

HABIBMETRO

ANNUAL REPORT 2016



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هَذَا فَضْلُكَ

OUR VISION

Based on a foundation of trust, to be the most respected financial institution, delighting customers with excellence, enjoying the loyalty of a dedicated team, meeting the expectations of regulators and participating in social causes while providing superior returns to shareholders.



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إِنَّا لِلّٰهِ وَإِنَّا إِلَيْهِ رَاجِعُونَ



MR. KASSIM PAREKH

We mourn the passing away of our
Founder Chairman and CEO, Mr. Kassim Parekh
on the 9th of February, 2017.

Our Kassim Bhai will be dearly missed and forever remembered.



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CORPORATE INFORMATION

BOARD OF DIRECTORS

CHAIRMAN

Mohamedali R. Habib

PRESIDENT & CHIEF EXECUTIVE OFFICER

Sirajuddin Aziz

DIRECTORS

Ali S. Habib

Anjum Z. Iqbal

Firasat Ali

Mohomed Bashir

Muhammad H. Habib

Sohail Hasan

Tariq Ikram

AUDIT COMMITTEE

Ali S. Habib

Firasat Ali

Tariq Ikram

CREDIT COMMITTEE

Mohamedali R. Habib

Muhammad H. Habib

Sirajuddin Aziz

HUMAN RESOURCE & REMUNERATION COMMITTEE

Mohamedali R. Habib

Sirajuddin Aziz

Tariq Ikram

RISK & COMPLIANCE COMMITTEE

Anjum Z. Iqbal

Sirajuddin Aziz

Sohail Hasan

COMPANY SECRETARY

Raza Mohsin Qizilbash

SHARE REGISTRAR

Central Depository Company of Pakistan Limited

CDC House, 99-B, Block-B

S.M.C.H.S., Main Shahra-e-Faisal

Karachi - 74400.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Twenty Fifth Annual General Meeting of the shareholders of Habib Metropolitan Bank Ltd. will be held at the Moosa D. Dessai Auditorium, Institute of Chartered Accountants of Pakistan, G-31/8, Chartered Accountants Avenue, Clifton, Karachi on Thursday, 30 March 2017 at 9:00 a.m. to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Accounts, standalone as well as consolidated, of the Bank for the year ended 31 December 2016 together with the Directors' and Auditors' reports thereon.
2. To approve, as recommended by the Board of Directors, final dividend @ 30% (Rs. 3/- per share) in the form of cash.
3. To elect 8 (eight) Directors as fixed by the Board.
4. To appoint Auditors for the financial year ending 31 December 2017 and fix their remuneration. The present Auditors, Messrs. KPMG Taseer Hadi & Co., Chartered Accountants, being eligible, offer themselves for re-appointment.

SPECIAL BUSINESS

5. To consider and, if thought fit, pass the following resolution as Special Resolution, with or without modification, to amend the Articles of Association of the Bank in order to enable the e-voting mechanism as prescribed in the Companies (E-Voting) Regulations, 2016 issued by the Securities and Exchange Commission of Pakistan (SECP).

"Resolved that, subject to obtaining the requisite approvals, the Articles of Association of the Bank be and are hereby amended by adding a new Article 81A, appearing after the existing Article 81, as follows:

81A The provisions and requirements for electronic voting by the members, as prescribed under the applicable laws and regulations from time to time, shall be deemed to be incorporated in these Articles, irrespective of the other provisions of these Articles and notwithstanding anything contradictory therein. Members are allowed to appoint members as proxies for purpose of electronic voting to the extent permitted under the applicable laws and regulations.

Further resolved that the Chief Executive Officer and the Company Secretary of the Bank be and is hereby authorized to take or cause to be taken any and all actions necessary and incidental for the purposes of altering the Articles of the Bank, and make necessary filings and complete legal formalities as may be required to implement the aforesaid resolution."

6. The Securities and Exchange Commission of Pakistan (SECP) has allowed companies to circulate the annual audited accounts to members via CD or DVD or USB at their registered addresses at management's discretion, subject to the conditions specified there for. Accordingly, consent of the member is sought for transmission of the annual audited accounts of the Company via CD or DVD or USB and to pass, if deemed appropriate, with or without modification, the following ordinary resolution:

"Resolved that the Company may transmit the annual audited accounts to the members via CD or DVD or USB instead of hard copies as allowed by the Securities and Exchange Commission of Pakistan.

Further resolved that the Chief Executive Officer and the Company Secretary be and hereby are authorized to do all such acts and take all such steps as may be necessary or desirable to give effect to the foregoing resolution."

7. To approve expenses related to the Chairman of the Board.
8. To approve remuneration paid to the directors during the year ended 31 December 2016.

A statement of material fact under section 160(1)(b) of the Companies Ordinance, 1984 relating to the aforesaid special business to be transacted at the said Annual General Meeting is being sent to the shareholders along with the notice.

ANY OTHER BUSINESS

9. To consider any other business with the permission of the Chair.

By order of the Board

RAZA MOHSIN QIZILBASH
Company Secretary

Karachi: 22 February 2017

NOTES:

1. The number of directors to be elected pursuant to Section 178(1) of the Companies Ordinance, 1984, has been fixed at 8 (eight). The following are the retiring directors.

