across the three sectors of Islamic Banking, the Islamic Capital Market and Takful. In Pakistan, Islamic Banking sector though growing steadily, is yet to tap the paramount growth potential available. The market share of domestic Islamic banking industry stands at 13.8% in terms of banking assets and 16.1% in total deposits, while its network has expanded to over 2,900 branches across the country. Despite the challenges we anticipate in the future, we are confident that our bank will continue to grow towards greater heights of success.

The great role our Board of Directors is playing in steering the Bank towards becoming a success story is worth noting. The MIB Board has displayed great acumen and unmatched standards of ethical and professional conduct in the oversight and management of the organization. This dedication has proved to be invaluable for preserving the interests of our shareholders. The Board has ensured good corporate governance by maintaining high levels of professional and business conduct, implementing effective internal controls and audit functions including risk management framework. It has successfully steered and executed the Bank's strategy while ensuring that the vision, mission and core values of the Bank are never compromised upon. It has also closely reviewed policy related matters with long term implications as per regulatory obligations which also meet the Bank's operational requirements. Board Sub-Committees have been duly constituted with a defined scope of work to ensure that they perform their prescribed functions precisely and efficiently as per their mandate and respective terms of reference.

With our diversified Board of Directors, unparalleled emphasis on service and excellence, we endeavor to succeed and thrive, no matter the conditions or environment.

STATEMENT ON INTERNAL CONTROLS – YEAR 2019

The Management of MCB Islamic Bank (the "Bank"), under the guidance of the Board of Directors, acknowledges its responsibility for establishing and maintaining an adequate and effective system of internal controls with the main objectives of ensuring effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

The Internal control system is a set of processes designed to identify, evaluate and mitigate the risk of failures and to help achieve overall business objectives of the Bank. All significant policies and procedural manuals are in place, which are reviewed, revised, and improved to keep them current with latest activities and challenges. As a part of effective Internal Control System, the Board has established a formalized organizational structure within the Bank that provides clear demarcation of reporting and responsibility for ensuring proper assignment of authorities, segregation of duties and accountability towards the Bank. Defined authority limits have been established for each level within the bank to approve acquisition and disposal of assets, approval of credit limits, writing-off items as well as approving expenses.

The Internal Control System evolves continuously and hence its evaluation is an ongoing process. This statement on internal controls is based on the management's assessment towards various aspects of the Internal Control System of the Bank. The Internal Control Systems of the Bank are designed to minimize and manage risks rather than eliminate the risk of failure to achieve the desired objectives; hence it can only provide reasonable assurance and not absolute assurance, against material misstatement or loss.

Implementing State Bank of Pakistan (the "SBP") Guidelines on Internal Controls has been the Bank's top priority, with concerted efforts made by every Group to improve the control environment at grass root level by regularly reviewing and streamlining procedures, as well as imparting training.

Board's Audit Committee (AC) has the authority and is empowered by the Board of Directors to review the adequacy and effectiveness of the Internal Control System implemented by the Bank. All significant and material findings of the internal and external auditors as well as observations of the regulators are addressed on priority by the management and their status periodically reported to the AC.

The AC is supported by the Audit & RAR Group, independent from management, which forms an integral part of the governance processes. The Audit & RAR Group provides reasonable assurance through a systematic and disciplined approach along with value-added recommendations on the adequacy and effectiveness of the System of Internal Control over Financial Reporting, and compliance with internal policies, procedures and applicable regulatory laws and regulations. Periodic updates on its activities and significant issues are submitted by the Audit & RAR Group to the Board's Audit Committee.

Compliance & Controls Group of the Bank through its Regional Compliance Officers and centralized setup, also oversees adherence to the regulatory requirements, with specific emphasis on Anti-Money Laundering / Combatting the Financing of Terrorism. In addition, "Compliance Committee of Management" oversees the handling of Compliance Risks of the Bank and facilitate in implementing policies, processes and procedures to manage this risk. Furthermore, based on the observations and weaknesses identified by the Internal and External Auditors, Compliance and Shari'ah Compliance

teams, remediation of the control deficiencies are brought about by the management.

Bank's Risk Management function also plays its role in ongoing strengthening of the Bank's internal controls system, through operational risk data collection and conducting Risk and Control Self-Assessment exercise on bank wide basis. The Bank has adopted top down approach for Risk Assessment. Further, the Bank has also adopted the Integrated Framework on Internal Controls issued by the Committee on Sponsoring Organization of the Treadway Commission (COSO) for implementation in light of the SBP's Internal Control Guidelines. Risk Management Function is also actively engaged in creating risk awareness through staff training sessions in the areas of Operational Risk, Fraud Risk and Business Continuity / Disaster Recovery Planning.

In accordance with SBP's directives, the Bank has completed all stages Internal Controls over Financial Reporting (ICFR) roadmap and Long Form Reports (LFR) on the assessment of Bank's ICFR for the years 2017 and 2018 issued by the External Auditor have been submitted to SBP in compliance with its directives. None of the deficiencies identified has a material impact on Internal Reporting. The Bank's External Auditor will now review and issue LFR on ICFR as of December 31, 2019.

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 strengthening its control environment on an ongoing basis.

Based on the above, the Board of Directors has duly endorsed management's evaluation of internal controls including ICFR in the Directors' report.

