



هَذَا مِنْ فَضْلِ رَبِّي

Bank AL Habib  
25 YEARS SILVER JUBILEE  
1991-2016

## VISION STATEMENT

TO BE OUR CUSTOMERS' MOST CONVENIENT  
AND TRUSTED BANK

## MISSION STATEMENT

TO MAKE BANKING SAFE, SIMPLE, AND PLEASANT



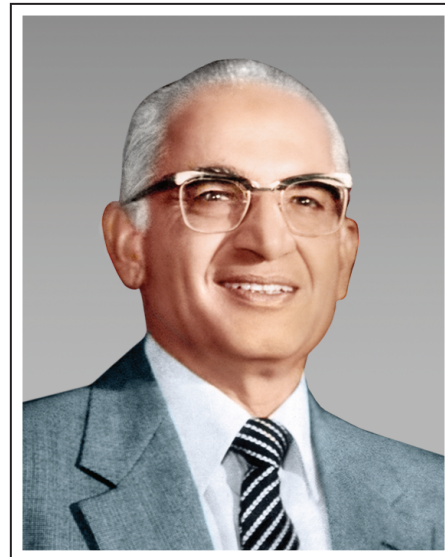
**Habib Esmail (1878-1931)**  
(Founder of Habib Group)



**Dawood Habib (1901-1950)**  
(Son)



**Hamid D. Habib (1926-2000)**  
(Grandson)  
*First Chairman of the Board*  
Bank AL Habib Limited



**Rashid D. Habib (1927-1994)**  
(Grandson)  
*First Managing Director &  
Chief Executive*  
Bank AL Habib Limited



## CORPORATE INFORMATION

|  |   |  |
|--|---|--|
| <b>Board of Directors</b>                          | Ali Raza D. Habib   | <i>Chairman</i>                                |
|  | Abbas D. Habib  | <i>Chief Executive &amp; Managing Director</i> |
|  | Anwar Haji Karim  |  |
|  | Murtaza H. Habib  |  |
|  | Qumail R. Habib   | <i>Executive Director</i>                      |
|  | Safar Ali Lakhani   |  |
|  | Shahid Ghaffar  |  |
|  | Syed Mazhar Abbas   |  |
|  | Syed Hasan Ali Bukhari  |  |
|  | Shameem Ahmed*  |  |
| <b>Audit Committee</b>                             | Shameem Ahmed*  | <i>Chairman</i>                                |
|  | Anwar Haji Karim  | <i>Member</i>                                  |
|  | Syed Mazhar Abbas   | <i>Member</i>                                  |
|  | Syed Hasan Ali Bukhari  | <i>Member</i>                                  |
|  | Safar Ali Lakhani   | <i>Member</i>                                  |
| <b>Human Resource &amp; Remuneration Committee</b> | Syed Mazhar Abbas   | <i>Chairman</i>                                |
|  | Abbas D. Habib  | <i>Member</i>                                  |
|  | Anwar Haji Karim  | <i>Member</i>                                  |
|  | Murtaza H. Habib  | <i>Member</i>                                  |
|  | Syed Hasan Ali Bukhari  | <i>Member</i>                                  |
| <b>Company Secretary</b>                           | Mohammad Taqi Lakhani   |  |
| <b>Statutory Auditors</b>                          | KPMG Taseer Hadi & Co.<br>Chartered Accountants   |  |
| <b>Legal Advisor</b>                               | Liaquat Merchant Associates<br>Advocates and Corporate Legal Consultants  |  |
| <b>Registered Office</b>                           | 126-C, Old Bahawalpur Road,<br>Multan   |  |
| <b>Principal Office</b>                            | 2nd Floor, Mackinnons Building,<br>I.I. Chundrigar Road,<br>Karachi   |  |
| <b>Share Registrar</b>                             | Central Depository Company of Pakistan Ltd.<br>CDC House 99-B, Block-B, S.M.C.H.S.<br>Main Shahrah-e-Faisal, Karachi-74400. |  |
| <b>Website</b>                                     | www.bankalhabib.com   |  |

\*Sadly, Mr. Shameem Ahmed passed away on February 5, 2016.



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## HISTORY

**1891**

Habib Esmail started his career in Bombay at the age of 13 on a salary of Rs. 5 per month.

**1896**

By the age of 18, he was made a partner in the firm and had established an excellent reputation for honesty, hard work, trustworthiness, and humility.

**1941**

Habib Bank Limited was established in Bombay by the sons of Habib Esmail.  
[Quaid-e-Azam Mohammad Ali Jinnah, Founder of Pakistan, reposed confidence in the bank by opening his personal account.]

**1947**

On the creation of Pakistan and at the request of the Quaid-e-Azam, Habib Family shifted all of its businesses including Habib Bank to Pakistan.

**1947-1973**

Habib Bank played a vital role in meeting the financial and banking needs of Pakistan. It continued to record substantial growth and progress and emerged as the leading private sector bank in Pakistan.

**1974**

Habib Bank was nationalized along with other Pakistani banks.

**1991**

Government of Pakistan decided to allow private sector to establish commercial banks in the country. Dawood Habib Group (comprising grandsons of Habib Esmail) was granted permission to set up a new bank, and Bank AL Habib Limited was incorporated.

**1992**

Bank AL Habib started operation with shareholders' funds of Rs. 300 million and six branches.

**2016**

Bank AL Habib entered twenty-fifth year of its operation. As of December 31, 2015, the bank's assets were Rs. 639.7 billion, deposits were 516.2 billion, shareholders' funds were Rs. 31.7 billion, profit before tax was Rs. 12.3 billion, and its network comprised 531 branches, sub-branches, and representative offices. Overseas offices of the bank include branches in Bahrain, Malaysia, and Seychelles and representative offices in UAE, Turkey, and China.



Habib Esmail, founder of Habib Group, started his career in Bombay in 1891 at the age of 13 on a salary of Rs. 5 per month in a firm that dealt in copper and brass utensils. He worked day and night, arriving before the shop opened, staying till late in the night, and then walking home to save money on conveyance. No wonder that in the short span of five years, at the age of 18, he was made a partner in the firm. Even at that young age, he had established an excellent reputation for honesty, hard work, fair play, trustworthiness, and humility. These values continue to guide the activities of Habib Group to this day.

During the next 17 years, he captured major share of the local utensils business and diversified into export of copper, cotton, scrap iron, and manganese ore, selling to East Africa, Italy, France, and Great Britain. Being a person of great insight, he sent his representative to Europe in 1912 and established branch offices in Genoa and Vienna. Simultaneously, he initiated business relationships with Japan and China.

Habib Esmail's reputation for honesty and fair play was so well known that his customers and local merchants would leave their surplus funds with him for safe-keeping and investment, thus establishing the foundation of the family's banking business. In 1921, he started Habib & Sons with his four sons, namely, Ahmed Habib, Dawood Habib, Mohammad Ali Habib, and Ghulam Ali Habib. The firm traded in cotton, oil seeds, and bullion and acted as a merchant bank. It eventually became the flagship of the family and the parent firm of Habib Bank Limited.

Habib Bank Limited was established in Bombay in 1941 by the four sons of Habib Esmail. The bank had over 30 branches operating in India at the time of partition. Quaid-e-Azam Mohammad Ali Jinnah, Founder of Pakistan, reposed confidence in the bank by opening his personal account. On the creation of Pakistan in 1947 and at the request of the Quaid-e-Azam, Habib Family shifted all of its businesses including Habib Bank to Pakistan. The bank played a vital role in meeting the financial and banking needs of Pakistan. It continued to record substantial growth and progress and emerged as the leading private sector bank in Pakistan when it was nationalized by the Government of Pakistan along with other Pakistani banks on January 1, 1974.

In 1991, the Government of Pakistan decided to allow private sector to establish commercial banks in the country. Dawood Habib Group (comprising grandsons of Habib Esmail) was granted permission to set up a new bank under this policy. The new bank was required to open five branches within a short period of six months, which involved acquisition of premises, recruitment of people, development of systems and procedures, and installation of a computer-based banking system. With the guidance and dedication of founding members of the Bank, these challenges were met. Accordingly, Bank AL Habib Limited was incorporated in October 1991 and commenced operation in January 1992. Mr. Hamid D. Habib was the first Chairman of Bank AL Habib and Mr. Rashid D. Habib was its first Managing Director & Chief Executive. On their passing away, Mr. Ali Raza D. Habib was appointed Chairman and Mr. Abbas D. Habib was appointed Managing Director & Chief Executive.

Although established in 1991, Bank AL Habib embodies the same high standards of trust, integrity, and prudence which have characterized Habib Family's banking operations in Pakistan and abroad for about 75 years.

Bank AL Habib is now in the twenty-fifth year of its operation. During this period, from 1992 to 2015, the Bank's performance can be briefly described as follows:

- Assets have grown from Rs. 2.7 billion to Rs. 639.7 billion, making Bank AL Habib the seventh largest bank of the country.
- Deposits have grown from Rs. 1.7 billion to Rs. 516.2 billion. Market share in the country's banking sector deposits is about 5%.
- Loans and advances have grown from Rs. 607 million to Rs. 205.9 billion. Non-performing loans ratio of 2.7% is the lowest among peer banks and all such loans are more than fully covered by the specific and general provisions maintained by the Bank. The Bank handled over 10% of the country's foreign trade business.



- Shareholders' equity has grown from Rs. 325 million to Rs. 31.7 billion, which is net of cash dividends paid over the years.
- Profit before tax has grown from Rs. 51 million to Rs. 12.3 billion. Before-tax return on equity is over 38%.
- Profit after tax has grown from Rs. 25 million to Rs. 7.4 billion. After-tax return on equity is over 23%.
- Branch network has grown from 6 to 528, including sub-branches. The Bank also operates in six foreign countries, with branches in Bahrain, Malaysia, and Seychelles, and representative offices in UAE, Turkey, and China.

Over the years, Bank AL Habib has received several awards, both national and international. These include:

- **The Strongest Bank Balance Sheet in Pakistan**, from *The Asian Banker*, for the year 2013 – based on the strength, liquidity, and sustainability of the balance sheet.
- **Bank of the Year (Mid Size Banks) Award**, from *CFA Society of Pakistan*, for the years 2009, 2010, 2011, and 2012 – based on financial performance.
- **Top 25 Companies Award**, from *Karachi Stock Exchange*, for the years 2009, 2010, 2011, and 2012 – based on dividend payout, profitability, and compliance with listing regulations/ corporate governance.
- **Award of Recognition**, from *International Finance Corporation (IFC)*, for the years 2009 and 2010 – as the Most Active GTFP (Global Trade Finance Program) Issuing Bank in Middle East & North Africa (for "South-South" Trade in 2010).
- **Best Trade Partner Bank–Climate Smart Trade**, from *IFC*, in the year 2016.

The Pakistan Credit Rating Agency has maintained the Bank's Long Term Rating at "AA+" and Short Term Rating at "A1+". The rating of our unsecured, subordinated Term Finance Certificates has also been maintained at "AA". These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

The Bank has launched innovative deposit schemes like **Young Savers Account**, **Senior Citizens Account**, **Monthly Saver Account**, **Current Plus Account**, **Apna Current Account**, **Foreign Currency Saver Account**, etc., to meet the needs of a wide range of potential depositors. Thus, **Young Savers Account** was targeted at children up to 18 years of age, to promote the habit of saving and financial discipline among them, which is essential for personal as well as national growth and self-reliance. **Senior Citizens Account**, on the other hand, was targeted at senior citizens over 60 years of age, to provide them monthly income in retirement. Both schemes became very popular among their target segments. **Senior Citizens Account** was quoted as an example in Philip Kotler's book *Marketing Management – A South Asian Perspective*, a world-famous text-book on marketing.

Guided by the values taught and practiced by Habib Esmail more than a century ago, Bank AL Habib has continued to grow and progress in all areas of its operation. A key element of the Bank's culture is to treat the customers' deposits as a trust which must be protected at all times.

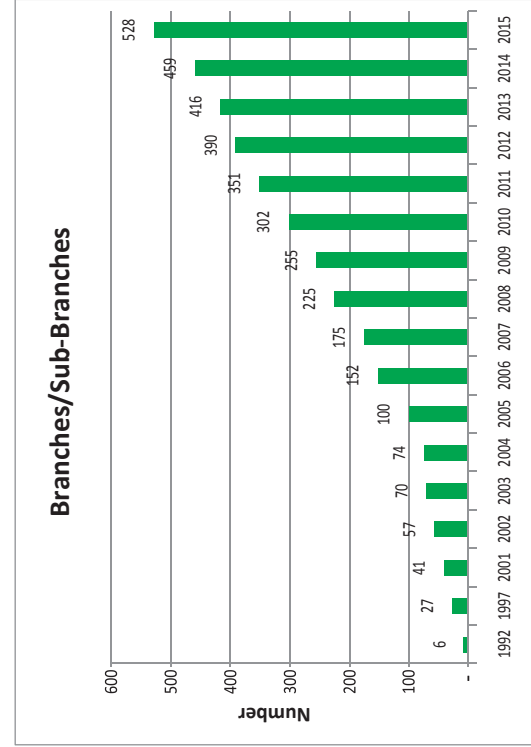
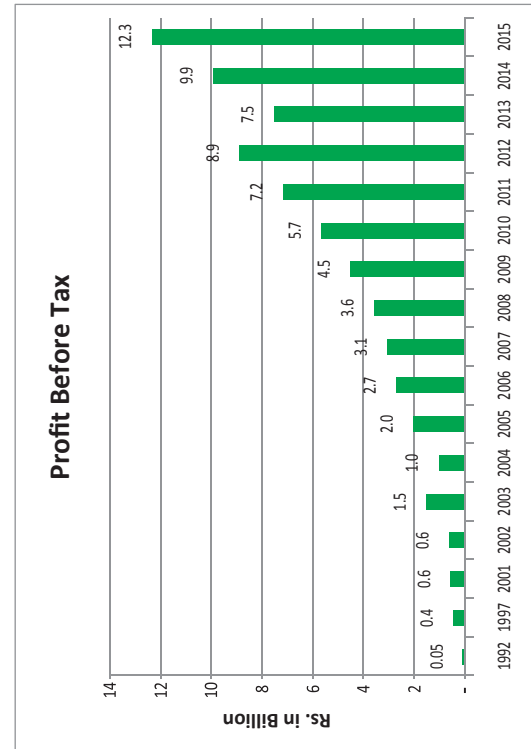
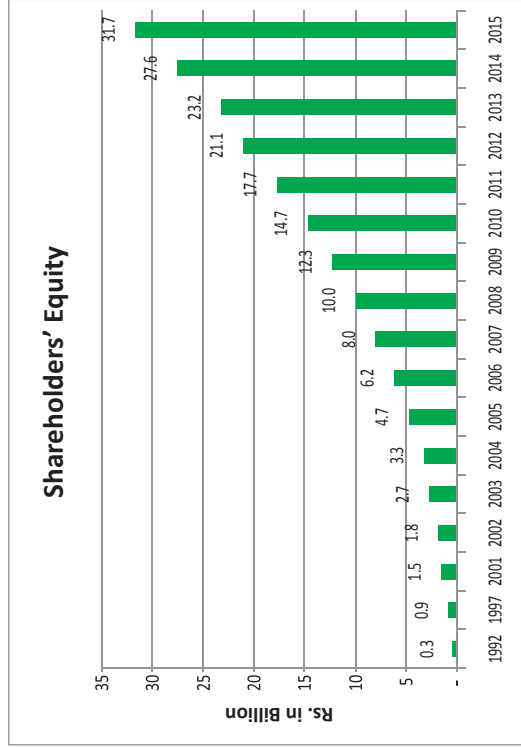
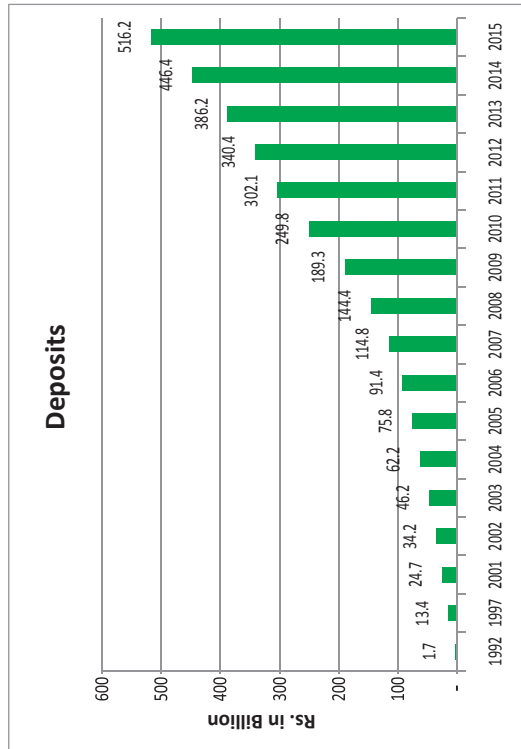
Further details on the performance of the Bank during 1992-2015 are presented on pages 4-5.

## Performance 1992-2015 : Financials

(Rupees in Million)

| Years | Assets  | Deposits | Advances | Investments | Shareholders' Equity | Profit Before Tax | Profit After Tax | Cash Dividend | Stock Dividend |
|-------|---------|----------|----------|-------------|----------------------|-------------------|------------------|---------------|----------------|
| 1992  | 2,727   | 1,679    | 607      | 1,060       | 325                  | 51                | 25               | -             | -              |
| 1993  | 5,590   | 3,372    | 1,647    | 1,907       | 421                  | 151               | 96               | -             | -              |
| 1994  | 8,346   | 5,200    | 3,067    | 1,932       | 528                  | 224               | 107              | -             | -              |
| 1995  | 11,395  | 6,353    | 4,254    | 2,055       | 611                  | 255               | 127              | 15.0%         | -              |
| 1996  | 11,248  | 8,573    | 5,664    | 2,489       | 718                  | 341               | 153              | 15.0%         | 10.0%          |
| 1997  | 16,515  | 13,445   | 7,372    | 7,440       | 851                  | 442               | 199              | 20.0%         | 15.0%          |
| 1998  | 16,897  | 13,226   | 7,564    | 6,999       | 1,016                | 445               | 203              | 10.0%         | 32.0%          |
| 1999  | 19,870  | 14,113   | 10,925   | 4,601       | 1,169                | 373               | 153              | -             | 20.0%          |
| 2000  | 24,226  | 17,823   | 14,722   | 1,289       | 1,322                | 403               | 153              | -             | 20.0%          |
| 2001  | 29,025  | 24,697   | 15,902   | 5,664       | 1,532                | 551               | 246              | 5.0%          | 20.0%          |
| 2002  | 49,437  | 34,240   | 23,775   | 18,831      | 1,822                | 620               | 290              | -             | 25.0%          |
| 2003  | 58,066  | 46,178   | 35,232   | 14,109      | 2,726                | 1,513             | 1,012            | 10.0%         | 25.0%          |
| 2004  | 77,436  | 62,171   | 47,367   | 14,414      | 3,274                | 1,039             | 541              | -             | 35.0%          |
| 2005  | 91,502  | 75,796   | 55,304   | 19,758      | 4,746                | 2,022             | 1,464            | 15.0%         | 40.0%          |
| 2006  | 114,998 | 91,420   | 70,796   | 21,023      | 6,186                | 2,689             | 1,761            | 15.0%         | 40.0%          |
| 2007  | 141,234 | 114,819  | 79,224   | 35,287      | 8,014                | 3,052             | 2,211            | 15.0%         | 30.0%          |
| 2008  | 177,324 | 144,390  | 100,197  | 48,234      | 9,967                | 3,579             | 2,425            | 12.5%         | 27.5%          |
| 2009  | 249,807 | 189,280  | 105,985  | 111,018     | 12,287               | 4,512             | 2,856            | 20.0%         | 20.0%          |
| 2010  | 301,552 | 249,774  | 125,773  | 137,168     | 14,706               | 5,656             | 3,602            | 20.0%         | 20.0%          |
| 2011  | 384,282 | 302,099  | 114,872  | 222,959     | 17,723               | 7,155             | 4,533            | 25.0%         | 15.0%          |
| 2012  | 453,106 | 340,393  | 147,869  | 249,754     | 21,058               | 8,878             | 5,455            | 30.0%         | -              |
| 2013  | 460,727 | 386,161  | 167,579  | 239,753     | 23,227               | 7,513             | 5,155            | 20.0%         | 10.0%          |
| 2014  | 578,919 | 446,409  | 181,357  | 331,423     | 27,555               | 9,917             | 6,349            | 30.0%         | -              |
| 2015  | 639,712 | 516,213  | 205,859  | 354,824     | 31,698               | 12,332            | 7,405            | 35.0%         | -              |

## Performance 1992-2015 : Charts





## DIRECTORS' REPORT

Alhamdulillah, Bank AL Habib is now in the 25th year of its operation, and the Directors are pleased to present the Twenty-fifth Annual Report together with the audited financial statements of the Bank for the year ended December 31, 2015.

As we celebrate our Silver Jubilee, we fondly remember the founding members of the Bank, who are no longer with us, namely, (Late) Mr. Hamid D. Habib, our first Chairman, (Late) Mr. Rashid D. Habib, our first Managing Director & Chief Executive, (Late) Mr. Mohammad Usman Kushtiwala, Executive Director, and (Late) Mr. Mahmood S. Allarakhia, CFO and Company Secretary, amongst others, whose support and guidance laid a strong foundation for the Bank and made Bank AL Habib what it is today.

We also acknowledge the valuable contribution of our colleagues who have been with us all these years.

The operating results and appropriations, as recommended by the Board, are given below:

|   | (Rupees in '000) |
|---|------------------|
| Profit for the year before tax                                    | 12,331,659       |
| Taxation  | (4,926,747)      |
| Profit for the year after tax                                     | 7,404,912        |
| Unappropriated profit brought forward                             | 7,679,490        |
| Transfer from surplus on revaluation of fixed assets – net of tax | 52,856           |
| Other comprehensive income  | (68,080)         |
|   | 7,664,266        |
| Profit available for appropriations                               | 15,069,178       |
| Appropriations:   |                  |
| Transfer to Statutory Reserve                                     | (1,480,982)      |
| Cash dividend – 2014  | (3,334,276)      |
|   | (4,815,258)      |
| Unappropriated profit carried forward                             | 10,253,920       |
| Basic / Diluted earnings per share – after tax                    | Rs. 6.66         |

For the year ended December 31, 2015, the Directors propose a cash dividend of 35%.

## Performance Review

Alhamdulillah, the performance of your Bank continued to be satisfactory during the year. Deposits rose to Rs. 516,213 million against Rs. 446,409 million a year earlier, while advances increased to Rs. 205,859 million from Rs. 181,357 million. Foreign Trade Business handled by the Bank during the year was Rs. 701,211 million. Profit before tax for the year was Rs. 12,332 million as compared to Rs. 9,917 million last year, while profit after tax was Rs. 7,405 million against Rs. 6,349 million last year.

During the year, the Bank opened 69 new branches and converted 3 sub-branches into full-fledged branches, bringing our network to 531, which comprises 423 branches (including 29 Islamic Banking Branches and 3 Overseas Branches, one each in Bahrain, Malaysia, and Seychelles), 105 sub-branches, and 3 Representative Offices, one each in Dubai, Istanbul, and Beijing. The Bank will continue to expand its network in Pakistan and abroad.



## Board Meetings

During the year, six meetings of the Board were held and the attendance of each Director was as follows:

| Name of Director                | Meetings Held | Meetings Attended |
|---------------------------------|---------------|-------------------|
| Mr. Ali Raza D. Habib, Chairman | 6             | 3                 |
| Mr. Abbas D. Habib              | 6             | 6                 |
| Mr. Anwar Haji Karim            | 6             | 6                 |
| Mr. Murtaza H. Habib            | 6             | 6                 |
| Mr. Qumail R. Habib             | 6             | 6                 |
| Mr. Shameem Ahmed               | 6             | 4                 |
| Mr. S. Mazhar Abbas             | 6             | 6                 |
| Mr. Safar Ali Lakhani           | 6             | 6                 |
| Mr. S. Hasan Ali Bukhari        | 6             | 5                 |
| Mr. Shahid Ghaffar              | 6             | 5                 |

## Committee Meetings

Code of Corporate Governance requires formation of two committees of the Board, viz. Audit Committee and Human Resource & Remuneration Committee. During the year, 9 meetings of the Audit Committee and 4 meetings of the Human Resource & Remuneration Committee were held, and the attendance of members was as follows:

| Audit Committee             |               |                   | Human Resource & Remuneration Committee |               |                   |
|-----------------------------|---------------|-------------------|---|---------------|-------------------|
| Name of Director            | Meetings Held | Meetings Attended | Name of Director                        | Meetings Held | Meetings Attended |
| Mr. Shameem Ahmed, Chairman | 9             | 8                 | Mr. S. Mazhar Abbas, Chairman           | 4             | 4                 |
| Mr. S. Mazhar Abbas         | 9             | 9                 | Mr. Abbas D. Habib                      | 4             | 4                 |
| Mr. Anwar Haji Karim        | 9             | 9                 | Mr. Anwar Haji Karim                    | 4             | 4                 |
| Mr. S. Hasan Ali Bukhari    | 9             | 7                 | Mr. Murtaza H. Habib                    | 4             | 4                 |
| Mr. Safar Ali Lakhani       | 9             | 8                 | Mr. S. Hasan Ali Bukhari                | 4             | 4                 |



## Directors Training Programme

Two Directors completed the directors' training programme in 2015.

## Credit Rating

Alhamdollah, Pakistan Credit Rating Agency Limited (PACRA) has maintained the Bank's long term and short term entity ratings at **AA+** (Double A plus) and **A1+** (A One plus), respectively. The rating of our unsecured, subordinated TFCs have also been maintained at **AA** (Double A). These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

## Future Outlook

The continuing fall in oil prices in the international market, the rise in inward remittances and foreign exchange reserves, and the moderate level of inflation, are factors which will benefit the economy. However, there are also challenges ahead, such as trade and fiscal deficits, energy situation, and geopolitical environment. Full impact of decline in interest rates in previous years is likely to be felt by the banking sector in 2016. We are, however, confident that, adhering to its usual prudent policies, the Bank will Inshallah continue to grow and progress.

## Auditors

The present auditors KPMG Taseer Hadi & Co., Chartered Accountants, retire and offer themselves for reappointment. As suggested by the Audit Committee, the Board of Directors has recommended their reappointment as auditors of the Bank for the year ending December 31, 2016, at a fee to be mutually agreed.

## Risk Management Framework

The Bank always had a risk management framework commensurate with the size of the Bank and the nature of its business. This framework has developed over the years and continues to be refined and improved. Its salient features are summarized below:

- Credit risk is managed through the credit policies approved by the Board; a well-defined credit approval mechanism; use of internal risk ratings; prescribed documentation requirements; post-disbursement administration, review, and monitoring of credit facilities; and continuous assessment of credit worthiness of counterparties. The Bank has also established a mechanism for independent, post-disbursement review of large credit risk exposures. Decisions regarding the credit portfolio are taken mainly by the Central Credit Committee. Credit Risk Management Committee of the Board provides overall guidance in managing the Bank's credit risk.
- Market risk is managed through the market risk policy approved by the Board; approval of counterparty limits and dealer limits; senior management approval for investments; and regular review and monitoring of the investment portfolio by the Bank's Asset Liability Management Committee (ALCO). In addition, the liquidity risk policy provides guidance in managing the liquidity position of the Bank, which is monitored on daily basis by the Treasury and the Middle Office. Risk Management Committee of the Board provides overall guidance in managing the Bank's market and liquidity risks, capital adequacy, and integrated risk management (also known as enterprise risk management).





- Operational risk is managed through the audit policy and the operational risk policy approved by the Board, along with the fraud prevention policy; operational manuals and procedures issued from time to time; a system of internal controls and dual authorization for important transactions and safe-keeping; a Business Continuity Plan, including a Disaster Recovery Plan for I.T.; and regular audit of the branches. Audit Committee of the Board provides overall guidance in managing the Bank's operational risk.

In order to comply with SBP's guidelines on risk management, the Bank has established a separate Risk Management Division, including a Middle Office that independently monitors and analyses the risks inherent in Treasury operations. The steps taken by the Division include: sensitivity testing of Government Securities portfolio; computation of portfolio duration and modified duration; analysis of forward foreign exchange gap positions; more detailed reporting of TFCs and equities portfolios; development of improved procedures for dealing in equities and settlements; monitoring of off-market foreign exchange rates and foreign exchange earnings; and establishment of a mechanism for independent, post-disbursement review of large credit risk exposures. Assessment of enterprise-wide integrated risk profile of the Bank is carried out, using the Basel Framework, Internal Capital Adequacy Assessment Process, and Stress Testing.

### **Corporate Social Responsibility (CSR)**

Your Bank is fully committed to the concept of Corporate Social Responsibility and fulfills this responsibility by engaging in a wide range of activities which include:

- corporate philanthropy amounting to Rs. 49.1 million by way of donations during the year for social and educational development and welfare of under-privileged people;
- energy conservation, environmental protection, and occupational safety and health by restricting unnecessary lighting, implementing tobacco control law and "No Smoking Zone", and providing a safe and healthy work environment;
- business ethics and anti-corruption measures, requiring all staff members to comply with the Bank's "Code of Conduct";
- consumer protection measures, requiring disclosure of the schedule of charges and terms and conditions that apply to the Bank's products and services;
- amicable staff relations, recognition of merit and performance, and on-going opportunities for learning and growth of staff, both on-the-job and through formal training programmes;
- employment through a transparent procedure, without discrimination on the basis of religion, caste, language, etc., including employment of special persons;
- expansion of the Bank's branch network to rural areas, which helps in rural development;
- contribution to the national exchequer by the Bank by way of direct taxes of about Rs. 5.16 billion paid to the Government of Pakistan during the year; furthermore, an additional amount of over Rs. 8.47 billion was deducted/collected by the Bank on account of withholding taxes, federal excise duties and sales tax on services, and paid to the Government of Pakistan/Provincial Governments.

### **Statement on Corporate and Financial Reporting**

1. The financial statements, prepared by the Bank, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.



2. Proper books of account have been maintained by the Bank.
3. Appropriate accounting policies have been consistently applied in preparation of the financial statements; changes, if any, have been adequately disclosed and accounting estimates are based on reasonable and prudent judgment.
4. International Financial Reporting Standards and Islamic Financial Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and departure therefrom, if any, has been adequately disclosed.
5. The system of internal controls is sound in design and has been effectively implemented and monitored. The Board's endorsement of the management's evaluation related to Internal Control over Financial Reporting, along with endorsement of overall Internal Controls is given on page 15.
6. There are no doubts upon the Bank's ability to continue as a going concern.
7. Key operating and financial data for last six years are summarized below:

|                           | <b>(Rupees in million)</b> |             |             |             |             |             |
|---------------------------|----------------------------|-------------|-------------|-------------|-------------|-------------|
|                           | <b>2015</b>                | <b>2014</b> | <b>2013</b> | <b>2012</b> | <b>2011</b> | <b>2010</b> |
| Total customer deposits   | 516,213                    | 446,409     | 386,161     | 340,393     | 302,099     | 249,774     |
| Total advances            | 205,859                    | 181,357     | 167,579     | 147,869     | 114,872     | 125,773     |
| Profit before tax         | 12,332                     | 9,917       | 7,513       | 8,878       | 7,155       | 5,656       |
| Profit after tax          | 7,405                      | 6,349       | 5,155       | 5,455       | 4,533       | 3,602       |
| Shareholders' Equity      | 31,698                     | 27,555      | 23,227      | 21,058      | 17,723      | 14,706      |
| Earnings per share * (Rs) | 6.66                       | 5.71        | 4.64        | 4.91        | 4.08        | 3.24        |
| Cash Dividend (%)         | 35                         | 30          | 20          | 30          | 25          | 20          |
| Stock Dividend (%)        | —                          | —           | 10          | —           | 15          | 20          |

\*Earnings per share from 2010 to 2014 have been recalculated based on the existing paid-up capital.

8. Value of investments of Provident Fund and Gratuity Fund Schemes based on latest audited financial statements as at December 31, 2014 was as follows:

|                | <b>(Rupees in '000)</b> |
|----------------|-------------------------|
| Provident Fund | 2,797,558               |
| Gratuity Fund  | 972,406                 |

9. The pattern of shareholding and additional information regarding pattern of shareholding is given on pages 114, 115 & 116.
10. No trade in the shares of the Bank was carried out by the Directors, CEO, CFO, Head of Internal Audit, and Company Secretary, and their spouses and minor children, except that during the year one Executive sold 10,000 shares. For the purpose of this disclosure, the definition of "Executive" includes Assistant General Managers and above, in addition to officials already mentioned in the listing regulations.



Bank AL Habib  
25<sup>YEARS</sup> SILVER JUBILEE  
1991-2016

## General

We wish to thank our customers for their continued support and confidence, the State Bank of Pakistan for their guidance, and local and foreign correspondents for their cooperation. We also thank all our staff members for their sincere and dedicated services, which enabled the Bank to achieve these satisfactory results.

On behalf of the Board of Directors

Karachi: January 27, 2016

SYED MAZHAR ABBAS  
**Director**



## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED DECEMBER 31, 2015

This statement is being presented to comply with the Code of Corporate Governance (“the Code”) contained in listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges (now Pakistan Stock Exchange) for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Bank has applied the principles contained in the Code in the following manner:

1. The Bank encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. At present the Board includes:

| Category                | Names  |
|-------------------------|--|
| Independent Directors   | Mr. Shameem Ahmed<br>Syed Mazhar Abbas<br>Syed Hasan Ali Bukhari   |
| Executive Directors     | Mr. Abbas D. Habib<br>Mr. Qumail R. Habib  |
| Non-Executive Directors | Mr. Ali Raza D. Habib<br>Mr. Anwar Haji Karim<br>Mr. Murtaza H. Habib<br>Mr. Safar Ali Lakhani<br>Mr. Shahid Ghaffar |

The independent directors meet the criteria of independence as per Prudential Regulations of State Bank of Pakistan.

2. The directors have confirmed that none of them is serving as a director in more than seven listed companies, including the Bank.
3. All the directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred in the Board during the year.
5. The Bank has prepared a “Code of Conduct” and has ensured that appropriate steps have been taken to disseminate it throughout the Bank along with supporting policies and procedures.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and Executive Director, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The directors of the Bank are well conversant with their duties and responsibilities. Two directors attended training programmes during the year.



10. The Board has approved appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The Directors' Report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
14. The Bank has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises five members, who are independent or non-executive directors. Chairman of the Committee is an independent director.
16. Meetings of the Audit Committee were held at least once in every quarter prior to approval of interim and final results of the Bank and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. The Board has formed a Human Resource & Remuneration Committee. It comprises five members, of whom four are not executive directors, including the Chairman of the Committee.
18. The Bank has an effective internal audit division that is manned by suitably qualified and experienced personnel. The audit team is conversant with the policies and procedures of the Bank.
19. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period' prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Bank's securities, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all the other material principles contained in the Code have been complied with.

On behalf of the Board of Directors

SYED MAZHAR ABBAS  
**Director**

Karachi: January 27, 2016



## REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (“the Code”) prepared by the Board of Directors of **Bank AL Habib Limited** (“the Bank”) for the year ended 31 December 2015 to comply with the requirements of Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges (now Pakistan Stock Exchange) where the Bank is listed.

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

As part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of 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 Code requires 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 distinguishing between transactions carried out on terms equivalent to those that prevail in arm’s length transactions and transactions which are not executed at arm’s length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm’s length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank’s compliance, in all material respects, with the best practices contained in the Code as applicable to the Bank for the year ended 31 December 2015.

Karachi: January 27, 2016

KPMG Taseer Hadi & Co.  
Chartered Accountants



## STATEMENT ON INTERNAL CONTROLS

The Management of the Bank is responsible for establishing the Internal Control System with the main objectives of ensuring effectiveness and efficiency of operations; reliability of financial reporting; safeguarding of assets; and compliance with applicable laws and regulations. The Internal Control System has evolved over the years, as it is an ongoing process and is included in the Bank's policies, procedures, financial limits, etc., as detailed in various manuals, circulars and instructions issued by the Bank. This system continues to be reviewed, refined and improved from time to time and immediate corrective action is taken to minimize risks which are inherent in banking business and operations.

The Internal Control System is reviewed by the Internal Auditors as well as External Auditors and their findings and recommendations are reported to the management and to the Audit Committee of the Board, and corrective action is taken to address control deficiencies and for improving procedures and systems as they are identified. The Board, acting through the Audit Committee, provides supervision and overall guidance in improving the effectiveness of the Internal Control System.

While the Internal Control System is effectively implemented and monitored, there are inherent limitations in the effectiveness of any system, including the possibility of human error or system failure and circumvention or overriding of controls. Accordingly, even an effective Internal Control System can only provide reasonable but not absolute assurance that the system's objectives will be achieved.

Internal Control over Financial Reporting (ICFR) aims to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the applicable financial reporting standards. During the year, Internal Auditors tested the Bank's ICFR and reported their findings to the management and the Audit Committee of the Board. While no material deficiencies were detected, indicating that ICFR is effectively implemented in the Bank, it may be reiterated that any control system can provide reasonable but not absolute assurance that its objectives will be achieved.

In accordance with the State Bank of Pakistan (SBP) directives, the Bank has completed all the stages of ICFR. Upon satisfactory completion of ICFR roadmap, SBP has granted exemption to the Bank from the requirement of submission of Long Form Report by the External Auditors.

The Bank has endeavored to follow the guidelines issued by SBP on internal controls. Updation and review of ICFR exercise for the year 2015 as per SBP Guidelines on Internal Controls has been successfully completed. In accordance with SBP directives, the annual assessment report for the year 2015 will be submitted by the Audit Committee of the Board to SBP during the year 2016. Evaluation and management of significant risks is an on-going process and we will make further efforts to improve our Internal Control System during 2016.

ASHAR HUSAIN  
*Chief Financial Officer*

ARIF SAEED KHAN  
*Head of Internal Audit*

Karachi: January 27, 2016

## BOARD OF DIRECTORS' REMARKS ON THE MANAGEMENT'S EVALUATION OF INTERNAL CONTROLS

Keeping in view the feedback received by the Board of Directors from the Audit Committee and the management, the Board of Directors endorse management's evaluation of Internal Controls, including Internal Control over Financial Reporting.

On behalf of the Board of Directors

Karachi: January 27, 2016

SYED MAZHAR ABBAS  
*Director*





## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed unconsolidated statement of financial position of **Bank AL Habib Limited** ("the Bank") as at 31 December 2015 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for fifteen branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- (b) in our opinion:
  - i) the unconsolidated statement of financial position and the unconsolidated profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with the accounting policies consistently applied except for the change disclosed in note 5.1 to the accompanying financial statements, with which we concur;
  - ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the unconsolidated statement of financial position, unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at 31 December 2015 and its true balance of profit, its cash flows and its changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source, under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Karachi: January 27, 2016

KPMG Taseer Hadi & Co.  
Chartered Accountants  
**Muhammad Taufiq**





**UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION  
 AS AT 31 DECEMBER 2015**

|   | Note | 2015<br>(Rupees in '000) | 2014               |
|---|------|--------------------------|--------------------|
| <b>ASSETS</b>                                       |      |                          |                    |
| Cash and balances with treasury banks               | 8    | 38,577,738               | 34,201,813         |
| Balances with other banks                           | 9    | 3,185,669                | 4,345,042          |
| Lendings to financial institutions                  | 10   | 5,818,072                | —                  |
| Investments - net                                   | 11   | 354,823,725              | 331,422,572        |
| Advances - net                                      | 12   | 205,858,658              | 181,356,817        |
| Operating fixed assets                              | 13   | 15,764,284               | 13,898,321         |
| Deferred tax assets - net                           |      | —                        | —                  |
| Other assets  | 14   | 15,684,322               | 13,694,264         |
|   |      | <b>639,712,468</b>       | <b>578,918,829</b> |
| <b>LIABILITIES</b>                                  |      |                          |                    |
| Bills payable                                       | 15   | 8,665,462                | 7,984,808          |
| Borrowings  | 16   | 62,592,299               | 78,455,452         |
| Deposits and other accounts                         | 17   | 516,213,178              | 446,409,004        |
| Sub-ordinated loans                                 | 18   | 2,994,600                | 3,743,700          |
| Liabilities against assets subject to finance lease |      | —                        | —                  |
| Deferred tax liabilities - net                      | 19   | 3,632,598                | 2,780,536          |
| Other liabilities                                   | 20   | 7,757,673                | 6,916,978          |
|   |      | <b>601,855,810</b>       | <b>546,290,478</b> |
| <b>NET ASSETS</b>                                   |      | <b>37,856,658</b>        | <b>32,628,351</b>  |
| <b>REPRESENTED BY:</b>                              |      |                          |                    |
| Share capital                                       | 21   | 11,114,254               | 11,114,254         |
| Reserves  |      | 10,329,659               | 8,760,911          |
| Unappropriated profit                               |      | 10,253,920               | 7,679,490          |
|   |      | <b>31,697,833</b>        | <b>27,554,655</b>  |
| Surplus on revaluation of assets - net of tax       | 22   | 6,158,825                | 5,073,696          |
|   |      | <b>37,856,658</b>        | <b>32,628,351</b>  |
| <b>CONTINGENCIES AND COMMITMENTS</b>                | 23   |                          |                    |

The annexed notes 1 to 47 form an integral part of these unconsolidated financial statements.