Mr. Ali S. Habib, Mr. Anjum Z. Iqbal, Mr. Firasat Ali, Mr. Mohomed Bashir, Mr. Mohamedali R. Habib, Mr. Muhammad H. Habib, Mr. Sohail Hasan and Mr. Tariq Ikram.

2. Any member desirous to contest the election of Directors shall file the following with the Company Secretary of the Bank at its Registered Office, Spencer's Building, I.I. Chundrigar Road, Karachi, not later than fourteen 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 together with a consent in Form 28. 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 listing regulations of Stock Exchanges).
- (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) Fit & Proper Test, Affidavit and a completed questionnaire as required in terms of BPRD Circular No. 4 of April 23, 2007.

3. The shareholders' approval is being sought to amend the Articles of Association of the Bank in order to give effect to the requirements of Companies (E-Voting) Regulation, 2016, issued by SECP, thereby facilitating voting through electronic means for the shareholders of the Bank. As recommended by the Board of Directors in the meeting held on February 22, 2017, it is intended to propose the resolution stated in the notice to be passed as Special Resolution in order to effectuate the above.
4. A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend the meeting and vote for him/her. Proxy form is enclosed with the Annual report. A proxy must be a member of the Bank. In order to be effective, proxies must be received at the Registered Office of the Bank, duly stamped, signed and witnessed, not less than 48 (forty-eight) hours before the meeting.

5. CDC account holders and sub-account holders are required to bring with them their original National Identity Card or passport along with the participants ID numbers and their account numbers in order to facilitate identification. In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee is also required.
6. Members are requested to notify the change of addresses, if any.
7. The share transfer book of the Bank will remain closed from 17 March 2017 to 30 March 2017 (both days inclusive).

MANDATORY SUBMISSION OF CNIC:

Pursuant to the directives of the Securities & Exchange Commission of Pakistan (SECP), Dividend Warrants shall mandatorily bear the CNIC numbers of shareholders. Therefore, shareholders, having shares in physical form, are requested to submit a copy of their CNIC (if not already provided) to the Bank's Share Registrar M/s. Central Depository Company of Pakistan Limited, CDC House, 99-B, Block 'B', S.M.C.H.S., Main Shahra-e-Faisal, Karachi, without any delay.

In case of non-availability of a valid copy of the CNIC in respect of member having physical shareholding, Dividend Warrant could be withheld in terms of section 251(2)(a) of the Companies Ordinance, 1984, which will be released by the Share Registrar only upon compliance with the aforesaid notifications.

Deduction of Withholding Tax from Dividend:

The Government of Pakistan through Finance Act, 2016 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. These tax rates are as under:

- (a) For filers of income tax returns: 12.5%
- (b) For non-filers of income tax returns: 20%

To enable the company to make tax deduction on the amount of cash dividend @ 12.50% instead of 20%, all members whose names are not entered in 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 at the earliest possible (as and when declared) otherwise tax on their cash dividend will be deducted @ 20% instead of 12.50%.

For Shareholders holding their shares jointly, as per the clarification issued by the FBR, withholding tax will be determined separately on 'Filer/Non-Filer' status of Principal shareholder as well as joint-holder(s) based on their shareholding proportions. Therefore, all shareholders who hold shares jointly are required to provide shareholding proportions of Principal shareholder and Joint-holder(s) in respect of shares held by them to the Registrar and Share Transfer Agent in writing as follows:

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

In case of non-receipt, the shareholding will be divided among the joint-holders equally. For any query / difficulty / information, the members may contact the Bank's Share Registrar and Share Transfer Agent, at the following address, phone/fax numbers or e-mail address:

Central Depository Company of Pakistan Limited
CDC House, 99-B, Block-B, P.E.C.H.S., Main Shahra-e-Faisal, Karachi-74400
Tel: 0800-23275, Fax No. (92-21) 34326053, Email: info@cdcpak.com, URL: www.cdcpakistan.com

Payment of Cash Dividend Electronically (Optional)

Under Section 250 (1) of the Companies Ordinance, 1984 a shareholder may, if so desire, direct a company to pay dividend directly into his/her bank account. Shareholders wishing to exercise this option may submit their application to the Company's Share Registrar, giving particulars relating to their name, folio number, bank account/IBAN number, title of account and complete mailing address of the bank. CDC account holders should submit their request directly to their broker (participant) / CDC.

Electronic Transmission of Financial Statements and Notices:

Securities and Exchange Commission of Pakistan through SRO 787 (1)/2014 dated 8th September 2014 allowed the companies to circulate its Annual Audited Financial Statements along with Company's notice of Annual General Meeting to its members through e-mail. Those shareholders who wish to receive the Company's Annual Report through e-mail are requested to send an e-mail at company.secretary@habibmetro.com mentioning their Name, CNIC No., Folio No. & E-mail address at which they wish to receive Annual Report. Please note that Annual Report is also being placed at the link: <http://habibmetro.com/financial-reports/>.