Kashif Ahmed
Group Head – Compliance & Controls

Khawaja Khalil Shah
Chief Risk Officer

Muhammad Tariq Gondal
Group Head – Audit & Risk Asset Review

Syed Iftikhar Hussain Rizvi
Chief Financial Officer

Date: 20-January-2020

FINANCIAL SUMMARY

| | 2019 | 2018 | 2017 | 2016 | 2015 | | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---------------------|------------|------------|------------|------------|--|---------------------|-------------|------------|------------|-----------|
| | Rupees in thousands | | | | | | Rupees in thousands | | | | |
| FINANCIAL DATA | | | | | | (Loss) / profit before provisions | (165,945) | (784,567) | (350,981) | 19,836 | 97,532 |
| STATEMENT OF FINANCIAL POSITION | | | | | | Provision / (reversal of provision) | 199,814 | 895,646 | (54) | (94,137) | 39,901 |
| Total assets - net | 105,017,261 | 94,894,435 | 51,745,997 | 28,564,193 | 26,887,541 | (Loss) / profit before taxation | (365,759) | (1,680,213) | (350,927) | 113,973 | 57,631 |
| Cash and balances with treasury banks | 10,252,547 | 6,990,369 | 3,390,753 | 1,509,804 | 698,123 | Taxation | 122,147 | 584,231 | 87,930 | (34,056) | (5,324) |
| Balances with other banks | 8,822,985 | 1,422,701 | 2,703,251 | 2,750,998 | 6,347,459 | (Loss) / profit after taxation | (243,612) | (1,095,982) | (262,997) | 79,917 | 52,307 |
| Due from financial institutions | 5,851,664 | 4,675,000 | 1,400,000 | - | - | OTHERS | | | | | |
| Investments - net | 16,309,800 | 12,713,954 | 9,186,213 | 5,769,675 | 5,995,470 | Imports | 15,517,775 | 46,289,721 | 23,416,703 | 13,259,000 | 2,018,706 |
| Islamic financing and related assets - net | 51,309,967 | 62,907,204 | 31,472,935 | 16,172,727 | 12,473,797 | Exports | 37,916,224 | 5,762,144 | 1,971,928 | 1,807,700 | 100,169 |
| Operating fixed assets and others | 12,470,298 | 6,185,207 | 3,752,376 | 2,404,803 | 1,372,692 | KEY RATIOS | | | | | |
| Total liabilities - net | 94,550,460 | 84,824,921 | 42,115,218 | 18,298,320 | 16,904,789 | Capital adequacy ratio | 13.82% | 13.19% | 23.81% | 39.74% | 46.50% |
| Bills payable | 973,627 | 1,303,992 | 314,210 | 447,776 | 89,864 | (Loss) / profit before tax ratio | -3.71% | -39.92% | -17.03% | 7.46% | 15.32% |
| Due to financial institutions | 4,127,526 | 7,800,628 | 7,926,790 | 2,785,650 | 631,520 | (Loss) / profit after tax ratio | -2.47% | -26.04% | -12.76% | 5.23% | 13.90% |
| Deposits and other accounts | 81,853,511 | 73,307,185 | 32,690,808 | 14,279,436 | 9,450,072 | Income / expense ratio | 96.54% | 73.28% | 87.69% | 106.82% | 116.77% |
| Other liabilities | 7,595,796 | 2,413,116 | 1,183,410 | 744,934 | 6,733,333 | Return of average equity (ROE) | -2.44% | -11.09% | -2.64% | 0.79% | 0.52% |
| Net assets | 10,466,801 | 10,069,514 | 9,630,779 | 10,265,873 | 9,982,752 | Return of average assets (ROA) | -0.24% | -1.49% | -0.65% | 0.45% | 0.77% |
| Share capital | 11,550,000 | 11,200,000 | 10,000,000 | 10,000,000 | 10,000,000 | Return of average earning assets | 11.55% | 6.70% | 6.99% | 6.79% | 6.34% |
| Shareholders' equity | 10,044,475 | 9,937,242 | 9,832,379 | 10,094,531 | 10,014,614 | Cost of deposit | 6.28% | 3.37% | 3.15% | 3.34% | 3.17% |
| | | | | | | Cost of fund | 6.39% | 3.87% | 3.60% | 3.54% | 3.26% |
| PROFIT AND LOSS ACCOUNT | | | | | | Gross Financing to Deposit ratio | 62.73% | 85.83% | 96.28% | 113.27% | 133.01% |
| Profit / return earned | 9,848,819 | 4,208,875 | 2,060,927 | 1,526,778 | 376,295 | Infection ratio | 0.74% | 0.02% | 0.00% | 0.01% | 0.01% |
| Profit / return expensed | 5,855,061 | 2,304,950 | 1,005,671 | 576,544 | 101,057 | CASA to Deposit ratio | 76.86% | 86.06% | 79.19% | 58.67% | 60.68% |
| Net spread earned | 3,993,758 | 1,903,925 | 1,055,256 | 950,234 | 275,238 | Book value per share including revaluation surplus | 9.06% | 8.99 | 9.63 | 10.27 | 9.98 |
| Fee and commission income | 294,491 | 162,245 | 46,325 | 34,678 | 9,874 | Basic / diluted (loss) / earnings per share after tax - Rupees | (0.217) | (0.987) | (0.263) | 0.080 | 0.052 |
| Dividend income and (Loss) / Gain on sale of securities - net | (34,600) | 75,769 | 352,356 | 196,172 | 10,439 | NON-FINANCIAL DATA | | | | | |
| Income from dealing in foreign currencies | 63,685 | 148,228 | 29,846 | 17,322 | 3,968 | No. of employees (excluding outsourced) | 1,619 | 1,493 | 795 | 601 | 328 |
| Other income | 19,743 | 13,020 | 10,483 | 10,992 | 787 | No. of financing customers (excluding staff) | 5,351 | 1,953 | 179 | 71 | 31 |
| Total income | 4,337,077 | 2,303,187 | 1,494,266 | 1,209,398 | 300,306 | No. of deposit accounts | 281,307 | 280,977 | 48,492 | 31,250 | 22,498 |
| Operating and other expenses | 4,503,022 | 3,087,754 | 1,845,247 | 1,189,562 | 202,774 | | | | | | |