ABBAS D. HABIB  
*Chief Executive and  
 Managing Director*

SYED MAZHAR ABBAS  
*Director*

ANWAR HAJI KARIM  
*Director*

SYED HASAN ALI BUKHARI  
*Director*



## UNCONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2015

|  | Note | 2015<br>(Rupees in '000) | 2014         |
|--|------|--------------------------|--------------|
| Mark-up / return / interest earned   | 25   | 50,293,226               | 44,001,196   |
| Mark-up / return / interest expensed   | 26   | (25,476,349)             | (24,936,885) |
| Net mark-up / return / interest income   |      | 24,816,877               | 19,064,311   |
| Provision against non-performing loans and advances - net                                | 12.6 | (1,763,279)              | (552,989)    |
| Provision for diminution in the value of investments                                     | 11.4 | (196,992)                | —            |
| Bad debts written-off directly   | 12.7 | (34)                     | —            |
|  |      | (1,960,305)              | (552,989)    |
| Net mark-up / return / interest income after provisions                                  |      | 22,856,572               | 18,511,322   |
| <b>NON MARK-UP / INTEREST INCOME</b>   |      |                          |              |
| Fees, commission and brokerage income  |      | 2,286,952                | 1,950,797    |
| Dividend income  |      | 601,701                  | 364,618      |
| Income from dealing in foreign currencies  |      | 707,484                  | 854,437      |
| Gain on sale / redemption of securities - net  | 27   | 217,254                  | 294          |
| Unrealised gain / (loss) on revaluation of investments<br>classified as held for trading |      | —                        | —            |
| Other income   | 28   | 697,475                  | 637,546      |
| Total non mark-up / interest income  |      | 4,510,866                | 3,807,692    |
|  |      | 27,367,438               | 22,319,014   |
| <b>NON MARK-UP / INTEREST EXPENSES</b>   |      |                          |              |
| Administrative expenses  | 29   | (14,695,040)             | (12,189,767) |
| Other provisions / write-offs  | 30   | (38,535)                 | (9,249)      |
| Other charges  | 31   | (302,204)                | (202,884)    |
| Total non mark-up / interest expenses  |      | (15,035,779)             | (12,401,900) |
| Extra-ordinary / unusual items   |      | —                        | —            |
| <b>PROFIT BEFORE TAXATION</b>  |      | 12,331,659               | 9,917,114    |
| Taxation – Current   |      | (4,503,771)              | (3,497,316)  |
| – Prior years  |      | (500,484)                | —            |
| – Deferred   |      | 77,508                   | (70,856)     |
|  | 32   | (4,926,747)              | (3,568,172)  |
| <b>PROFIT AFTER TAXATION</b>   |      | 7,404,912                | 6,348,942    |
|  |      | (Rupees)                 |              |
| <b>Basic and diluted earnings per share</b>  | 33   | 6.66                     | 5.71         |

The annexed notes 1 to 47 form an integral part of these unconsolidated financial statements.

ABBAS D. HABIB  
Chief Executive and  
Managing Director

SYED MAZHAR ABBAS  
Director

ANWAR HAJI KARIM  
Director

SYED HASAN ALI BUKHARI  
Director



**UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2015**

|   | Note | 2015<br>(Rupees in '000) | 2014             |
|---|------|--------------------------|------------------|
| <b>Profit after taxation for the year</b>   |      | <b>7,404,912</b>         | <b>6,348,942</b> |
| <b>Other comprehensive income</b>   |      |                          |                  |
| <i>Items that are or may be reclassified subsequently to profit or loss account</i> |      |                          |                  |
| Exchange differences on translation of net investment in foreign branches           |      | <b>87,766</b>            | (78,284)         |
| <i>Items that will never be reclassified to profit or loss subsequently</i>         |      |                          |                  |
| Remeasurement of defined benefit plan   | 36.6 | <b>(104,739)</b>         | 48,215           |
| Related tax charge  |      | <b>36,659</b>            | (16,875)         |
|   |      | <b>(68,080)</b>          | 31,340           |
| <b>Comprehensive income transferred to equity</b>                                   |      | <b>7,424,598</b>         | <b>6,301,998</b> |
| <i>Components of comprehensive income not reflected in equity</i>                   |      |                          |                  |
| Surplus on revaluation of available for sale securities                             |      | <b>2,071,459</b>         | 2,796,294        |
| Related tax charge  |      | <b>(929,570)</b>         | (803,378)        |
|   |      | <b>1,141,889</b>         | 1,992,916        |
| Surplus on revaluation of operating fixed assets                                    |      | —                        | 1,327,022        |
| Related tax charge  |      | —                        | (254,864)        |
|   |      | —                        | 1,072,158        |
| <b>Total comprehensive income</b>   |      | <b>8,566,487</b>         | <b>9,367,072</b> |

The annexed notes 1 to 47 form an integral part of these unconsolidated financial statements.

ABBAS D. HABIB  
Chief Executive and  
Managing Director

SYED MAZHAR ABBAS  
Director

ANWAR HAJI KARIM  
Director

SYED HASAN ALI BUKHARI  
Director



## UNCONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

|   | Note | 2015<br>(Rupees in '000) | 2014         |
|---|------|--------------------------|--------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                                |      |                          |              |
| Profit before taxation  |      | 12,331,659               | 9,917,114    |
| Less: Dividend income   |      | (601,701)                | (364,618)    |
|   |      | <b>11,729,958</b>        | 9,552,496    |
| <b>Adjustments for:</b>   |      |                          |              |
| Depreciation  |      | 1,180,653                | 992,133      |
| Amortisation  |      | 85,328                   | 78,006       |
| Provision against non-performing loans and advances - net                 |      | 1,763,279                | 552,989      |
| Provision for diminution in the value of investments                      |      | 196,992                  | —            |
| Gain on sale of operating fixed assets                                    |      | (56,372)                 | (74,655)     |
| Gain on sale / redemption of securities - net                             |      | (217,254)                | (294)        |
| Charge for compensated absences   |      | 49,654                   | 35,390       |
| Provision against off-balance sheet items                                 |      | 38,535                   | 9,249        |
|   |      | <b>3,040,815</b>         | 1,592,818    |
|   |      | <b>14,770,773</b>        | 11,145,314   |
| <b>Increase in operating assets</b>                                       |      |                          |              |
| Lendings to financial institutions  |      | (5,818,072)              | —            |
| Advances - net  |      | (26,265,120)             | (14,330,446) |
| Other assets  |      | (1,997,209)              | (7,027,117)  |
|   |      | <b>(34,080,401)</b>      | (21,357,563) |
| <b>Increase / (decrease) in operating liabilities</b>                     |      |                          |              |
| Bills payable   |      | 680,654                  | 1,811,706    |
| Borrowings  |      | (15,201,573)             | 48,308,542   |
| Deposits  |      | 69,804,174               | 60,248,242   |
| Other liabilities - (excluding provision for taxation)                    |      | 794,360                  | 894,535      |
|   |      | <b>56,077,615</b>        | 111,263,025  |
|   |      | <b>36,767,987</b>        | 101,050,776  |
| Income tax paid   |      | (5,158,034)              | (2,949,897)  |
| Net cash generated from operating activities                              |      | <b>31,609,953</b>        | 98,100,879   |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>                                |      |                          |              |
| Net investments in securities   |      | (21,697,501)             | (88,873,004) |
| Net investments in associates   |      | 388,069                  | —            |
| Dividend received   |      | 601,243                  | 369,708      |
| Investments in operating fixed assets                                     |      | (3,202,040)              | (1,861,998)  |
| Sale proceeds from disposal of operating fixed assets                     |      | 130,172                  | 98,158       |
| Net cash used in investing activities                                     |      | <b>(23,780,057)</b>      | (90,267,136) |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>                                |      |                          |              |
| Repayments of sub-ordinated loans   |      | (749,100)                | (2,742,200)  |
| Dividend paid   |      | (3,290,430)              | (1,995,695)  |
| Net cash used in financing activities                                     |      | <b>(4,039,530)</b>       | (4,737,895)  |
| Exchange differences on translation of net investment in foreign branches |      | 87,766                   | (78,284)     |
| Increase in cash and cash equivalents                                     |      | <b>3,878,132</b>         | 3,017,564    |
| Cash and cash equivalents at beginning of the year                        |      | <b>37,879,971</b>        | 34,862,407   |
| Cash and cash equivalents at end of the year                              | 34   | <b>41,758,103</b>        | 37,879,971   |

The annexed notes 1 to 47 form an integral part of these unconsolidated financial statements.

ABBAS D. HABIB  
 Chief Executive and  
 Managing Director

SYED MAZHAR ABBAS  
 Director

ANWAR HAJI KARIM  
 Director

SYED HASAN ALI BUKHARI  
 Director



**UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
 FOR THE YEAR ENDED 31 DECEMBER 2015**

|   | Share<br>Capital | Statutory<br>Reserve | Foreign<br>Currency<br>Translation<br>Reserve<br>(Rupees in '000) | Revenue Reserves<br>Special<br>Reserve | General<br>Reserve | Unappro-<br>priated<br>Profit | Total       |
|---|------------------|----------------------|---|--|--------------------|-------------------------------|-------------|
| Balance as at 01 January 2014                                       | 10,103,868       | 6,662,862            | 240,045   | 126,500                                | 540,000            | 5,554,207                     | 23,227,482  |
| Total comprehensive income for the year ended 31 December 2014:     |                  |                      |   |  |                    |                               |             |
| Profit after tax  | -                | -                    | -   | -                                      | -                  | 6,348,942                     | 6,348,942   |
| Other comprehensive income  | -                | -                    | (78,284)  | -                                      | -                  | 31,340                        | (46,944)    |
|   | -                | -                    | (78,284)  | -                                      | -                  | 6,380,282                     | 6,301,998   |
| Transfer from surplus on revaluation of fixed assets - net of tax   | -                | -                    | -   | -                                      | -                  | 45,947                        | 45,947      |
| Transfer to statutory reserve                                       | -                | 1,269,788            | -   | -                                      | -                  | (1,269,788)                   | -           |
| Transactions with owners, recorded directly in equity:              |                  |                      |   |  |                    |                               |             |
| Cash dividend (Rs. 2 per share)                                     | -                | -                    | -   | -                                      | -                  | (2,020,772)                   | (2,020,772) |
| Issue of bonus shares in the ratio of 10 shares for 100 shares held | 1,010,386        | -                    | -   | -                                      | -                  | (1,010,386)                   | -           |
| Balance as at 31 December 2014                                      | 11,114,254       | 7,932,650            | 161,761   | 126,500                                | 540,000            | 7,679,490                     | 27,554,655  |
| Total comprehensive income for the year ended 31 December 2015:     |                  |                      |   |  |                    |                               |             |
| Profit after tax  | -                | -                    | -   | -                                      | -                  | 7,404,912                     | 7,404,912   |
| Other comprehensive income  | -                | -                    | 87,766  | -                                      | -                  | (68,080)                      | 19,686      |
|   | -                | -                    | 87,766  | -                                      | -                  | 7,336,832                     | 7,424,598   |
| Transfer from surplus on revaluation of fixed assets - net of tax   | -                | -                    | -   | -                                      | -                  | 52,856                        | 52,856      |
| Transfer to statutory reserve                                       | -                | 1,480,982            | -   | -                                      | -                  | (1,480,982)                   | -           |
| Transaction with owners, recorded directly in equity:               |                  |                      |   |  |                    |                               |             |
| Cash dividend (Rs. 3 per share)                                     | -                | -                    | -   | -                                      | -                  | (3,334,276)                   | (3,334,276) |
| Balance as at 31 December 2015                                      | 11,114,254       | 9,413,632            | 249,527   | 126,500                                | 540,000            | 10,253,920                    | 31,697,833  |

The annexed notes 1 to 47 form an integral part of these unconsolidated financial statements.

**ABBAS D. HABIB**  
*Chief Executive and  
 Managing Director*

**SYED MAZHAR ABBAS**  
*Director*

**ANWAR HAJI KARIM**  
*Director*

**SYED HASAN ALI BUKHARI**  
*Director*



## NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 1. STATUS AND NATURE OF BUSINESS

Bank AL Habib Limited (the Bank) is a banking company incorporated in Pakistan on 15 October 1991 as a public limited company under the Companies Ordinance, 1984 having its registered office at 126-C, Old Bahawalpur Road, Multan with principal place of business in Karachi. Its shares are listed on all the Stock Exchanges in Pakistan (subsequent to year end due to demutualisation all stock exchanges are integrated into Pakistan Stock Exchange). It is a scheduled bank principally engaged in the business of commercial banking with a network of 423 branches (2014: 351 branches), 105 sub-branches (2014: 108 sub-branches) and 03 representative offices (2014: 03 representative offices). The branch network of the Bank includes 03 overseas branches (2014: 03 overseas branches) and 29 Islamic Banking branches (2014: 17 Islamic Banking branches).

### 2. BASIS OF PRESENTATION

- 2.1 These unconsolidated financial statements have been prepared in conformity with the format of financial statements prescribed by the State Bank of Pakistan (SBP) vide BSD Circular No. 04, dated 17 February 2006.
- 2.2 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, SBP has issued various circulars from time to time. Permissible forms of trade-related modes of financing includes purchase of goods by banks from customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchase and resale arising under these arrangements are not reflected in these unconsolidated financial statements as such, but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon. However, the Islamic Banking branches of the Bank have complied with the requirements set out under the Islamic Financial Accounting Standards (IFAS).
- 2.3 The financial results of the Islamic Banking branches have been consolidated in these unconsolidated financial statements for reporting purposes, after eliminating material inter-branch transactions / balances. Key financial information of the Islamic Banking branches is disclosed in note 44.
- 2.4 These are separate financial statements of the Bank in which investments in subsidiaries and associates are reported on the basis of direct equity interest and are not consolidated or accounted for by using equity method of accounting.

### 3. STATEMENT OF COMPLIANCE

- 3.1 These unconsolidated financial statements of the Bank have been prepared, in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and IFAS issued by the Institute of Chartered Accountants of Pakistan (ICAP) as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and regulations / directives issued by the Securities and Exchange Commission of Pakistan (SECP) and SBP. Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or regulations / directives issued by SECP and SBP differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said regulations / directives shall prevail.
- 3.2 SBP vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" for banking companies till further instructions. Further, according to the notification of SECP dated 28 April 2008, IFRS - 7 "Financial Instruments: Disclosures" has not



been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these unconsolidated financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by SBP.

#### **4. BASIS OF MEASUREMENT**

These unconsolidated financial statements have been prepared under the historical cost convention except for the certain investments, land and buildings and derivative financial instruments which are revalued as referred to in notes 5.4, 5.6, 5.14 and 5.15 below.

#### **5. SIGNIFICANT ACCOUNTING POLICIES**

- 5.1** The accounting policies adopted in the preparation of these unconsolidated financial statements are consistent with those of the previous financial year, except for the following standards, which became effective during the year:

##### **New, amended and revised standards and interpretations of IFRSs**

- IFRS 10 'Consolidated Financial Statements' replaces the current guidance on consolidation in IAS 27 Consolidated and Separate Financial Statements. It introduces a single model of assessing control whereby an investor controls an investee when it has the power, exposure to variable returns and the ability to use its power to influence the returns of the investee. IFRS 10 also includes specific guidance on de-facto control, protective rights and the determination of whether a decision maker is acting as principal or agent, all of which influence the assessment of control. The application of IFRS 10 did not result in any investee being in control of the Bank.
- IFRS 11 'Joint Arrangements' replaces IAS 31 'Interests in Joint Ventures' it requires all joint ventures to be equity accounted hereby removing the option in IAS 31 for proportionate consolidation. It also removes the IAS 31 concept to jointly controlled assets. The application of IFRS 11 did not result in identification of any associate as joint venture.
- IFRS 12 'Disclosure of Interests in Other Entities' prescribes additional disclosures around significant judgments and assumptions meet in determining whether an entity controls another entity and has joint control or significant influence over another entity. The standard also requires disclosures on the nature and risks associated with interest in unconsolidated structured entities. The application of IFRS 12 does not have an impact on the unconsolidated financial statements of the Bank.
- IFRS 13 'Fair Value Measurement' consolidates the guidance on how to measure fair value, which was spread across various IFRS, into one comprehensive standard. It introduces the use of an exact price, as well as extensive disclosure requirements, particularly the inclusion of non-financial instruments into the fair value hierarchy. The application of IFRS 13 does not have an impact on the unconsolidated financial statements of the Bank except for certain disclosures as mentioned in note 39.

#### **5.2 Cash and cash equivalents**

Cash and cash equivalents as referred to in the cash flow statement comprises cash and balances with treasury banks and balances with other banks less overdrawn nostros accounts.

#### **5.3 Repurchase / resale agreements**

The Bank enters into transactions of repos and reverse repos at contracted rates for a specified period of time. These are recorded as under:





### **Sale under repurchase obligation**

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the statement of financial position and are measured in accordance with accounting policies for investments. Amounts received under these agreements are recorded as repurchase agreement borrowings. The difference between sale and repurchase price is amortised as expense over the term of the repo agreement.

### **Purchase under resale obligation**

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position. Amounts paid under these arrangements are included in reverse repurchase agreement lendings. The difference between purchase and resale price is accrued as income over the term of the reverse repo agreement.

### **Bai Muajjal**

In Bai Muajjal, the Bank sells sukuk on credit to other financial institutions and Government of Pakistan. The credit price is agreed at the time of sale and such proceeds are received at the end of the credit period.

## **5.4 Investments**

Investments in subsidiaries and associates are stated at cost less provision for impairment, if any. Other investments are classified as follows:

### **Held for trading**

These are investments acquired principally for the purpose of generating profits from short - term fluctuations in price or dealer's margin or are securities included in a portfolio in which a pattern of short - term trading exists.

### **Held to maturity**

These are investments with fixed or determinable payments and fixed maturities which the Bank has the intention and ability to hold till maturity.

### **Available for sale**

These are investments which do not fall under the held for trading and held to maturity categories.

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

Investments (other than held for trading) are initially measured at fair value plus transaction cost associated with the investment. Investments classified as held for trading are initially measured at fair value, and transaction costs are expensed in the profit and loss account.

After initial recognition, quoted securities, other than those classified as held to maturity, are carried at market value. Unquoted securities are valued at cost less impairment in value, if any. Held to maturity securities are carried at amortised cost.

Surplus / (deficit) arising on revaluation of quoted securities which are classified as available for sale investments is taken to a separate account which is shown in the statement of financial position below equity. The surplus / (deficit) arising on these securities is taken to the profit and loss account when actually realised upon disposal or in case of impairment of securities. The unrealised surplus / (deficit) arising on revaluation of quoted securities which are classified as held for trading is taken to the profit and loss account.

Provision for diminution in the values of securities (except for debt securities) is made after considering impairment, if any, in their value and is taken to profit and loss account. Impairment is booked when there is an objective evidence of significant or prolonged decline in the value of such





securities. Provision for impairment against debt securities is made in accordance with the requirements of the Prudential Regulations of SBP. In case of unquoted equity securities, the breakup value of the security should be considered to determine impairment amount.

Premium or discount on debt securities classified as available for sale and held to maturity is amortised using effective interest method and taken to the profit and loss account.

## 5.5 Advances

### Loans and advances

These are stated net of provisions for non-performing advances. Provision for non-performing advances is determined in accordance with the requirements of the Prudential Regulations and is charged to the profit and loss account. The Bank also maintains general provision in addition to the requirements of the Prudential Regulations on the basis of the management's risk assessment. Advances are written off when there are no realistic prospects of recovery.

### Finance lease receivables

Leases where the Bank transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance leases. A receivable is recognised at an amount equal to the present value of the lease payments including any guaranteed residual value.

### Ijarah finance

In accordance with the requirements of IFAS 2 'Ijarah', assets leased out under ijarah arrangements on or after 01 January 2009 are stated at cost less depreciation and impairment, if any and included under "Advances". Such assets are depreciated over the terms of Ijarah contracts. Ijarah arrangements executed before the above referred date are accounted for as finance lease.

### Murabaha

Funds disbursed under murabaha arrangements for purchase of goods are recorded as advance for murabaha. On culmination of murabaha i.e. sale of goods to customers, murabaha receivables are recorded at the sale price net of deferred income. Goods purchased but remaining unsold at the reporting date are recorded as inventories.

### Istisna

In Istisna financing, the Bank places an order to purchase some specific goods / commodities from its customers to be delivered to the Bank within an agreed time. The goods are then sold and the amount hence financed is paid back to the Bank.

### Diminishing Musharika

In Diminishing Musharika financing, the Bank enters into Musharika based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into periodic rental payment agreement for the utilisation of the Bank's Musharika share by the customer. The customer purchase the Bank share gradually as per his undertaking.

### Musawama

In Musawama financing, the Bank purchases specific goods / commodities on cash basis from its customer for onward sale. Upon realisation of sale proceeds the finance is adjusted.

## 5.6 Operating fixed assets

### Tangible operating assets - owned

Land is measured at cost at the time of initial recognition and is subsequently carried at revalued amount. Buildings are initially measured at cost and upon revaluation, are carried at revalued amount less accumulated depreciation and impairment, if any. All other operating fixed assets are stated at cost less accumulated depreciation and impairment, if any. Depreciation is charged to

profit and loss account on straight line basis so as to charge the assets over their expected useful lives at the rates specified in note 13.2. The depreciation charge is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed annually and adjusted, if appropriate. Depreciation is charged on prorata basis, i.e., full month charge in the month of purchase and no charge in the month of disposal.

Land and buildings are revalued by independent professionally qualified valuers with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value. The surplus arising on revaluation of fixed assets is credited to the "surplus on revaluation of assets" account shown below equity. The Bank has adopted the following accounting treatment of depreciation on revalued assets, keeping in view the requirements of the Companies Ordinance, 1984 and SECP's SRO 45(1)/2003 dated 13 January 2003:

- depreciation on assets which are revalued is determined with reference to the value assigned to such assets on revaluation and depreciation charge for the year is taken to the profit and loss account; and
- an amount equal to incremental depreciation for the year net of deferred taxation is transferred from surplus on revaluation of assets to unappropriated profit through statement of changes in equity to record realisation of surplus to the extent of the incremental depreciation charge for the year.

Subsequent costs are included in the asset's carrying amount or recognised 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposal of fixed assets are included in income currently, except that the related surplus on revaluation of land and buildings (net of deferred tax) is transferred directly to unappropriated profit.

#### **Tangible operating assets - leased**

Leases where the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance lease are accounted for by recording the assets and related liability. These are stated at lower of fair value and the present value of minimum lease payments at the inception of lease less accumulated depreciation. Financial charges are allocated over the period of lease term so as to provide a constant periodic rate of financial charge on the outstanding liability. Depreciation is charged on the basis similar to the owned assets.

#### **Intangible assets**

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and impairment, if any. Amortisation is based on straight line method by taking into consideration the estimated useful life of assets at the rates specified in note 13.3. Intangible assets are amortised on prorata basis i.e. full month amortisation in the month of purchase and no amortisation in the month of disposal.

#### **Capital work in progress**

Capital work in progress is stated at cost less impairment, if any.

#### **Impairment**

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the fixed assets are written down to their recoverable amounts.

The resulting impairment loss is taken to 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 assets.

## **5.7 Employees' benefits**

### **Defined benefit plan**

The Bank operates an approved gratuity fund for all its confirmed employees, which is administered by the Trustees. The Bank's costs and contributions are determined based on actuarial valuation carried out at each year end using Projected Unit Credit Actuarial Method. All actuarial gains and losses are recognised in 'other comprehensive income' as they occur and are not reclassified to profit or loss in subsequent periods.

### **Defined contribution plan**

The Bank operates an approved provident fund scheme for all its regular permanent employees, administered by the Trustees. Equal monthly contributions are made both by the Bank and its employees to the fund at the rate of 10% of the basic salary in accordance with the terms of the scheme.

### **Compensated absences**

The Bank accounts for all accumulating compensated absences when employees render service that increases their entitlement to future compensated absences. The liability is determined based on actuarial valuation carried out using the Projected Unit Credit Method.

## **5.8 Provisions against liabilities**

These are recognised when the Bank has a legal or constructive obligation as a result of past events, 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 reporting date and are adjusted to reflect the current best estimate.

## **5.9 Provisions against off-balance sheet obligations**

The Bank, in the ordinary course of business, issues letters of credit, acceptances, guarantees, bid bonds, performance bonds etc. The commission against such contracts is recognised in the profit and loss account under "fees, commission and brokerage income" over the period of contracts. The Bank's liability under such contracts is measured at the higher of the amount representing unearned commission income at the reporting date and the best estimate of the amount expected to settle any financial obligation arising under such contracts.

## **5.10 Sub-ordinated loans**

Sub-ordinated loans are initially recorded at the amount of proceeds received. Mark-up accrued on sub-ordinated loans is recognised separately as part of other liabilities and is charged to the profit and loss account over the period on an accrual basis.

## **5.11 Revenue recognition**

- (a) Mark-up / interest / return on advances and investments is recognised on accrual basis, except in case of advances classified under the Prudential Regulations on which mark-up is recognised on receipt basis. Mark-up / interest / return on rescheduled / restructured loans and advances and investments is recognised as permitted by the regulations of SBP.
- (b) Financing method is used in accounting for income from lease financing. Under this method, the unrealised lease income is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Gain / loss on termination of lease contracts, front end fee and other lease income are recognised as income on receipt basis.

- (c) The rentals from ijarah are recognised as income over the term of the contract net of depreciation expense relating to the ijarah assets.
- (d) Income from murabaha is accounted for on a time proportionate basis over the period of murabaha transaction.
- (e) Dividend income is recognised when the right to receive is established.
- (f) Gain or loss on sale of investments are recognised in profit and loss account in the year in which they arise.
- (g) Fee, commission and brokerage income are recognised as services are performed.

## 5.12 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss account except to the extent that it relates to the items recognised directly in equity or surplus on revaluation of assets, in which case it is recognised in equity or surplus on revaluation of assets.

### Current

Provision for current tax is based on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date and any adjustments to the tax payable in respect of previous years. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities.

### Deferred

Deferred tax is provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences, except in respect of taxable temporary differences associated with investment in foreign operations, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

## 5.13 Currency translation

### Functional and presentation currency

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



## **Transactions and balances in foreign currencies**

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the exchange rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined. Exchange gains or losses are included in income currently.

## **Foreign operations**

The assets and liabilities of foreign operations are translated to Pak Rupees at exchange rates prevailing at the reporting date. The income and expense of foreign operations are translated at rate of exchange prevailing during the year. Exchange gain or loss on such translation is taken to equity through statement of other comprehensive income under "foreign currency translation reserve".

## **Commitments**

Commitments for outstanding forward foreign exchange contracts are translated at forward rates applicable to their respective maturities.

### **5.14 Financial instruments**

Financial assets and financial liabilities are recognised at the time when the Bank becomes a party to the contractual provision of the instrument. Financial assets are de-recognised when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of ownership of the asset. Financial liabilities are de-recognised when obligation is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognised in the profit and loss account of the current period.

### **5.15 Derivative financial instruments**

Derivative financial instruments are initially recognised at their fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivative financial instruments are carried as asset when fair value is positive and liabilities when fair value is negative. Any change in the value of derivative financial instruments is taken to the profit and loss account.

### **5.16 Off - setting**

Financial assets and financial liabilities are only off - set and the net amount is reported in the financial statements when there is a legally enforceable right to set - off the recognised amount and the Bank intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off - set and the net amount is reported in the financial statements.

### **5.17 Dividends and appropriations to reserves**

Dividends and appropriations to reserves are recognised in the year in which these are approved, except appropriations required by the law which are recorded in the period to which they pertain.

### **5.18 Segment reporting**

A segment is a distinguishable component of the Bank that is engaged in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from those of other segments. The segment reporting format has been determined and prepared in conformity with the format of financial statements and guidelines, prescribed by SBP vide BSD Circular No. 04, dated, 17 February 2006. The Bank's primary format of reporting is based on business segments.



## 5.18.1 Business segments

### Retail banking

It consists of retail lending, deposits and banking services to private individuals and small businesses. The retail banking activities include provision of banking and other financial services, such as current and savings accounts, credit cards, consumer banking products etc., to individual customers, small merchants and SMEs.

### Commercial banking

Commercial banking represents provision of banking services including treasury and international trade related activities to large corporate customers, multinational companies, government and semi government departments and institutions and SMEs treated as corporate under the Prudential Regulations.

## 5.18.2 Geographical segments

The Bank operates in four geographic regions, being:

- Pakistan
- Middle East
- Asia Pacific
- Africa

## 5.19 Earnings per share

The Bank presents basic and diluted earnings per share (EPS). Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period / year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. There were no convertible dilutive potential ordinary shares in issue at 31 December 2015.

## 5.20 Clients' assets

The Bank provides services that result in the holding of assets on behalf of its clients. Such assets are not reported in the financial statements, as they are not the assets of the Bank.

## 6. ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which forms the basis of making judgment about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in period of revision and future periods if the revision affects both current and future periods. The estimates and judgments that have a significant effect on the financial statements are in respect of the following:

|  | Note         |
|--|--------------|
| Classification of investments and provision for diminution in the value of investments | 5.4 & 11     |
| Provision against non - performing advances  | 5.5 & 12     |
| Useful lives of assets and methods of depreciation and amortisation                    | 5.6 & 13     |
| Employees' benefits  | 5.7, 20 & 36 |
| Provisions against off - balance sheet obligations                                     | 5.9 & 20     |
| Current and deferred taxation  | 5.12 & 19    |





### Change in accounting estimates

During the year, the Bank has increased the depreciation rate on improvements to leasehold buildings from 5% to 20% to reflect the pattern in which the asset's future economic benefits are expected to be consumed. Management has incorporated the effect of change in estimate in accordance with IAS 8 - "Accounting Policies, Changes in Accounting Estimates and Errors" in the financial statements.

The effect of this change on depreciation expense in current and future years is as follows:

|                                  | 2015             | 2016    | 2017    |
|----------------------------------|------------------|---------|---------|
|                                  | (Rupees in '000) |         |         |
| Increase in depreciation expense | 28,051           | 181,189 | 181,189 |

### 7. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following standards, amendments and interpretations of Approved Accounting Standards will be effective for accounting periods on or after 01 January 2016:

- Amendments to IAS 38 'Intangible Assets' and IAS 16 'Property, Plant and Equipment' (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on Bank's unconsolidated financial statements.
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures) (effective for annual periods beginning on or after 1 January 2016) clarifies (a) which subsidiaries of an investment entity are consolidated; (b) exemption to present consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity; and (c) how an entity that is not an investment entity should apply the equity method of accounting for its investment in an associate or joint venture that is an investment entity. The amendments are not likely to have an impact on Bank's unconsolidated financial statements.
- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after 1 January 2016) clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. They require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business. The amendments are not likely to have an impact on Bank's unconsolidated financial statements.
- Amendment to IAS 27 'Separate Financial Statement' (effective for annual periods beginning on or after 1 January 2016) allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendment is not likely to have an impact on Bank's unconsolidated financial statements.



- Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after 1 January 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction. The amendments are not likely to have an impact on Bank's unconsolidated financial statements.
- Annual Improvements 2012-2014 cycles (amendments are effective for annual periods beginning on or after 1 January 2016). The new cycle of improvements contain amendments to the following standards:
  - IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' is amended to clarify that if an entity changes the method of disposal of an asset (or disposal group) i.e. reclassifies an asset from held for distribution to owners to held for sale or vice versa without any time lag, then such change in classification is considered as continuation of the original plan of disposal and if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held for distribution, then it ceases held for distribution accounting in the same way as it would cease held for sale accounting.
  - IFRS 7 'Financial Instruments-Disclosures' is amended to clarify when servicing arrangements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety are in the scope of its disclosure requirements. IFRS 7 is also amended to clarify that additional disclosures required by 'Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS7)' are not specifically required for inclusion in condensed interim financial statements for all interim periods.
  - IAS 19 'Employee Benefits' is amended to clarify that high quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid.
  - IAS 34 'Interim Financial Reporting' is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements and disclosed elsewhere should be cross referred.

The above amendments are not likely to have an impact on Bank's unconsolidated financial statements.





|   | Note | 2015<br>(Rupees in '000) | 2014              |
|---|------|--------------------------|-------------------|
| <b>8. CASH AND BALANCES WITH TREASURY BANKS</b> |      |                          |                   |
| In hand:  |      |                          |                   |
| Local currency                                  |      | 9,727,193                | 7,299,888         |
| Foreign currencies                              |      | 837,409                  | 915,477           |
|   |      | <b>10,564,602</b>        | <b>8,215,365</b>  |
| In transit:                                     |      |                          |                   |
| Local currency                                  |      | 27,610                   | 12,500            |
| Foreign currencies                              |      | 62,107                   | 239,827           |
|   |      | <b>89,717</b>            | <b>252,327</b>    |
| With SBP in:                                    |      |                          |                   |
| Local currency current accounts                 | 8.1  | 13,513,411               | 15,325,359        |
| Local currency current account-Islamic Banking  | 8.1  | 598,802                  | 342,928           |
| Foreign currency deposit accounts               |      |                          |                   |
| Cash reserve account                            | 8.1  | 1,924,616                | 1,592,657         |
| Cash reserve / special cash reserve account     |      |                          |                   |
| -Islamic Banking                                |      | 29,956                   | 24,317            |
| Special cash reserve account                    | 8.1  | 5,773,848                | 4,777,971         |
| Local US Dollar collection account              | 8.2  | 15,750                   | 19,588            |
|   |      | <b>21,856,383</b>        | <b>22,082,820</b> |
| With National Bank of Pakistan (NBP) in:        |      |                          |                   |
| Local currency current accounts                 |      | 6,034,612                | 3,618,592         |
| National prize bonds                            |      | 32,424                   | 32,709            |
|   |      | <b>38,577,738</b>        | <b>34,201,813</b> |

**8.1** These deposits and reserves are maintained by the Bank to comply with the statutory requirements.

**8.2** This represents US Dollar collection account maintained with SBP.

|                                     | Note | 2015<br>(Rupees in '000) | 2014             |
|-------------------------------------|------|--------------------------|------------------|
| <b>9. BALANCES WITH OTHER BANKS</b> |      |                          |                  |
| In Pakistan                         |      |                          |                  |
| Current accounts                    |      | 573,130                  | 1,088,902        |
| Deposit account                     | 9.1  | 500,000                  | 600,000          |
| Savings accounts                    | 9.2  | 215,743                  | 996,298          |
|                                     |      | <b>1,288,873</b>         | <b>2,685,200</b> |
| Outside Pakistan                    |      |                          |                  |
| Current accounts                    |      | 1,724,248                | 1,027,760        |
| Deposit accounts                    | 9.3  | 172,548                  | 632,082          |
|                                     |      | <b>1,896,796</b>         | <b>1,659,842</b> |
|                                     |      | <b>3,185,669</b>         | <b>4,345,042</b> |



- 9.1** This carries profit rate of 5.50% (2014: 8% to 8.50%) per annum.
- 9.2** These carry expected profit rates ranging from 2.25% to 5% (2014: 5% to 7.39%) per annum.
- 9.3** These carry interest rates ranging from 0.05% to 0.30% (2014: 0.05% to 0.35%) per annum.

|   | Note | 2015<br>(Rupees in '000) | 2014 |
|---|------|--------------------------|------|
| <b>10. LENDINGS TO FINANCIAL INSTITUTIONS</b> |      |                          |      |
| In local currency                             |      |                          |      |
| Bai Muajjal                                   | 10.1 | <b>1,825,278</b>         | —    |
| Call money lendings                           | 10.2 | <b>400,000</b>           | —    |
| Repurchase agreement lendings (Reverse Repo)  | 10.3 | <b>3,592,794</b>         | —    |
|   |      | <b>5,818,072</b>         | —    |

- 10.1** The rate of return on this product is 6% (2014: Nil) per annum having maturity upto one year.
- 10.2** This represents unsecured lendings carrying mark-up at a rate of 6.50% (2014: Nil) per annum having maturity period upto one month.

**10.3 Securities held as collateral against repurchase agreement lendings**

|                       | 2015             |                             |                  | 2014         |                             |       |
|-----------------------|------------------|-----------------------------|------------------|--------------|-----------------------------|-------|
|                       | Held by Bank     | Further given as collateral | Total            | Held by Bank | Further given as collateral | Total |
|                       | (Rupees in '000) |                             |                  |              |                             |       |
| Market Treasury Bills | <b>3,592,794</b> | —                           | <b>3,592,794</b> | —            | —                           | —     |

- 10.3.1** These carry interest rates ranging from 6.35% to 6.50% (2014: Nil). The market value of securities held as collateral against lendings to financial institutions amounted to Rs. 3,593 million (2014: Nil).



## 11. INVESTMENTS

|   |       | 2015               |                     |                    | 2014               |                     |                    |
|---|-------|--------------------|---------------------|--------------------|--------------------|---------------------|--------------------|
|   |       | Held by Bank       | Given as collateral | Total              | Held by Bank       | Given as collateral | Total              |
| 11.1 Investments by type                                    |       | (Rupees in '000)   |                     |                    |                    |                     |                    |
|   | Note  |                    |                     |                    |                    |                     |                    |
| <b>Available for Sale Securities</b>                        | 11.5  |                    |                     |                    |                    |                     |                    |
| Market Treasury Bills                                       |       | 96,543,319         | 39,361,572          | 135,904,891        | 101,974,927        | 56,253,740          | 158,228,667        |
| Pakistan Investment Bonds                                   |       | 60,095,104         | —                   | 60,095,104         | 36,503,076         | —                   | 36,503,076         |
| Foreign Currency Bonds                                      |       | 4,580,708          | —                   | 4,580,708          | 2,289,589          | —                   | 2,289,589          |
| Sukuk Bonds   |       | 6,447,026          | —                   | 6,447,026          | 4,833,911          | —                   | 4,833,911          |
| Fully paid-up ordinary shares - Listed                      |       | 4,018,649          | —                   | 4,018,649          | 3,062,421          | —                   | 3,062,421          |
| Fully paid-up ordinary shares - Unlisted                    |       | 45,529             | —                   | 45,529             | 39,570             | —                   | 39,570             |
| Term finance certificates - Listed                          |       | 302,972            | —                   | 302,972            | 321,695            | —                   | 321,695            |
| Term finance certificates - Unlisted                        |       | 2,946,686          | —                   | 2,946,686          | 2,832,620          | —                   | 2,832,620          |
| Units of mutual funds                                       |       | 1,550,000          | —                   | 1,550,000          | 1,551,763          | —                   | 1,551,763          |
|   |       | <b>176,529,993</b> | <b>39,361,572</b>   | <b>215,891,565</b> | <b>153,409,572</b> | <b>56,253,740</b>   | <b>209,663,312</b> |
| <b>Held to Maturity Securities</b>                          | 11.2  |                    |                     |                    |                    |                     |                    |
| Pakistan Investment Bonds                                   |       | 130,462,425        | —                   | 130,462,425        | 115,678,511        | —                   | 115,678,511        |
| Foreign Currency Bonds                                      |       | 1,879,702          | —                   | 1,879,702          | 970,913            | —                   | 970,913            |
| Sukuk Bonds   |       | 696,890            | —                   | 696,890            | 701,047            | —                   | 701,047            |
| Term finance certificates - Listed                          |       | —                  | —                   | —                  | 86,826             | —                   | 86,826             |
|   |       | <b>133,039,017</b> | <b>—</b>            | <b>133,039,017</b> | <b>117,437,297</b> | <b>—</b>            | <b>117,437,297</b> |
| <b>Associates</b>   | 11.12 |                    |                     |                    |                    |                     |                    |
| Habib Sugar Mills Limited                                   |       | 182,690            | —                   | 182,690            | 180,977            | —                   | 180,977            |
| Habib Asset Management Limited                              |       | 60,000             | —                   | 60,000             | 60,000             | —                   | 60,000             |
| First Habib Income Fund                                     |       | 150,000            | —                   | 150,000            | 250,000            | —                   | 250,000            |
| First Habib Stock Fund                                      |       | 10,000             | —                   | 10,000             | 50,000             | —                   | 50,000             |
| First Habib Cash Fund                                       |       | 150,000            | —                   | 150,000            | 300,000            | —                   | 300,000            |
| First Habib Islamic Balanced Fund                           |       | 10,000             | —                   | 10,000             | 25,000             | —                   | 25,000             |
|   |       | <b>562,690</b>     | <b>—</b>            | <b>562,690</b>     | <b>865,977</b>     | <b>—</b>            | <b>865,977</b>     |
| <b>Subsidiaries</b>   | 11.13 |                    |                     |                    |                    |                     |                    |
| AL Habib Capital Markets (Pvt.) Ltd.                        |       | 200,000            | —                   | 200,000            | 200,000            | —                   | 200,000            |
| AL Habib Credit & Finance (Hong Kong) Limited               |       | 127                | —                   | 127                | 127                | —                   | 127                |
|   |       | <b>200,127</b>     | <b>—</b>            | <b>200,127</b>     | <b>200,127</b>     | <b>—</b>            | <b>200,127</b>     |
| <b>Investments at cost</b>                                  |       | <b>310,331,827</b> | <b>39,361,572</b>   | <b>349,693,399</b> | <b>271,912,973</b> | <b>56,253,740</b>   | <b>328,166,713</b> |
| Less: Provision for diminution in the value of investments  | 11.4  | (202,692)          | —                   | (202,692)          | (5,700)            | —                   | (5,700)            |
| <b>Investments (net of provisions)</b>                      |       | <b>310,129,135</b> | <b>39,361,572</b>   | <b>349,490,707</b> | <b>271,907,273</b> | <b>56,253,740</b>   | <b>328,161,013</b> |
| Surplus on revaluation of available for sale securities-net | 22.2  | 5,213,270          | 119,748             | 5,333,018          | 3,191,316          | 70,243              | 3,261,559          |
| <b>Total Investments</b>                                    |       | <b>315,342,405</b> | <b>39,481,320</b>   | <b>354,823,725</b> | <b>275,098,589</b> | <b>56,323,983</b>   | <b>331,422,572</b> |

11.2 The aggregate market value of held to maturity securities as at 31 December 2015 amounted to Rs. 144,551 million (2014: Rs. 125,053 million).



|   | Note   | 2015<br>(Rupees in '000) | 2014               |
|---|--------|--------------------------|--------------------|
| <b>11.3 Investments by segment</b>                            |        |                          |                    |
| <i>Federal Government Securities</i>                          |        |                          |                    |
| Market Treasury Bills   | 11.6   | 135,904,891              | 158,228,667        |
| Pakistan Investment Bonds                                     | 11.7   | 190,557,529              | 152,181,587        |
| Foreign Currency Bonds  | 11.10  | 5,830,634                | 2,755,580          |
| Sukuk Bonds   | 11.8   | 4,248,850                | 3,219,971          |
|   |        | <b>336,541,904</b>       | <b>316,385,805</b> |
| <i>Fully paid-up ordinary shares</i>                          |        |                          |                    |
| Listed companies  | 11.5.5 | 4,018,649                | 3,062,421          |
| Unlisted companies  | 11.11  | 45,529                   | 39,570             |
|   |        | <b>4,064,178</b>         | <b>3,101,991</b>   |
| <i>Term finance certificates, sukuks and bonds</i>            |        |                          |                    |
| Term Finance Certificates                                     |        |                          |                    |
| Term finance certificates - Listed                            |        | 302,972                  | 408,521            |
| Term finance certificates - Unlisted                          |        | 2,946,686                | 2,832,620          |
|   | 11.9   | 3,249,658                | 3,241,141          |
| Sukuk Bonds   | 11.8   | 2,895,066                | 2,314,987          |
| Foreign Currency Bonds  | 11.10  | 629,776                  | 504,922            |
|   |        | <b>6,774,500</b>         | <b>6,061,050</b>   |
| <i>Others</i>   |        |                          |                    |
| Units of mutual funds   | 11.5.9 | 1,550,000                | 1,551,763          |
| Associates  | 11.12  | 562,690                  | 865,977            |
| Subsidiaries  | 11.13  | 200,127                  | 200,127            |
|   |        | <b>2,312,817</b>         | <b>2,617,867</b>   |
| <b>Investments at cost</b>                                    |        | <b>349,693,399</b>       | <b>328,166,713</b> |
| Less: Provision for diminution in the value of investments    | 11.4   | (202,692)                | (5,700)            |
| <b>Investments (net of provisions)</b>                        |        | <b>349,490,707</b>       | <b>328,161,013</b> |
| Surplus on revaluation of available for sale securities - net | 22.2   | 5,333,018                | 3,261,559          |
| <b>Total Investments</b>                                      |        | <b>354,823,725</b>       | <b>331,422,572</b> |



|   | Note   | 2015<br>(Rupees in '000) | 2014  |
|---|--------|--------------------------|-------|
| <b>11.4 Particulars of provision for diminution in the value of investments</b> |        |                          |       |
| Available for sale investments:   |        |                          |       |
| Opening balance   |        | 5,700                    | 5,700 |
| Charge for the year   |        | 196,992                  | –     |
| Closing balance   | 11.4.1 | 202,692                  | 5,700 |

#### 11.4.1 Particulars of provision in respect of type and segment

Available for sale investments:

Listed companies:

Pakistan Oilfields Limited

Pakistan Petroleum Limited

|         |   |
|---------|---|
| 133,241 | – |
| 63,751  | – |
| 196,992 | – |

Unlisted company:

Pakistan Export Finance Guarantee Agency Limited

|         |       |
|---------|-------|
| 5,700   | 5,700 |
| 202,692 | 5,700 |

#### 11.5 Quality of available for sale securities

| Name of security                 | Face value | 2015 Rating* | 2014 Rating* | 2015 Cost   | 2014 Cost   | 2015 Carrying value | 2014 Carrying value |
|----------------------------------|------------|--------------|--------------|-------------|-------------|---------------------|---------------------|
|                                  | Rs. / USD  |              |              |             |             |                     |                     |
| 11.5.1 Market Treasury Bills     | –          | Unrated      | Unrated      | 135,904,891 | 158,228,667 | 136,211,678         | 158,462,190         |
| 11.5.2 Pakistan Investment Bonds | –          | Unrated      | Unrated      | 60,095,104  | 36,503,076  | 64,245,955          | 38,443,902          |
| 11.5.3 Foreign Currency Bonds    |            |              |              |             |             |                     |                     |
| Government of Pakistan Bonds     | USD 100    | B-           | B-           | 1,338,682   | 945,547     | 1,390,228           | 1,024,596           |
| Government of Pakistan Bonds     | USD 100    | B-           | B-           | 623,277     | 586,509     | 628,942             | 613,176             |
| Government of Pakistan Bonds     | USD 100    | B-           | B-           | 588,574     | 252,611     | 590,426             | 256,453             |
| Government of Pakistan Bonds     | USD 100    | B-           | –            | 536,822     | –           | 530,178             | –                   |
| Government of Pakistan Bonds     | USD 100    | B-           | –            | 529,239     | –           | 537,389             | –                   |
| Government of Pakistan Bonds     | USD 100    | B-           | –            | 334,338     | –           | 323,002             | –                   |
| Government of Sri Lanka Bonds    | USD 100    | –            | B+           | –           | 100,606     | –                   | 100,726             |
| Kingdom of Bahrain               | USD 100    | BBB-         | –            | 209,482     | –           | 214,216             | –                   |
| Bank of Ceylon                   | USD 100    | BB-          | BB-          | 211,134     | 203,811     | 210,368             | 210,050             |
| Bank of Ceylon                   | USD 100    | BB-          | BB-          | 209,160     | 200,505     | 203,022             | 201,959             |
|                                  |            |              |              | 4,580,708   | 2,289,589   | 4,627,771           | 2,406,960           |



| 11.5.4 | Sukuk Bonds         |           | Face value                              | 2015             | 2014             | 2015    | 2014           | 2015      | 2014      |           |
|--------|---------------------|-----------|---|------------------|------------------|---------|----------------|-----------|-----------|-----------|
|        | 2015                | 2014      |   | Name of security | Rating*          | Cost    | Carrying value |           |           |           |
|        | No. of certificates |           |   | Rs. / USD        | (Rupees in '000) |         |                |           |           |           |
|        |                     |           |   |                  |                  |         |                |           |           |           |
|        | 170,000             | 170,000   | Engro Foods Limited                     | Rs.5,000         | A+               | A+      | 786,250        | 850,000   | 786,250   | 850,000   |
|        | 20,000              | –         | Government of Pakistan Ijarah Sukuk XVI | Rs. 100,000      | Unrated          | –       | 2,000,000      | –         | 2,022,600 | –         |
|        | –                   | 10,000    | Government of Pakistan Ijarah Sukuk XII | Rs. 5,000        | –                | Unrated | –              | 1,013,454 | –         | 1,002,100 |
|        | 120,000             | 120,000   | Government of Pakistan Ijarah Sukuk XV  | Rs. 5,000        | Unrated          | Unrated | 1,200,000      | 1,200,000 | 1,200,000 | 1,178,400 |
|        | 50,000              | 50,000    | Government of Pakistan Sukuk            | USD 100          | B-               | B-      | 524,848        | 503,754   | 530,178   | 496,558   |
|        | 1,124,278           | 1,124,278 | Liberty Power Tech Limited              | Rs.1,000         | A+               | A+      | 777,498        | 891,703   | 777,498   | 891,703   |
|        | 181,686             | –         | K-Electric Limited Sukuk IV             | Rs.5,000         | AA+              | –       | 908,430        | –         | 908,430   | –         |
|        | 150,000             | 150,000   | WAPDA Second Sukuk Company Limited      | Rs.5,000         | Unrated          | Unrated | 250,000        | 375,000   | 250,000   | 375,000   |
|        |                     |           |   |                  |                  |         | 6,447,026      | 4,833,911 | 6,474,956 | 4,793,761 |

#### 11.5.5 Fully paid-up ordinary shares - Listed

| 2015          | 2014       | Name of security                           |       |         |         |           |           |           |           |
|---------------|------------|--|-------|---------|---------|-----------|-----------|-----------|-----------|
| No. of shares |            |  |       |         |         |           |           |           |           |
| 754,800       | 727,100    | Allied Bank Limited                        | Rs.10 | AA+     | AA+     | 45,121    | 42,503    | 71,147    | 82,584    |
| 196,640       | 147,190    | Attock Petroleum Limited                   | Rs.10 | Unrated | Unrated | 89,332    | 64,850    | 99,327    | 79,421    |
| 4,454,500     | 3,154,500  | Fauji Fertilizer Bin Qasim Limited         | Rs.10 | Unrated | Unrated | 189,579   | 126,318   | 234,663   | 142,615   |
| 3,224,800     | 3,224,800  | Fauji Fertilizer Company Limited           | Rs.10 | Unrated | Unrated | 364,507   | 364,507   | 380,462   | 377,656   |
| 294,000       | 294,000    | First Habib Modaraba                       | Rs.5  | AA+     | AA+     | 2,607     | 2,607     | 2,940     | 2,690     |
| 15,027,415    | 10,102,415 | Habib Metropolitan Bank Limited            | Rs.10 | AA+     | AA+     | 340,597   | 197,587   | 457,885   | 376,820   |
| 7,627,500     | 7,627,500  | Hub Power Company Limited                  | Rs.10 | AA+     | AA+     | 466,114   | 466,114   | 782,582   | 597,691   |
| 52,862        | 52,862     | International Industries Limited           | Rs.10 | Unrated | Unrated | 357       | 357       | 3,251     | 3,295     |
| 5,623,556     | 5,623,556  | International Steels Limited               | Rs.10 | Unrated | Unrated | 89,228    | 89,228    | 137,271   | 143,120   |
| 6,420,500     | 3,960,000  | Kot Addu Power Company Limited             | Rs.10 | AA+     | AA+     | 441,480   | 242,202   | 520,061   | 312,602   |
| 2,094,500     | 1,594,500  | Lalpir Power Limited                       | Rs.10 | AA      | AA      | 51,894    | 37,626    | 62,290    | 47,676    |
| 396,110       | 396,110    | MCB Bank Limited                           | Rs.10 | AAA     | AAA     | 99,902    | 99,902    | 85,896    | 121,071   |
| 119,067       | 119,067    | Meezan Bank Limited                        | Rs.10 | AA      | AA      | 3,028     | 3,028     | 5,447     | 5,596     |
| 4,780,500     | 3,096,000  | Nishat Chunian Power Limited               | Rs.10 | A+      | A+      | 195,514   | 99,828    | 263,167   | 153,407   |
| 17,500        | 17,500     | Packages Limited                           | Rs.10 | AA      | AA      | 1,429     | 1,429     | 10,187    | 11,870    |
| 4,407,500     | 4,407,500  | Pakgen Power Limited                       | Rs.10 | AA      | AA      | 108,544   | 108,544   | 129,713   | 119,135   |
| 949,075       | 587,075    | Pakistan Oilfields Limited                 | Rs.10 | Unrated | Unrated | 387,612   | 297,555   | 121,130   | 222,713   |
| 1,643,941     | 1,406,941  | Pakistan Petroleum Limited                 | Rs.10 | Unrated | Unrated | 264,000   | 297,841   | 136,497   | 248,353   |
| 914,500       | 914,500    | Pakistan State Oil Company Limited         | Rs.10 | AA      | AA+     | 295,077   | 295,077   | 297,917   | 327,309   |
| 22,500        | 22,500     | Shell Pakistan Limited                     | Rs.10 | Unrated | Unrated | 2,189     | 2,189     | 5,135     | 5,825     |
| 16,541,450    | 11,580,450 | Soneri Bank Limited                        | Rs.10 | AA-     | AA-     | 164,418   | 108,098   | 250,272   | 142,787   |
| 3,183,000     | 3,183,000  | Standard Chartered Bank (Pakistan) Limited | Rs.10 | AAA     | AAA     | 61,701    | 61,701    | 69,708    | 75,119    |
| 1,199,643     | —          | Habib Bank Limited                         | Rs.10 | AAA     | —       | 227,160   | —         | 240,074   | —         |
| 1,055,000     | 575,000    | United Bank Limited                        | Rs.10 | AA+     | AA+     | 127,259   | 53,330    | 163,472   | 101,608   |
|               |            |  |       |         |         | 4,018,649 | 3,062,421 | 4,530,494 | 3,700,963 |

#### 11.5.6 Fully paid-up ordinary shares - Unlisted

| 2015                         | 2014      | Name of security                  |       |         |         |        |        |        |        |
|------------------------------|-----------|-----------------------------------|-------|---------|---------|--------|--------|--------|--------|
| No. of shares / certificates |           |                                   |       |         |         |        |        |        |        |
| 3,000,000                    | 3,000,000 | Khushhali Bank Limited            | Rs.10 | A+      | A       | 30,000 | 30,000 | 30,000 | 30,000 |
|                              |           | Pakistan Export Finance Guarantee |       |         |         |        |        |        |        |
| 569,958                      | 569,958   | Agency Limited                    | Rs.10 | Unrated | Unrated | 5,700  | 5,700  | –      | –      |
| 39                           | 24        | S.W.I.F.T                         | –     | Unrated | Unrated | 9,829  | 3,870  | 9,829  | 3,870  |
|                              |           |                                   |       |         |         | 45,529 | 39,570 | 39,829 | 33,870 |



| 11.5.7 | Term finance certificates - Listed   |            |                           | Face value<br>Rs. | 2015 2014 |        | 2015 2014        |             | 2015 2014      |             |
|--------|--------------------------------------|------------|---------------------------|-------------------|-----------|--------|------------------|-------------|----------------|-------------|
|        | 2015                                 | 2014       | Name of security          |                   | Rating*   |        | Cost             |             | Carrying value |             |
|        |                                      |            |                           |                   |           |        | (Rupees in '000) |             |                |             |
|        | No. of certificates                  |            |                           |                   |           |        |                  |             |                |             |
|        | –                                    | 33,800     | Allied Bank Limited - II  | Rs.5,000          | –         | AA     | –                | 168,662     | –              | 165,515     |
|        | 30,625                               | 30,625     | Bank Alfalah Limited - V  | Rs.5,000          | AA–       | AA–    | 152,972          | 153,033     | 155,764        | 152,201     |
|        | 30,000                               | –          | Soneri Bank Limited       | Rs.5,000          | A+        | –      | 150,000          | –           | 150,000        | –           |
|        |                                      |            |                           |                   |           |        | 302,972          | 321,695     | 305,764        | 317,716     |
| 11.5.8 | Term finance certificates - Unlisted |            |                           |                   |           |        |                  |             |                |             |
|        | 2015                                 | 2014       | Name of security          |                   |           |        |                  |             |                |             |
|        |                                      |            |                           |                   |           |        |                  |             |                |             |
|        | No. of certificates                  |            |                           |                   |           |        |                  |             |                |             |
|        | 150                                  | 150        | Askari Bank Limited - IV  | Rs.1,000,000      | AA –      | AA–    | 149,760          | 149,820     | 149,760        | 149,820     |
|        | 60,000                               | 60,000     | Askari Bank Limited - V   | Rs.5,000          | AA –      | AA–    | 299,880          | 300,000     | 299,880        | 300,000     |
|        | 20,000                               | 20,000     | Bank Alfalah Limited - IV | Rs.5,000          | AA –      | AA–    | 99,760           | 99,800      | 99,760         | 99,800      |
|        |                                      |            | Standard Chartered Bank   |                   |           |        |                  |             |                |             |
|        | 56,600                               | 56,600     | (Pakistan) Limited        | Rs.5,000          | AAA       | AAA    | 283,000          | 283,000     | 283,000        | 283,000     |
|        | 80,000                               | –          | Habib Bank Limited        | Rs.5,000          | AAA       | –      | 400,000          | –           | 400,000        | –           |
|        | 400,000                              | 400,000    | WAPDA                     | Rs.5,000          | AAA       | AAA    | 1,714,286        | 2,000,000   | 1,714,286      | 2,000,000   |
|        |                                      |            |                           |                   |           |        | 2,946,686        | 2,832,620   | 2,946,686      | 2,832,620   |
| 11.5.9 | Units of mutual funds                |            |                           |                   |           |        |                  |             |                |             |
|        | 2015                                 | 2014       | Name of security          |                   |           |        |                  |             |                |             |
|        |                                      |            |                           |                   |           |        |                  |             |                |             |
|        | No. of units                         |            |                           |                   |           |        |                  |             |                |             |
|        | 48,615,258                           | 64,217,346 | NIT Government Bond Fund  | Rs.10             | AA–       | AA–    | 550,000          | 600,000     | 506,654        | 698,948     |
|        | 17,422,393                           | 21,076,617 | NIT Income Fund           | Rs.10             | A+        | A+     | 200,000          | 200,000     | 187,430        | 232,623     |
|        | 11,032,727                           | 15,044,628 | NIT Unit Trust            | Rs.10             | AM2       | 4 Star | 550,000          | 750,000     | 697,710        | 993,397     |
|        | 25,047,082                           | –          | NIT Islamic Equity Fund   | Rs.10             | AM2       | –      | 250,000          | –           | 246,964        | –           |
|        | –                                    | 20,523     | PIML Income Fund          | Rs.100            | –         | A+     | –                | 1,763       | –              | 2,221       |
|        |                                      |            |                           |                   |           |        | 1,550,000        | 1,551,763   | 1,638,758      | 1,927,189   |
|        |                                      |            |                           |                   |           |        | 215,891,565      | 209,663,312 | 221,021,891    | 212,919,171 |

\* Rating in case of ordinary shares of listed and unlisted companies represents the rating of investee companies, in all other cases, rating represents the rating of underlying instruments.

## 11.6 Market Treasury Bills

These securities have a maturity period of one year (2014: one year), with yield ranging between 6.33% to 8.34% (2014: 9.48% to 9.99%) per annum.

## 11.7 Pakistan Investment Bonds

These securities have a maturity period of 3, 5, and 10 years (2014: 3, 5, 7 and 10 years) with interest rates ranging between 9.25% to 12% (2014: 9.60% to 12%) per annum. These include securities costing Rs. 5 million (2014: Rs. 5 million) pledged with the Controller of Military Accounts, Karachi as a security deposit for extending banking facilities on account of regimental funds vis-a-vis private fund accounts.





## 11.8 Sukuk Bonds

| <u>2015</u><br>No. of certificates   | <u>2014</u> | <u>Redeemable<br/>value per<br/>certificate<br/>(Rupees)</u> | <u>Maturity<br/>Date</u> | <u>Name of Security</u>                 | <u>Rate</u>  | <u>2015</u><br>(Rupees in '000) | <u>2014</u>      |
|--------------------------------------|-------------|--|--------------------------|---|--|---------------------------------|------------------|
| <b>Federal Government Securities</b> |             |  |                          |   |  |                                 |                  |
| <b>Available for sale</b>            |             |  |                          |   |  |                                 |                  |
| 20,000                               | –           | 100,000  | Dec-18                   | Government of Pakistan Ijarah Sukuk XVI | Weighted average 6 months<br>T-Bills rate less 50 bps  | 2,000,000                       | –                |
| –                                    | 10,000      | –  | –                        | Government of Pakistan Ijarah Sukuk XII | Weighted average 6 months<br>T-Bills rate              | –                               | 1,013,454        |
| 12,000                               | 12,000      | 100,000  | Jun-17                   | Government of Pakistan Ijarah Sukuk XV  | Weighted average 6 months<br>T-Bills rate less 200 bps | 1,200,000                       | 1,200,000        |
| 50,000                               | 50,000      | 10,497   | Dec-19                   | Government of Pakistan Sukuk            | 6.750% per annum                                       | 524,848                         | 503,754          |
|                                      |             |  |                          |   |  | <b>3,724,848</b>                | <b>2,717,208</b> |
| <b>Held to maturity</b>              |             |  |                          |   |  |                                 |                  |
| 50,000                               | 50,000      | 10,480   | Dec-19                   | Government of Pakistan Sukuk            | 6.750% per annum                                       | 524,002                         | 502,763          |
|                                      |             |  |                          |   |  | <b>4,248,850</b>                | <b>3,219,971</b> |
| <b>Others</b>                        |             |  |                          |   |  |                                 |                  |
| <b>Available for sale</b>            |             |  |                          |   |  |                                 |                  |
| 170,000                              | 170,000     | 4,625  | Jan-17                   | Engro Foods Limited                     | 6 months' KIBOR plus 69 bps                            | 786,250                         | 850,000          |
| 1,124,278                            | 1,124,278   | 692  | Mar-21                   | Liberty Power Tech Limited              | 3 months' KIBOR plus 300 bps                           | 777,498                         | 891,703          |
| 181,686                              | –           | 5,000  | Sep-22                   | K-Electric Limited Sukuk IV             | 3 months' KIBOR plus 100 bps                           | 908,430                         | –                |
| 150,000                              | 150,000     | 1,667  | Jul-17                   | WAPDA Second Sukuk Company Limited      | 6 months' KIBOR less 25 bps                            | 250,000                         | 375,000          |
|                                      |             |  |                          |   |  | <b>2,722,178</b>                | <b>2,116,703</b> |
| <b>Held to maturity</b>              |             |  |                          |   |  |                                 |                  |
| 250,000                              | 250,000     | 692  | Mar-21                   | Liberty Power Tech Limited              | 3 month's KIBOR plus 300 bps                           | 172,888                         | 198,284          |
|                                      |             |  |                          |   |  | <b>2,895,066</b>                | <b>2,314,987</b> |
|                                      |             |  |                          |   |  | <b>7,143,916</b>                | <b>5,534,958</b> |

**11.8.1** These Sukuk Bonds have face value of Rs. 5,000 per certificate except for Liberty Power Tech Limited's Sukuk Bonds which have face value of Rs. 1,000 per certificate, Government of Pakistan Sukuk Bonds which have face value of US\$ 100 and Government of Pakistan Ijarah Sukuk Bonds which have face value of Rs. 100,000 per certificate.

## 11.9 Term Finance Certificates

| <u>2015</u><br>No. of certificates | <u>2014</u> | <u>Redeemable<br/>value per<br/>certificate<br/>(Rupees)</u> | <u>Maturity<br/>Date</u> | <u>Name of Security</u>   | <u>Rate</u>                  | <u>2015</u><br>(Rupees in '000) | <u>2014</u>    |
|------------------------------------|-------------|--|--------------------------|---------------------------|------------------------------|---------------------------------|----------------|
| <b>Listed - Available for sale</b> |             |  |                          |                           |                              |                                 |                |
| –                                  | 33,800      | –  | –                        | Allied Bank Limited - II* | 6 months' KIBOR plus 85 bps  | –                               | 168,662        |
| 30,625                             | 30,625      | 4,995  | Feb-21                   | Bank Alfalah Limited - V* | 6 months' KIBOR plus 125 bps | 152,972                         | 153,033        |
| 30,000                             | –           | 5,000  | Jul-23                   | Soneri Bank Limited*      | 6 months' KIBOR plus 135 bps | 150,000                         | –              |
|                                    |             |  |                          |                           |                              | <b>302,972</b>                  | <b>321,695</b> |



| 2015                                 | 2014    | Redeemable<br>value per<br>certificate | Maturity<br>Date | Name of Security                            | Rate                         | 2015             | 2014      |
|--------------------------------------|---------|--|------------------|---|------------------------------|------------------|-----------|
| No. of certificates                  |         | (Rupees)                               |                  |   |                              | (Rupees in '000) |           |
| <b>Unlisted - Available for sale</b> |         |  |                  |   |                              |                  |           |
| 150                                  | 150     | 998,400                                | Dec-21           | Askari Bank Limited - IV*                   | 6 months' KIBOR plus 175 bps | 149,760          | 149,820   |
| 60,000                               | 60,000  | 4,998                                  | Sep-24           | Askari Bank Limited - V*                    | 6 months' KIBOR plus 120 bps | 299,880          | 300,000   |
| 20,000                               | 20,000  | 4,998                                  | Dec-17           | Bank Alfalah Limited - IV*                  | 15% per annum                | 99,760           | 99,800    |
| 56,600                               | 56,600  | 5,000                                  | Jun-22           | Standard Chartered Bank (Pakistan) Limited* | 6 months' KIBOR plus 75 bps  | 283,000          | 283,000   |
| 80,000                               | —       | 5,000                                  | Dec-25           | Habib Bank Limited*                         | 6 months' KIBOR plus 50 bps  | 400,000          | —         |
| 400,000                              | 400,000 | 4,286                                  | Sep-21           | WAPDA                                       | 6 months' KIBOR plus 100 bps | 1,714,286        | 2,000,000 |
|                                      |         |  |                  |   |                              | 2,946,686        | 2,832,620 |
| <b>Listed - Held to maturity</b>     |         |  |                  |   |                              |                  |           |
| —                                    | 17,400  | —                                      | —                | Allied Bank Limited - II*                   | 6 months' KIBOR plus 85 bps  | —                | 86,826    |
|                                      |         |  |                  |   |                              | 3,249,658        | 3,241,141 |

\*These Term Finance Certificates are subordinated.

11.9.1 These Term Finance Certificates have face value of Rs. 5,000 per certificate except for Askari Bank Limited-IV which have face value of Rs 1,000,000 per certificate.

#### 11.10 Foreign Currency Bonds

| 2015                                    | 2014    | Redeemable<br>value per<br>certificate | Maturity<br>Date | Name of Security             | Rate        | 2015             | 2014      |
|---|---------|--|------------------|------------------------------|-------------|------------------|-----------|
| No of certificates<br>of US \$ 100 each |         | (Rupees)                               |                  |                              |             | (Rupees in '000) |           |
| <b>Federal Government Securities</b>    |         |  |                  |                              |             |                  |           |
| <b>Available for sale</b>               |         |  |                  |                              |             |                  |           |
| 50,000                                  | —       | 10,736                                 | Dec-19           | Government of Pakistan Bonds | 6.750% p.a. | 536,822          | —         |
| 130,000                                 | 100,000 | 10,298                                 | Jun-17           | Government of Pakistan Bonds | 6.875% p.a. | 1,338,682        | 945,547   |
| 59,770                                  | 59,770  | 10,428                                 | Mar-16           | Government of Pakistan Bonds | 7.125% p.a. | 623,277          | 586,509   |
| 55,000                                  | 25,000  | 10,701                                 | Apr-19           | Government of Pakistan Bonds | 7.250% p.a. | 588,574          | 252,611   |
| 50,000                                  | —       | 10,585                                 | Sep-25           | Government of Pakistan Bonds | 8.250% p.a. | 529,239          | —         |
| 30,000                                  | —       | 11,145                                 | Apr-24           | Government of Pakistan Bonds | 8.250% p.a. | 334,338          | —         |
|   |         |  |                  |                              |             | 3,950,932        | 1,784,667 |
| <b>Held to maturity</b>                 |         |  |                  |                              |             |                  |           |
| 145,000                                 | 95,000  | 10,660                                 | Apr-19           | Government of Pakistan Bonds | 7.250% p.a. | 1,545,762        | 970,913   |
| 30,000                                  | —       | 11,131                                 | Apr-24           | Government of Pakistan Bonds | 8.250% p.a. | 333,940          | —         |
|   |         |  |                  |                              |             | 1,879,702        | 970,913   |
|   |         |  |                  |                              |             | 5,830,634        | 2,755,580 |
| <b>Others</b>                           |         |  |                  |                              |             |                  |           |
| <b>Available for sale</b>               |         |  |                  |                              |             |                  |           |
| —                                       | 10,000  | —                                      | —                | Government of Srilanka Bonds | 7.400% p.a. | —                | 100,606   |
| 20,000                                  | 20,000  | 10,557                                 | May-17           | Bank of Ceylon               | 6.875% p.a. | 211,134          | 203,811   |
| 20,000                                  | 20,000  | 10,458                                 | Apr-18           | Bank of Ceylon               | 5.325% p.a. | 209,160          | 200,505   |
| 20,000                                  | —       | 10,474                                 | Jan-21           | Kingdom of Bahrain           | 5.875% p.a. | 209,482          | —         |
|   |         |  |                  |                              |             | 629,776          | 504,922   |
|   |         |  |                  |                              |             | 6,460,410        | 3,260,502 |



#### 11.11 Ordinary shares of unlisted companies

| <u>2015</u>                  | <u>2014</u> | <u>Name of companies</u>   |      | <u>2015</u>      | <u>2014</u> |
|------------------------------|-------------|--|------|------------------|-------------|
| No. of ordinary shares/units |             |  | Note | (Rupees in '000) |             |
| <b>3,000,000</b>             | 3,000,000   | Khushhali Bank Limited<br>Par value per share: Rs. 10<br>Break-up value per share: Rs. 19.27 (2014: Rs. 16.12) based on audited financial statements for the year ended 31 December 2014<br>Chief Executive: Mr. Ghalib Nishtar                      |      | <b>30,000</b>    | 30,000      |
| <b>569,958</b>               | 569,958     | Pakistan Export Finance Guarantee Agency Limited<br>Par value per share: Rs. 10<br>Break-up value per share: Rs. 0.16 (2014: Rs. 0.16) based on audited financial statements for the year ended 31 December 2011<br>Chief Executive: Mr. S. M. Zaeem |      | <b>5,700</b>     | 5,700       |
| <b>39</b>                    | 24          | Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T) allocated shares based on the financial contribution from network based serviced by the Bank.  |      | <b>9,829</b>     | 3,870       |
|                              |             |  |      | <b>45,529</b>    | 39,570      |

#### 11.12 Associates

| <u>2015</u>                    | <u>2014</u> | <u>Name of companies</u>   |         |                |         |
|--------------------------------|-------------|--|---------|----------------|---------|
| No. of ordinary shares / units |             |  |         |                |         |
| <b>9,415,312</b>               | 9,366,312   | Habib Sugar Mills Limited<br>% of holding: 6.28% (2014: 6.24%)<br>Par value per share: Rs. 5<br>Market value: Rs. 357.876 million (2014: Rs. 424.481 million)<br>Chief Executive: Mr. Raeesul Hasan  | 11.12.2 | <b>182,690</b> | 180,977 |
| <b>6,900,000</b>               | 6,900,000   | Habib Asset Management Limited<br>% of holding: 30% (2014: 30%)<br>Par value per share: Rs. 10<br>Break-up value per share: Rs. 11.23 (2014: Rs. 12.20) based on audited financial statements for the year ended 30 June 2015<br>Chief Executive: Mr. Imran Azim | 11.12.3 | <b>60,000</b>  | 60,000  |
| <b>1,357,163</b>               | 2,696,602   | First Habib Income Fund<br>Average cost per unit: Rs. 110.52 (2014: Rs. 92.71)<br>Net asset value: Rs. 105.16 (2014: Rs. 105.59)<br>Management Company: Habib Asset Management Limited<br>Chief Executive of the Management Company: Mr. Imran Azim              |         | <b>150,000</b> | 250,000 |





|   | Note   | 2015<br>(Rupees in '000) | 2014        |
|---|--------|--------------------------|-------------|
| <b>12. ADVANCES</b>   |        |                          |             |
| Loans, cash credits, running finances, etc.   |        |                          |             |
| – In Pakistan   |        | <b>178,184,494</b>       | 154,858,191 |
| – Outside Pakistan  |        | <b>14,648,449</b>        | 10,192,449  |
|   |        | <b>192,832,943</b>       | 165,050,640 |
| Net investment in finance lease   |        |                          |             |
| – In Pakistan   | 12.2   | <b>4,297,187</b>         | 2,471,578   |
| – Outside Pakistan  |        | <b>–</b>                 | <b>–</b>    |
|   |        | <b>4,297,187</b>         | 2,471,578   |
| Ijarah financing under IFAS 2   | 12.3   | <b>695,688</b>           | 488,315     |
| Murabaha  | 12.4   | <b>2,882,976</b>         | 2,074,925   |
| Bills discounted and purchased<br>(excluding market treasury bills)                             |        |                          |             |
| – Payable in Pakistan   |        | <b>3,222,616</b>         | 3,524,136   |
| – Payable outside Pakistan  |        | <b>10,340,898</b>        | 14,363,222  |
|   |        | <b>13,563,514</b>        | 17,887,358  |
| Advances - gross  |        | <b>214,272,308</b>       | 187,972,816 |
| Provision against non-performing loans and advances   |        |                          |             |
| – Specific provision  | 12.5   | <b>(5,537,371)</b>       | (4,032,817) |
| – General provision against small enterprises and<br>consumer advances (as per SBP regulations) | 12.6.1 | <b>(126,279)</b>         | (83,182)    |
| – General provision   | 12.6.2 | <b>(2,750,000)</b>       | (2,500,000) |
|   |        | <b>(8,413,650)</b>       | (6,615,999) |
| Advances - net of provisions  |        | <b>205,858,658</b>       | 181,356,817 |



|  | 2015               | 2014               |
|--|--------------------|--------------------|
|  | (Rupees in '000)   |                    |
| <b>12.1 Particulars of advances - gross</b>  |                    |                    |
| <b>12.1.1 In local currency</b>              | <b>183,810,020</b> | 144,818,934        |
| In foreign currencies                        | <b>30,462,288</b>  | 43,153,882         |
|  | <b>214,272,308</b> | <b>187,972,816</b> |
| <b>12.1.2 Short term (for upto one year)</b> | <b>170,101,477</b> | 156,434,442        |
| Long term (for over one year)                | <b>44,170,831</b>  | 31,538,374         |
|  | <b>214,272,308</b> | <b>187,972,816</b> |

**12.2 Net investment in finance lease**

|   | 2015                    |   |                 |                        | 2014                    |   |                 |                  |
|---|-------------------------|---|-----------------|------------------------|-------------------------|---|-----------------|------------------|
|   | Not later than one year | Later than one and less than five years | Over five years | Total (Rupees in '000) | Not later than one year | Later than one and less than five years | Over five years | Total            |
| Lease rentals receivable                | 1,684,785               | 2,161,445                               | –               | 3,846,230              | 970,367                 | 1,424,582                               | –               | 2,394,949        |
| Residual value                          | 88,205                  | 810,705                                 | –               | 898,910                | 31,247                  | 420,855                                 | –               | 452,102          |
| Minimum lease payments                  | 1,772,990               | 2,972,150                               | –               | 4,745,140              | 1,001,614               | 1,845,437                               | –               | 2,847,051        |
| Financial charges for future periods    | (235,365)               | (212,588)                               | –               | (447,953)              | (193,986)               | (181,487)                               | –               | (375,473)        |
| Present value of minimum lease payments | <b>1,537,625</b>        | <b>2,759,562</b>                        | <b>–</b>        | <b>4,297,187</b>       | <b>807,628</b>          | <b>1,663,950</b>                        | <b>–</b>        | <b>2,471,578</b> |

**12.3 Ijarah financing under IFAS 2**

|           | 2015             |                            |                  |                          |                         |                  |                  |                              |
|-----------|------------------|----------------------------|------------------|--------------------------|-------------------------|------------------|------------------|------------------------------|
|           | Cost             |                            |                  | Accumulated Depreciation |                         |                  | Book Value       |                              |
|           | As at<br>01 Jan. | Additions /<br>(deletions) | As at<br>31 Dec. | As at<br>01 Jan.         | Charge /<br>(deletions) | As at<br>31 Dec. | As at<br>31 Dec. | Rate of<br>depreciation<br>% |
|           | (Rupees in '000) |                            |                  |                          |                         |                  |                  |                              |
| Equipment | 632,993          | 239,316<br>(266,494)       | 605,815          | 338,662                  | 144,495<br>(239,952)    | 243,205          | 362,610          |                              |
| Vehicles  | 230,859          | 193,522<br>(4,063)         | 420,318          | 36,875                   | 53,270<br>(2,905)       | 87,240           | 333,078          |                              |
|           | 863,852          | 432,838<br>(270,557)       | 1,026,133        | 375,537                  | 197,765<br>(242,857)    | 330,445          | 695,688          | 33.33                        |
|           |                  |                            |                  |                          |                         |                  |                  |                              |
|           | 2014             |                            |                  |                          |                         |                  |                  |                              |
| Equipment | 375,302          | 277,696<br>(20,005)        | 632,993          | 196,810                  | 158,794<br>(16,942)     | 338,662          | 294,331          |                              |
| Vehicles  | 35,039           | 201,634<br>(5,814)         | 230,859          | 11,235                   | 29,874<br>(4,234)       | 36,875           | 193,984          |                              |
|           | 410,341          | 479,330<br>(25,819)        | 863,852          | 208,045                  | 188,668<br>(21,176)     | 375,537          | 488,315          | 33.33                        |



### 12.3.1 Future Ijarah payments receivable

|   | 2015             | 2014             |
|---|------------------|------------------|
|   | (Rupees in '000) |                  |
| Not later than one year                           | 287,100          | 208,254          |
| Later than one year and not later than five years | 378,456          | 300,953          |
|   | <u>665,556</u>   | <u>509,207</u>   |
| <b>12.4 Murabaha - gross</b>                      | <b>2,963,501</b> | <b>2,164,480</b> |
| Less: Deferred murabaha income                    | (28,252)         | (34,321)         |
| Profit receivable shown in other assets           | (52,273)         | (55,234)         |
|   | <u>2,882,976</u> | <u>2,074,925</u> |

**12.5** Advances include Rs. 5,874.374 million (2014: Rs 5,024.778 million) which have been placed under non-performing status as detailed below:

| Category of classification        | 2015                |                  |                  |                    |                |                  |                  |                |                  |
|-----------------------------------|---------------------|------------------|------------------|--------------------|----------------|------------------|------------------|----------------|------------------|
|                                   | Classified advances |                  |                  | Provision required |                |                  | Provision held   |                |                  |
|                                   | Domestic            | Overseas         | Total            | Domestic           | Overseas       | Total            | Domestic         | Overseas       | Total            |
|                                   | (Rupees in '000)    |                  |                  |                    |                |                  |                  |                |                  |
| Other assets especially mentioned | 3,335               | –                | 3,335            | 40                 | –              | 40               | 40               | –              | 40               |
| Substandard                       | 43,810              | –                | 43,810           | 10,940             | –              | 10,940           | 10,940           | –              | 10,940           |
| Doubtful                          | 599,534             | –                | 599,534          | 299,767            | –              | 299,767          | 309,485          | –              | 309,485          |
| Loss                              | 4,280,034           | 947,661          | 5,227,695        | 4,269,245          | 947,661        | 5,216,906        | 4,269,245        | 947,661        | 5,216,906        |
|                                   | <u>4,926,713</u>    | <u>947,661</u>   | <u>5,874,374</u> | <u>4,579,992</u>   | <u>947,661</u> | <u>5,527,653</u> | <u>4,589,710</u> | <u>947,661</u> | <u>5,537,371</u> |
|                                   | 2014                |                  |                  |                    |                |                  |                  |                |                  |
|                                   | Classified advances |                  |                  | Provision required |                |                  | Provision held   |                |                  |
|                                   | Domestic            | Overseas         | Total            | Domestic           | Overseas       | Total            | Domestic         | Overseas       | Total            |
|                                   | (Rupees in '000)    |                  |                  |                    |                |                  |                  |                |                  |
| Other assets especially mentioned | 210                 | –                | 210              | –                  | –              | –                | –                | –              | –                |
| Substandard                       | 74,246              | –                | 74,246           | 18,405             | –              | 18,405           | 18,405           | –              | 18,405           |
| Doubtful                          | 746,226             | 753,623          | 1,499,849        | 373,113            | 222,574        | 595,687          | 373,113          | 222,574        | 595,687          |
| Loss                              | 3,041,824           | 408,649          | 3,450,473        | 3,010,076          | 408,649        | 3,418,725        | 3,010,076        | 408,649        | 3,418,725        |
|                                   | <u>3,862,506</u>    | <u>1,162,272</u> | <u>5,024,778</u> | <u>3,401,594</u>   | <u>631,223</u> | <u>4,032,817</u> | <u>3,401,594</u> | <u>631,223</u> | <u>4,032,817</u> |

**12.5.1** For the purposes of determining provision against non-performing advances, the Bank has not taken into account the Forced Sales Value of pledged stock and mortgaged properties held as collateral against non-performing advances.



## 12.6 Particulars of provision against non-performing loans and advances

| Note   | 2015      |           |                           | 2014      |           |           |
|--|-----------|-----------|---------------------------|-----------|-----------|-----------|
|  | Specific  | General   | Total<br>(Rupees in '000) | Specific  | General   | Total     |
| Opening balance  | 4,032,817 | 2,583,182 | 6,615,999                 | 3,543,124 | 2,540,071 | 6,083,195 |
| Charge for the year  |           |           |                           |           |           |           |
| – Specific provision   | 1,732,123 | –         | 1,732,123                 | 777,214   | –         | 777,214   |
| – General provision for small enterprises and consumer portfolio | –         | 43,097    | 43,097                    | –         | 43,111    | 43,111    |
| – General provision for loans and advances                       | –         | 250,000   | 250,000                   | –         | –         | –         |
| Reversals  | (261,941) | –         | (261,941)                 | (267,336) | –         | (267,336) |
|  | 1,470,182 | 293,097   | 1,763,279                 | 509,878   | 43,111    | 552,989   |
| Exchange adjustment  | 34,593    | –         | 34,593                    | (19,705)  | –         | (19,705)  |
| Amount written-off   | (221)     | –         | (221)                     | (480)     | –         | (480)     |
| Closing balance  | 5,537,371 | 2,876,279 | 8,413,650                 | 4,032,817 | 2,583,182 | 6,615,999 |

**12.6.1** General provision represents provision amounting to Rs. 100.618 million (2014: Rs. 60.521 million) against consumer finance portfolio and Rs. 25.661 million (2014: 22.661 million) against advances to small enterprises as required by the Prudential Regulations issued by SBP.

**12.6.2** In line with its prudent policies, the Bank also makes general provision against its loans and advances portfolio. This general provision is in addition to the requirements of the Prudential Regulations and as of 31 December 2015 amounts to Rs. 2,750 million (2014: Rs.2,500 million).

### 12.6.3 Particulars of provision against non-performing loans and advances

|                     | 2015      |           |                           | 2014      |           |           |
|---------------------|-----------|-----------|---------------------------|-----------|-----------|-----------|
|                     | Specific  | General   | Total<br>(Rupees in '000) | Specific  | General   | Total     |
| In local currency   | 4,589,710 | 2,876,279 | 7,465,989                 | 3,401,594 | 2,583,182 | 5,984,776 |
| In foreign currency | 947,661   | –         | 947,661                   | 631,223   | –         | 631,223   |
|                     | 5,537,371 | 2,876,279 | 8,413,650                 | 4,032,817 | 2,583,182 | 6,615,999 |

## 12.7 Particulars of write-offs

|   | 2015<br>(Rupees in '000) | 2014 |
|---|--------------------------|------|
| <b>12.7.1</b> Against provision                   | 221                      | 480  |
| Directly charged to profit and loss account       | 34                       | –    |
|   | 255                      | 480  |
| <b>12.7.2</b> Write-offs of Rs. 500,000 and above | –                        | –    |
| Write-offs of below Rs. 500,000                   | 255                      | 480  |
|   | 255                      | 480  |



**12.7.3** In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended 31 December 2015 is given in Annexure 1.

| <b>12.8 Particulars of Loans and Advances to Directors, Associated Companies, Subsidiaries etc.</b>  | <b>Note</b> | <b>2015<br/>(Rupees in '000)</b> | <b>2014</b>  |
|--|-------------|----------------------------------|--------------|
| (i) Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons                             |             |                                  |              |
| Balance at beginning of the year   |             | <b>2,316,512</b>                 | 1,998,328    |
| Loans granted during the year  |             | <b>968,243</b>                   | 879,739      |
| Repayments   |             | <b>(609,611)</b>                 | (561,555)    |
| Balance at end of the year   |             | <b>2,675,144</b>                 | 2,316,512    |
| (ii) Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members |             |                                  |              |
| Balance at beginning of the year   |             | <b>1,517,483</b>                 | 1,282,655    |
| Loans granted during the year  |             | <b>22,453,719</b>                | 24,168,997   |
| Repayments   |             | <b>(22,993,161)</b>              | (23,934,169) |
| Balance at end of the year   |             | <b>978,041</b>                   | 1,517,483    |
| (iii) Debts due by subsidiary companies, controlled firms and other related parties  |             |                                  |              |
| Balance at beginning of the year   |             | —                                | 19,720       |
| Loans granted during the year  |             | <b>10,948,669</b>                | 8,833,507    |
| Repayments   |             | <b>(10,948,669)</b>              | (8,853,227)  |
| Balance at end of the year   |             | —                                | —            |
| <b>13. OPERATING FIXED ASSETS</b>  |             |                                  |              |
| Capital work-in-progress   | 13.1        | <b>703,896</b>                   | 298,001      |
| Property and equipment   | 13.2        | <b>15,000,956</b>                | 13,502,575   |
| Intangible assets  | 13.3        | <b>59,432</b>                    | 97,745       |
|  |             | <b>15,764,284</b>                | 13,898,321   |
| <b>13.1 Capital work-in-progress</b>   |             |                                  |              |
| Civil works  |             | <b>184,829</b>                   | 48,554       |
| Advance payment towards suppliers, contractors and property  |             | <b>472,987</b>                   | 215,577      |
| Consultants' fee and other charges   |             | <b>46,080</b>                    | 33,870       |
|  |             | <b>703,896</b>                   | 298,001      |

## 2015

|   | Cost / Revalued Amount      |                        |  | Accumulated Depreciation     |                             |   | Book Value                   |                              |
|---|-----------------------------|------------------------|--|------------------------------|-----------------------------|---|------------------------------|------------------------------|
|   | As at<br>01 January<br>2015 | Revaluation<br>surplus | Additions /<br>(deletions) /<br>transfers* | As at<br>31 December<br>2015 | As at<br>01 January<br>2015 | Charge /<br>(deletions) /<br>adjustments* | As at<br>31 December<br>2015 | Rate of<br>depreciation<br>% |
| Owned   |                             |                        |  |                              |                             |   |                              |                              |
| Leasehold land                                | 4,136,026                   | (3,905)                | 261,635<br>(6,650)                         | 4,387,106                    | -                           | -   | 4,387,106                    | -                            |
| Buildings on<br>leasehold land                | 6,099,369                   | -                      | 459,687<br>(1,440)<br>3,091                | 6,560,707                    | 107,994                     | 195,745<br>(72)<br>272                    | 303,939                      | 6,256,768                    |
| Improvements to leasehold<br>buildings        | 1,247,511                   | -                      | 291,303<br>(66,462)<br>(3,091)             | 1,469,261                    | 228,624                     | 94,069<br>(22,130)<br>(272)               | 300,291                      | 1,168,970                    |
| Furniture and fixtures                        | 549,638                     | -                      | 137,844<br>(12,781)                        | 674,701                      | 290,694                     | 51,840<br>(10,546)                        | 331,988                      | 342,713                      |
| Electrical, office and<br>computer equipments | 4,009,362                   | -                      | 1,183,408<br>(165,302)                     | 5,027,468                    | 2,735,312                   | 542,224<br>(157,105)                      | 3,120,431                    | 1,907,037                    |
| Vehicles                                      | 1,536,276                   | -                      | 422,862<br>(130,348)                       | 1,828,790                    | 712,983                     | 296,775<br>(119,330)                      | 890,428                      | 938,362                      |
|   | 17,578,182                  | (3,905)                | 2,756,739<br>(382,983)                     | 19,948,033                   | 4,075,607                   | 1,180,653<br>(309,183)                    | 4,947,077                    | 15,000,956                   |

2014

|   | Cost / Revalued Amount      |                        |                            |  | Accumulated Depreciation     |                             |                         |  | Book Value                   |                              |
|---|-----------------------------|------------------------|----------------------------|--|------------------------------|-----------------------------|-------------------------|--|------------------------------|------------------------------|
|   | As at<br>01 January<br>2014 | Revaluation<br>surplus | Additions /<br>(deletions) | Reversal of<br>accumulated<br>depreciation | As at<br>31 December<br>2014 | As at<br>01 January<br>2014 | Charge /<br>(deletions) | Reversal of<br>accumulated<br>depreciation | As at<br>31 December<br>2014 | Rate of<br>depreciation<br>% |
|   |                             |                        |                            |  |                              |                             | (Rupees in '000)        |  |                              |                              |
| <i>Owned</i>                                  |                             |                        |                            |  |                              |                             |                         |  |                              |                              |
| Leasehold land                                | 3,424,233                   | 598,839                | 121,487<br>(8,533)         | -  | 4,136,026                    | -                           | -                       | -  | 4,136,026                    | -                            |
| Buildings on<br>leasehold land                | 5,415,149                   | 728,183                | 419,540                    | (463,503)                                  | 6,099,369                    | 395,844                     | 175,653                 | (463,503)                                  | 5,991,375                    | 2.22 - 10                    |
| Improvements to leasehold<br>buildings        | 1,043,817                   | -                      | 207,859<br>(4,165)         | -  | 1,247,511                    | 175,090                     | 54,234<br>(700)         | -  | 1,018,887                    | 5                            |
| Furniture and fixtures                        | 495,599                     | -                      | 65,995<br>(11,956)         | -  | 549,638                      | 255,507                     | 45,374<br>(10,187)      | -  | 290,694                      | 10                           |
| Electrical, office and<br>computer equipments | 3,562,847                   | -                      | 578,511<br>(131,996)       | -  | 4,009,362                    | 2,404,829                   | 461,604<br>(131,121)    | -  | 1,274,050                    | 20                           |
| Vehicles                                      | 1,318,503                   | -                      | 330,590<br>(112,817)       | -  | 1,536,276                    | 561,671                     | 255,268<br>(103,956)    | -  | 823,293                      | 20                           |
|   | 15,260,148                  | 1,327,022              | 1,723,982<br>(269,467)     | (463,503)                                  | 17,578,182                   | 3,792,941                   | 992,133<br>(245,964)    | (463,503)                                  | 4,075,607                    | 13,502,575                   |



**13.2.1** Details of disposal of fixed assets during the year:

| Particulars   | Cost           | Book value<br>(Rupees in '000) | Sale price     | Mode of disposal                  | Particulars of purchaser   |
|---|----------------|--------------------------------|----------------|-----------------------------------|--|
| <b>Items having book value in aggregate more than Rs. 250,000 or cost more than Rs. 1,000,000</b> |                |                                |                |                                   |  |
| Leasehold land  | 6,650          | 6,650                          | 14,000         | Negotiation                       | Mr. Iftikhar Ahmad, Multan.<br>Sheikh Naveed Ahmed, Multan.<br>Mr. Waqar Ahmed, Multan.<br>Sheikh Ibrar Ahmed, Multan. |
| Buildings on leasehold land   | 1,440          | 1,368                          | 10,000         | Negotiation                       | Mr. Iftikhar Ahmad, Multan.<br>Sheikh Naveed Ahmed, Multan.<br>Mr. Waqar Ahmed, Multan.<br>Sheikh Ibrar Ahmed, Multan. |
| Improvements to leasehold buildings   | 66,462         | 44,332                         | –              | Write off                         | –  |
| Furniture and fixtures  | 5,525          | 404                            | 747            | Auction                           | Karachi Auction Mart, Karachi.   |
| Furniture and fixtures  | 5,725          | 1,515                          | 2,639          | Auction                           | M/s. Rafiq Ali M. Trading, Karachi.  |
| Electrical, office and computer equipments  | 39,454         | 2,125                          | 3,150          | Auction                           | Karachi Auction Mart, Karachi.   |
| Electrical, office and computer equipments  | 14,187         | 874                            | 300            | Auction                           | M/s. Sadaat Computers, Karachi.  |
| Electrical, office and computer equipments  | 46,322         | 19                             | 12,200         | Auction                           | Mr. Rajab Ali, Karachi.  |
| Electrical, office and computer equipments  | 5,609          | 543                            | 811            | Auction                           | M/s. Rafiq Ali M. Trading, Karachi.  |
| Electrical, office and computer equipments  | 39,750         | 558                            | 11,672         | Auction                           | M/s. Edwards & Robertson, Karachi.   |
| Vehicles  | 6,772          | 4,019                          | 6,777          | Insurance claim                   | Habib Insurance Company Limited (a related party), Karachi.  |
| Vehicles  | 1,038          | 3                              | 487            | Auction                           | Mr. Guldad, Karachi.   |
| Vehicles  | 1,109          | 93                             | 568            | Auction                           | Mr. Zulfiqar Ahmed, Karachi.   |
| Vehicles  | 1,149          | 172                            | 576            | Auction                           | Mr. Muhammad Nawaz, Karachi.   |
| Vehicles  | 1,257          | –                              | 903            | Auction                           | Mr. Naveed Muhammad Haneef, Karachi.   |
| Vehicles  | 1,262          | 21                             | 1,101          | Auction                           | Syed Aley Haider Jaffery, Karachi.   |
| Vehicles  | 1,282          | 342                            | 586            | Auction                           | Mr. Mohsin Ahmed, Karachi.   |
| Vehicles  | 1,354          | –                              | 930            | Auction                           | Mr. Haji Sultan Jan, Karachi.  |
| Vehicles  | 1,428          | –                              | 978            | Auction                           | Syed Wali Najam, Karachi.  |
| Vehicles  | 1,529          | 153                            | 1,157          | Auction                           | Mr. Shafiq-ur-Rehman, Karachi.   |
| Vehicles  | 1,633          | 68                             | 1,188          | Auction                           | Mr. Numeri Abrar, Karachi.   |
| Vehicles  | 1,749          | –                              | 1,135          | Auction                           | Mr. Muhammad Haroon Khan, Karachi.   |
| Vehicles  | 2,009          | –                              | 1,596          | Auction                           | Mr. Najm us Saqib, Karachi.  |
| Vehicles  | 3,668          | 22                             | 2,934          | Auction                           | Mr. Javed Muhammad Khan, Karachi.  |
| Vehicles  | 2,738          | –                              | 1,864          | Auction                           | M/s. Isha Enterprise, Karachi.   |
| Vehicles  | 3,002          | –                              | 2,107          | Auction                           | Mr. Shah Fahad, Karachi.   |
| Vehicles  | 3,248          | 767                            | 1,930          | Auction                           | Mr. Muhammad Adeel Haseeb, Karachi.  |
| Vehicles  | 3,367          | 137                            | 2,426          | Auction                           | Mr. Sajid Qadri, Karachi.  |
| Vehicles  | 3,518          | –                              | 2,209          | Auction                           | Mr. Muhammad Ali Akbar Khan, Karachi.  |
| Vehicles  | 3,526          | –                              | 2,207          | Auction                           | Mr. Waseem Mirza, Karachi.   |
| Vehicles  | 5,067          | 1                              | 2,986          | Auction                           | Mr. Shahid Zaman, Karachi.   |
| Vehicles  | 7,230          | 170                            | 5,551          | Auction                           | Mr. Khalid Anwar, Karachi.   |
| Vehicles  | 9,479          | 2                              | 7,251          | Auction                           | Syed Hassan Ali Warsi, Karachi.  |
| Vehicles  | 7,735          | 1                              | 4,370          | Auction                           | Mr. Abdul Samad Khan, Karachi.   |
| Vehicles  | 17,842         | 129                            | 10,444         | Auction                           | Ms. Fauzia Nadeem, Karachi.  |
| Vehicles  | 23,285         | 4,832                          | 2,048          | As per Bank's policy and decision | Various employees / ex-employees / family members of deceased employees  |
| <b>Items having book value in aggregate less than Rs. 250,000 or cost less than Rs. 1,000,000</b> |                |                                |                |                                   |  |
| Furniture and fixtures  | 1,531          | 316                            | 195            |                                   |  |
| Electrical, office and computer equipments  | 19,980         | 4,078                          | 1,113          |                                   |  |
| Vehicles  | 13,072         | 86                             | 7,036          |                                   |  |
|   | <u>382,983</u> | <u>73,800</u>                  | <u>130,172</u> |                                   |  |



**13.2.2** In accordance with the Bank's accounting policy, the leasehold land and buildings have been revalued during the year 2014. The revaluation was carried out by independent valuer, M/s. Iqbal A. Nanjee & Co. on the basis of professional assessment of present market values and resulted in a net surplus of Rs. 1,327.022 million over the book value of the respective properties. Had there been no revaluation, the net book value of leasehold land and buildings would have amounted to:

|                             | 2015             | 2014      |
|-----------------------------|------------------|-----------|
|                             | (Rupees in '000) |           |
| Leasehold land              | <b>3,170,497</b> | 2,915,512 |
| Buildings on leasehold land | <b>3,985,937</b> | 3,639,227 |
|                             | <b>7,156,434</b> | 6,554,739 |

**13.2.3** As at 31 December 2015, the gross carrying amount of fully depreciated assets still in use amounted to Rs. 2,231.875 million (2014: Rs. 1,749.819 million).

### 13.3 Intangible assets

|                   | 2015                        |           |                              |                             |        |                              |                              |                              |
|-------------------|-----------------------------|-----------|------------------------------|-----------------------------|--------|------------------------------|------------------------------|------------------------------|
|                   | Cost                        |           |                              | Accumulated Amortisation    |        |                              | Book Value                   |                              |
|                   | As at<br>01 January<br>2015 | Additions | As at<br>31 December<br>2015 | As at<br>01 January<br>2015 | Charge | As at<br>31 December<br>2015 | As at<br>31 December<br>2015 | Rate of<br>Amortisation<br>% |
|                   | (Rupees in '000)            |           |                              |                             |        |                              |                              |                              |
| Computer software | 411,865                     | 39,406    | 451,271                      | 314,120                     | 77,719 | 391,839                      | 59,432                       | 50                           |
|                   | 2014                        |           |                              |                             |        |                              |                              |                              |
|                   | Cost                        |           |                              | Accumulated Amortisation    |        |                              | Book Value                   |                              |
|                   | As at<br>01 January<br>2014 | Additions | As at<br>31 December<br>2014 | As at<br>01 January<br>2014 | Charge | As at<br>31 December<br>2014 | As at<br>31 December<br>2014 | Rate of<br>Amortisation<br>% |
|                   | (Rupees in '000)            |           |                              |                             |        |                              |                              |                              |
| Computer software | 280,888                     | 130,977   | 411,865                      | 243,723                     | 70,397 | 314,120                      | 97,745                       | 50                           |

**13.3.1** As at 31 December 2015, the gross carrying amount of fully amortised intangible assets still in use amounted to Rs.283.887 million (2014: Rs. 255.016 million).

|  | Note | 2015<br>(Rupees in '000) | 2014       |
|--|------|--------------------------|------------|
| <b>14. OTHER ASSETS</b>                                    |      |                          |            |
| Mark-up / return / interest accrued in local currency      |      | <b>12,503,820</b>        | 11,696,735 |
| Mark-up / return / interest accrued in foreign currencies  |      | <b>192,910</b>           | 164,716    |
| Advances, deposits and prepayments                         |      | <b>2,164,615</b>         | 1,011,253  |
| Unrealised gain on forward foreign exchange contracts      |      | —                        | 112,121    |
| Stationery and stamps on hand                              |      | <b>143,198</b>           | 93,749     |
| Receivable from SBP on encashment of Government Securities |      | <b>22,012</b>            | 108,699    |
| Non-refundable deposits                                    | 14.1 | <b>66,282</b>            | 73,891     |
| ATM settlement account                                     |      | —                        | 174,558    |
| Non-banking assets acquired in satisfaction of claims      | 14.2 | <b>181,336</b>           | 164,836    |
| Receivable against sale of securities                      |      | <b>291,953</b>           | —          |
| Others   |      | <b>118,196</b>           | 93,706     |
|  |      | <b>15,684,322</b>        | 13,694,264 |



- 14.1** Represent deposits paid in relation to acquisition of some of the Bank's properties. These are being written-off over the periods ranging from 10 to 20 years (being estimated useful lives of related properties).
- 14.2** The market value of non-banking assets acquired in satisfaction of claims is Rs.195.161 million (2014: 165.44 million).

|   | Note | 2015<br>(Rupees in '000) | 2014                     |
|---|------|--------------------------|--------------------------|
| <b>15. BILLS PAYABLE</b>  |      |                          |                          |
| In Pakistan   |      | <u>8,665,462</u>         | <u>7,984,808</u>         |
| <b>16. BORROWINGS</b>   |      |                          |                          |
| In Pakistan   |      | <u>62,586,995</u>        | <u>77,788,568</u>        |
| Outside Pakistan  |      | <u>5,304</u>             | <u>666,884</u>           |
|   |      | <u><b>62,592,299</b></u> | <u><b>78,455,452</b></u> |
| <b>16.1 Particulars of borrowings with respect to currencies</b>              |      |                          |                          |
| In local currency   |      | <u>62,586,995</u>        | <u>77,788,568</u>        |
| In foreign currencies   |      | <u>5,304</u>             | <u>666,884</u>           |
|   |      | <u><b>62,592,299</b></u> | <u><b>78,455,452</b></u> |
| <b>16.2 Details of borrowings</b>   |      |                          |                          |
| <b>Secured</b>  |      |                          |                          |
| Borrowings from SBP   |      |                          |                          |
| Export refinance scheme   | 16.3 | <u>19,118,954</u>        | <u>17,800,781</u>        |
| Long term financing for export oriented projects                              | 16.4 | <u>4,246</u>             | <u>46,739</u>            |
| Long term financing for imported and locally manufactured plant and machinery | 16.5 | <u>3,953,374</u>         | <u>3,567,350</u>         |
| Financing facility for storage of agricultural produce                        | 16.6 | <u>36,861</u>            | <u>58,126</u>            |
|   |      | <u><b>23,113,435</b></u> | <u><b>21,472,996</b></u> |
| Repurchase agreement borrowings   | 16.7 | <u>39,473,560</u>        | <u>56,315,572</u>        |
|   |      | <u><b>62,586,995</b></u> | <u><b>77,788,568</b></u> |
| <b>Unsecured</b>  |      |                          |                          |
| Overdrawn nostros   |      | <u>5,304</u>             | <u>666,884</u>           |
|   |      | <u><b>62,592,299</b></u> | <u><b>78,455,452</b></u> |





- 16.3** These carry mark-up rates ranging from 2.50% to 3.50% (2014: 6.50%) per annum, payable quarterly at the time of partial payment or upon maturity of loan, whichever is earlier.
- 16.4** These carry mark-up rates ranging from 5% to 6.50% (2014: 4% to 5%) per annum having maturity periods upto 3 months.
- 16.5** These carry mark-up rates ranging from 2% to 10.10% (2014: 9%) per annum having maturity periods upto ten years.
- 16.6** These carry mark-up rates ranging from 3.50% to 7.50% (2014: 5.50%) having maturity period upto 2 to 3 years.
- 16.7** These repurchase agreement borrowings are secured against market treasury bills, which carry mark-up rates ranging from 6.10% to 6.21% (2014: 9.45% to 10%) per annum, having maturity periods upto one month.

|  | Note | 2015<br>(Rupees in '000) | 2014               |
|--|------|--------------------------|--------------------|
| <b>17. DEPOSITS AND OTHER ACCOUNTS</b>             |      |                          |                    |
| <b>Customers</b>                                   |      |                          |                    |
| Fixed deposits                                     |      | 120,268,519              | 104,806,779        |
| Savings deposits                                   |      | 150,427,540              | 130,915,789        |
| Current accounts - Remunerative                    |      | 57,094,573               | 54,094,573         |
| Current accounts - Non-remunerative                |      | 175,902,813              | 146,835,524        |
|  |      | <b>503,693,445</b>       | <b>436,652,665</b> |
| <b>Financial institutions</b>                      |      |                          |                    |
| Remunerative deposits                              |      | 11,462,606               | 8,936,216          |
| Non-remunerative deposits                          |      | 1,057,127                | 820,123            |
|  |      | <b>12,519,733</b>        | <b>9,756,339</b>   |
|  |      | <b>516,213,178</b>       | <b>446,409,004</b> |
| <b>17.1 Particulars of deposits</b>                |      |                          |                    |
| In local currency                                  |      | 454,127,047              | 397,421,618        |
| In foreign currencies                              |      | 62,086,131               | 48,987,386         |
|  |      | <b>516,213,178</b>       | <b>446,409,004</b> |
| <b>18. SUB-ORDINATED LOANS - unsecured</b>         |      |                          |                    |
| Term Finance Certificates (TFCs) - II - (Quoted)   |      | —                        | 747,900            |
| Term Finance Certificates (TFCs) - IV - (Unquoted) | 18.1 | 2,994,600                | 2,995,800          |
|  |      | <b>2,994,600</b>         | <b>3,743,700</b>   |



# 18.1 Term Finance Certificates - IV (Unquoted)

|             |   |
|-------------|---|
| Total issue | Rupees 3,000 million  |
| Rating      | <b>AA</b>   |
| Rate        | Payable six monthly at 15.00% p.a. for first 5 years and 15.50% p.a. for next 5 years |
| Redemption  | 6th - 108th month: 0.36%; 114th and 120th month: 49.82% each                          |
| Tenor       | 10 years  |
| Maturity    | June 2021   |

Note  
**2015**  
 (Rupees in '000)  
**2014**

# 19. DEFERRED TAX LIABILITIES

## Taxable temporary differences arising in respect of:

|  |      |                  |           |
|--|------|------------------|-----------|
| Accelerated depreciation               |      | <b>1,029,252</b> | 956,156   |
| Surplus on revaluation of fixed assets | 22.1 | <b>797,630</b>   | 826,092   |
| Surplus on revaluation of investments  | 22.2 | <b>1,866,556</b> | 936,986   |
|  |      | <b>3,693,438</b> | 2,719,234 |

## Deductible temporary differences arising in respect of:

|  |                  |           |
|--|------------------|-----------|
| Provision against non-performing loans and advances      | <b>(106,412)</b> | (16,558)  |
| Remeasurment of defined benefit plan                     | <b>115,089</b>   | 78,430    |
| Provision against diminution in the value of investments | <b>(69,517)</b>  | (570)     |
|  | <b>(60,840)</b>  | 61,302    |
|  | <b>3,632,598</b> | 2,780,536 |

# 19.1 Reconciliation of deferred tax

|  | Balance as at 01 January 2015 | Recognised in profit and loss account | Recognised in surplus on revaluation of assets | Balance as at 31 December 2015 |
|--|-------------------------------|---------------------------------------|--|--------------------------------|
|  |                               | (Rupees in '000)                      |  |                                |
| <b>Taxable temporary differences arising in respect of:</b>    |                               |                                       |  |                                |
| Accelerated depreciation                                       | 956,156                       | 73,096                                | —  | 1,029,252                      |
| Surplus on revaluation of fixed assets                         | 826,092                       | (28,462)                              | —  | 797,630                        |
| Surplus on revaluation of investments                          | 936,986                       | —                                     | 929,570  | 1,866,556                      |
|  | 2,719,234                     | 44,634                                | 929,570  | 3,693,438                      |
| <b>Deductible temporary differences arising in respect of:</b> |                               |                                       |  |                                |
| Provision against non-performing loans and advances            | (16,558)                      | (89,854)                              | —  | (106,412)                      |
| Remeasurment of defined benefit plan                           | 78,430                        | 36,659                                | —  | 115,089                        |
| Provision against diminution in the value of investments       | (570)                         | (68,947)                              | —  | (69,517)                       |
|  | 61,302                        | (122,142)                             | —  | (60,840)                       |
|  | 2,780,536                     | (77,508)                              | 929,570  | 3,632,598                      |



|  | Balance<br>as at<br>01 January<br>2014 | Recognised in<br>profit and<br>loss<br>account<br>(Rupees in '000) | Recognised<br>in surplus on<br>revaluation<br>of assets | Balance<br>as at<br>31 December<br>2014 |
|--|--|--|---|---|
| <b>Taxable temporary differences<br/>arising in respect of:</b>    |  |  |   |   |
| Accelerated depreciation   | 941,429                                | 14,727   | —   | 956,156                                 |
| Surplus on revaluation of fixed assets                             | 595,969                                | (24,741)   | 254,864   | 826,092                                 |
| Surplus on revaluation of investments                              | 133,608                                | —  | 803,378   | 936,986                                 |
|  | 1,671,006                              | (10,014)   | 1,058,242   | 2,719,234                               |
| <b>Deductible temporary differences<br/>arising in respect of:</b> |  |  |   |   |
| Provision against non-performing<br>loans and advances             | (18,998)                               | 2,440  | —   | (16,558)                                |
| Remeasurment of defined benefit plan                               | —                                      | 78,430   | —   | 78,430                                  |
| Provision against diminution in<br>the value of investments        | (570)                                  | —  | —   | (570)                                   |
|  | (19,568)                               | 80,870   | —   | 61,302                                  |
|  | 1,651,438                              | 70,856   | 1,058,242   | 2,780,536                               |

|   | Note | 2015<br>(Rupees in '000) | 2014             |
|---|------|--------------------------|------------------|
| <b>20. OTHER LIABILITIES</b>                              |      |                          |                  |
| Mark-up / return / interest payable in local currency     |      | 1,784,466                | 2,299,578        |
| Mark-up / return / interest payable in foreign currencies |      | 131,580                  | 59,901           |
| Provision for compensated absences                        | 20.1 | 362,923                  | 312,972          |
| Taxation (Provision less payments)                        |      | 316,737                  | 507,175          |
| Unclaimed dividends                                       |      | 229,596                  | 185,750          |
| Branch adjustment account                                 |      | 73,247                   | 256,389          |
| Special exporters' accounts in foreign currencies         |      | 78,524                   | 70,256           |
| Unearned commission income                                |      | 86,016                   | 89,968           |
| Unrealised loss on forward foreign exchange contracts     |      | 211,302                  | —                |
| Security deposits against leases / ijarah                 |      | 1,054,304                | 529,645          |
| Other security deposits                                   |      | 369,690                  | 261,732          |
| Workers' welfare fund                                     |      | 1,063,464                | 811,804          |
| Accrued expenses  |      | 604,161                  | 243,309          |
| Payable to defined benefit plan                           | 36.4 | 328,824                  | 224,085          |
| Provision against off-balance sheet items                 | 20.2 | 144,042                  | 105,507          |
| Payable to SBP / NBP                                      |      | 320,683                  | 430,519          |
| Payable to supplier against murabaha                      |      | 103,247                  | 97,092           |
| Charity payable   |      | 2,690                    | 2,625            |
| Others  |      | 492,177                  | 428,671          |
|   |      | <b>7,757,673</b>         | <b>6,916,978</b> |

**20.1** Provision for compensated absences has been determined on the basis of independent actuarial valuation. The significant assumptions used for actuarial valuation were as follows:

|   | 2015<br>(% per annum) | 2014   |
|---|-----------------------|--------|
| Discount rate                                       | 10.00%                | 11.75% |
| Expected rate of increase in salary in future years | 9.00%                 | 10.75% |



|  |   |                                 | 2015<br>(Rupees in '000) | 2014       |
|--|---|---------------------------------|--------------------------|------------|
| <b>20.2 Provision against off-balance sheet items</b>  |   |                                 |                          |            |
| Opening balance  |   |                                 | 105,507                  | 96,258     |
| Charge for the year  |   |                                 | 38,535                   | 9,249      |
| Closing balance  |   |                                 | 144,042                  | 105,507    |
| <b>21. SHARE CAPITAL</b>   |   |                                 |                          |            |
|  | 2015  | 2014                            |                          |            |
|  | (Number of shares)  |                                 |                          |            |
| <b>Authorised Capital</b>  |   |                                 |                          |            |
| 1,500,000,000  | 1,500,000,000   | Ordinary shares of Rs.10/- each | 15,000,000               | 15,000,000 |
| <b>Issued, subscribed and paid-up capital</b>  |   |                                 |                          |            |
| 30,000,000   | 30,000,000  | Issued for cash                 | 300,000                  | 300,000    |
| 1,081,425,416  | 1,081,425,416   | Issued as bonus shares          | 10,814,254               | 10,814,254 |
| 1,111,425,416  | 1,111,425,416   |                                 | 11,114,254               | 11,114,254 |
| <b>21.1</b>  | As of statement of financial position date 202,920,855 (2014: 196,826,601) ordinary shares of Rs. 10/- each were held by the related parties. |                                 |                          |            |
|  |   |                                 | 2015<br>(Rupees in '000) | 2014       |
| <b>22. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX</b>   | Note  |                                 |                          |            |
| Operating fixed assets   | 22.1  | 2,692,363                       | 2,749,123                |            |
| Available for sale investments   | 22.2  | 3,466,462                       | 2,324,573                |            |
|  |   | 6,158,825                       | 5,073,696                |            |
| <b>22.1 Operating fixed assets</b>   |   |                                 |                          |            |
| Balance at the beginning of the year   |   | 3,575,215                       | 2,318,881                |            |
| Adjustment on revaluation of the Bank's properties during the year                               |   | (3,905)                         | 1,327,022                |            |
| Transfer to unappropriated profit in respect of incremental depreciation charged during the year |   | (81,317)                        | (70,688)                 |            |
|  |   | 3,489,993                       | 3,575,215                |            |
| Related deferred tax liability on:   |   |                                 |                          |            |
| Balance at the beginning of the year   |   | 826,092                         | 595,969                  |            |
| Adjustment of Bank's properties during the year  |   | —                               | 254,864                  |            |
| Transfer to unappropriated profit in respect of incremental depreciation charged during the year |   | (28,462)                        | (24,741)                 |            |
|  |   | (797,630)                       | (826,092)                |            |
|  |   | 2,692,363                       | 2,749,123                |            |



|  | 2015              | 2014              |
|--|-------------------|-------------------|
|  | (Rupees in '000)  |                   |
| <b>22.2 Available for sale investments</b>   |                   |                   |
| Federal Government securities  | 4,534,035         | 2,243,759         |
| Fully paid-up ordinary shares  | 708,837           | 638,541           |
| Term finance certificates, sukuk bonds and foreign currency bonds                      | 1,388             | 3,833             |
| Units of mutual funds  | 88,758            | 375,426           |
|  | <u>5,333,018</u>  | <u>3,261,559</u>  |
| Related deferred tax liability   | (1,866,556)       | (936,986)         |
|  | <u>3,466,462</u>  | <u>2,324,573</u>  |
| <b>23. CONTINGENCIES AND COMMITMENTS</b>   |                   |                   |
| <b>23.1 Direct credit substitutes</b>  |                   |                   |
| Financial guarantees issued favouring:   |                   |                   |
| - Financial institutions   | 462,800           | 212,894           |
| - Others   | 5,086,805         | 5,877,756         |
|  | <u>5,549,605</u>  | <u>6,090,650</u>  |
| <b>23.2 Transaction-related contingent liabilities</b>                                 |                   |                   |
| Guarantees issued favouring:   |                   |                   |
| - Government   | 29,798,948        | 13,616,945        |
| - Financial institutions   | 668,750           | 366,643           |
| - Others   | 6,743,423         | 7,156,310         |
|  | <u>37,211,121</u> | <u>21,139,898</u> |
| <b>23.3 Trade-related contingent liabilities</b>                                       |                   |                   |
| Letters of credit  | 77,847,579        | 68,164,714        |
| Acceptances  | 13,547,110        | 9,974,513         |
| Bankers liability rediscount   | —                 | 1,465,595         |
|  | <u>91,394,689</u> | <u>79,604,822</u> |
| <b>23.4 Commitments in respect of forward lending</b>                                  |                   |                   |
| Commitments to extend credit (excluding commitments that are unilaterally cancellable) | <u>10,748,236</u> | <u>4,582,095</u>  |
| <b>23.5 Commitments in respect of forward exchange contracts</b>                       |                   |                   |
| Purchase   | <u>46,760,182</u> | <u>35,574,870</u> |
| Sale   | <u>28,769,804</u> | <u>33,584,498</u> |
| The maturities of above contracts are spread over the periods upto one year.           |                   |                   |
| <b>23.6 Commitments for the acquisition of operating fixed assets</b>                  | <u>635,075</u>    | <u>362,472</u>    |



### 23.7 Other contingencies

Income tax returns of the Bank have been submitted upto and including the Bank's financial year 2014. The income tax assessments of the Bank are complete upto tax year 2011.

For tax year 2012 and 2013, the Additional Commissioner Inland Revenue has passed order u/s. 122(5A) of the Income Tax Ordinance, 2001 by disallowing certain expenses / deductions having an aggregate tax impact of Rs. 821.568 million. The Bank has filed an appeal before the Commissioner Inland Revenue (Appeals) against the above mentioned orders.

Commissioner Inland Revenue (Appeals) has passed appellate orders for tax years 2009 and 2011 by confirming disallowance of provision for non-performing loans, other provisions and amortization of intangible assets having an aggregate tax impact of Rs. 15.372 million. The Bank has filed an appeal before Income Tax Appellate Tribunal against the above referred orders.

The management, based on the opinion of its tax advisor, is confident about the favourable outcome of the above matters and hence, no additional provision has been considered necessary in these unconsolidated financial statements.

### 24. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank deals in derivative financial instruments namely forward foreign exchange contracts and foreign currency swaps with the principal view of hedging the risks arising from its trade business. As per the Bank's policy, these contracts are reported on their fair value at the statement of financial position date. The gains and losses from revaluation of these contracts are included under "income from dealing in foreign currencies". Unrealised gains and losses on these contracts are recorded in the statement of financial position under "other assets / other liabilities". These products are offered to the Bank's customers to protect from unfavourable movements in foreign currencies. The Bank hedges such exposures in the inter-bank foreign exchange market.

### 25. MARK-UP / RETURN / INTEREST EARNED

On loans and advances to:

|                        |                   |                   |
|------------------------|-------------------|-------------------|
| Customers              | 14,576,038        | 15,090,903        |
| Financial institutions | 118,886           | 288,104           |
|                        | <b>14,694,924</b> | <b>15,379,007</b> |

On investments:

|                               |                   |                   |
|-------------------------------|-------------------|-------------------|
| Available for sale securities | 20,726,153        | 16,446,465        |
| Held to maturity securities   | 14,635,744        | 11,964,172        |
|                               | <b>35,361,897</b> | <b>28,410,637</b> |

|   |                   |                   |
|---|-------------------|-------------------|
| On deposits with financial institutions         | 169,542           | 83,688            |
| On securities purchased under resale agreements | 52,961            | 127,051           |
| On Bai Muajjal                                  | 13,086            | —                 |
| On call money lendings                          | 816               | 813               |
|   | <b>50,293,226</b> | <b>44,001,196</b> |

### 26. MARK-UP / RETURN / INTEREST EXPENSED

|                                 |                   |                   |
|---------------------------------|-------------------|-------------------|
| Deposits                        | 18,503,435        | 20,778,047        |
| Sub-ordinated loans             | 458,513           | 812,680           |
| Repurchase agreement borrowings | 5,028,611         | 1,611,068         |
| Borrowings from SBP             | 969,378           | 1,384,760         |
| Other borrowings                | 516,412           | 350,330           |
|                                 | <b>25,476,349</b> | <b>24,936,885</b> |



|   | Note   | 2015<br>(Rupees in '000) | 2014              |
|---|--|--------------------------|-------------------|
| <b>27. GAIN ON SALE / REDEMPTION OF SECURITIES - NET</b>    |  |                          |                   |
| Mutual funds  |  | 318,246                  | 3,770             |
| Government securities                                       |  | 26                       | (3,468)           |
| Listed shares   |  | (101,018)                | (8)               |
|   |  | <u>217,254</u>           | <u>294</u>        |
| <b>28. OTHER INCOME</b>                                     |  |                          |                   |
| Gain on sale of operating fixed assets                      |  | 56,372                   | 74,655            |
| Recovery of expenses from customers                         | 28.1   | 178,839                  | 178,256           |
| Lockers rent  |  | 512                      | 1,284             |
| Rent on property  |  | 2,100                    | 2,100             |
| Cheque book issuance / cheque return charges                |  | 261,120                  | 255,783           |
| Banking charges   |  | 74,927                   | 63,856            |
| Others  |  | 123,605                  | 61,612            |
|   |  | <u>697,475</u>           | <u>637,546</u>    |
| <b>28.1</b>   | Includes courier, SWIFT, postage and other charges recovered from customers. |                          |                   |
| <b>29. ADMINISTRATIVE EXPENSES</b>                          |  |                          |                   |
| Salaries, allowances, etc.                                  |  | 6,729,630                | 5,352,377         |
| Charge for defined benefit plan                             | 36.6   | 171,390                  | 167,033           |
| Contribution to defined contribution plan                   |  | 263,530                  | 221,068           |
| Charge for employees compensated absences                   |  | 49,654                   | 35,390            |
| Non-executive directors' fee, allowances and other expenses |  | 8,325                    | 4,700             |
| Rent, taxes, insurance, electricity, etc.                   |  | 2,055,478                | 1,902,698         |
| Legal and professional charges                              |  | 88,383                   | 111,128           |
| Communications  |  | 309,728                  | 227,212           |
| Repairs and maintenance                                     |  | 1,088,708                | 836,132           |
| Security charges  |  | 711,682                  | 573,960           |
| Stationery and printing                                     |  | 385,564                  | 359,626           |
| Advertisement and publicity                                 |  | 324,693                  | 132,655           |
| Donations   | 29.1   | 49,100                   | 48,800            |
| Auditors' remuneration                                      | 29.2   | 3,508                    | 2,975             |
| Depreciation  | 13.2   | 1,180,653                | 992,133           |
| Amortisation  |  | 85,328                   | 78,006            |
| Travelling and conveyance                                   |  | 142,703                  | 106,382           |
| Vehicle running expenses                                    |  | 342,605                  | 414,896           |
| Commission and brokerage                                    |  | 86,477                   | 53,018            |
| Subscriptions and publications                              |  | 47,039                   | 64,299            |
| Clearing charges  |  | 90,032                   | 73,360            |
| Staff training  |  | 14,596                   | 18,099            |
| Entertainment and staff refreshment                         |  | 160,164                  | 127,485           |
| Cleaning charges  |  | 81,978                   | 55,232            |
| Charitable expenses   |  | 40,219                   | 31,351            |
| CNIC verification charges                                   |  | 45,326                   | 31,545            |
| Others  |  | 138,547                  | 168,207           |
|   |  | <u>14,695,040</u>        | <u>12,189,767</u> |





|   | 2015             | 2014             |
|---|------------------|------------------|
|   | (Rupees in '000) |                  |
| <b>29.1</b> The detail of donations is given below:             |                  |                  |
| Al-Sayyeda Benevolent Trust                                     | 1,500            | 1,500            |
| GCU Endowment Fund Trust*                                       | 1,000            | 1,000            |
| Habib Education Trust   | 1,500            | 17,500           |
| Habib Medical Trust   | 1,500            | 1,500            |
| Habib Poor Fund   | 1,500            | 1,500            |
| Institute of Management Sciences, Bahauddin Zakariya University | 1,000            | 1,000            |
| Patients' Aid Foundation  | 15,000           | 15,000           |
| Rahmatbai Habib Food and Clothing Trust                         | 1,500            | 1,500            |
| Rahmatbai Habib Widows and Orphans Trust                        | 1,500            | 1,500            |
| Shaukat Khanum Memorial Cancer Hospital & Research Centre       | —                | 1,000            |
| Sindh Institute of Urology and Transplantation (SIUT)           | 7,500            | 2,500            |
| The Citizens Foundation   | 3,500            | 3,300            |
| Jinnah Foundation (Memorial) Trust                              | 2,000            | —                |
| Bank AL Habib Staff Benefit Trust                               | 100              | —                |
| Cancer Research & Treatment Foundation                          | 10,000           | —                |
|   | <b>49,100</b>    | <b>48,800</b>    |
| <b>29.2 Auditors' remuneration</b>                              |                  |                  |
| Audit fee   | 2,145            | 1,950            |
| Half yearly review  | 660              | 600              |
| Special certifications  | 253              | 50               |
| Gratuity fund   | 75               | 75               |
| Out of pocket expenses  | 375              | 300              |
|   | <b>3,508</b>     | <b>2,975</b>     |
| <b>30. OTHER PROVISIONS / WRITE-OFFS</b>                        |                  |                  |
| Provision against off-balance sheet items                       | <b>38,535</b>    | <b>9,249</b>     |
| <b>31. OTHER CHARGES</b>  |                  |                  |
| Workers' welfare fund   | 251,666          | 201,772          |
| Penalties imposed by SBP  | 50,538           | 1,112            |
|   | <b>302,204</b>   | <b>202,884</b>   |
| <b>32. TAXATION</b>   |                  |                  |
| For the year  |                  |                  |
| Current   | 4,503,771        | 3,497,316        |
| Prior years   | 500,484          | —                |
| Deferred  | (77,508)         | 70,856           |
|   | <b>4,926,747</b> | <b>3,568,172</b> |

\* Mr. Shameem Ahmed, Director of Bank AL Habib Limited, is member of Executive Committee of GCU Endowment Fund Trust, GC University, Lahore.



|  |      | 2015<br>(Rupees in '000)    | 2014                        |
|--|------|-----------------------------|-----------------------------|
| <b>32.1 Relationship between tax expense and accounting profit</b> |      |                             |                             |
| Profit before taxation   |      | <u>12,331,659</u>           | <u>9,917,114</u>            |
| Tax at the applicable rate of 35% (2014: 35%)                      |      | <u>4,316,081</u>            | <u>3,470,990</u>            |
| Tax effects of:  |      |                             |                             |
| Expenses that are not deductible in determining taxable income     |      | <u>110,182</u>              | <u>189,182</u>              |
| Tax effect of prior year provisions                                |      | <u>500,484</u>              | <u>—</u>                    |
| Dividend income taxed at reduced rate                              |      | <u>—</u>                    | <u>(91,154)</u>             |
| Capital gain taxed at reduced rate                                 |      | <u>—</u>                    | <u>(846)</u>                |
|  |      | <u><b>4,926,747</b></u>     | <u><b>3,568,172</b></u>     |
| <b>33. BASIC AND DILUTED EARNINGS PER SHARE</b>                    |      |                             |                             |
| Profit after taxation  |      | <u><b>7,404,912</b></u>     | <u><b>6,348,942</b></u>     |
|  |      | (Number)                    |                             |
| Weighted average number of ordinary shares                         |      | <u><b>1,111,425,416</b></u> | <u><b>1,111,425,416</b></u> |
|  |      | (Rupees)                    |                             |
| Basic and diluted earnings per share                               |      | <u><b>6.66</b></u>          | <u><b>5.71</b></u>          |
|  |      | 2015                        | 2014                        |
|  |      | (Rupees in '000)            |                             |
| <b>34. CASH AND CASH EQUIVALENTS</b>                               | Note |                             |                             |
| Cash and balances with treasury banks                              | 8    | <u><b>38,577,738</b></u>    | <u>34,201,813</u>           |
| Balances with other banks  | 9    | <u><b>3,185,669</b></u>     | <u>4,345,042</u>            |
| Overdrawn nostros  | 16   | <u><b>(5,304)</b></u>       | <u>(666,884)</u>            |
|  |      | <u><b>41,758,103</b></u>    | <u><b>37,879,971</b></u>    |
|  |      | (Numbers)                   |                             |
| <b>35. STAFF STRENGTH</b>  |      |                             |                             |
| Permanent  |      | <u><b>7,209</b></u>         | <u>6,172</u>                |
| Temporary / on contractual basis                                   |      | <u><b>265</b></u>           | <u>249</u>                  |
| Bank's own staff at end of the year                                |      | <u><b>7,474</b></u>         | <u>6,421</u>                |
| Outsourced   |      | <u><b>1,917</b></u>         | <u>1,679</u>                |
| Total staff strength   |      | <u><b>9,391</b></u>         | <u><b>8,100</b></u>         |



## 36. DEFINED BENEFIT PLAN

### 36.1 General description

The Bank operates an approved gratuity fund for all its confirmed employees, which is administered by the Trustees. The benefits under the gratuity scheme are payable on retirement at the age of 60 years or on earlier cessation of service as under:

| Number of years of eligible service completed: | Amount of gratuity payable:                |
|--|--|
| Less than 5 years                              | Nil  |
| 5 years or more but less than 10 years         | 1/3rd of basic salary for each year served |
| 10 years or more but less than 15 years        | 2/3rd of basic salary for each year served |
| 15 years or more                               | Full basic salary for each year served     |

### 36.2 Principal actuarial assumptions

The latest actuarial valuation of the scheme was carried out on 31 December 2015 and the significant assumptions used for actuarial valuation were as follows:

|  | 2015             | 2014             |
|--|------------------|------------------|
| <b>36.3 Significant Actuarial Assumptions</b>  |                  |                  |
| <b>Financial Assumptions</b>   |                  |                  |
| Discount Rate  | 10.00%           | 11.75%           |
| Salary Increase Rate   | 9.00%            | 10.75%           |
| <b>Demographic Assumptions</b>   |                  |                  |
| Mortality rates (for death in service)   | SLIC (2001-05)-1 | SLIC (2001-05)-1 |
| Rates of employee turnover   | Moderate         | Light            |
|  | 2015             | 2014             |
|  | (Rupees in '000) |                  |
| <b>36.4 Statement of Financial Position</b>  |                  |                  |
| Present value of defined benefit obligation  | 1,622,662        | 1,327,761        |
| Fair value of plan assets  | (1,293,838)      | (1,103,676)      |
| Deficit  | 328,824          | 224,085          |
| <b>36.5 Movement in Net defined benefit liability</b>  |                  |                  |
| Balance accrued as at the beginning of the year  | 224,085          | 272,300          |
| Net periodic benefit cost for the year ended   | 171,390          | 167,033          |
| Employer's contribution during the year  | (171,390)        | (167,033)        |
| Amount of remeasurements losses / (gains) recognised in Other Comprehensive Income during the year | 104,739          | (48,215)         |
| Balance accrued as at the end of the year  | 328,824          | 224,085          |



|  | 2015             | 2014           |
|--|------------------|----------------|
|  | (Rupees in '000) |                |
| <b>36.6 Defined Benefit Cost for the Year</b>  |                  |                |
| <b>Cost recognised in Profit and Loss Account for the year</b>   |                  |                |
| Service cost   |                  |                |
| Current service cost   | 159,496          | 133,733        |
| Net interest cost  |                  |                |
| Interest cost on defined benefit obligation  | 148,029          | 149,723        |
| Interest income on plan assets   | (136,135)        | (116,423)      |
| Net interest cost  | 11,894           | 33,300         |
| Cost recognised in Profit and Loss for the year  | 171,390          | 167,033        |
| <b>Remeasurements recognised in Other Comprehensive Income during the year</b>                         |                  |                |
| Actuarial loss / (gain) on obligation  | 61,060           | (27,300)       |
| Actuarial loss / (gain) on assets  | 43,679           | (20,915)       |
| Remeasurement loss / (gain) recognised in Other Comprehensive Income                                   | 104,739          | (48,215)       |
| <b>Total defined benefit cost recognised in Profit and Loss Account and Other Comprehensive Income</b> | <b>276,129</b>   | <b>118,818</b> |
| <b>36.7 Movement in the present value of defined benefit obligation</b>                                |                  |                |
| Present value of defined benefit obligation at the beginning of year                                   | 1,327,761        | 1,103,850      |
| Service cost   | 159,496          | 133,733        |
| Interest cost on defined benefit obligation  | 148,029          | 149,723        |
| Actual benefits paid during the year   | (73,684)         | (32,245)       |
| Actual loss / (gain) on obligation   | 61,060           | (27,300)       |
| Present value of defined benefit obligation at the end of year   | 1,622,662        | 1,327,761      |
| <b>36.8 Movement in the fair value of plan assets</b>  |                  |                |
| Fair value of plan assets at the beginning of year   | 1,103,676        | 831,550        |
| Interest income on plan assets   | 136,135          | 116,423        |
| Actual contribution by employer  | 171,390          | 167,033        |
| Actual benefits paid during the year   | (73,684)         | (32,245)       |
| Return on plan assets over interest income (loss) / gain   | (43,679)         | 20,915         |
| Fair value of plan assets at the end of year   | 1,293,838        | 1,103,676      |
| <b>36.9 Actual return on plan assets</b>   | <b>154,698</b>   | <b>149,805</b> |



2016  
(Rupees in '000)

**36.10 Charge and contribution for the year ending 31 December 2016**

|  |           |
|--|-----------|
| <i>Service cost</i>  |           |
| Current service cost   | 186,216   |
| <i>Net interest cost</i>   |           |
| Interest cost on defined benefit obligation                        | 166,978   |
| Interest income on plan assets                                     | (135,626) |
| Net interest cost  | 31,352    |
| Cost to be recognised in Profit and loss account for the year 2016 | 217,568   |

2015  
(Rupees in '000)

**36.11 Analysis of Present value of defined benefit obligation**

|   |           |
|---|-----------|
| <i>Vested / Non-Vested</i>                    |           |
| Vested Benefits                               | 1,499,659 |
| Non-Vested benefits                           | 123,003   |
| Total   | 1,622,662 |
| <i>Type of Benefits</i>                       |           |
| Accumulated Benefit Obligation                | 698,565   |
| Amounts attributed to future salary increases | 924,097   |
| Total   | 1,622,662 |

**36.12 Remeasurements recognised in Other Comprehensive Income during the year**

|  |          |
|--|----------|
| <i>Actuarial loss on obligation</i>  |          |
| Gain due to change in financial assumptions                                  | (15,728) |
| Gain due to change in demographic assumptions                                | (6,838)  |
| Loss due to change in experience adjustments                                 | 83,626   |
| Total actuarial loss on obligation   | 61,060   |
| <i>Net return on plan assets over interest income</i>                        |          |
| Actuarial loss on plan assets  | 43,679   |
| Remeasurements loss recognised in Other Comprehensive Income during the year | 104,739  |



2015  
(Rupees in '000)

**36.13 Disaggregation of fair value of plan assets**

Cash and Cash equivalents (after adjusting current liabilities) **16,064**

*Unquoted investments*

Pakistan Investment Bonds

**837,180**

SBP - Treasury Bills

**255,000**

Term Deposit

**185,594**

**1,277,774**

Total fair value of plan assets

**1,293,838**

**36.14 Maturity profile of the defined benefit obligation**

Distribution of timing of benefit payments

Within the next 12 months (next annual reporting period)

**89,683**

Between 2 and 5 years

**563,597**

Between 5 and 10 years

**1,315,659**

**1,968,939**

**36.15 Sensitivity Analysis on significant actuarial assumptions:**

**Actuarial Liability**

The Weighted average duration of the PBO is 10.63 years.

Discount Rate + 1%

**1,463,378**

Discount Rate - 1%

**1,810,737**

Long Term Salary Increases + 1%

**1,819,024**

Long Term Salary Increases - 1%

**1,453,949**



### 37. DEFINED CONTRIBUTION PLAN

The general description of the plan is included in note 5.7.

### 38. COMPENSATION OF DIRECTORS AND EXECUTIVES

|   | <b>Chief Executive</b>  |             | <b>Directors*</b> |             | <b>Executives</b> |             |
|---|-------------------------|-------------|-------------------|-------------|-------------------|-------------|
|   | <b>2015</b>             | <b>2014</b> | <b>2015</b>       | <b>2014</b> | <b>2015</b>       | <b>2014</b> |
|   | <b>(Rupees in '000)</b> |             |                   |             |                   |             |
| Fee **                                    | —                       | —           | <b>8,325</b>      | 4,700       | —                 | —           |
| Managerial remuneration                   | <b>16,000</b>           | 16,000      | <b>10,400</b>     | 10,400      | <b>1,831,666</b>  | 1,425,856   |
| Charge for defined benefit plan           | <b>1,333</b>            | 1,333       | <b>867</b>        | 867         | <b>271,751</b>    | 174,240     |
| Contribution to defined contribution plan | <b>1,600</b>            | 1,600       | <b>1,040</b>      | 1,040       | <b>137,186</b>    | 104,978     |
| Rent and house maintenance                | <b>6,400</b>            | 6,400       | <b>4,160</b>      | 4,160       | <b>641,621</b>    | 489,119     |
| Utilities                                 | <b>3,361</b>            | 3,488       | <b>1,057</b>      | 1,066       | <b>160,386</b>    | 122,280     |
| Medical                                   | <b>51</b>               | 30          | <b>47</b>         | 18          | <b>55,428</b>     | 40,694      |
| Bonus                                     | <b>5,333</b>            | 4,000       | <b>3,467</b>      | 2,600       | <b>526,647</b>    | 300,764     |
| Others                                    | —                       | —           | —                 | —           | <b>37,522</b>     | 38,547      |
|   | <b>34,078</b>           | 32,851      | <b>29,363</b>     | 24,851      | <b>3,662,207</b>  | 2,696,478   |
| Number of person(s)                       | <b>1</b>                | 1           | <b>9</b>          | 11          | <b>1,586</b>      | 1,207       |

Executives, including the Chief Executive and Executive Director, are provided with Bank's maintained cars in accordance with the terms of their employment and are entitled to medical and life insurance benefits in accordance with the policy of the Bank. In addition, the Chief Executive and Executive Director are also provided with drivers, club memberships, security arrangements and payment of travel bills in accordance with their terms of employment.

\* Directors include one executive director (2014: 01).

\*\* This represents fee paid to non-executive directors for attending Board of Directors and its committees' meetings.



### 39. FAIR VALUE OF FINANCIAL INSTRUMENTS

|  | 2015               |                                | 2014               |                    |
|--|--------------------|--------------------------------|--------------------|--------------------|
|  | Book value         | Fair value<br>(Rupees in '000) | Book value         | Fair value         |
| <b>On-balance sheet financial instruments</b>  |                    |                                |                    |                    |
| <b>Assets</b>                                  |                    |                                |                    |                    |
| Cash and balances with treasury banks          | 38,577,738         | 38,577,738                     | 34,201,813         | 34,201,813         |
| Balances with other banks                      | 3,185,669          | 3,185,669                      | 4,345,042          | 4,345,042          |
| Lendings to financial institutions             | 5,818,072          | 5,818,072                      | —                  | —                  |
| Investments - net                              | 354,823,725        | 366,571,701                    | 331,422,572        | 339,431,369        |
| Advances - net                                 | 205,858,658        | 205,858,658                    | 181,356,817        | 181,356,817        |
| Other assets                                   | 13,128,891         | 13,128,891                     | 12,350,536         | 12,350,536         |
|  | <b>621,392,753</b> | <b>633,140,729</b>             | <b>563,676,780</b> | <b>571,685,577</b> |
| <b>Liabilities</b>                             |                    |                                |                    |                    |
| Bills payable                                  | 8,665,462          | 8,665,462                      | 7,984,808          | 7,984,808          |
| Borrowings                                     | 62,592,299         | 62,592,299                     | 78,455,452         | 78,455,452         |
| Deposits and other accounts                    | 516,213,178        | 516,213,178                    | 446,409,004        | 446,409,004        |
| Sub-ordinated loans                            | 2,994,600          | 2,994,600                      | 3,743,700          | 3,743,700          |
| Other liabilities                              | 5,711,244          | 5,711,244                      | 4,833,166          | 4,833,166          |
|  | <b>596,176,783</b> | <b>596,176,783</b>             | <b>541,426,130</b> | <b>541,426,130</b> |
| <b>Off-balance sheet financial instruments</b> |                    |                                |                    |                    |
| Commitment to extend credit                    | 10,748,236         | 10,748,236                     | 4,582,095          | 4,582,095          |
| Forward purchase of foreign exchange contracts | 46,760,182         | 46,443,437                     | 35,574,870         | 35,135,311         |
| Forward sale of foreign exchange contracts     | 28,769,804         | 28,875,247                     | 33,584,498         | 34,136,179         |

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

|                               |  |
|-------------------------------|--|
| Federal Government Securities | PKRV rates (Reuters page)  |
| Listed securities             | Market prices  |
| Mutual funds                  | Net asset values   |
| Unlisted equity investments   | Break - up value as per latest available audited financial statements. |

Fair value of fixed term advances of over one year, staff loans and fixed term deposits of over one year cannot be calculated with sufficient reliability due to non - availability of relevant active market for similar assets and liabilities. The provision for impairment of debt securities and loans and advances has been calculated in accordance with the Bank's accounting policies as stated in note 5.4 and 5.5.



The table below analyses financial instruments measured at the end of reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

|  | Note | 2015               |                  |                       |                        | Fair value                  |           |             |         |         |             |
|--|------|--------------------|------------------|-----------------------|------------------------|-----------------------------|-----------|-------------|---------|---------|-------------|
|  |      | Carrying amount    |                  |                       |                        |                             |           |             |         |         |             |
|  |      | Available for Sale | Held to Maturity | Loans and Receivables | Other Financial Assets | Other Financial Liabilities | Total     | Level 1     | Level 2 | Level 3 | Total       |
| On - balance sheet financial instruments         |      |                    |                  |                       |                        |                             |           |             |         |         |             |
| Financial assets measured at fair value          |      |                    |                  |                       |                        |                             |           |             |         |         |             |
| - Investments                                    |      |                    |                  |                       |                        |                             |           |             |         |         |             |
| - Federal Government Securities                  |      |                    |                  |                       |                        |                             |           |             |         |         |             |
| - (TBills + PIBs + Sukuk Bonds + FC Bonds)       |      | 208,210,576        | -                | -                     | -                      | 208,210,576                 | -         | 208,210,576 | -       | -       | 208,210,576 |
| - Foreign Currency Bonds                         |      | 627,606            | -                | -                     | -                      | 627,606                     | -         | 627,606     | -       | -       | 627,606     |
| - Fully paid-up ordinary shares - Listed         |      | 4,530,494          | -                | -                     | -                      | 4,530,494                   | 4,530,494 | -           | -       | -       | 4,530,494   |
| - Units of mutual funds                          |      | 1,638,758          | -                | -                     | -                      | 1,638,758                   | 1,638,758 | -           | -       | -       | 1,638,758   |
| - Term Finance Certificates - Listed             |      | 305,764            | -                | -                     | -                      | 305,764                     | 305,764   | -           | -       | -       | 305,764     |
| - Associates                                     |      |                    |                  |                       |                        |                             |           |             |         |         |             |
| - Listed shares                                  |      | -                  | -                | -                     | 182,690                | -                           | 357,876   | -           | -       | -       | 357,876     |
| - Mutual funds                                   |      | -                  | -                | -                     | 320,000                | -                           | 306,168   | -           | -       | -       | 306,168     |
| Financial assets not measured at fair value      |      |                    |                  |                       |                        |                             |           |             |         |         |             |
| - Cash and bank balances with SBP and NBP        | 39.1 | -                  | -                | -                     | 38,577,738             | -                           | -         | -           | -       | -       | -           |
| - Balances with other banks                      | 39.1 | -                  | -                | -                     | 3,185,669              | -                           | -         | -           | -       | -       | -           |
| - Lendings to financial institutions             | 39.1 | -                  | -                | -                     | 5,818,072              | -                           | -         | -           | -       | -       | -           |
| - Investments                                    |      |                    |                  |                       |                        |                             |           |             |         |         |             |
| - Federal Government Securities                  |      |                    |                  |                       |                        |                             |           |             |         |         |             |
| - (TBills + PIBs + Sukuk Bonds + FC Bonds)       |      | -                  | 132,866,129      | -                     | -                      | 132,866,129                 | -         | 144,377,846 | -       | -       | 144,377,846 |
| - Sukuk Bonds                                    | 39.1 | 2,722,178          | 172,888          | -                     | -                      | 2,895,066                   | -         | -           | -       | -       | -           |
| - Fully paid-up ordinary shares - Unlisted       | 39.1 | 39,829             | -                | -                     | -                      | 39,829                      | -         | -           | -       | -       | -           |
| - Term Finance Certificates - Listed             |      | -                  | -                | -                     | -                      | -                           | -         | -           | -       | -       | -           |
| - Term Finance Certificates - Unlisted           | 39.1 | 2,946,686          | -                | -                     | -                      | 2,946,686                   | -         | -           | -       | -       | -           |
| - Associates - Unlisted Shares                   | 39.1 | -                  | -                | -                     | 60,000                 | -                           | -         | -           | -       | -       | -           |
| - Subsidiaries - Unlisted Shares                 | 39.1 | -                  | -                | -                     | 200,127                | -                           | -         | -           | -       | -       | -           |
| - Advances                                       | 39.1 | -                  | -                | 205,858,658           | -                      | 205,858,658                 | -         | -           | -       | -       | -           |
| - Other assets                                   | 39.1 | -                  | -                | -                     | 13,128,891             | -                           | -         | -           | -       | -       | -           |
|  |      | 221,021,891        | 133,039,017      | 205,858,658           | 61,473,187             | -                           | 7,139,060 | 353,216,028 | -       | -       | 360,355,088 |
| Financial liabilities not measured at fair value |      |                    |                  |                       |                        |                             |           |             |         |         |             |
| - Deposits and other accounts                    |      |                    |                  |                       |                        |                             |           |             |         |         |             |
| - Bills payable                                  | 39.1 | -                  | -                | -                     | -                      | (516,213,178)               | -         | -           | -       | -       | -           |
| - Borrowings                                     | 39.1 | -                  | -                | -                     | -                      | (8,665,462)                 | -         | -           | -       | -       | -           |
| - Sub-ordinated loans                            | 39.1 | -                  | -                | -                     | -                      | (62,592,299)                | -         | -           | -       | -       | -           |
| - Other liabilities                              | 39.1 | -                  | -                | -                     | -                      | (2,994,600)                 | -         | -           | -       | -       | -           |
|  |      | -                  | -                | -                     | -                      | (5,711,244)                 | -         | -           | -       | -       | -           |
|  |      | -                  | -                | -                     | -                      | (596,176,783)               | -         | -           | -       | -       | -           |
|  |      | 221,021,891        | 133,039,017      | 205,858,658           | 61,473,187             | (596,176,783)               | 7,139,060 | 353,216,028 | -       | -       | 360,355,088 |



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

- Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Fair value measurements using input for the assets or liabilities that are not based on observable market data (i.e. unobservable inputs).

The Bank has not disclosed the fair values for these financial assets and liabilities, as these are for short term or repurchase over short term. Therefore their carrying amounts are reasonable approximation of fair value. Fixed assets have been carried at revalued amounts determined by professional valuer (level 2 measurement) based on their assessment of the market value as disclosed in note 13.



#### 40. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

|                                     | 2015             |                    |                           |              |
|-------------------------------------|------------------|--------------------|---------------------------|--------------|
|                                     | Retail Banking   | Commercial Banking | Inter Segment Elimination | Total        |
|                                     | (Rupees in '000) |                    |                           |              |
| Total income                        | 23,532,531       | 47,933,741         | (16,662,180)              | 54,804,092   |
| Total expenses                      | (17,770,255)     | (41,364,358)       | 16,662,180                | (42,472,433) |
| Net income                          | 5,762,276        | 6,569,383          | —                         | 12,331,659   |
| Segment assets (net of provisions)  | 476,280,493      | 610,013,693        | (446,581,718)             | 639,712,468  |
| Segment non performing loans        | 44,702           | 5,829,672          | —                         | 5,874,374    |
| Segment provision required          | 38,962           | 5,488,691          | —                         | 5,527,653    |
| Segment liabilities                 | 474,519,317      | 573,918,211        | (446,581,718)             | 601,855,810  |
| Segment return on assets (ROA) (%)* | 4.94%            | 7.86%              |                           |              |
| Segment cost of funds (%)*          | 3.74%            | 7.21%              |                           |              |

|                                     | 2014             |                    |                           |              |
|-------------------------------------|------------------|--------------------|---------------------------|--------------|
|                                     | Retail Banking   | Commercial Banking | Inter Segment Elimination | Total        |
|                                     | (Rupees in '000) |                    |                           |              |
| Total income                        | 24,369,362       | 42,538,117         | (19,098,591)              | 47,808,888   |
| Total expenses                      | (20,267,249)     | (36,723,116)       | 19,098,591                | (37,891,774) |
| Net income                          | 4,102,113        | 5,815,001          | —                         | 9,917,114    |
| Segment assets (net of provisions)  | 427,239,886      | 554,283,153        | (402,604,210)             | 578,918,829  |
| Segment non performing loans        | 37,439           | 4,987,339          | —                         | 5,024,778    |
| Segment provision required          | 35,835           | 3,996,982          | —                         | 4,032,817    |
| Segment liabilities                 | 425,480,100      | 523,414,588        | (402,604,210)             | 546,290,478  |
| Segment return on assets (ROA) (%)* | 5.70%            | 7.67%              |                           |              |
| Segment cost of funds (%)*          | 4.76%            | 7.02%              |                           |              |

\*These percentages have been computed based on closing assets / liabilities figures.

#### 41. RELATED PARTY TRANSACTIONS

Related parties of the Bank comprise subsidiaries, associates (including entities having directors in common with the Bank), retirement benefit funds, major share holders, directors and key management personnel and their close family members.

Transactions with related parties of the Bank are carried out on an arm's length basis in terms of the policy as approved by the Board of Directors. The transactions with employees of the Bank are carried out in accordance with the terms of their employment.



Transactions with related parties, other than those disclosed in note 13.2.1 and 21.1 are summarised as follows:

|  | <b>2015</b>             |                   |                                |                                 |                                 |               |
|--|-------------------------|-------------------|--------------------------------|---------------------------------|---------------------------------|---------------|
|  | <b>Subsidiaries</b>     | <b>Associates</b> | <b>Non Executive Directors</b> | <b>Key Management Personnel</b> | <b>Retirement Benefit Funds</b> | <b>Total</b>  |
|  | <b>(Rupees in '000)</b> |                   |                                |                                 |                                 |               |
| <b>Deposits</b>                                      |                         |                   |                                |                                 |                                 |               |
| At beginning of the year                             | 98,058                  | 3,037,277         | 185,609                        | 401,895                         | 49,441                          | 3,772,280     |
| Placements during the year                           | 687,051                 | 157,951,585       | 2,932,874                      | 2,817,436                       | 2,922,398                       | 167,311,344   |
| Withdrawals during the year                          | (771,924)               | (157,590,860)     | (2,934,510)                    | (2,786,792)                     | (2,646,015)                     | (166,730,101) |
| At end of the year                                   | 13,185                  | 3,398,002         | 183,973                        | 432,539                         | 325,824                         | 4,353,523     |
| <b>Advances</b>                                      |                         |                   |                                |                                 |                                 |               |
| At beginning of the year                             | —                       | 1,517,483         | 294                            | 52,960                          | —                               | 1,570,737     |
| Given during the year                                | 10,948,669              | 22,453,719        | 2,790                          | 72,596                          | —                               | 33,477,774    |
| Repaid during the year                               | (10,948,669)            | (22,993,161)      | (2,940)                        | (71,078)                        | —                               | (34,015,848)  |
| At end of the year                                   | —                       | 978,041           | 144                            | 54,478                          | —                               | 1,032,663     |
| <b>Investments</b>                                   |                         |                   |                                |                                 |                                 |               |
| At beginning of the year                             | 200,127                 | 865,977           | —                              | —                               | —                               | 1,066,104     |
| Investments made during the year                     | —                       | 548,287           | —                              | —                               | —                               | 548,287       |
| Investments redeemed during the year                 | —                       | (851,574)         | —                              | —                               | —                               | (851,574)     |
| At end of the year                                   | 200,127                 | 562,690           | —                              | —                               | —                               | 762,817       |
| Contingencies and commitments                        | —                       | 749,299           | —                              | —                               | —                               | 749,299       |
| Forward purchase contracts                           | —                       | —                 | —                              | —                               | —                               | —             |
| Other receivable                                     | 13,688                  | —                 | —                              | —                               | —                               | 13,688        |
| Other payable  | 135                     | —                 | —                              | —                               | —                               | 135           |
| Unrealised loss on forward contracts                 | —                       | —                 | —                              | —                               | —                               | —             |
| Sale / redemption of securities                      | —                       | 22,001            | —                              | —                               | 412,295                         | 434,296       |
| Redemption of mutual funds                           | —                       | 936,356           | —                              | —                               | —                               | 936,356       |
| Purchase of securities                               | —                       | 1,713             | —                              | —                               | —                               | 1,713         |
| Purchase of mutual funds                             | —                       | 546,574           | —                              | —                               | —                               | 546,574       |
| Mark-up earned                                       | 676                     | 90,421            | 3                              | 3,085                           | —                               | 94,185        |
| Mark-up expensed                                     | 804                     | 141,868           | 10,947                         | 28,449                          | 5,304                           | 187,372       |
| Bank charges and commission                          | 1                       | 3,572             | 11                             | 1,106                           | —                               | 4,690         |
| Gain / (loss) on sale of securities and mutual funds | —                       | 84,782            | —                              | —                               | —                               | 84,782        |
| Salaries and allowances                              | —                       | —                 | —                              | 309,093                         | —                               | 309,093       |
| Bonus  | —                       | —                 | —                              | 58,961                          | —                               | 58,961        |
| Contribution to defined contribution plan            | —                       | —                 | —                              | 14,094                          | —                               | 14,094        |
| Contribution to defined benefit plan                 | —                       | —                 | —                              | 25,155                          | —                               | 25,155        |
| Staff provident fund                                 | —                       | —                 | —                              | —                               | 263,530                         | 263,530       |
| Staff gratuity fund                                  | —                       | —                 | —                              | —                               | 171,390                         | 171,390       |
| Directors' fee                                       | —                       | —                 | 7,700                          | —                               | —                               | 7,700         |
| Insurance claim received                             | —                       | 14,410            | —                              | —                               | —                               | 14,410        |
| Insurance premium paid                               | —                       | 133,365           | —                              | —                               | —                               | 133,365       |
| Dividend income                                      | —                       | 70,740            | —                              | —                               | —                               | 70,740        |
| Rental paid  | —                       | 1,538             | —                              | —                               | —                               | 1,538         |
| Rental income  | 2,100                   | —                 | —                              | —                               | —                               | 2,100         |
| Commission expensed                                  | 1,276                   | —                 | —                              | —                               | —                               | 1,276         |
| Donation   | —                       | 100               | —                              | —                               | —                               | 100           |
| Other expensed                                       | 115                     | 4,302             | —                              | —                               | —                               | 4,417         |
| Other income   | 537                     | 161               | —                              | —                               | 97                              | 795           |



|  | 2014         |               |                         |                          |                          |               |
|--|--------------|---------------|-------------------------|--------------------------|--------------------------|---------------|
|  | Subsidiaries | Associates    | Non Executive Directors | Key Management Personnel | Retirement Benefit Funds | Total         |
|  |              |               | (Rupees in '000)        |                          |                          |               |
| <b>Deposits</b>                                      |              |               |                         |                          |                          |               |
| At beginning of the year                             | 61,957       | 1,813,814     | 142,104                 | 368,941                  | 174,811                  | 2,561,627     |
| Placements during the year                           | 880,090      | 108,541,729   | 1,005,151               | 2,097,406                | 8,091,171                | 120,615,547   |
| Withdrawals during the year                          | (843,989)    | (107,318,266) | (961,646)               | (2,064,452)              | (8,216,541)              | (119,404,894) |
| At end of the year                                   | 98,058       | 3,037,277     | 185,609                 | 401,895                  | 49,441                   | 3,772,280     |
| <b>Advances</b>                                      |              |               |                         |                          |                          |               |
| At beginning of the year                             | 19,720       | 1,282,655     | 126                     | 37,822                   | —                        | 1,340,323     |
| Given during the year                                | 8,833,507    | 24,168,997    | 4,636                   | 74,665                   | —                        | 33,081,805    |
| Repaid during the year                               | (8,853,227)  | (23,934,169)  | (4,468)                 | (59,527)                 | —                        | (32,851,391)  |
| At end of the year                                   | —            | 1,517,483     | 294                     | 52,960                   | —                        | 1,570,737     |
| <b>Investments</b>                                   |              |               |                         |                          |                          |               |
| At beginning of the year                             | 200,000      | 865,977       | —                       | —                        | —                        | 1,065,977     |
| Investments made during the year                     | 127          | —             | —                       | —                        | —                        | 127           |
| Investments redeemed during the year                 | —            | —             | —                       | —                        | —                        | —             |
| At end of the year                                   | 200,127      | 865,977       | —                       | —                        | —                        | 1,066,104     |
| Contingencies and commitments                        | —            | 730,920       | —                       | —                        | —                        | 730,920       |
| Forward purchase contracts                           | —            | 174,758       | —                       | —                        | —                        | 174,758       |
| Other receivable                                     | 10,089       | —             | —                       | —                        | —                        | 10,089        |
| Other payable  | 130          | —             | —                       | —                        | —                        | 130           |
| Unrealised loss on forward contracts                 | —            | (2,117)       | —                       | —                        | —                        | (2,117)       |
| Sale / redemption of securities                      | 140,944      | 49,054        | —                       | —                        | 2,969,668                | 3,159,666     |
| Redemption of mutual funds                           | —            | —             | —                       | —                        | —                        | —             |
| Purchase of securities                               | 127          | —             | —                       | —                        | —                        | 127           |
| Purchase of mutual funds                             | —            | —             | —                       | —                        | —                        | —             |
| Mark-up earned                                       | 365          | 128,478       | —                       | 2,631                    | —                        | 131,474       |
| Mark-up expensed                                     | 3,719        | 207,292       | 11,450                  | 33,514                   | 16,580                   | 272,555       |
| Bank charges and commission                          | 4            | 4,244         | 26                      | 171                      | —                        | 4,445         |
| Gain / (loss) on sale of securities and mutual funds | —            | 80            | —                       | —                        | (2,865)                  | (2,785)       |
| Salaries and allowances                              | —            | —             | —                       | 256,043                  | —                        | 256,043       |
| Bonus  | —            | —             | —                       | 36,102                   | —                        | 36,102        |
| Contribution to defined contribution plan            | —            | —             | —                       | 12,709                   | —                        | 12,709        |
| Contribution to defined benefit plan                 | —            | —             | —                       | 17,675                   | —                        | 17,675        |
| Staff provident fund                                 | —            | —             | —                       | —                        | 221,068                  | 221,068       |
| Staff gratuity fund                                  | —            | —             | —                       | —                        | 167,033                  | 167,033       |
| Directors' fee                                       | —            | —             | 4,400                   | —                        | —                        | 4,400         |
| Insurance claim received                             | —            | 12,266        | —                       | —                        | —                        | 12,266        |
| Insurance premium paid                               | —            | 112,337       | —                       | —                        | —                        | 112,337       |
| Dividend income                                      | —            | 39,191        | —                       | —                        | —                        | 39,191        |
| Rental paid  | —            | 1,118         | —                       | —                        | —                        | 1,118         |
| Rental income  | 2,100        | —             | —                       | —                        | —                        | 2,100         |
| Commission expensed                                  | 94           | —             | —                       | —                        | —                        | 94            |
| Donation   | —            | —             | —                       | —                        | —                        | —             |
| Other expensed                                       | 103          | 12,221        | —                       | —                        | —                        | 12,324        |
| Other income   | 534          | 180           | —                       | —                        | 130                      | 844           |



## 42. CAPITAL ASSESSMENT AND ADEQUACY

### 42.1 Capital adequacy

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

#### i) Minimum Capital Requirement (MCR):

The MCR standard sets the paid-up capital that the Bank is required to hold at all times.

As of the statement of financial position date, the Bank's paid-up capital stands at Rs.11.114 billion as against the required MCR of Rs. 10 billion.

#### ii) Capital Adequacy Ratio:

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

During the year 2013, SBP issued revised instructions on the computation of CAR based on Basel III Capital Reform as issued by the Basel Committee on Banking Supervision. These instructions became effective from 31 December 2013 with full implementation intended by 31 December 2019. These instructions also specify the transitional arrangements from 2013 to 2019.

Accordingly, the Bank has assessed and reported its Capital Adequacy Ratio in the financial statements on the basis of Basel III requirements as prescribed by SBP.

The CAR on the basis of above framework works out to be as follows:

|                           | 2015   |
|---------------------------|--------|
| Required CAR              | 10.25% |
| CAR on stand-alone basis  | 13.75% |
| CAR on consolidated basis | 13.87% |

It is the Bank's policy that the level of capital maintained by it should be such that it maximises the return to shareholders while providing sufficient buffer to absorb risks, including those from any unexpected events. Therefore, the Bank carefully monitors its capital adequacy ratio with a view to ensuring that growth in risk assets is accompanied by commensurate growth in capital, and endeavours to maintain the capital adequacy ratio at a level sufficiently higher than the minimum regulatory requirement. Stress testing of capital adequacy is carried out periodically.

Based on its experience over the years, the Bank expects to be able to raise the required capital internally through its operations as well as in the capital markets.

The Bank has a risk management framework commensurate with its size and the nature of its business. The Board of Directors has approved risk management policies covering key areas of activities, including a Risk Tolerance Statement, for the guidance of management and staff of the Bank.

The Bank calculates capital requirement as per Basel III regulatory framework, using the following approaches:

|                  |                          |
|------------------|--------------------------|
| Credit Risk      | Standardised Approach    |
| Market Risk      | Standardised Approach    |
| Operational Risk | Basic Indicator Approach |

### 42.2 Scope of application

The Basel III Framework for capital adequacy is applicable to the Bank both at the consolidated level (including subsidiaries) and also on standalone basis. Bank AL Habib Limited is the only bank



in the Group to which Basel III capital adequacy framework applies. The Bank has ownership in the following subsidiaries, where the Bank holds more than 50% of voting shares as at December 31, 2015:

| Name  | Type of entity | Country of incorporation |
|---|----------------|--------------------------|
| AL Habib Capital Markets (Private) Limited    | Financial      | Pakistan                 |
| AL Habib Credit & Finance (Hong Kong) Limited | Financial      | Hong Kong                |

The assets, liabilities, income, expenses and cash flows of above subsidiaries are included in the consolidated financial statements and also consolidated for regulatory capital adequacy purposes.

#### 42.3 Capital structure

The Bank's Tier 1 capital comprises paid-up capital, statutory reserve, special reserve, general reserve, and unappropriated profit and is adjusted for deductions in respect of intangible assets, shortfall in provision against classified assets, deficit on revaluation of investments, deferred tax asset, direct or indirect investment in own shares and is adjusted for reciprocal cross holdings in Tier 1 instruments.

The Bank's Tier 2 capital includes subordinated loans, general provisions, revaluation reserves, and exchange translation reserve and is adjusted for reciprocal cross holdings in Tier 2 instruments.

2015                  2014  
(Rupees in '000)

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

|  |                           |                   |
|--|---------------------------|-------------------|
| Fully Paid-up Capital  | 11,114,254                | 11,114,254        |
| Balance in Share Premium Account   | —                         | —                 |
| Reserve for issue of Bonus Shares  | —                         | —                 |
| Discount on Issue of shares  | —                         | —                 |
| General / Statutory Reserves   | 10,080,132                | 8,599,150         |
| Gains / (losses) on derivatives held as Cash Flow Hedge  | —                         | —                 |
| Unappropriated/unremitted profits / (losses)   | 10,253,920                | 7,679,490         |
| Minority interests arising from CET1 capital instruments issued to third parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group) | —                         | —                 |
| <b>CET 1 before Regulatory Adjustments</b>   | <b>31,448,306</b>         | <b>27,392,894</b> |
| Total regulatory adjustments applied to CET1 (Note 42.3.2)   | (787,367)                 | (503,993)         |
| <b>Common Equity Tier 1</b>  | <b>(a) 30,660,939</b>     | <b>26,888,901</b> |
| <b>Additional Tier 1 (AT 1) Capital</b>  |                           |                   |
| Qualifying Additional Tier-1 capital instruments plus any related share premium  |                           |                   |
| of which: Classified as equity   | —                         | —                 |
| of which: Classified as liabilities  | —                         | —                 |
| Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)  |                           |                   |
| of which: instrument issued by subsidiaries subject to phase out   | —                         | —                 |
| <b>AT1 before regulatory adjustments</b>   | <b>—</b>                  | <b>—</b>          |
| Total regulatory adjustments applied to AT1 capital (Note 42.3.3)  | (78,038)                  | —                 |
| Additional Tier 1 capital after regulatory adjustments   | (78,038)                  | —                 |
| <b>Additional Tier 1 capital recognised for capital adequacy</b>   | <b>(b) (78,038)</b>       | <b>—</b>          |
| <b>Tier 1 Capital (CET1 + admissible AT1)</b>  | <b>(c=a+b) 30,582,901</b> | <b>26,888,901</b> |





|  | 2015                      | 2014               |
|--|---------------------------|--------------------|
|  | (Rupees in '000)          |                    |
| <b>Tier 2 Capital</b>  |                           |                    |
| Qualifying Tier 2 capital instruments under Basel III plus any related share premium                             | —                         | —                  |
| Tier 2 capital instruments subject to phaseout arrangement issued under pre-Basel 3 rules                        | 2,153,760                 | 2,393,760          |
| Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group tier 2) | —                         | —                  |
| General provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets     | 2,876,278                 | 2,583,182          |
| Revaluation Reserves (net of taxes)  | 4,126,413                 | 5,073,696          |
| of which: Revaluation reserves on fixed assets   | 1,803,884                 | 2,749,123          |
| of which: Unrealised gains/(losses) on AFS   | 2,322,529                 | 2,324,573          |
| Foreign Exchange Translation Reserves  | 249,527                   | 161,761            |
| Undisclosed / Other Reserves (if any)  | —                         | —                  |
| <b>T2 before regulatory adjustments</b>  | <b>9,405,978</b>          | <b>10,212,399</b>  |
| Total regulatory adjustment applied to T2 capital (Note 42.3.4)  | (333,562)                 | (504,342)          |
| Tier 2 capital (T2) after regulatory adjustments   | 9,072,416                 | 9,708,057          |
| Tier 2 capital recognised for capital adequacy   | 9,072,416                 | 9,708,057          |
| Portion of Additional Tier 1 capital recognised in Tier 2 capital  | —                         | —                  |
| <b>Total Tier 2 capital admissible for capital adequacy</b>  | <b>(d) 9,072,416</b>      | <b>9,708,057</b>   |
| <b>TOTAL CAPITAL (T1 + admissible T2)</b>  | <b>(e=c+d) 39,655,317</b> | <b>36,596,958</b>  |
| <b>Total Risk Weighted Assets (RWA) (Note 42.6)</b>  | <b>(f) 288,305,026</b>    | <b>245,757,561</b> |

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

|  |                     |        |
|--|---------------------|--------|
| <b>CET1 to total RWA</b>   | <b>(a/f) 10.63%</b> | 10.94% |
| <b>Tier-1 capital to total RWA</b>   | <b>(c/f) 10.61%</b> | 10.94% |
| <b>Total capital to total RWA</b>  | <b>(e/f) 13.75%</b> | 14.89% |
| Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement) | —                   | —      |
| of which: capital conservation buffer requirement  | —                   | —      |
| of which: countercyclical buffer requirement   | —                   | —      |
| of which: D-SIB or G-SIB buffer requirement  | —                   | —      |
| CET1 available to meet buffers (as a percentage of risk weighted assets)   | —                   | —      |
| <b>National minimum capital requirements prescribed by SBP</b>   |                     |        |
| <b>CET1 minimum ratio</b>  | <b>6.00%</b>        | 5.50%  |
| <b>Tier 1 minimum ratio</b>  | <b>7.50%</b>        | 7.00%  |
| <b>Total capital minimum ratio</b>   | <b>10.25%</b>       | 10.00% |





2015 2014  
 (Rupees in '000)

#### 42.3.2 Common Equity Tier 1 capital: Regulatory adjustments

|  |           |           |
|--|-----------|-----------|
| Goodwill (net of related deferred tax liability)   | —         | —         |
| All other intangibles (net of any associated deferred tax liability)   | (59,432)  | (97,745)  |
| Shortfall in provisions against classified assets  | —         | —         |
| Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)  | —         | —         |
| Defined-benefit pension fund net assets  | —         | —         |
| Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities   | (727,935) | (406,248) |
| Cash flow hedge reserve  | —         | —         |
| Investment in own shares/ CET1 instruments   | —         | —         |
| Securitisation gain on sale  | —         | —         |
| Capital shortfall of regulated subsidiaries  | —         | —         |
| Deficit on account of revaluation from bank's holdings of fixed assets/ AFS  | —         | —         |
| Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the Bank does not own more than 10% of the issued share capital (amount above 10% threshold) | —         | —         |
| Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)  | —         | —         |
| Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)  | —         | —         |
| Amount exceeding 15% threshold   | —         | —         |
| of which: significant investments in the common stocks of financial entities   | —         | —         |
| of which: deferred tax assets arising from temporary differences   | —         | —         |
| National specific regulatory adjustments applied to CET1 capital   | —         | —         |
| investments in TFCs of other banks exceeding the prescribed limit  | —         | —         |
| Any other deduction specified by SBP   | —         | —         |
| Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions  | —         | —         |
| Total regulatory adjustments applied to CET1   | (787,367) | (503,993) |

#### 42.3.3 Additional Tier-1 & Tier-1 Capital: regulatory adjustments

|  |          |   |
|--|----------|---|
| Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment]  | —        | — |
| Investment in own AT1 capital instruments  | —        | — |
| Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial and insurance entities  | —        | — |
| Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the Bank does not own more than 10% of the issued share capital (amount above 10% threshold) | —        | — |
| Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation   | —        | — |
| Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from additional Tier-1 capital   | (78,038) | — |
| Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions  | —        | — |
| Total regulatory adjustment applied to AT1 capital   | (78,038) | — |



2015 2014  
(Rupees in '000)

#### 42.3.4 Tier 2 Capital: regulatory adjustments

|  |           |           |
|--|-----------|-----------|
| Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital  | (78,038)  | —         |
| Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities   | (255,524) | (504,342) |
| Investment in own Tier 2 capital instrument  | —         | —         |
| Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) | —         | —         |
| Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation  | —         | —         |
| Total regulatory adjustment applied to T2 capital  | (333,562) | (504,342) |

#### 42.3.5 Risk Weighted Assets subject to pre-Basel III treatment

|  |   |   |
|--|---|---|
| Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment)                                 |   |   |
| of which: Deferred tax assets  | — | — |
| of which: Defined-benefit pension fund net assets  | — | — |
| of which: Recognised portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity | — | — |
| of which: Recognised portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity | — | — |

#### Amounts below the thresholds for deduction (before risk weighting)

|   |   |   |
|---|---|---|
| Non-significant investments in the capital of other financial entities                | — | — |
| Significant investments in the common stock of financial entities                     | — | — |
| Deferred tax assets arising from temporary differences (net of related tax liability) | — | — |

#### Applicable caps on the inclusion of provisions in Tier 2

|  |           |           |
|--|-----------|-----------|
| Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)           | 2,876,278 | 2,583,182 |
| Cap on inclusion of provisions in Tier 2 under standardised approach   | 2,876,278 | 2,583,182 |
| Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap) | —         | —         |
| Cap for inclusion of provisions in Tier 2 under internal ratings-based approach  | —         | —         |



| 2015<br>As per<br>published<br>financial<br>statements | 2015<br>Under<br>regulatory<br>scope for<br>capital<br>adequacy |
|--|---|
| (Rupees in '000)                                       |   |

## 42.4 Capital Structure Reconciliation

### 42.4.1 Reconciliation of accounting and regulatory scope of consolidation

#### Assets

|                                       |             |             |
|---------------------------------------|-------------|-------------|
| Cash and balances with treasury banks | 38,577,738  | 38,577,738  |
| Balances with other banks             | 3,185,669   | 3,185,669   |
| Lendings to financial institutions    | 5,818,072   | 5,818,072   |
| Investments                           | 354,823,725 | 354,823,725 |
| Advances                              | 205,858,658 | 205,858,658 |
| Operating fixed assets                | 15,764,284  | 15,764,284  |
| Deferred tax assets                   | —           | —           |
| Other assets                          | 15,684,322  | 15,684,322  |

#### Total assets

639,712,468 639,712,468

#### Liabilities & Equity

|   |             |             |
|---|-------------|-------------|
| Bills payable                                       | 8,665,462   | 8,665,462   |
| Borrowings  | 62,592,299  | 62,592,299  |
| Deposits and other accounts                         | 516,213,178 | 516,213,178 |
| Sub-ordinated loans                                 | 2,994,600   | 2,994,600   |
| Liabilities against assets subject to finance lease | —           | —           |
| Deferred tax liabilities                            | 3,632,598   | 3,632,598   |
| Other liabilities                                   | 7,757,673   | 7,757,673   |

#### Total liabilities

601,855,810 601,855,810

|  |            |            |
|--|------------|------------|
| Share capital/Head office capital account  | 11,114,254 | 11,114,254 |
| Reserves                                   | 10,329,659 | 10,329,659 |
| Unappropriated/Unremitted profits/(losses) | 10,253,920 | 10,253,920 |
| Minority Interest                          | —          | —          |
| Surplus on revaluation of assets           | 6,158,825  | 6,158,825  |

#### Total equity

37,856,658 37,856,658

#### Total liabilities & equity

639,712,468 639,712,468



|           | 2015                                  | 2015  |
|-----------|---------------------------------------|---|
| Reference | As per published financial statements | Under regulatory scope for capital adequacy |

(Rupees in '000)

#### 42.4.2 Reconciliation for balance sheet items that require capital adjustments

##### Assets

|   |                    |                    |
|---|--------------------|--------------------|
| Cash and balances with treasury banks   | 38,577,738         | 38,577,738         |
| Balances with other banks   | 3,185,669          | 3,185,669          |
| Lendings to financial institutions  | 5,818,072          | 5,818,072          |
| Investments   | 354,823,725        | 354,823,725        |
| of which: Non-significant capital investments in capital instruments of banking, financial and insurance entities exceeding 10% threshold (a)       | —                  | —                  |
| of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold (b) | —                  | —                  |
| of which: Mutual Funds exceeding regulatory threshold (c)   | —                  | —                  |
| of which: reciprocal crossholding of capital instrument of CET1 (d)   | 727,935            | 727,935            |
| of which: reciprocal crossholding of capital instrument of T2 (e)   | —                  | —                  |
| Advances  | 205,858,658        | 205,858,658        |
| Shortfall in provisions/ excess of total EL amount over eligible provisions under IRB (f)   | —                  | —                  |
| General provisions reflected in Tier 2 capital (g)  | 2,876,278          | 2,876,278          |
| Fixed Assets  | 15,764,284         | 15,764,284         |
| of which: Intangibles (h)   | 59,432             | 59,432             |
| Deferred Tax Assets   | —                  | —                  |
| of which: DTAs that rely on future profitability excluding those arising from temporary differences (i)   | —                  | —                  |
| of which: DTAs arising from temporary differences exceeding regulatory threshold (j)  | —                  | —                  |
| Other assets  | 15,684,322         | 15,684,322         |
| of which: Goodwill (k)  | —                  | —                  |
| of which: Defined-benefit pension fund net assets (l)   | —                  | —                  |
| <b>Total assets</b>   | <b>639,712,468</b> | <b>639,712,468</b> |

##### Liabilities & Equity

|   |                    |                    |
|---|--------------------|--------------------|
| Bills payable   | 8,665,462          | 8,665,462          |
| Borrowings  | 62,592,299         | 62,592,299         |
| Deposits and other accounts                                   | 516,213,178        | 516,213,178        |
| Sub-ordinated loans   | 2,994,600          | 2,994,600          |
| of which: eligible for inclusion in AT1 (m)                   | —                  | —                  |
| of which: eligible for inclusion in Tier 2 (n)                | —                  | —                  |
| Liabilities against assets subject to finance lease           | —                  | —                  |
| Deferred tax liabilities                                      | 3,632,598          | 3,632,598          |
| of which: DTLs related to goodwill (o)                        | —                  | —                  |
| of which: DTLs related to intangible assets (p)               | —                  | —                  |
| of which: DTLs related to defined pension fund net assets (q) | —                  | —                  |
| of which: other deferred tax liabilities (r)                  | —                  | —                  |
| Other liabilities   | 7,757,673          | 7,757,673          |
| <b>Total liabilities</b>                                      | <b>601,855,810</b> | <b>601,855,810</b> |



|   |           | 2015                                  | 2015  |
|---|-----------|---------------------------------------|---|
|   | Reference | As per published financial statements | Under regulatory scope for capital adequacy |
|   |           | (Rupees in '000)                      |   |
| Share capital   |           | 11,114,254                            | 11,114,254                                  |
| of which: amount eligible for CET1                      | (s)       | 11,114,254                            | 11,114,254                                  |
| of which: amount eligible for AT1                       | (t)       | —                                     | —   |
| Reserves  |           | 10,329,659                            | 10,329,659                                  |
| of which: portion eligible for inclusion in CET1        | (u)       | 10,080,132                            | 10,080,132                                  |
| of which: portion eligible for inclusion in Tier 2      | (v)       | 249,527                               | 249,527                                     |
| Unappropriated profits / (losses)                       | (w)       | 10,253,920                            | 10,253,920                                  |
| Minority Interest                                       |           | —                                     | —   |
| of which: portion eligible for inclusion in CET1        | (x)       | —                                     | —   |
| of which: portion eligible for inclusion in AT1         | (y)       | —                                     | —   |
| of which: portion eligible for inclusion in Tier 2      | (z)       | —                                     | —   |
| Surplus on revaluation of assets                        |           | 6,158,825                             | 6,158,825                                   |
| of which: Revaluation reserves on Properties            | (aa) {    | 2,692,364                             | 2,692,364                                   |
| of which: Unrealised Gains/(Losses) on AFS              |           | 3,466,461                             | 3,466,461                                   |
| In case of Deficit on revaluation (deduction from CET1) | (ab)      | —                                     | —   |
| <b>Total Equity</b>                                     |           | <b>37,856,658</b>                     | <b>37,856,658</b>                           |
| <b>Total liabilities &amp; equity</b>                   |           | <b>639,712,468</b>                    | <b>639,712,468</b>                          |



#### 42.4.3 Reconciliation of computation of capital with balance sheet of the Bank

| Source based on<br>reference number<br>from Note 42.4.2   | 2015<br>Component of<br>regulatory capital<br>reported by Bank<br>(Rupees in '000) |
|---|--|
| <b>Common Equity Tier 1 capital (CET1): Instruments and reserves</b>  |  |
| Fully Paid-up Capital / Capital deposited with SBP  | 11,114,254   |
| Balance in Share Premium Account (s)  | —  |
| Reserve for issue of Bonus Shares   | —  |
| General / Statutory Reserves (u)  | 10,080,132   |
| Gains / (Losses) on derivatives held as Cash Flow Hedge   | —  |
| Unappropriated/unremitted profits / (losses) (w)  | 10,253,920   |
| Minority interests arising from CET1 capital instruments<br>issued to third party by consolidated bank subsidiaries<br>(amount allowed in CET1 capital of the consolidation group) (x)  | —  |
| <b>CET 1 before Regulatory Adjustments</b>  | <b>31,448,306</b>  |
| <b>Common Equity Tier 1 capital: Regulatory adjustments</b>   |  |
| Goodwill (net of related deferred tax liability) (k)-(o)  | —  |
| All other intangibles (net of any associated deferred tax liability) (h)-(p)  | (59,432)   |
| Shortfall of provisions against classified assets (f)   | —  |
| Deferred tax assets that rely on future profitability excluding those<br>arising from temporary differences (net of related tax liability) (i-r) * x %  | —  |
| Defined-benefit pension fund net assets (l-q) * x %   | —  |
| Reciprocal cross holdings in CET1 capital instruments (d)   | (727,935)  |
| Cash flow hedge reserve   | —  |
| Investment in own shares/ CET1 instruments  | —  |
| Securitisation gain on sale   | —  |
| Capital shortfall of regulated subsidiaries   | —  |
| Deficit on account of revaluation from bank's holdings of properties/ AFS (ab)  | —  |
| Investments in the capital instruments of banking, financial and<br>insurance entities that are outside the scope of regulatory<br>consolidation, where the Bank does not own more than 10%<br>of the issued share capital (amount above 10% threshold) (a) - (ac) - (ae) | —  |
| Significant investments in the capital instruments issued by<br>banking, financial and insurance entities that are outside the<br>scope of regulatory consolidation (amount above 10% threshold) (b) - (ad) - (af)  | —  |
| Deferred Tax Assets arising from temporary differences (amount<br>above 10% threshold, net of related tax liability) (i)  | —  |
| Amount exceeding 15% threshold  | —  |
| of which: significant investments in the common stocks<br>of financial entities   | —  |
| of which: deferred tax assets arising from temporary differences  | —  |
| National specific regulatory adjustments applied to CET1 capital  | —  |
| of which: Investment in TFCs of other banks exceeding the prescribed limit  | —  |
| of which: Any other deduction specified by SBP  | —  |
| Regulatory adjustment applied to CET1 due to insufficient AT1<br>and Tier 2 to cover deductions   | —  |
| Total regulatory adjustments applied to CET1  | (787,367)  |
| <b>Common Equity Tier 1</b>   | <b>30,660,939</b>  |



|  | Source based on<br>reference number<br>from Note 42.4.2 | 2015<br>Component of<br>regulatory capital<br>reported by Bank<br>(Rupees in '000) |
|--|---|--|
| <b>Additional Tier 1 (AT 1) Capital</b>  |   |  |
| Qualifying Additional Tier-1 instruments plus any related share premium  |   |  |
| of which: Classified as equity   | (t)   | —  |
| of which: Classified as liabilities  | (m)   | —  |
| Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)   |   |  |
| of which: instrument issued by subsidiaries subject to phase out   | (y)   | —  |
| <b>AT1 before regulatory adjustments</b>   |   |  |
| <b>Additional Tier 1 Capital: regulatory adjustments</b>   |   |  |
| Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)  |   | —  |
| Investment in own AT1 capital instruments  |   | —  |
| Reciprocal cross holdings in Additional Tier 1 capital instruments   |   | —  |
| Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the Bank does not own more than 10% of the issued share capital (amount above 10% threshold) | (ac)  | —  |
| Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation  | (ad)  | —  |
| Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital   |   | (78,038)   |
| Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions   |   | —  |
| Total of Regulatory Adjustment applied to AT1 capital  |   | (78,038)   |
| Additional Tier 1 capital  |   | —  |
| <b>Additional Tier 1 capital recognised for capital adequacy</b>   |   | <b>(78,038)</b>  |
| <b>Tier 1 Capital (CET1 + admissible AT1)</b>  |   | <b>30,582,901</b>  |
| <b>Tier 2 Capital</b>  |   |  |
| Qualifying Tier 2 capital instruments under Basel III plus any related share premium   |   | 2,153,760  |
| Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)   | (n)   | —  |
| Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)   | (z)   | —  |
| of which: instruments issued by subsidiaries subject to phase out  |   | —  |
| General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets   | (g)   | 2,876,278  |
| Revaluation Reserves eligible for Tier 2   |   | 4,126,413  |
| of which: portion pertaining to Property   | portion of (aa) {                                       | 1,803,884  |
| of which: portion pertaining to AFS securities   |   | 2,322,529  |
| Foreign Exchange Translation Reserves  | (v)   | 249,527  |
| Undisclosed/Other Reserves (if any)  |   | —  |
| <b>T2 before regulatory adjustments</b>  |   | <b>9,405,978</b>   |



Source based on  
reference number  
from Note 42.4.2

2015  
Component of  
regulatory capital  
reported by Bank

(Rupees in '000)

**Tier 2 Capital: regulatory adjustments**

Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction

Reciprocal cross holdings in Tier 2 instruments

Investment in own Tier 2 capital instrument

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

(ae)

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

(af)

**Amount of Regulatory Adjustment applied to T2 capital**

**Tier 2 capital (T2)**

Tier 2 capital recognised for capital adequacy

Excess Additional Tier 1 capital recognised in Tier 2 capital

Total Tier 2 capital admissible for capital adequacy

**TOTAL CAPITAL (T1 + admissible T2)**

|            |
|------------|
| -          |
| (78,038)   |
| (255,524)  |
| -          |
| -          |
| (333,562)  |
| 9,072,416  |
| 9,072,416  |
| -          |
| 9,072,416  |
| 39,655,317 |





## 42.5 Main Features of Regulatory Capital Instruments

|    | Main Features   | Common Shares         | Instrument 1   |
|----|---|-----------------------|--|
| 1  | Issuer  | Bank AL Habib Limited | Bank AL Habib Limited  |
| 2  | Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)  | BAHL                  | BAHL TFC4  |
| 3  | Governing law(s) of the instrument (Regulatory Authorities)<br>Regulatory treatment                           | SBP & SECP            | SBP & SECP   |
| 4  | Transitional Basel III rules  | CET-1                 | Tier 2   |
| 5  | Post-transitional Basel III rules   | CET-1                 | Ineligible   |
| 6  | Eligible at solo/group/group & solo   | Group & Standalone    | Group & Standalone   |
| 7  | Instrument type   | Ordinary Shares       | Subordinated Debt  |
| 8  | Amount recognised in regulatory capital (Currency in PKR thousands, as of reporting date)                     | 11,114,254            | 2,153,760  |
| 9  | Par value of instrument   | Rs. 10                | Rs. 5,000  |
| 10 | Accounting classification   | Shareholders' Equity  | Liability-Subordinated Loans                                       |
| 11 | Original date of issuance   | January, 1992         | 30-Jun-2011  |
| 12 | Perpetual or dated  | Perpetual             | Dated  |
| 13 | Original maturity date  | N/A                   | 30-Jun-2021  |
| 14 | Issuer call subject to prior supervisory approval   | No                    | Yes  |
| 15 | Optional call date, contingent call dates and redemption amount   | N/A                   | 30-Jun-2016  |
| 16 | Subsequent call dates, if applicable  | N/A                   | On each coupon payment date after 60 months from the date of issue |
|    | Coupons / dividends   |                       |  |
| 17 | Fixed or floating dividend / coupon   | N/A                   | Fixed  |
| 18 | Coupon rate and any related index / benchmark   | N/A                   | 15.00% p.a for years 1 to 5 and 15.50% p.a for years 6 to 10       |
| 19 | Existence of a dividend stopper   | No                    | No   |
| 20 | Fully discretionary, partially discretionary or mandatory   | Fully discretionary   | Mandatory  |
| 21 | Existence of step up or other incentive to redeem   | N/A                   | Yes  |
| 22 | Noncumulative or cumulative   | Non-Cumulative Shares | Non-Cumulative   |
| 23 | Convertible or non-convertible  | Non-Convertible       | Non-Convertible  |
| 24 | If convertible, conversion trigger (s)  | N/A                   | N/A  |
| 25 | If convertible, fully or partially  | N/A                   | N/A  |
| 26 | If convertible, conversion rate   | N/A                   | N/A  |
| 27 | If convertible, mandatory or optional conversion  | N/A                   | N/A  |
| 28 | If convertible, specify instrument type convertible into  | N/A                   | N/A  |
| 29 | If convertible, specify issuer of instrument it converts into   | N/A                   | N/A  |
| 30 | Write-down feature  | N/A                   | No   |
| 31 | If write-down, write-down trigger (s)   | N/A                   | N/A  |
| 32 | If write-down, full or partial  | N/A                   | N/A  |
| 33 | If write-down, permanent or temporary   | N/A                   | N/A  |
| 34 | If temporary write-down, description of write-up mechanism  | N/A                   | N/A  |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Subordinated Loans    | All TFCs are subordinate to all other debts including deposits     |
| 36 | Non-compliant transitioned features   | No                    | Yes  |
| 37 | If yes, specify non-compliant features  | N/A                   | No loss absorbency   |



|   | <b>Capital Requirements</b> |                   | <b>Risk Weighted Assets</b> |                    |
|---|-----------------------------|-------------------|-----------------------------|--------------------|
|   | <b>2015</b>                 | <b>2014</b>       | <b>2015</b>                 | <b>2014</b>        |
|   | <b>(Rupees in '000)</b>     |                   |                             |                    |
| <b>42.6 Credit Risk</b>   |                             |                   |                             |                    |
| <b>On-Balance sheet</b>   |                             |                   |                             |                    |
| Portfolios subject to standardised approach (Comprehensive)         |                             |                   |                             |                    |
| Sovereign   | 1,123,858                   | 633,898           | 11,238,577                  | 6,338,981          |
| Public sector enterprises   | 62,506                      | 400,836           | 625,063                     | 4,008,362          |
| Banks   | 466,065                     | 422,701           | 4,660,646                   | 4,227,010          |
| Corporate   | 13,125,214                  | 12,416,861        | 131,252,141                 | 124,168,612        |
| Retail  | 1,109,754                   | 796,238           | 11,097,538                  | 7,962,380          |
| Residential mortgages   | 90,100                      | 78,319            | 901,000                     | 783,194            |
| Past due loans  | 29,037                      | 87,167            | 290,365                     | 871,672            |
| Equity portfolio  | 691,743                     | 595,303           | 6,917,433                   | 5,953,031          |
| Operating fixed assets  | 1,570,485                   | 1,380,058         | 15,704,851                  | 13,800,578         |
| Other assets  | 236,709                     | 177,048           | 2,367,094                   | 1,770,480          |
|   | <b>18,505,471</b>           | <b>16,988,429</b> | <b>185,054,708</b>          | <b>169,884,300</b> |
| <b>Off-Balance sheet</b>  |                             |                   |                             |                    |
| <b>Non-market related</b>   |                             |                   |                             |                    |
| Direct Credit Substitutes / Acceptances / Standby LCs               | 1,552,869                   | 1,534,465         | 15,528,688                  | 15,344,650         |
| Transaction Related Contingent Liabilities                          | 1,213,682                   | 662,803           | 12,136,820                  | 6,628,025          |
| Trade Related Contingent Liabilities                                | 1,107,282                   | 1,055,911         | 11,072,825                  | 10,559,106         |
| Other Commitments   | 770,111                     | 498,067           | 7,701,113                   | 4,980,665          |
|   | <b>4,643,944</b>            | <b>3,751,246</b>  | <b>46,439,446</b>           | <b>37,512,446</b>  |
| <b>Market related</b>   |                             |                   |                             |                    |
| Outstanding Foreign Exchange Contracts                              | 467,678                     | 69,751            | 4,676,779                   | 697,514            |
|   | <b>5,111,622</b>            | <b>3,820,997</b>  | <b>51,116,225</b>           | <b>38,209,960</b>  |
| <b>Market Risk</b>  |                             |                   |                             |                    |
| Capital Requirement for portfolios subject to Standardised Approach |                             |                   |                             |                    |
| Interest rate risk  |                             |                   |                             |                    |
| General market risk   | 449,441                     | 59,305            | 5,618,014                   | 741,309            |
| Specific market risk  | 1,991                       | 3,733             | 24,893                      | 46,663             |
| Foreign exchange risk   | 238,369                     | 13,296            | 2,979,612                   | 166,203            |
|   | <b>689,801</b>              | <b>76,334</b>     | <b>8,622,519</b>            | <b>954,175</b>     |
| <b>Operational Risk</b>   |                             |                   |                             |                    |
| Capital Requirement for operational risks                           | 3,480,926                   | 2,936,730         | 43,511,574                  | 36,709,126         |
|   | <b>27,787,820</b>           | <b>23,822,490</b> | <b>288,305,026</b>          | <b>245,757,561</b> |
| <b>Capital Adequacy Ratios</b>                                      | <b>Required</b>             |                   | <b>Actual</b>               |                    |
|   | <b>2015</b>                 | <b>2014</b>       | <b>2015</b>                 | <b>2014</b>        |
| CET1 to total RWA   | 6.00%                       | 5.50%             | 10.63%                      | 10.94%             |
| Tier-1 capital to total RWA   | 7.50%                       | 7.00%             | 10.61%                      | 10.94%             |
| Total capital to total RWA  | 10.25%                      | 10.00%            | 13.75%                      | 14.89%             |
| Leverage ratio  | 3.00%                       | 3.00%             | 3.75%                       | 3.79%              |



### 43. RISK MANAGEMENT

The Bank has a risk management framework commensurate with its size and the nature of its business. The Board of Directors has approved risk management policies covering key areas of activities for the guidance of management and committees of the Board, management committees, and Divisions / Departments of the Bank.

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

#### 43.1 Credit risk

Credit risk is the risk of loss arising from failure by a client or counterparty to meet its contractual obligation. It emanates from loans and advances, commitments to lend, contingent liabilities such as letters of credit and guarantees, and other similar transactions both on and off balance sheet. These exclude investments and treasury-related exposures, which are covered under market risk.

It is the Bank's policy that all credit exposures shall be adequately collateralised, except when specially exempted by SBP as in case of personal loans and credit cards, and those at overseas branches where the accepted local banking practice is followed.

The objective of credit risk management is to keep credit risk exposure within permissible level, relevant to the Bank's risk capital, to maintain the soundness of assets and to ensure returns commensurate with risk.

Credit risk of the Bank is managed through the credit policy approved by the Board, a well defined credit approval mechanism, prescribed documentation requirement, post disbursement administration, review and monitoring of all credit facilities; and continuous assessment of credit worthiness of counterparties. Decisions regarding the credit portfolio are taken mainly by the Central Credit Committee. Credit Risk Management Committee of the Board provides overall guidance in managing the Bank's credit risk.

Counterparty exposure limits are approved in line with the Prudential Regulations and the Bank's own policies, by taking into account both qualitative and quantitative criteria. There is an established system for continuous monitoring of credit exposures and follow-up of any past due loans with the respective business units. All past due loans, including trade bills, are reviewed on fortnightly basis and pursued for recovery. Any non-performing loans are classified and provided for as per Prudential Regulations. The Bank has also established a mechanism for independent post-disbursement review of large credit risk exposures.

Credit facilities, both fund based and non-fund based, extended to large customer groups and industrial sectors are regularly monitored. The Bank has concentration of credit in textile which is the largest sector of Pakistan's economy. Concentration risk is managed by diversification within sub-sectors like spinning, weaving and composites, credit worthiness of counterparties, and adequate collateralisation of exposures.

Credit administration function has been placed under a centralised set-up. Its main focus is on compliance with terms of sanction of credit facilities and the Bank's internal policies and procedures, scrutiny of documentation, monitoring of collateral, and maintenance of borrowers' limits, mark-up rates, and security details.

The Bank has implemented its own internal risk rating system for the credit portfolio, as per guidelines of SBP. Credit ratings by external rating agencies, if available, are also considered.

The Bank lends primarily against the cash flow of the business with recourse to the assets being financed as primary security. Collaterals in the form of liquid securities, tangible securities, and other acceptable securities are obtained to hedge the risk, as deemed appropriate. Main types of collaterals taken by the Bank include charge on stock - in - trade, receivables, machinery, mortgage of properties, pledge of goods, shares and other marketable securities, government securities, government guarantees, bank guarantees and cash margins and bank deposits.

Specific provisions on credit portfolio are determined in accordance with the Prudential Regulations. General provision on the consumer portfolio is also determined as per Prudential Regulations. The Bank maintains additional general provision in line with its prudent policies. Particulars of provisions against advances are given in note 12.6.



The Bank uses the Standardised Approach to calculate capital charge for credit risk as per Basel regulatory framework, with comprehensive approach for credit risk mitigation.

Stress testing for credit risk is carried out regularly to estimate the impact of increase in non - performing loans and downward shift in these categories.

#### 43.1.1 Credit risk: Disclosures on portfolio subject to Standardised Approach - Basel Specific

The Bank uses the ratings issued by The Pakistan Credit Rating Agency Limited (PACRA) and JCR-VIS Credit Rating Company Limited (JCR-VIS) for its local currency exposures and ratings issued by Moody's, S&P, and Fitch for its foreign currency exposures. These External Credit Assessments Institutions (ECAIs) have been approved by SBP.

For foreign currency claims on sovereigns, the Bank also uses risk scores of Export Credit Agencies (ECAs).

|                                    | JCR-VIS<br>(local<br>currency) | PACRA<br>(local<br>currency) | Moody's,<br>S&P, and Fitch<br>(foreign<br>currency) | ECA Score<br>(foreign<br>currency) |
|------------------------------------|--------------------------------|------------------------------|---|------------------------------------|
| <b>Types of exposures</b>          |                                |                              |   |                                    |
| Corporates                         | ✓                              | ✓                            | —   | —                                  |
| Banks                              | ✓                              | ✓                            | ✓   | —                                  |
| Sovereigns                         | —                              | —                            | ✓   | ✓                                  |
| Small and Medium Enterprises       | —                              | —                            | —   | —                                  |
| Securitisations                    | —                              | —                            | —   | —                                  |
| Others (public sector enterprises) | ✓                              | ✓                            | —   | —                                  |

The Bank has not transferred public issue ratings onto comparable assets in the banking book in its calculations. ECAI ratings and ECA scores are aligned with risk buckets as determined by SBP.

#### Credit exposures subject to Standardised Approach

| <b>Risk buckets</b> | <b>Amount<br/>outstanding/<br/>credit equivalent<br/>(rated and unrated)</b> | <b>Credit Risk<br/>Mitigation<br/>(CRM)<br/>deduction<br/>(Rupees in '000)</b> | <b>Net amount</b>  |
|---------------------|--|--|--------------------|
| 0%                  | 426,302,520  | 33,473,740   | 392,828,780        |
| 20%                 | 26,175,788   | 4,562,661  | 21,613,127         |
| 35%                 | 2,574,287  | —  | 2,574,287          |
| 50%                 | 29,724,015   | 13,965,287   | 15,758,728         |
| 75%                 | 19,844,214   | 1,764,054  | 18,080,160         |
| 100%                | 172,373,436  | 7,046,932  | 165,326,504        |
| 125%                | 26,052,927   | 31,096   | 26,021,831         |
| 150%                | 7,345,936  | —  | 7,345,936          |
| 250%                | 254,051  | —  | 254,051            |
|                     | <u>710,647,174</u>   | <u>60,843,770</u>  | <u>649,803,404</u> |

#### 43.1.2 Credit risk: Disclosures on CRM for Standardised Approach – Basel Specific

Eligible collaterals used by the Bank for credit risk mitigation are cash margins and cash deposits, government securities, financial guarantees, listed shares, and other listed, quoted or rated securities. The Bank requires perfection of collaterals by marking lien on cash margins and deposits, pledging of shares and other securities and verifying the authenticity of guarantees received. Shares and securities including marketable government securities are taken at market value and other government securities are taken at encashment value. Appropriate hair - cuts are applied as per Basel regulatory framework. Among the mitigants used by the Bank, there is concentration in cash margins, cash deposits, and sovereign guarantees.



### 43.1.3 Segment by class of business

2015

|  | Gross Advances     |               | Deposits           |               | Contingencies and Commitments |               |
|--|--------------------|---------------|--------------------|---------------|-------------------------------|---------------|
|  | (Rupees in '000)   | %             | (Rupees in '000)   | %             | (Rupees in '000)              | %             |
| Agriculture / agri business              | 3,718,885          | 1.74          | 1,168,280          | 0.23          | 854,014                       | 0.64          |
| Automobiles and transportation equipment | 1,264,527          | 0.59          | 6,477,022          | 1.25          | 4,797,327                     | 3.58          |
| Cement                                   | 566,433            | 0.26          | 2,268,983          | 0.44          | 1,055,021                     | 0.79          |
| Chemicals / pharmaceuticals              | 2,214,037          | 1.03          | 2,195,481          | 0.43          | 2,443,822                     | 1.82          |
| Commerce and trade                       | 18,579,870         | 8.67          | 31,863,010         | 6.17          | 17,348,609                    | 12.93         |
| Electronics and electrical appliances    | 2,403,179          | 1.12          | 584,838            | 0.11          | 2,394,325                     | 1.78          |
| Fertilizers                              | 4,990,212          | 2.33          | 7,152,443          | 1.39          | 450,860                       | 0.34          |
| Financial                                | 2,256,572          | 1.05          | 12,519,733         | 2.43          | 24,328,937                    | 18.13         |
| Food and allied                          | 47,347,757         | 22.10         | 3,460,041          | 0.67          | 3,745,562                     | 2.79          |
| Ghee and edible oil                      | 6,884,057          | 3.21          | 1,508,255          | 0.29          | 5,563,230                     | 4.15          |
| Individuals                              | 8,423,366          | 3.93          | 336,807,253        | 65.25         | 7,438                         | 0.01          |
| Iron and steel                           | 11,336,260         | 5.29          | 978,783            | 0.19          | 8,421,043                     | 6.28          |
| Oil refinery / marketing                 | 2,613,459          | 1.22          | 22,133,217         | 4.29          | 10,421,054                    | 7.77          |
| Paper and board                          | 1,019,638          | 0.48          | 266,392            | 0.05          | 1,088,974                     | 0.81          |
| Plastic products                         | 2,458,725          | 1.15          | 674,936            | 0.13          | 4,819,509                     | 3.59          |
| Production and transmission of energy    | 11,895,904         | 5.55          | 5,284,886          | 1.02          | 5,331,743                     | 3.97          |
| Real estate / construction               | 3,816,348          | 1.78          | 6,629,213          | 1.28          | 4,316,043                     | 3.22          |
| Services (other than financial)          | 4,522,321          | 2.11          | 15,168,330         | 2.94          | 2,669,807                     | 1.99          |
| Shoes and leather garments               | 2,734,954          | 1.28          | 1,684,597          | 0.33          | 428,181                       | 0.32          |
| Sugar                                    | 5,792,965          | 2.70          | 2,598,472          | 0.50          | 198,230                       | 0.15          |
| Surgical equipments and metal products   | 873,359            | 0.41          | 1,521,858          | 0.29          | 1,339,472                     | 1.00          |
| Textile                                  |                    |               |                    |               |                               |               |
| Spinning                                 | 21,324,439         | 9.95          | 2,229,303          | 0.43          | 5,781,415                     | 4.31          |
| Weaving                                  | 9,650,524          | 4.51          | 1,139,869          | 0.22          | 2,910,680                     | 2.16          |
| Composite                                | 17,643,339         | 8.23          | 3,607,165          | 0.70          | 6,541,323                     | 4.88          |
| Ready made garments                      | 8,097,173          | 3.78          | 1,641,323          | 0.32          | 4,084,618                     | 3.04          |
|  | 56,715,475         | 26.47         | 8,617,660          | 1.67          | 19,318,036                    | 14.39         |
| Others                                   | 11,844,005         | 5.53          | 44,649,495         | 8.65          | 12,814,178                    | 9.55          |
|  | <u>214,272,308</u> | <u>100.00</u> | <u>516,213,178</u> | <u>100.00</u> | <u>134,155,415</u>            | <u>100.00</u> |



|  | 2014               |               |                    |               |                               |               |
|--|--------------------|---------------|--------------------|---------------|-------------------------------|---------------|
|  | Gross Advances     |               | Deposits           |               | Contingencies and Commitments |               |
|  | (Rupees in '000)   | %             | (Rupees in '000)   | %             | (Rupees in '000)              | %             |
| Agriculture / agri business              | 4,069,347          | 2.16          | 1,066,899          | 0.24          | 1,530,837                     | 1.43          |
| Automobiles and transportation equipment | 967,027            | 0.51          | 1,373,112          | 0.31          | 6,073,012                     | 5.69          |
| Cement                                   | 466,995            | 0.25          | 293,865            | 0.07          | 1,114,047                     | 1.04          |
| Chemicals / pharmaceuticals              | 3,310,146          | 1.76          | 1,436,443          | 0.32          | 2,898,134                     | 2.71          |
| Commerce and trade                       | 12,927,855         | 6.88          | 21,986,638         | 4.93          | 11,444,779                    | 10.71         |
| Electronics and electrical appliances    | 761,377            | 0.41          | 698,151            | 0.16          | 980,085                       | 0.92          |
| Fertilizers                              | 2,542,613          | 1.35          | 5,486,411          | 1.23          | 753,813                       | 0.71          |
| Financial                                | 2,200,683          | 1.17          | 9,756,339          | 2.19          | 9,113,733                     | 8.53          |
| Food and allied                          | 30,980,355         | 16.48         | 3,716,977          | 0.83          | 2,893,386                     | 2.71          |
| Ghee and edible oil                      | 9,554,825          | 5.08          | 1,067,997          | 0.24          | 4,929,807                     | 4.61          |
| Individuals                              | 5,931,452          | 3.16          | 305,690,244        | 68.48         | 8,778                         | 0.01          |
| Iron and steel                           | 11,196,411         | 5.96          | 830,412            | 0.19          | 8,164,987                     | 7.64          |
| Oil refinery / marketing                 | 3,608,421          | 1.92          | 21,820,829         | 4.89          | 11,738,514                    | 10.99         |
| Paper and board                          | 2,158,615          | 1.15          | 226,931            | 0.05          | 662,861                       | 0.62          |
| Plastic products                         | 2,404,197          | 1.28          | 348,395            | 0.07          | 3,108,171                     | 2.91          |
| Production and transmission of energy    | 7,930,767          | 4.22          | 4,291,215          | 0.96          | 4,252,274                     | 3.98          |
| Real estate / construction               | 1,134,853          | 0.60          | 6,179,808          | 1.38          | 4,028,983                     | 3.77          |
| Services (other than financial)          | 1,395,975          | 0.74          | 11,420,621         | 2.56          | 1,366,727                     | 1.28          |
| Shoes and leather garments               | 1,430,703          | 0.76          | 1,105,858          | 0.25          | 527,256                       | 0.49          |
| Sugar                                    | 6,085,499          | 3.24          | 2,514,596          | 0.56          | 363,537                       | 0.34          |
| Surgical equipments and metal products   | 1,007,046          | 0.54          | 1,142,069          | 0.25          | 1,019,162                     | 0.95          |
| Textile                                  |                    |               |                    |               |                               |               |
| Spinning                                 | 25,999,120         | 13.83         | 1,544,087          | 0.35          | 6,127,999                     | 5.74          |
| Weaving                                  | 11,163,257         | 5.94          | 976,726            | 0.22          | 5,494,499                     | 5.14          |
| Composite                                | 21,074,133         | 11.21         | 2,218,383          | 0.49          | 5,347,167                     | 5.01          |
| Ready made garments                      | 6,607,279          | 3.52          | 1,384,527          | 0.31          | 3,133,534                     | 2.93          |
|  | 64,843,789         | 34.50         | 6,123,723          | 1.37          | 20,103,199                    | 18.82         |
| Others                                   | 11,063,865         | 5.88          | 37,831,471         | 8.47          | 9,759,288                     | 9.14          |
|  | <u>187,972,816</u> | <u>100.00</u> | <u>446,409,004</u> | <u>100.00</u> | <u>106,835,370</u>            | <u>100.00</u> |

#### 43.1.4 Details of non-performing advances and specific provisions by class of business segment

|  | 2015                |   | 2014                |                         |
|--|---------------------|---|---------------------|-------------------------|
|  | Classified Advances | Specific Provision held<br>(Rupees in '000) | Classified Advances | Specific Provision held |
| Agriculture / agri business              | 98,192              | 93,493                                      | 95,883              | 83,677                  |
| Automobiles and transportation equipment | 27,073              | 17,073                                      | 7,015               | 7,015                   |
| Commerce and trade                       | 929,384             | 737,694                                     | 619,660             | 559,520                 |
| Electronics and electrical appliances    | 4,058               | 4,058                                       | 4,058               | 4,058                   |
| Financial                                | 101,949             | 91,160                                      | 101,949             | 70,957                  |
| Ghee and edible oil                      | 3,138               | 3,138                                       | 3,138               | 3,138                   |
| Individuals                              | 49,474              | 43,734                                      | 42,544              | 40,929                  |
| Iron and steel                           | 585,110             | 554,407                                     | 753,623             | 222,574                 |
| Oil refinery / marketing                 | 3,983               | 3,983                                       | 3,983               | 3,983                   |
| Plastic products                         | 68,990              | 62,999                                      | 61,003              | 61,003                  |
| Real estate / construction               | 253,704             | 253,704                                     | 256,504             | 256,504                 |
| Services (other than financial)          | 16,485              | 4,122                                       | —                   | —                       |
| Shoes and leather garments               | —                   | —   | 572                 | 572                     |
| Surgical equipments and metal products   | 5,293               | 3,421                                       | 2,797               | 2,797                   |
| Textile                                  |                     |   |                     |                         |
| Spinning                                 | 1,361,253           | 1,307,097                                   | 795,214             | 781,646                 |
| Weaving                                  | 985,875             | 977,610                                     | 881,829             | 540,807                 |
| Composite                                | 940,811             | 940,433                                     | 971,108             | 969,739                 |
| Ready made garments                      | 431,021             | 430,664                                     | 415,317             | 415,317                 |
|  | 3,718,960           | 3,655,804                                   | 3,063,468           | 2,707,509               |
| Others                                   | 8,581               | 8,581                                       | 8,581               | 8,581                   |
|  | <b>5,874,374</b>    | <b>5,537,371</b>                            | <b>5,024,778</b>    | <b>4,032,817</b>        |

#### 43.1.5 Segment by sector

|                     | 2015               |               |                    |               |                               |               |
|---------------------|--------------------|---------------|--------------------|---------------|-------------------------------|---------------|
|                     | Gross Advances     |               | Deposits           |               | Contingencies and Commitments |               |
|                     | (Rupees in '000)   | %             | (Rupees in '000)   | %             | (Rupees in '000)              | %             |
| Public / Government | 50,785,144         | 23.70         | 43,839,613         | 8.49          | 18,374,421                    | 13.70         |
| Private             | 163,487,164        | 76.30         | 472,373,565        | 91.51         | 115,780,994                   | 86.30         |
|                     | <b>214,272,308</b> | <b>100.00</b> | <b>516,213,178</b> | <b>100.00</b> | <b>134,155,415</b>            | <b>100.00</b> |
|                     | 2014               |               |                    |               |                               |               |
|                     | Gross Advances     |               | Deposits           |               | Contingencies and Commitments |               |
|                     | (Rupees in '000)   | %             | (Rupees in '000)   | %             | (Rupees in '000)              | %             |
| Public / Government | 34,203,270         | 18.20         | 40,763,122         | 9.13          | 17,348,123                    | 16.24         |
| Private             | 153,769,546        | 81.80         | 405,645,882        | 90.87         | 89,487,247                    | 83.76         |
|                     | <b>187,972,816</b> | <b>100.00</b> | <b>446,409,004</b> | <b>100.00</b> | <b>106,835,370</b>            | <b>100.00</b> |





#### 43.1.6 Details of non-performing advances and specific provisions by sector

|                     | 2015                |   | 2014                |                         |
|---------------------|---------------------|---|---------------------|-------------------------|
|                     | Classified Advances | Specific Provision held<br>(Rupees in '000) | Classified Advances | Specific Provision held |
| Public / Government | —                   | —   | —                   | —                       |
| Private             | 5,874,374           | 5,537,371                                   | 5,024,778           | 4,032,817               |
|                     | <b>5,874,374</b>    | <b>5,537,371</b>                            | <b>5,024,778</b>    | <b>4,032,817</b>        |

#### 43.1.7 Geographical segment analysis

|              | 2015                   |   |                     |                               |
|--------------|------------------------|---|---------------------|-------------------------------|
|              | Profit before taxation | Total assets employed<br>(Rupees in '000) | Net assets employed | Contingencies and commitments |
| Pakistan     | 11,869,276             | 612,576,414                               | 35,153,642          | 128,703,646                   |
| Middle East  | 440,422                | 20,064,708                                | 1,931,407           | 5,451,769                     |
| Asia Pacific | 22,420                 | 5,578,650                                 | 484,423             | —                             |
| Africa       | (459)                  | 1,492,696                                 | 287,186             | —                             |
|              | <b>12,331,659</b>      | <b>639,712,468</b>                        | <b>37,856,658</b>   | <b>134,155,415</b>            |
|              | 2014                   |   |                     |                               |
|              | Profit before taxation | Total assets employed<br>(Rupees in '000) | Net assets employed | Contingencies and commitments |
| Pakistan     | 9,615,048              | 560,664,971                               | 30,388,269          | 104,109,281                   |
| Middle East  | 364,991                | 16,416,728                                | 1,605,870           | 2,726,089                     |
| Asia Pacific | (39,158)               | 1,218,721                                 | 458,234             | —                             |
| Africa       | (23,767)               | 618,409                                   | 175,978             | —                             |
|              | <b>9,917,114</b>       | <b>578,918,829</b>                        | <b>32,628,351</b>   | <b>106,835,370</b>            |

#### 43.2 Market risk

Market risk is the risk of loss arising from movements in market rates or prices, such as interest rates, foreign exchange rates, and equity prices.

The Bank takes positions in securities for the purpose of investment and not to run a trading book, except to a very limited extent (maximum of Rs. 300 million) for trading in equities. As regards foreign exchange positions, the purpose is to serve the needs of clients. Except as aforesaid, the Bank does not engage in trading or market making activities.

Market risk is managed through the market risk policy approved by the Board, approval of counterparty and dealer limits, specific senior management approval for each investment and regular review and monitoring of the investment portfolio by the Asset Liability Management Committee (ALCO). A key element of the Bank's market risk management is to balance safety, liquidity, and





income in that order of priority. Another key element is separation of functions and reporting lines for the Treasury Division which undertakes dealing activities within the limits and parameters set by ALCO, Settlements Department which confirms and settles the aforesaid deal and Middle Office which independently monitors and analyses the risks inherent in treasury operations. Risk Management Committee of the Board provides overall guidance in managing the Bank's market risk.

Dealing activities of the Bank include investment in government securities, term finance certificates, sukuks / bonds, shares and mutual funds, money market transactions and foreign exchange transactions catering to the needs of its customers. All such activities are carried out within the prescribed limits. Any excess over limits noted by the Settlements Department and / or the Middle Office is reported to senior management and ALCO. Stress testing is performed as per guidelines of SBP as well as Bank's internal policy.

The Bank uses the Standardised Approach to calculate capital charge for market risk as per Basel regulatory framework. Details of capital charge for market risk are given in note 42.6.

#### **43.2.1 Interest rate / yield risk**

Interest rate risk is the risk of loss from adverse movements in interest rates. ALCO monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the Bank arising from fluctuation in the market interest rates and mismatching or gaps in the amount of financial assets and financial liabilities in different maturity time bands.

The Bank's interest rate exposure is calculated by categorising its interest sensitive assets and liabilities into various time bands based on the earlier of their contractual repricing or maturity dates.

Interest rate risk exposures of the Bank are controlled through dealer limits, counter-party exposure limits and (when necessary) type - of - instrument limits. Duration and modified duration of various types of debt securities as well as their entire portfolio are also calculated, and the impact of adverse change in interest rates on the market value of the securities is estimated. Stress testing for interest rate risk is carried out regularly to estimate the impact of adverse changes in the interest rates.

#### **Interest rate / yield risk in the banking book – Basel Specific**

The Bank holds financial assets and financial liabilities with different maturities or repricing dates and linked to different benchmark rates, thus creating exposure to unexpected changes in the level of interest rates. Interest rate risk in the banking book refers to the risk associated with interest-bearing financial instruments that are not held in the trading book of the Bank.

Repricing gap analysis presents the Bank's interest sensitive assets (ISA) and interest sensitive liabilities (ISL), categorised into various time bands based on the earlier of their contractual repricing or maturity dates (or settlement dates for off-balance sheet instruments). Deposits with no fixed maturity dates (for example, saving deposits and treasurer's call deposits) are included in the lowest, one - month time band, but these are not expected to be payable within a one - month period. The difference between ISA and ISL for each time band signifies the gap in that time band, and provides a workable framework for determining the impact on net interest income.

The Bank reviews the repricing gap analysis periodically to monitor and manage interest rate risk in the banking book.

#### 43.2.2 Mismatch of interest rate sensitive assets and liabilities

2015

| Effective Yield / Interest Rate                  | Total         | Exposed to Yield / Interest rate risk |                          |                           |                         |                        |                         |                         |                          | Non interest bearing financial instruments |
|--|---------------|---------------------------------------|--------------------------|---------------------------|-------------------------|------------------------|-------------------------|-------------------------|--------------------------|--|
|  |               | Upto 1 month                          | Over 1 month to 3 months | Over 3 months to 6 months | Over 6 months to 1 year | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 5 years | Over 5 years to 10 years |  |
|  |               | (Rupees in '000)                      |                          |                           |                         |                        |                         |                         |                          |  |
| On - balance sheet financial instruments         |               |                                       |                          |                           |                         |                        |                         |                         |                          |  |
| Assets   |               |                                       |                          |                           |                         |                        |                         |                         |                          |  |
| -  | 38,577,738    | 5,805,938                             | -                        | -                         | -                       | -                      | -                       | -                       | -                        | 32,771,800                                 |
| 2.02%  | 3,185,669     | 1,828,936                             | -                        | -                         | -                       | -                      | -                       | -                       | -                        | 1,356,733                                  |
| 6.26%  | 5,818,072     | 3,992,794                             | -                        | 1,825,278                 | -                       | -                      | -                       | -                       | -                        | -  |
| 9.60%  | 354,823,725   | 1,314,016                             | 41,862,859               | 33,835,205                | 139,816,257             | 20,152,941             | 37,567,377              | 41,846,206              | 31,456,967               | 6,971,897                                  |
| 6.66%  | 205,858,658   | 148,119,890                           | 26,378,682               | 15,204,262                | 5,315,189               | 2,048,926              | 1,469,176               | 1,529,761               | 3,728,866                | -  |
| -  | 13,128,891    | -                                     | -                        | -                         | -                       | -                      | -                       | -                       | -                        | 13,128,891                                 |
| -  | 621,392,753   | 161,061,574                           | 68,241,541               | 49,039,467                | 146,956,724             | 22,201,867             | 39,036,553              | 43,375,967              | 35,165,833               | 2,063,906                                  |
| -  | -             | -                                     | -                        | -                         | -                       | -                      | -                       | -                       | -                        | 54,229,321                                 |
| Liabilities                                      |               |                                       |                          |                           |                         |                        |                         |                         |                          |  |
| -  | 8,665,462     | -                                     | -                        | -                         | -                       | -                      | -                       | -                       | -                        | 8,665,462                                  |
| 5.05%  | 62,592,299    | 58,615,270                            | 53,922                   | 83,039                    | 210,767                 | 395,866                | 374,521                 | 781,832                 | 2,077,082                | -  |
| 5.21%  | 516,213,178   | 254,209,581                           | 18,409,715               | 26,107,275                | 28,328,468              | 5,057,975              | 3,659,979               | 3,480,245               | -                        | 176,959,940                                |
| 15.00%   | 2,994,600     | -                                     | -                        | 2,994,600                 | -                       | -                      | -                       | -                       | -                        | -  |
| -  | -             | -                                     | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -  |
| -  | 5,711,244     | -                                     | -                        | -                         | -                       | -                      | -                       | -                       | -                        | 5,711,244                                  |
| -  | 596,176,783   | 312,824,851                           | 18,463,637               | 29,184,914                | 28,539,235              | 5,453,841              | 4,034,500               | 4,262,077               | 2,077,082                | -  |
| -  | 25,215,970    | (151,763,277)                         | 49,777,904               | 19,854,553                | 118,417,489             | 16,748,026             | 35,002,053              | 39,113,890              | 33,108,751               | 2,063,906                                  |
| On - balance sheet gap                           |               |                                       |                          |                           |                         |                        |                         |                         |                          |  |
| Off - balance sheet financial instruments        |               |                                       |                          |                           |                         |                        |                         |                         |                          |  |
| -  | 46,760,182    | 13,172,132                            | 20,220,719               | 6,826,216                 | 6,541,115               | -                      | -                       | -                       | -                        | -  |
| -  | (28,769,804)  | (15,323,278)                          | (10,026,799)             | (3,189,863)               | (230,864)               | -                      | -                       | -                       | -                        | -  |
| -  | 10,748,236    | 260,156                               | 1,827,220                | 3,042,180                 | 4,055,680               | 1,563,000              | -                       | -                       | -                        | -  |
| -  | 28,738,614    | (1,890,990)                           | 12,021,140               | 6,679,533                 | 10,365,931              | 1,563,000              | -                       | -                       | -                        | -  |
| -  | 53,954,584    | (153,654,267)                         | 61,799,044               | 26,534,086                | 128,783,420             | 18,311,026             | 35,002,053              | 39,113,890              | 33,108,751               | 2,063,906                                  |
| -  | (153,654,267) | (91,855,223)                          | (65,321,137)             | (65,462,283)              | 63,462,283              | 81,773,309             | 116,775,362             | 155,889,252             | 188,998,003              | 191,061,909                                |
| Cumulative interest / yield risk sensitivity gap |               |                                       |                          |                           |                         |                        |                         |                         |                          |  |

2014

| Effective Yield / Interest Rate                  | Exposed to Yield / Interest rate risk |               |                          |                           |                         |                        |                         |                         |                          |               | Non interest bearing financial instruments |
|--|---------------------------------------|---------------|--------------------------|---------------------------|-------------------------|------------------------|-------------------------|-------------------------|--------------------------|---------------|--|
|  | Total                                 | Upto 1 month  | Over 1 month to 3 months | Over 3 months to 6 months | Over 6 months to 1 year | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 5 years | Over 5 years to 10 years | Over 10 years |  |
|  |                                       |               |                          |                           |                         |                        |                         |                         |                          |               |  |
| On - balance sheet financial instruments         |                                       |               |                          |                           |                         |                        |                         |                         |                          |               |  |
| Assets   |                                       |               |                          |                           |                         |                        |                         |                         |                          |               |  |
| -  | 34,201,813                            | 4,810,823     | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             | 29,390,990                                 |
| 2.88%  | 4,345,042                             | 2,700,464     | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             | 1,644,578                                  |
| -  | -                                     | -             | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             | -  |
| 11.00%   | 331,422,572                           | 1,073,351     | 20,233,407               | 90,639,043                | 55,830,272              | 47,645,949             | 19,465,619              | 53,407,190              | 36,399,615               | -             | 6,728,126                                  |
| 9.53%  | 181,556,817                           | 125,899,931   | 30,001,389               | 14,971,466                | 2,165,460               | 1,568,215              | 1,576,731               | 2,157,374               | 1,136,072                | 1,880,179     | -  |
| -  | 12,350,536                            | -             | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             | 12,350,536                                 |
|  | 563,676,780                           | 134,484,569   | 50,234,796               | 105,610,509               | 57,995,732              | 49,214,164             | 21,042,350              | 55,564,564              | 37,535,687               | 1,880,179     | 50,114,230                                 |
| Liabilities                                      |                                       |               |                          |                           |                         |                        |                         |                         |                          |               |  |
| -  | 7,984,808                             | -             | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             | 7,984,808                                  |
| 8.72%  | 78,455,452                            | 74,863,838    | 77,136                   | 94,415                    | 229,366                 | 558,798                | 348,352                 | 1,391,061               | 890,592                  | -             | 1,894                                      |
| 7.37%  | 446,409,004                           | 224,183,256   | 17,876,659               | 16,902,339                | 28,355,801              | 3,892,001              | 4,782,226               | 2,761,074               | -                        | -             | 147,655,648                                |
| 14.42%   | 3,743,700                             | -             | 747,900                  | 600                       | 600                     | 2,994,600              | -                       | -                       | -                        | -             | -  |
| -  | -                                     | -             | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             | -  |
| -  | 4,833,166                             | -             | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             | 4,833,166                                  |
|  | 541,426,130                           | 299,047,094   | 18,701,695               | 16,997,354                | 28,585,767              | 7,445,399              | 5,130,578               | 4,152,135               | 890,592                  | -             | 160,475,516                                |
| On - balance sheet gap                           | 22,250,650                            | (164,562,525) | 31,533,101               | 88,613,155                | 29,409,965              | 41,768,765             | 15,911,772              | 51,412,429              | 36,645,095               | 1,880,179     | (110,361,286)                              |
| Off - balance sheet financial instruments        |                                       |               |                          |                           |                         |                        |                         |                         |                          |               |  |
| Forward purchase of foreign exchange contracts   | 35,574,870                            | 10,534,044    | 8,784,248                | 8,667,756                 | 7,311,120               | 277,702                | -                       | -                       | -                        | -             | -  |
| Forward sale of foreign exchange contracts       | (33,584,498)                          | (15,025,873)  | (6,592,659)              | (11,952,760)              | (13,206)                | -                      | -                       | -                       | -                        | -             | -  |
| Forward commitments to extend credit             | 4,582,095                             | 1,268,375     | 880,360                  | 1,933,360                 | 500,000                 | -                      | -                       | -                       | -                        | -             | -  |
| Off - balance sheet gap                          | 6,572,467                             | (3,223,454)   | 3,071,949                | (1,351,644)               | 7,797,914               | 277,702                | -                       | -                       | -                        | -             | -  |
| Total interest / yield risk sensitivity gap      | 28,823,117                            | (167,785,979) | 34,605,050               | 87,261,511                | 37,207,879              | 42,046,467             | 15,911,772              | 51,412,429              | 36,645,095               | 1,880,179     | -  |
| Cumulative interest / yield risk sensitivity gap | (167,785,979)                         | (133,180,929) | (45,919,418)             | (8,711,539)               | 33,334,928              | 49,246,700             | 100,659,129             | 137,304,224             | 139,184,403              | -             | -  |



### 43.2.3 Foreign exchange risk

Foreign exchange risk is the risk of loss from adverse changes in currency exchange rates. The Bank's foreign exchange exposure comprises forward contracts, purchase of foreign bills, foreign currency loans and investments, foreign currency cash in hand, balances with banks abroad, foreign currency deposits and foreign currency placements with SBP and other banks. Focus of the Bank's foreign exchange activities is on catering to the needs of its customers, both in spot and forward markets.

Foreign exchange risk exposures of the Bank are controlled through dealer limits, open foreign exchange position limits, counterparty exposure limits, and country limits. The Bank manages its foreign exchange exposure by matching foreign currency assets and liabilities within strict limits. The net open position in any single currency and the overall foreign exchange exposure are both managed within the statutory limits as prescribed by SBP as well as the internal limits set by the Bank itself. Stress testing for foreign exchange risk is carried out regularly to estimate the impact of adverse changes in foreign exchange rates.

| 2015                 |                    |                    |                            |                             |
|----------------------|--------------------|--------------------|----------------------------|-----------------------------|
|                      | Assets             | Liabilities        | Off-balance<br>sheet items | Net<br>currency<br>exposure |
|                      | (Rupees in '000)   |                    |                            |                             |
| Pakistan Rupee       | 591,839,362        | 538,970,243        | (17,990,377)               | 34,878,742                  |
| United States Dollar | 45,409,825         | 49,507,291         | 6,702,689                  | 2,605,223                   |
| Great Britain Pound  | 1,350,974          | 9,279,902          | 8,152,306                  | 223,378                     |
| Japanese Yen         | 4,710              | 9,608              | 6,895                      | 1,997                       |
| Euro                 | 899,604            | 3,227,952          | 2,454,482                  | 126,134                     |
| Other currencies     | 207,993            | 860,814            | 674,005                    | 21,184                      |
|                      | <b>639,712,468</b> | <b>601,855,810</b> | <b>—</b>                   | <b>37,856,658</b>           |
| 2014                 |                    |                    |                            |                             |
|                      | Assets             | Liabilities        | Off-balance<br>sheet items | Net<br>currency<br>exposure |
|                      | (Rupees in '000)   |                    |                            |                             |
| Pakistan Rupee       | 528,544,018        | 496,188,083        | (1,990,371)                | 30,365,564                  |
| United States Dollar | 47,613,038         | 39,218,122         | (6,516,659)                | 1,878,257                   |
| Great Britain Pound  | 973,959            | 6,988,949          | 6,129,289                  | 114,299                     |
| Japanese Yen         | 22,521             | 6,688              | (15,973)                   | (140)                       |
| Euro                 | 1,389,311          | 3,250,171          | 1,902,253                  | 41,393                      |
| Other currencies     | 375,982            | 638,465            | 491,461                    | 228,978                     |
|                      | <b>578,918,829</b> | <b>546,290,478</b> | <b>—</b>                   | <b>32,628,351</b>           |

### 43.3 Liquidity risk

Liquidity risk is the risk of loss to a bank arising from its inability to meet obligations as they fall due or to fund growth in assets, without incurring unacceptable losses.

Liquidity risk is managed through the liquidity risk policy approved by the Board, careful monitoring of daily liquidity position by the Treasury Division and the Middle Office and regular review and monitoring of the liquidity position by ALCO. Risk Management Committee of the Board provides overall guidance in managing the Bank's liquidity risk.

Key elements of the Bank's liquidity risk management are as follows:

- To maintain a comfortable margin of excess liquidity in the form of cash and readily marketable assets to meet the Bank's funding requirements at any time.
- To keep a strong focus on mobilisation of low-cost core deposits from customers.
- To maintain a realistic balance between the behavioural maturity profiles of assets and liabilities.
- To maintain excellent credit rating (as borrowing costs and ability to raise funds are directly affected by credit rating).
- To have a written contingency funding plan to address any hypothetical situations when access to normal sources of funding is constrained.

The Bank's liquidity risk management addresses the goal of protecting solvency and the ability to withstand stressful events in the market place. Stress testing for liquidity risk is carried out regularly to estimate the impact of decline in liquidity on the ratio of liquid assets to deposits plus borrowings.

### 43.3.1

#### Maturities of assets and liabilities - based on expected maturities as determined by ALCO

For assets and liabilities that have a contractual maturity, the expected maturity is considered to be the same as contractual maturity. Assets and Liabilities that do not have a contractual maturity have been categorised on the basis of expected maturities as determined by ALCO. In case of saving and current accounts, their historical net withdrawal pattern over the next one year was reviewed, based on year - end balances for the last three years. Thereafter, taking a conservative view, ALCO categorised these deposits in various maturity bands. Other assets and liabilities have been categorised on the basis of assumptions / judgments that are believed to be reasonable.

2015

|   | Total       | Upto 1 month | Over 1 month to 3 months | Over 3 months to 6 months | Over 6 months to 1 year | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 5 years | Over 5 years to 10 years | Over 10 years |
|---|-------------|--------------|--------------------------|---------------------------|-------------------------|------------------------|-------------------------|-------------------------|--------------------------|---------------|
|   |             |              |                          |                           |                         |                        |                         |                         |                          |               |
| <b>Assets</b>                                       |             |              |                          |                           |                         |                        |                         |                         |                          |               |
| Cash and balances with treasury banks               | 38,577,738  | 38,577,738   | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             |
| Balances with other banks                           | 3,185,669   | 3,185,669    | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             |
| Lendings to financial institutions                  | 5,818,072   | 3,992,794    | -                        | -                         | 1,825,278               | -                      | -                       | -                       | -                        | -             |
| Investments - net                                   | 354,823,725 | (696,342)    | 39,835,878               | 28,903,150                | 146,939,142             | 22,322,098             | 40,235,635              | 43,310,918              | 33,490,598               | 482,648       |
| Advances - net                                      | 205,888,658 | 39,969,461   | 42,984,295               | 59,958,377                | 18,775,694              | 11,804,286             | 10,478,491              | 11,256,314              | 8,128,961                | 2,502,779     |
| Operating fixed assets                              | 15,704,284  | 266,262      | 535,269                  | 649,036                   | 748,462                 | 4,630,358              | 1,056,620               | 1,232,373               | 734,953                  | 5,910,951     |
| Deferred tax assets - net                           | -           | -            | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             |
| Other assets  | 15,684,322  | 12,752,010   | 1,578,397                | 815,238                   | 217,882                 | 111,767                | 50,823                  | 40,253                  | 38,139                   | 79,813        |
|   | 639,712,468 | 98,047,592   | 84,933,839               | 90,325,801                | 168,506,458             | 38,888,509             | 51,821,569              | 55,839,858              | 42,392,651               | 8,976,191     |
| <b>Liabilities</b>                                  |             |              |                          |                           |                         |                        |                         |                         |                          |               |
| Bills payable                                       | 8,665,462   | 8,665,462    | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             |
| Borrowings  | 62,592,299  | 39,648,813   | 11,900,511               | 7,202,904                 | 210,767                 | 395,866                | 374,521                 | 781,832                 | 2,077,085                | -             |
| Deposits and other accounts                         | 516,213,178 | 76,267,187   | 57,843,308               | 65,540,868                | 67,762,060              | 76,038,442             | 74,640,446              | 78,404,071              | 19,716,796               | -             |
| Sub-ordinated loans                                 | 2,994,600   | -            | -                        | 600                       | 600                     | 1,200                  | 1,200                   | 1,496,400               | 1,494,600                | -             |
| Liabilities against assets subject to finance lease | -           | -            | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             |
| Deferred tax liabilities - net                      | 3,632,598   | (83,805)     | 80,625                   | 104,050                   | 640,200                 | 1,092,435              | 317,290                 | 434,771                 | 571,529                  | 475,503       |
| Other liabilities                                   | 7,757,673   | 5,287,307    | 7,098                    | 4,347                     | 648,246                 | 28,465                 | 73,596                  | 940,758                 | -                        | 767,856       |
|   | 601,855,810 | 129,784,964  | 69,831,542               | 72,852,769                | 69,261,873              | 77,556,408             | 75,407,053              | 82,057,832              | 23,860,010               | 1,243,359     |
| <b>Net assets</b>                                   | 37,856,658  | (31,737,372) | 15,102,297               | 17,473,032                | 99,244,585              | (38,687,899)           | (23,585,484)            | (26,217,974)            | 18,532,641               | 7,732,832     |
|   |             |              |                          |                           |                         |                        |                         |                         |                          |               |
| Share capital                                       | 11,114,254  |              |                          |                           |                         |                        |                         |                         |                          |               |
| Reserves  | 10,329,659  |              |                          |                           |                         |                        |                         |                         |                          |               |
| Unappropriated profit                               | 10,253,920  |              |                          |                           |                         |                        |                         |                         |                          |               |
| Surplus on revaluation of assets - net of tax       | 6,158,825   |              |                          |                           |                         |                        |                         |                         |                          |               |
|   | 37,856,658  |              |                          |                           |                         |                        |                         |                         |                          |               |

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### 43.3.2 Maturities of assets and liabilities - based on contractual maturities

The following maturity profile is based on contractual maturities for assets and liabilities that have a contractual maturity. Assets and liabilities that do not have a contractual maturity have been categorised in the shortest maturity band.

2015

|  | Total       | Upto 1 month  | Over 1 month to 3 months | Over 3 months to 6 months | Over 6 months to 1 year | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 5 years | Over 5 years to 10 years | Over 10 years |
|--|-------------|---------------|--------------------------|---------------------------|-------------------------|------------------------|-------------------------|-------------------------|--------------------------|---------------|
|  |             |               |                          |                           |                         |                        |                         |                         |                          |               |
| <b>Assets</b>  |             |               |                          |                           |                         |                        |                         |                         |                          |               |
| Cash and balances with treasury banks                | 38,577,738  | 38,577,738    | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             |
| Balances with other banks                            | 3,185,669   | 3,185,669     | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             |
| Lendings to financial institutions                   | 5,818,072   | 3,992,794     | -                        | -                         | 1,825,278               | -                      | -                       | -                       | -                        | -             |
| Investments - net                                    | 354,823,725 | 10,805,713    | 39,732,567               | 28,791,085                | 139,896,481             | 22,011,494             | 39,849,310              | 41,837,033              | 31,900,042               | -             |
| Advances - net                                       | 205,858,658 | 39,969,461    | 42,984,295               | 59,958,377                | 18,775,694              | 11,804,286             | 10,478,491              | 11,256,314              | 8,128,961                | 2,502,779     |
| Operating fixed assets                               | 15,764,284  | 7,490,863     | 253,036                  | 368,426                   | 673,884                 | 1,234,797              | 1,067,181               | 1,253,496               | 787,760                  | 2,634,841     |
| Deferred tax assets - net                            | -           | -             | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             |
| Other assets   | 15,684,322  | 12,963,088    | 1,554,530                | 779,439                   | 146,283                 | 111,767                | 50,823                  | 40,253                  | 38,139                   | -             |
|  | 639,712,468 | 116,985,326   | 84,524,428               | 89,897,327                | 161,317,620             | 35,162,344             | 51,445,805              | 54,387,096              | 40,854,902               | 5,137,620     |
| <b>Liabilities</b>                                   |             |               |                          |                           |                         |                        |                         |                         |                          |               |
| Bills payable  | 8,665,462   | 8,665,462     | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             |
| Borrowings   | 62,592,299  | 39,648,813    | 11,900,511               | 7,202,904                 | 210,767                 | 395,866                | 374,521                 | 781,832                 | 2,077,085                | -             |
| Deposits and other accounts                          | 516,213,178 | 431,169,521   | 18,409,715               | 28,107,275                | 28,328,468              | 5,057,975              | 3,659,979               | 3,480,245               | -                        | -             |
| Sub-ordinated loans                                  | 2,994,600   | -             | -                        | 600                       | 600                     | 1,200                  | 1,200                   | 1,496,400               | 1,494,600                | -             |
| Liabilities against assets subject to finance lease  | -           | -             | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             |
| Deferred tax liabilities - net                       | 3,632,598   | 2,624,403     | 41,349                   | 60,177                    | 111,908                 | 204,691                | 182,076                 | (82,914)                | 14,835                   | 476,073       |
| Other liabilities                                    | 7,757,673   | 7,260,947     | 7,098                    | 4,347                     | 319,421                 | 28,465                 | 73,596                  | 63,799                  | -                        | -             |
|  | 601,855,810 | 489,369,146   | 30,358,673               | 33,375,303                | 28,971,164              | 5,688,197              | 4,291,372               | 5,739,362               | 3,586,520                | 476,073       |
| <b>Net assets</b>                                    | 37,856,658  | (372,383,820) | 54,165,755               | 56,522,024                | 132,346,456             | 29,474,147             | 47,154,433              | 48,647,734              | 37,268,382               | 4,661,547     |
| <b>Share capital</b>                                 | 11,114,254  |               |                          |                           |                         |                        |                         |                         |                          |               |
| <b>Reserves</b>                                      | 10,329,659  |               |                          |                           |                         |                        |                         |                         |                          |               |
| <b>Unappropriated profit</b>                         | 10,253,920  |               |                          |                           |                         |                        |                         |                         |                          |               |
| <b>Surplus on revaluation of assets - net of tax</b> | 6,158,825   |               |                          |                           |                         |                        |                         |                         |                          |               |
|  | 37,856,658  |               |                          |                           |                         |                        |                         |                         |                          |               |



2014

|   | Total       | Upto 1 month  | Over 1 month to 3 months | Over 3 months to 6 months | Over 6 months to 1 year | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 5 years | Over 5 years to 10 years | Over 10 years |
|---|-------------|---------------|--------------------------|---------------------------|-------------------------|------------------------|-------------------------|-------------------------|--------------------------|---------------|
|   |             |               |                          |                           |                         |                        |                         |                         |                          |               |
| <b>Assets</b>                                       |             |               |                          |                           |                         |                        |                         |                         |                          |               |
| Cash and balances with treasury banks               | 34,201,813  | 34,201,813    | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             |
| Balances with other banks                           | 4,345,042   | 4,345,042     | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             |
| Lendings to financial institutions                  | -           | -             | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             |
| Investments - net                                   | 331,422,572 | 7,821,866     | 17,656,725               | 87,928,986                | 57,055,808              | 48,339,562             | 21,434,459              | 54,032,275              | 37,152,891               | -             |
| Advances - net                                      | 181,356,817 | 44,638,774    | 48,901,396               | 42,216,327                | 14,061,946              | 8,177,109              | 7,172,775               | 10,823,653              | 3,379,453                | 1,985,384     |
| Operating fixed assets                              | 13,898,321  | 6,880,534     | 177,242                  | 259,272                   | 485,392                 | 810,129                | 640,289                 | 793,636                 | 946,924                  | 2,904,903     |
| Deferred tax assets - net                           | -           | -             | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             |
| Other assets  | 13,694,264  | 12,481,929    | 715,926                  | 158,528                   | 128,996                 | 85,050                 | 41,632                  | 35,958                  | 46,245                   | -             |
|   | 578,918,829 | 110,369,958   | 67,451,289               | 130,563,113               | 71,732,142              | 57,411,850             | 29,289,155              | 65,685,522              | 41,525,513               | 4,890,287     |
| <b>Liabilities</b>                                  |             |               |                          |                           |                         |                        |                         |                         |                          |               |
| Bills payable                                       | 7,984,808   | 7,984,808     | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             |
| Borrowings  | 78,455,452  | 57,530,290    | 12,411,666               | 229,366                   | 229,366                 | 558,798                | 348,352                 | 1,391,061               | 890,593                  | -             |
| Deposits and other accounts                         | 446,409,004 | 371,838,903   | 17,876,659               | 16,902,339                | 28,355,801              | 3,892,001              | 4,782,226               | 2,761,075               | -                        | -             |
| Sub-ordinated loans                                 | 3,743,700   | -             | 747,900                  | 600                       | 600                     | 1,200                  | 1,200                   | 2,400                   | 2,989,800                | -             |
| Liabilities against assets subject to finance lease | -           | -             | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -             |
| Deferred tax liabilities - net                      | 2,780,536   | 1,838,536     | 24,979                   | 36,782                    | 65,863                  | 102,181                | 76,952                  | 41,825                  | (32,184)                 | 625,602       |
| Other liabilities                                   | 6,916,978   | 6,282,040     | 48,641                   | 12,351                    | 514,068                 | 4,729                  | 29,940                  | 25,209                  | -                        | -             |
|   | 546,290,478 | 445,474,577   | 31,109,845               | 22,047,398                | 29,165,698              | 4,558,909              | 5,238,670               | 4,221,570               | 3,848,209                | 625,602       |
| <b>Net assets</b>                                   | 32,628,351  | (335,104,619) | 36,341,444               | 108,515,715               | 42,566,444              | 52,852,941             | 24,050,485              | 61,463,952              | 37,677,304               | 4,264,685     |

|   |            |
|---|------------|
| Share capital                                 | 11,114,254 |
| Reserves                                      | 8,760,911  |
| Unappropriated profit                         | 7,679,490  |
| Surplus on revaluation of assets - net of tax | 5,073,696  |
|   | 32,628,351 |



#### 43.4 Equity position risk in the banking book – Basel Specific

Except for very limited trading position in equities as mentioned above (note 43.2), the Bank's policy is to take equity positions for investment purposes. Equity holdings include direct investment in shares and in equity-based mutual funds, both closed-end and open-end. Policies covering their valuation and accounting are disclosed in note 5.4.

##### Equity position risk

Equity position risk is the risk of loss from adverse movements in equity prices. The Bank's policy is to take equity positions for investment purposes and not to run a trading book, except to a very limited extent (maximum of Rs. 300 million) for trading in equities.

Equity position risk of the Bank is controlled through equity portfolio limits, sector limits, scrip limits, and future contracts limits. Direct investment in equities and mutual funds is managed within the statutory limits as prescribed by SBP as well as the internal limits set by the Bank itself. Stress testing for equity price risk is carried out regularly to estimate the impact of decline in stock prices.

#### 43.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risks but excludes strategic and reputational risks.

Operational risk is managed through the operational risk policy and audit policy approved by the Board, along with the policies on prevention of frauds and forgeries and compliance with "Know Your Customer" / "Customer Due Diligence" and "Anti Money Laundering / Combating Financing of Terrorism" requirements; operational manuals and procedures issued from time to time; a system of internal controls and dual authorisation for important transactions and safe-keeping; a Business Continuity Plan, including a Disaster Recovery Plan for I.T., to prevent interruption of business services in the event of a major incident or disaster; an I.T. Security Policy to ensure security and integrity of I.T. systems; and regular audit of the branches. Audit Committee of the Board provides overall guidance in managing the Bank's operational risk.

The Bank's operational risk management framework, as laid down in the operational risk policy, permits the overall risk management approach to evolve in the light of organisational learning and the future needs of the Bank.

The Bank places a high priority on conducting all business dealings with integrity and fairness, as laid down in the Code of Conduct, which is required to be complied with by all employees.

Internal controls are an essential feature of risk reduction in operational risk management and the Bank continues to improve its internal controls.

##### Operational risk disclosures – Basel Specific

The Bank uses Basic Indicator Approach to calculate capital charge for operational risk as per Basel regulatory framework. This approach is considered to be most suitable in view of the business model of the Bank which relies on an extensive network of branches to offer one-stop, full-service banking to its clients. The Bank has developed and implemented an Operational Loss Database. Operational loss and "near miss" events are reviewed and appropriate corrective actions taken on an ongoing basis, including measures to improve security and control procedures.



#### 44. ISLAMIC BANKING BUSINESS

**44.1** The Bank is operating 29 (2014: 17) Islamic banking branches in Pakistan. The statement of financial position and profit and loss account of these branches as at 31 December 2015 and for the year are as follows:

##### 44.1.1 STATEMENT OF FINANCIAL POSITION

|   | Note     | 2015<br>(Rupees in '000) | 2014                |
|---|----------|--------------------------|---------------------|
| <b>ASSETS</b>   |          |                          |                     |
| Cash and balances with treasury banks                     |          | 882,606                  | 484,073             |
| Balances with and due from financial institutions         |          | 744,861                  | 1,638,371           |
| Investments   |          | 5,594,911                | 2,798,926           |
| Islamic financing and related assets                      | 44.1.1.1 | 11,980,951               | 7,974,727           |
| Operating fixed assets                                    |          | 134,795                  | 62,860              |
| Other assets  |          | 244,172                  | 214,790             |
|   |          | <b>19,582,296</b>        | <b>13,173,747</b>   |
| <b>LIABILITIES</b>  |          |                          |                     |
| Bills payable   |          | 8,452                    | 142,421             |
| Due to financial institutions                             |          | 2,734,239                | 1,336,648           |
| Deposits and other accounts                               |          | 14,718,557               | 9,859,014           |
| – Current accounts  |          | 4,797,701                | 3,267,028           |
| – Saving accounts   |          | 3,675,740                | 2,085,041           |
| – Term deposits   |          | 5,152,092                | 4,449,048           |
| – Others  |          | 71,726                   | 40,532              |
| – Deposits from financial institutions - remunerative     |          | 1,019,316                | 16,439              |
| – Deposits from financial institutions - non-remunerative |          | 1,982                    | 926                 |
| Due to Head Office  |          | 1,490                    | –                   |
| Other liabilities   |          | 427,968                  | 462,701             |
|   |          | <b>(17,890,706)</b>      | <b>(11,800,784)</b> |
| <b>NET ASSETS</b>   |          | <b>1,691,590</b>         | <b>1,372,963</b>    |
| <b>REPRESENTED BY:</b>                                    |          |                          |                     |
| Islamic banking fund                                      |          | 1,500,000                | 1,100,000           |
| Unremitted profit   |          | 180,290                  | 305,917             |
|   |          | <b>1,680,290</b>         | <b>1,405,917</b>    |
| Surplus / (deficit) on revaluation of assets              |          | 11,300                   | (32,954)            |
|   |          | <b>1,691,590</b>         | <b>1,372,963</b>    |



#### 44.1.1.1 Islamic financing and related assets

|  | 2015<br>(Rupees in '000) | 2014      |
|--|--------------------------|-----------|
| Murabaha   | 2,850,625                | 1,988,650 |
| Net book value of assets / investment in ijarah under IFAS 2 | 695,688                  | 488,316   |
| Diminishing musharika  | 3,639,528                | 3,106,668 |
| Musawama   | 274,033                  | —         |
| Export refinance murabaha                                    | 32,351                   | 86,274    |
| Export refinance istisna                                     | 2,491,638                | 1,257,788 |
| Istisna  | 568,922                  | 667,453   |
| Gross financings   | 10,552,785               | 7,595,149 |
| Less: general provisioning against consumer financing        | (1,784)                  | (688)     |
| Net financing  | 10,551,001               | 7,594,461 |
| Advance against murabaha                                     | 1,176,821                | 360,910   |
| Advance against ijarah                                       | 253,129                  | 19,356    |
| Islamic financing and related assets - net off provision     | 11,980,951               | 7,974,727 |

#### 44.1.1.2 Islamic mode of financing

|  |            |           |
|--|------------|-----------|
| Financings / inventory / receivables               | 10,552,785 | 7,595,149 |
| Advances   | 1,429,950  | 380,266   |
| Less: general provision against consumer financing | (1,784)    | (688)     |
|  | 11,980,951 | 7,974,727 |

#### 44.2 PROFIT AND LOSS ACCOUNT

|   |           |           |
|---|-----------|-----------|
| Profit / return on financing and placements earned  | 1,155,163 | 1,111,230 |
| Profit / return on deposits and other dues expensed | (626,271) | (561,964) |
|   | 528,892   | 549,266   |
| Provision against non performing loans and advances | (1,096)   | (164)     |
| Net spread earned                                   | 527,796   | 549,102   |

#### OTHER INCOME

|   |        |        |
|---|--------|--------|
| Fee, commission and brokerage income      | 45,068 | 37,169 |
| Income from dealing in foreign currencies | 11,241 | 9,232  |
| Other income                              | 15,366 | 10,792 |

71,675 57,193

599,471 606,295

#### OTHER EXPENSES

|                         |           |           |
|-------------------------|-----------|-----------|
| Administrative expenses | (419,181) | (300,378) |
|-------------------------|-----------|-----------|

#### PROFIT BEFORE TAXATION

180,290 305,917



|   | 2015<br>(Rupees in '000) | 2014           |
|---|--------------------------|----------------|
| <b>44.3 Remuneration to Shariah Advisor / Board</b> | <b>3,354</b>             | <b>2,250</b>   |
| <b>44.4 CHARITY FUND</b>                            |                          |                |
| Opening balance                                     | 2,621                    | 4,144          |
| Additions during the year                           | 2,686                    | 2,621          |
| Payments / utilisation during the year              |                          |                |
| Health  | (1,021)                  | (2,500)        |
| Social welfare                                      | (1,600)                  | (1,644)        |
|   | <b>(2,621)</b>           | <b>(4,144)</b> |
| Closing balance                                     | <b>2,686</b>             | <b>2,621</b>   |

#### **44.5 PROFIT AND LOSS DISTRIBUTION AND POOL MANAGEMENT**

##### **44.5.1 The number and nature of pools maintained by the Islamic Banking Branches along with their key features and risk & reward characteristics:**

We have a single pool mechanism with the depositors. The pool operates on Mudaraba basis. Since we are operating in a single pool structure the risk and reward are proportionately shared by the depositor.

##### **Parameters associated with risk and rewards:**

Following are the key considerations attached with risk and reward of the pool:

- Period, return, safety, security and liquidity of investment.
- Maturities of funds obtained from Principal Office, Islamic Banking Institutions and Shariah compliant organisations as regulated in Pakistan.
- Element of risk attached to various types of investments.
- SBP rules & Shariah clearance.

##### **44.5.2 Avenues / sectors of economy / business where Mudaraba based deposits have been deployed:**

The Mudaraba based funds have been deployed in the following avenues / sectors / business:

- Chemical & pharmaceuticals
- Agribusiness
- Textile
- Sugar
- Shoes & leather garments
- Investment in Sukuk
- Production and transmission of energy
- Food and allied except sugar
- Wheat
- Individuals
- Others (Domestic whole sale, plastic product etc.)



#### **44.5.3 Parameters used for allocation of profit, charging expenses and provisions etc. along with a brief description of their major components:**

The Bank's Islamic Banking Division (IBD) is currently accepting Pak Rupees Term Deposits and Saving Deposits under Mudaraba arrangements, wherein the Bank is Mudarib and depositors are Rab-UI-Maal. The Bank also commingles its funds with those of depositors.

The funds so generated are invested by the Bank in Shariah compliant modes of financing such as Murabaha, Ijarah, Istisna, Diminishing Musharaka and Ijarah Sukuk.

The Bank calculates the profit of the pool after every quarter. Profit is distributed at the Net income level. Net income is calculated after deducting costs and expenses such as cost of Murabaha, cost of Takaful, Depreciation and loss of investments, directly incurred in deriving that Income.

The Net income / loss is being allocated between the Bank's equity and the depositors' fund in proportion to their respective share in pool.

The Bank's profit sharing ratio during the year was 50% (2014: 50%) of Net income and the depositors' profit sharing ratio was 50% (2014: 50%) of Net income.

After the allocation of Income between the equity holder and depositors the profit is distributed among the account holders on the basis of predetermined weightages, announced by the Bank at the beginning of the quarter based on their respective category / tiers. In case of loss, Rab-UI-Maal has to bear the loss in the ratio of its investment.

In case of provisioning, the general and specific provisions created against non - performing financing and diminution in the value of investments as under prudential regulations and other SBP directives shall be borne by the IBIs as Mudarib. However, write-offs of financings and loss on sale of investments shall be charged to the pool along with other direct expenses.

#### **44.5.4 Mudarib share (in amount and percentage of Distributable Income)**

|                      | <b>2015</b><br><b>(Rupees in million)</b> | <b>2014</b> |
|----------------------|---|-------------|
| Distributable Income | <b>765</b>                                | 739         |
| Mudarib Share        | <b>383</b>                                | 368         |
| Mudarib Share (%)    | <b>50%</b>                                | 50%         |

#### **44.5.5 Amount and percentage of Mudarib share transferred to the depositors through Hiba**

|                                  |            |     |
|----------------------------------|------------|-----|
| Mudarib Share                    | <b>383</b> | 368 |
| Hiba                             | <b>115</b> | 110 |
| Hiba percentage of Mudarib Share | <b>30%</b> | 30% |

#### **44.5.6 Profit rate earned vs. profit rate distributed to the depositors during the year**

|                         |              |        |
|-------------------------|--------------|--------|
| Profit Rate Earned      | <b>7.80%</b> | 10.24% |
| Profit Rate Distributed | <b>4.11%</b> | 5.29%  |



**45. SUBSEQUENT EVENT**

Subsequent to the year end, the Board of Directors proposed a final cash dividend of Rs. 3.5 (2014: Rs. 3) per share.

**46. GENERAL**

**46.1** Comparative information has been re-classified, re-arranged or additionally incorporated in these unconsolidated financial statements, wherever necessary to facilitate comparative and to conform with changes in presentation in the current year.

**46.2** Figures have been rounded off to the nearest thousand rupees unless, otherwise stated.

**47. DATE OF AUTHORISATION**

These unconsolidated financial statements were authorised for issue in the Board of Directors' meeting held on January 27, 2016.

ABBAS D. HABIB  
*Chief Executive and  
Managing Director*

SYED MAZHAR ABBAS  
*Director*

ANWAR HAJI KARIM  
*Director*

SYED HASAN ALI BUKHARI  
*Director*



**Annexure-1**

**Statement showing written-off loans or any other financial relief  
 of five hundred thousand rupees or above provided  
 during the year ended 31 December 2015**

(Rupees in '000)

| S. No. | Name and address of the borrowers   | Name of individuals / partners / directors (with CNIC No.) | Father's / Husband's Name | Outstanding Liabilities at beginning of year |                    |        |       | Principal written-off | Interest / Mark-up written-off | Other financial relief provided | Total (9+10+11) |
|--------|---|--|---------------------------|--|--------------------|--------|-------|-----------------------|--------------------------------|---------------------------------|-----------------|
|        |   |  |                           | Principal                                    | Interest / Mark-up | Others | Total |                       |                                |                                 |                 |
| (1)    | (2)   | (3)  | (4)                       | (5)  | (6)                | (7)    | (8)   | (9)                   | (10)                           | (11)                            | (12)            |
| 1.     | S. Afzal Hussaini<br>B-04, Aashiyana II, Block 17,<br>Gulshan-e-Iqbal, Karachi          | (Late) Syed Afzal Hussaini<br>(CNIC: 42201-0683396-5)      | Syed Akbar Hussaini       | -  | 4,632              | -      | 4,632 | -                     | 4,632                          | -                               | 4,632           |
| 2.     | De-Phogs Enterprises<br>8th KM. Pakpattan Road,<br>Sahiwal                              | Mrs. Yasmin Rifat Khan<br>(CNIC: 36502-2409091-2)          | Mr. Khalid Mehmood Khan   | 572  | 666                | -      | 1,238 | -                     | 666                            | -                               | 666             |
| 3.     | Yaseen Garments &<br>General Store<br>Bazar Dilgaran, inside<br>Hadood Committee, Kasur | (Late) Mr. Muhammad Yaseen<br>(CNIC: 35102-0677043-5)      | Mr. Jaan Muhammad         | 1,500  | 333                | 171    | 2,004 | -                     | 333                            | 171                             | 504             |
|        |   |  | Total                     | 2,072  | 5,631              | 171    | 7,874 | -                     | 5,631                          | 171                             | 5,802           |

Note 1: Interest / mark-up written off was against suspended mark-up.





## **Report of Shariah Board as at 31 December 2015**

In the name of Allah, the Beneficent, the Merciful

While the Board of Directors and Executive Management are solely responsible to ensure that the operations of Bank AL Habib – Islamic Banking Division (BAHL-IBD) are conducted in a manner that comply with Shariah principles and guidelines issued by the Shariah Board of the BAHL-IBD at all times. The Shariah Governance Framework issued by the State Bank of Pakistan, required the Shariah Board (SB) to submit a report on the overall Shariah compliance environment of BAHL-IBD.

To form the opinion as expressed in this report, the Shariah Compliance review carried out, on test check basis, of each class of transactions, the relevant documentation and process flows. Further, Shariah Board have also reviewed the reports of the Internal Shariah audit. Based on above, we are of the view that:

- (i) BAHL-IBD has complied with Shariah rules and principles in the light of fatawa, rulings and guidelines issued by its Shariah Board.
- (ii) BAHL-IBD has complied with directives, regulations, instructions and guidelines related to Shariah compliance issued by SBP in accordance with the rulings of SBP's Shariah Board.
- (iii) BAHL-IBD is in process of developing Shariah Compliance mechanism to ensure overall Shariah compliance which will be approved by the Shariah Board. The process of hiring of Shariah Compliance Team is also in process.
- (iv) BAHL-IBD has a well-defined system in place which is sound enough to ensure that any earnings realized from sources or by means prohibited by Shariah have been credited to charity account and are being properly utilized.
- (v) BAHL-IBD has complied with the SBP instructions on profit and loss distribution and pool management.
- (vi) Improvement is required in level of awareness of Islamic finance of the staff, management and the BOD. Proper training schedule to be developed and organized for each level. The management and the BOD appreciates the importance of Shariah compliance in the products, processes and operations of the BAHL-IBD.
- (vii) The management is in process to arrange adequate resources to Shariah Board enabling them to discharge their duties effectively.

**MUFTI MUHAMMAD SARFARAZ NIHAL**  
Resident Shariah Board Member

**MUFTI MOHIB UL HAQ**  
Member Shariah Board

**MUFTI ISMATULLAH HAMDULLAH**  
Chairman Shariah Board

Karachi: January 27, 2016



## Notice of Annual General Meeting

Notice is hereby given that the Twenty-fifth Annual General Meeting of Bank AL Habib Limited will be held at the Registered Office of the Bank located at 126-C, Old Bahawalpur Road, Multan, on Monday, March 28, 2016 at 10:30 a.m. to transact the following business:

1. To receive and adopt the Audited Annual Accounts and Consolidated Accounts of the Bank for the year ended December 31, 2015 together with the Reports of Directors and Auditors thereon.
2. To consider and approve payment of cash dividend @ 35%, i.e., Rs. 3.5 per share of Rs. 10/- each for the year ended December 31, 2015 as recommended by the Board of Directors.
3. To appoint auditors for the year 2016 and to fix their remuneration. KPMG Taseer Hadi & Co. Chartered Accountants, being eligible, offer themselves for re-appointment.
4. To elect Directors of the Bank in accordance with Section 178(1) of the Companies Ordinance, 1984. The number of Directors to be elected pursuant to Section 178(1) of the Companies Ordinance, 1984 has been fixed at 10 (ten) by the Board of Directors.

The following are the retiring Directors and have offered themselves for election:

Mr. Ali Raza D. Habib, Mr. Abbas D. Habib, Mr. Anwar Haji Karim, Mr. Murtaza H. Habib, Mr. Qumail R. Habib, Syed Mazhar Abbas, Mr. Safar A. Lakhani, Syed Hasan Ali Bukhari, Mr. Arshad Nasar\*, and Mr. Shahid Ghaffar – NIT Nominee.

*\*Appointed by the Board, subject to approval of the State Bank of Pakistan, to fill the casual vacancy created by demise of Late Mr. Shameem Ahmed.*

5. To consider any other business of the Bank with the permission of the Chair.

### Special Business

6. To consider and approve the remuneration payable to the Chief Executive and Executive Director of the Bank.
7. To consider and in-principle approve the conversion aspect of Term Finance Certificates of the Bank into Ordinary Shares of the Bank if so required by the State Bank of Pakistan.

For Item Nos. 6 & 7, a statement under Section 160 (1)(b) of the Companies Ordinance, 1984 is annexed.

By order of the Board

MOHAMMAD TAQI LAKHANI  
**Company Secretary**

Karachi: March 7, 2016

### Notes:

1. Any member desirous to contest the election of Directors shall file the following with Company Secretary of the Bank at its Registered Office located at 126-C, Old Bahawalpur Road, Multan, not later than 14 days before the day of the above said meeting:
  - (a) His/Her intention to offer himself/herself for the election in terms of Section 178(3) of the Companies Ordinance, 1984. He/She should also confirm that:
    - (i) He/She is not ineligible to become a director of the Bank under any applicable laws and regulations (including Pakistan Stock Exchange Regulations).
    - (ii) Neither he/she nor his/her spouse is engaged in the business of brokerage or is a sponsor, director or officer of a corporate brokerage house.
    - (iii) He/She is not serving as a director in more than seven listed companies simultaneously. Provided that this limit shall not include the directorships in the listed subsidiaries of a listed holding company.



(b) Consent to act as Director in Form 28 under Section 184 of the Companies Ordinance, 1984.

(c) Fit and Proper Test proforma, Affidavit, and Questionnaire as per requirement of SBP's BPRD Circular No. 4 dated April 23, 2007 and SBP's BPRD Circular No. 5 dated March 12, 2015.

A copy of the relevant documents may be obtained from the office of the Company Secretary of the Bank or may be downloaded from the websites of Securities and Exchange Commission of Pakistan (SECP) and State Bank of Pakistan (SBP).

2. In terms of the criteria prescribed by SBP, association of the following persons as Director is undesirable and against the public interest:

(a) a person who is/has been associated with any illegal activity, especially related to the banking business;

(b) a person who in his/her individual capacity or as proprietary concern or any partnership firm or any private unlisted/listed company has been in default of payment of dues owed to any financial institution and/or in default of payment of any taxes.

It should also be noted that under SBP regulations a person is not permitted to be a Director of more than one financial institution, and the Directors will not assume the charge of their respective offices until their appointments are approved in writing by SBP.

3. A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his/her behalf. A proxy (except for a corporation) must be a member of the Bank. Proxy form, in order to be effective, must be received at the Registered Office of the Bank located at 126-C, Old Bahawalpur Road, Multan, duly stamped and signed not less than 48 hours before the meeting.

4. The CDC account / sub account holders are requested to bring with them their Computerized National Identity Cards (CNICs)/Passport along with participant(s) ID Number and their account numbers at the time of attending the Annual General Meeting in order to facilitate identification of the respective shareholders. The proxy shall also produce his/her original CNIC or Passport at the time of the meeting. In case of a corporate entity, the Board of Directors' Resolution/Power of Attorney with specimen signatures shall be submitted along with Proxy Form in the Bank.

5. The share transfer book of the Bank will remain closed from March 18, 2016 to March 28, 2016 (both days inclusive). Transfers received in order at the office of our Share Registrar, Central Depository Company of Pakistan Ltd, located at CDC House, 99-B, Block B, S.M.C.H.S., Main Shahra-e-Faisal, Karachi – 74400, by the close of business on March 17, 2016 will be treated in time for payment of dividend (subject to approval of the members). Members are requested to promptly communicate any change in their address to our above mentioned Share Registrar.

6. SECP vide its SRO 831(I) / 2012 dated July 5, 2012, has directed all listed companies that dividend warrant(s) should bear CNIC Number of registered members. Members who have not yet provided attested copies of their valid CNICs/NTNs (in case of corporate entities) are requested to send the same directly to the aforesaid Share Registrar of the Bank before March 18, 2016. In case of non-receipt of CNICs, the Bank will withhold dispatch of dividend warrants of such shareholders.

7. The Government of Pakistan through Finance Act, 2015 has made certain amendments in Section 150 of the Income Tax ordinance, 2001 whereby different rates are prescribed for deduction of withholding tax on the amount of dividend paid by the companies/banks. These tax rates are as follows:

(a) For filers of income tax returns 12.5%

(b) For non-filers of income tax returns 17.5%

To enable the Bank to make tax deduction on the amount of cash dividend @ 12.5% instead of 17.5% all shareholders whose names are not entered into the Active Tax-payers List (ATL) provided on the website of Federal Board of Revenue (FBR), despite the fact that they are filers, are advised to make sure that their names are entered into ATL before the date of payment of the cash dividend, i.e., March 28, 2016; otherwise tax on their cash dividend will be deducted @17.5% instead of 12.5%.



According to FBR, withholding tax will be determined separately on 'Filer / Non-Filer' status of principal shareholder as well as joint-shareholder(s) based on their shareholding proportions, in case of joint accounts. Members that hold shares with joint-shareholder(s) are requested to provide shareholding proportions of principal shareholder and joint-shareholder(s) in respect of shares held by them to the Bank's Share Registrar in writing in the following format.

| Bank Name | Folio/CDC Account No. | Total Shares | Principal Shareholder |   | Joint-Shareholder(s) |   |
|-----------|-----------------------|--------------|-----------------------|---|----------------------|---|
|           |                       |              | Name and CNIC         | Shareholding Proportion (No. of Shares) | Name and CNIC        | Shareholding Proportion (No. of Shares) |
|           |                       |              |                       |   |                      |   |

In case the required information is not provided to our Share Registrar, it will be assumed that the shares are equally held by them.

#### 8. Audited Financial Statements through e-mail:

SECP through its Notification SRO 787 (I)/2014 dated September 8, 2014 has allowed the circulation of Audited Financial Statements along with Notice of Annual General Meeting to the members through e-mail. Therefore, all members of the Bank who wish to receive soft copy of Annual Report are requested to send their e-mail addresses. The consent form for electronic transmission can be downloaded from the Bank's website: [www.bankalhabib.com](http://www.bankalhabib.com). Audited financial statements and reports are being placed on the aforesaid website.

#### 9. Consent for video conference facility

For this AGM, under following conditions, Members can also avail video conference facility at Karachi.

If the Bank receives consent from members holding in aggregate 10% or more shareholding residing at a geographical location, to participate in the meeting through video conference at least 10 days prior to date of meeting, the Bank will arrange video conference facility in that city subject to availability of such facility in that city.

The Bank will intimate members regarding venue of video conference facility 5 days before the date of general meeting along with complete information necessary to enable them to access such facility.

In this regard, members who wish to participate through video conference facility at Karachi should send a duly signed request as per following format to the registered address of the Bank at least 10 days before the date of general meeting.

|   |
|---|
| <p>I/We, _____ of _____ being a member of</p> <p>Bank AL Habib LIMITED, holder of _____ ordinary share(s) as per register Folio</p> <p>No./ CDC Sub-Account No.: _____ hereby opt for video conference facility at Karachi.</p> <p style="text-align: right;">_____<br/>Signature of Member</p> |
|---|



## Statement Under Section 160(1)(b) of the Companies Ordinance, 1984

The statement is annexed to the Notice of the 25th Annual General Meeting of Bank AL Habib Limited at which certain special business is to be transacted. The purpose of this statement is to set forth the material facts concerning such special business.

### Item No. 6 of the Agenda

Subsequent to the appointment of the Chief Executive by the Board of Directors and as recommended by them in their meeting held on February 15, 2016, it is intended to propose the following resolution to be passed as an Ordinary Resolution:

**“RESOLVED** that the remuneration of the Chief Executive shall not exceed Rs. 2,500,000/- per month exclusive of perquisites, benefits and other allowances to which he is entitled under the terms of his employment, subject to an increment not exceeding 15% per annum.”

As recommended by the Board of Directors in their meeting held on February 15, 2016, it is further intended to propose the following resolution to be passed as an Ordinary Resolution:

**“RESOLVED** that the remuneration of Mr. Qumail R. Habib, Executive Director shall not exceed Rs. 1,800,000/- per month exclusive of perquisites, benefits and other allowances to which he is entitled under the terms of his employment, subject to an increment not exceeding 15% per annum.”

### Item No. 7 of the Agenda

In order to contribute towards its Tier 2 Capital, Bank AL Habib Limited intends to issue redeemable capital in the form of Term Finance Certificates (“TFCs”) under Section 120 of the Companies Ordinance, 1984, and the Basel III Capital Instructions issued by the State Bank of Pakistan (“SBP”). The funds so raised will be utilized in the Bank's normal business operations as permitted by its Memorandum and Articles of Association.

The Board of Directors has approved the issuance of rated, unsecured and subordinated TFCs of up to Rs. 4,000,000,000/= (Rupees Four Billion) inclusive of a Green Shoe option of Rs. 1,000,000,000 (Rupees One Billion), for which in-principle approval of SBP has been received, subject to compliance with applicable laws, rules and regulations and in particular the conditions specified under Basel III Capital Instructions issued by SBP vide BPRD Circular No. 6 dated August 15, 2013.

Pursuant to the Basel III Capital Instructions, if SBP determines that a point of non-viability has occurred, it may direct a bank to convert its Tier 2 Capital instruments, including TFCs, into ordinary shares of the bank at such time or times and for such consideration and on such terms and subject to such conditions as may be determined by SBP, under and pursuant to and in accordance with the Basel III Capital Instructions and any other instructions issued by SBP.

Therefore, for the purpose of the above, the Board of Directors has recommended that members may pass the following resolution as a Special Resolution:

**“RESOLVED** that conversion aspect of Term Finance Certificates (“TFCs”) of Bank AL Habib Limited in the amount of up to Rs. 4,000,000,000/= (Rupees Four Billion) inclusive of a Green Shoe option of Rs. 1,000,000,000 (Rupees One Billion) for the purpose of Tier 2 Capital under Basel III Capital Instructions of the State Bank of Pakistan (“SBP”), which TFCs may be converted into ordinary shares of the Bank if so directed by SBP on the occurrence of a point of non-viability as determined by SBP pursuant to its Basel III Capital Instructions, on such terms and conditions as may be determined by SBP, in accordance with the applicable rules and regulations of SBP, subject to a maximum of 100,000,000 (One Hundred Million) additional ordinary shares being issued consequent upon the aforesaid conversion and the obtaining of all other relevant corporate (including shareholders’) and regulatory approvals, is hereby approved in-principle.

**“FURTHER RESOLVED** that the Board of Directors of the Bank (“the Board”) or such officer or officers of the Bank as may be authorized by the Board, be and are hereby authorized to take all steps necessary, ancillary, and incidental to the above-mentioned conversion, including approvals from the shareholders of the Bank under the provision of section 86(1) of the Companies Ordinance, 1984, SBP, the Securities and Exchange Commission of Pakistan, and any other regulatory body and/or stock exchange, and are further authorized to sign, execute, and deliver all necessary documents, agreements, and letters on behalf of the Bank, as may be deemed appropriate and as may be required for the purposes above-mentioned.”

The shares issued will rank pari passu in all respects with the existing shares of the Bank.

The Directors of the Bank have no direct or indirect interest in the above-mentioned resolution except in their capacity as shareholders of the Bank to the extent of their respective shareholding.



## Pattern of Shareholding as at December 31, 2015

| Number of Shareholders | Size of Shareholding |           |    |             | Total Shares Held |
|------------------------|----------------------|-----------|----|-------------|-------------------|
| 404                    | From                 | 1         | To | 100         | 13,972            |
| 687                    | From                 | 101       | To | 500         | 205,940           |
| 517                    | From                 | 501       | To | 1,000       | 403,693           |
| 2,037                  | From                 | 1,001     | To | 5,000       | 5,481,803         |
| 575                    | From                 | 5,001     | To | 10,000      | 4,306,120         |
| 379                    | From                 | 10,001    | To | 15,000      | 4,697,653         |
| 1,300                  | From                 | 15,001    | To | 20,000      | 23,800,586        |
| 92                     | From                 | 20,001    | To | 25,000      | 2,068,016         |
| 71                     | From                 | 25,001    | To | 30,000      | 1,958,796         |
| 69                     | From                 | 30,001    | To | 35,000      | 2,246,180         |
| 91                     | From                 | 35,001    | To | 40,000      | 3,370,936         |
| 70                     | From                 | 40,001    | To | 50,000      | 3,201,131         |
| 73                     | From                 | 50,001    | To | 60,000      | 4,031,606         |
| 94                     | From                 | 60,001    | To | 80,000      | 6,622,188         |
| 73                     | From                 | 80,001    | To | 100,000     | 6,593,187         |
| 80                     | From                 | 100,001   | To | 150,000     | 9,548,999         |
| 65                     | From                 | 150,001   | To | 200,000     | 11,445,853        |
| 39                     | From                 | 200,001   | To | 250,000     | 8,715,808         |
| 31                     | From                 | 250,001   | To | 300,000     | 8,582,310         |
| 26                     | From                 | 300,001   | To | 350,000     | 8,568,982         |
| 104                    | From                 | 350,001   | To | 600,000     | 46,004,315        |
| 47                     | From                 | 600,001   | To | 1,000,000   | 37,534,708        |
| 151                    | From                 | 1,000,001 | To | 100,000,000 | 912,022,634       |
| 7,075                  |                      |           |    |             | 1,111,425,416     |

| Categories of Shareholders | Number of Shareholders | Number of Shares Held | Percentage |
|----------------------------|------------------------|-----------------------|------------|
| Individuals                | 6,809                  | 615,495,788           | 55.38%     |
| Investment Companies       | 3                      | 79,335                | 0.01%      |
| Insurance Companies        | 11                     | 103,315,662           | 9.30%      |
| Joint Stock Companies      | 97                     | 85,954,124            | 7.73%      |
| Financial Institutions     | 17                     | 54,210,903            | 4.88%      |
| Modaraba and Mutual Funds  | 20                     | 89,222,032            | 8.03%      |
| Foreign Companies          | 23                     | 57,063,504            | 5.13%      |
| Pension Funds              | 22                     | 14,125,892            | 1.27%      |
| Others                     | 73                     | 91,958,176            | 8.27%      |
| TOTAL                      | 7,075                  | 1,111,425,416         | 100.00%    |



## Pattern of Shareholding as at December 31, 2015 Additional Information

| Shareholders' Category                        | Number of Shareholders | Number of Shares Held |
|---|------------------------|-----------------------|
| <b>Associated Companies</b>                   |                        |                       |
| Habib Insurance Co., Ltd.                     | 1                      | 4,123,000             |
| Habib Sugar Mills Ltd.                        | 1                      | 24,136,691            |
| <b>Mutual Funds</b>                           |                        |                       |
| Tri-Star Mutual Fund Limited                  | 1                      | 1,904                 |
| PICIC Stock Fund                              | 1                      | 5,000                 |
| Safeway Mutual Fund                           | 1                      | 5,001                 |
| ABL Stock Fund                                | 1                      | 13,950                |
| PIML Strategic Multi Asset Fund               | 1                      | 56,000                |
| Pak Oman Advantage Asset Allocation Fund      | 1                      | 60,000                |
| First Capital Mutual Fund                     | 1                      | 85,800                |
| MCB Pakistan Asset Allocation Fund            | 1                      | 150,000               |
| AKD Index Tracker Fund                        | 1                      | 155,347               |
| Pakistan Capital Market Fund                  | 1                      | 189,500               |
| Al Falah GHP Value Fund                       | 1                      | 225,500               |
| NIT Equity Market Opportunity Fund            | 1                      | 298,489               |
| Al Falah GHP Alpha Fund                       | 1                      | 377,500               |
| Al Falah GHP Stock Fund                       | 1                      | 630,000               |
| NAFA Multi Asset Fund                         | 1                      | 702,400               |
| NAFA Asset Allocation Fund                    | 1                      | 733,150               |
| NAFA Stock Fund                               | 1                      | 3,366,150             |
| Atlas Stock Mkt Fund                          | 1                      | 4,825,000             |
| National Investment (Unit) Trust              |                        |                       |
| National Bank of Pakistan, Trustee Department | 1                      | 77,341,329            |
| <b>Directors</b>                              |                        |                       |
| Ali Raza D. Habib                             | 1                      | 10,406,595            |
| Qumail R. Habib                               | 1                      | 15,978,656            |
| Anwar Haji Karim                              | 1                      | 12,349,159            |
| Shahid Ghaffar (NIT Nominee)                  | 1                      | 1,100                 |
| Murtaza H. Habib                              | 1                      | 13,698,691            |
| Syed Mazhar Abbas                             | 1                      | 18,474                |
| Syed Hasan Ali Bukhari                        | 1                      | 15,092                |
| Shameem Ahmed                                 | 1                      | 2,112                 |
| Safar Ali Lakhani                             | 1                      | 116,840               |





| Shareholders' Category  | Number of Shareholders | Number of Shares Held |
|---|------------------------|-----------------------|
| <b>Chief Executive Officer</b>  |                        |                       |
| Abbas D. Habib  | 1                      | 41,524,108            |
| Qasim Abbas Habib<br>S/o Mr. Abbas D. Habib (Joint A/c)   | 1                      | 926,149               |
| <b>Directors' Spouses</b>   |                        |                       |
| Mrs. Razia A. Raza Habib<br>W/o Mr. Ali Raza D. Habib   | 1                      | 4,630,917             |
| Mrs. Niamet Fatima<br>W/o Mr. Abbas D. Habib  | 1                      | 4,818,197             |
| <b>Executives</b>   | 56                     | 3,957,056             |
| <b>Joint Stock Companies and Corporations</b>   | 96                     | 61,817,433            |
| <b>Banks, Development Financial Institutions,<br/>Non-Banking Finance Companies, Insurance<br/>Companies, Takaful, Modaraba and Pension Funds</b> | 52                     | 94,173,650            |
| <b>Shareholders holding five percent or more voting rights</b>  |                        |                       |
| State Life Insurance Corporation<br>National Investment (Unit) Trust (included in the list above<br>under Mutual Funds)                           | 1                      | 73,435,154            |
| <b>Individuals</b>  | 6,740                  | 507,052,642           |
| <b>Others (Including foreign companies)</b>   | 96                     | 149,021,680           |
|   | <u>7,075</u>           | <u>1,111,425,416</u>  |