In case any member who has provided consent to receive audited financial statements and notice through e-mail, subsequently request for hard copy of audited financial statements, the same shall be provided free of cost within 7 days of the receipt of such request.

STATEMENT OF MATERIAL FACT UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984

This statement sets out the material facts concerning the special business to be transacted at the Annual General Meeting of the Bank to be held on March 30, 2017.

Approval of the shareholders will be sought for the following:

1. To consider and, if thought fit, pass the following resolution as Special Resolution, with or without modification, to amend the Articles of Association of the Bank in order to enable the e-voting mechanism as prescribed in the Companies (E-Voting) Regulations, 2016 issued by the Securities and Exchange Commission of Pakistan (SECP).

"Resolved that, subject to obtaining the requisite approvals, the Articles of Association of the Bank be and are hereby amended by adding a new Article 81A, appearing after the existing Article 81, as follows:

81A The provisions and requirements for electronic voting by the members, as prescribed under the applicable laws and regulations from time to time, shall be deemed to be incorporated in these Articles, irrespective of the other provisions of these Articles and notwithstanding anything contradictory therein. Members are allowed to appoint members as proxies for purpose of electronic voting to the extent permitted under the applicable laws and regulations.

Further resolved that the Chief Executive Officer and the Company Secretary of the Bank be and is hereby authorized to take or cause to be taken any and all actions necessary and incidental for the purposes of altering the Articles of the Bank, and make necessary filings and complete legal formalities as may be required to implement the aforesaid resolution."

2. The Securities and Exchange Commission of Pakistan (SECP) has allowed companies to circulate the annual audited accounts to members via CD or DVD or USB at their registered addresses, at management discretion, subject to the conditions specified therefor. Accordingly, consent of the member is sought for transmission of the annual audited accounts of the Company via CD or DVD or USB and to pass, if deemed appropriate, with or without modification, the following ordinary resolutions:

“Resolved that the Company may transmit the annual audited accounts to the members via CD or DVD or USB instead of hard copies as allowed by the Securities and Exchange Commission of Pakistan

Further resolved that the Chief Executive Officer and the Company Secretary be and hereby are authorized to do all such acts and take all such steps as may be necessary or desirable to give effect to the foregoing resolution.”

3. To approve expenses of Rs. 5,482 thousand incurred for provision of appropriate office premises and the administrative expenses pertaining to office, staff and the related facilities by the Bank to the Chairman for fulfillment of responsibilities as vested by the Board of Directors in his capacity as Chairman of the Bank, and to approve provision of Bank maintained vehicles and reimbursement of certain expenses as approved by the Board of Directors and to pass the following resolution as an ordinary resolution with or without modification, addition or deletion:

“Resolved that the expenses of Rs. 5,482 incurred for providing office premises and the administrative expenses pertaining to office, staff and the related facilities to the Chairman of the Board of Directors during the year ended 31 December 2016 be and is hereby approved.

Further resolved that Chairman is entitled for Bank maintained vehicles & security services and reimbursement of expenses incurred on travelling, club & entertainment bills and utilities bills at actual.”

4. To approve remuneration paid to the directors during the year ended 31 December 2016 and pass the following resolution as an ordinary resolution, with or without modification, addition or deletion:

“Resolved that the remuneration paid to the Directors of the Bank during the year ended 31 December 2016, as disclosed in the note 37 to the Annual Accounts of the Bank, be and is hereby approved”.

None of the Directors are interested except to the extent stated above in the special business.

CHAIRMAN'S REVIEW



Dear Shareholders,

On behalf of the directors of Habib Metropolitan Bank, it gives me immense pleasure to present this report, together with the financial statements of the Bank for the year ended 31 December 2016. The operating financial results and appropriations, as recommended by the Board of Directors, are summarized below:

	Rupees in '000
Profit before provisions and tax	11,006,314
Provision for non-performing loans, investments & other assets	(672,567)
Profit before tax	10,333,747
Taxation - Current	(3,517,238)
- Prior years	(581,308)
- Deferred	(115,877)
	(4,214,423)
Profit after tax	6,119,324
Un-appropriated profit brought forward	9,931,633
Transfer from surplus on revaluation of non-banking assets - net of tax	2,022
Other comprehensive income	19,688
Profit available for appropriation	16,072,667
Appropriations:	
- Transfer to Statutory Reserve	(1,223,865)
- Cash dividend (Rs. 2.00 per share) - 2015	(2,095,663)
	(3,319,528)
Un-appropriated profit carried forward	12,753,139

The Directors are pleased to propose a final cash dividend of Rs. 3/- per share (30%) for the year under review.

By Allah's Grace, your Bank continued to make steady progress. Bank's deposits increased to Rs. 431 billion as compared to Rs. 403 billion at the end of previous year, whereas gross advances increased to Rs. 160 billion at year-end and total assets increased to Rs. 526 billion.

HabibMetro's profit before taxation is over Rs. 10 billion for the year 2016. The performance translates into an earning of Rs. 5.84 per share.

At year-end, HabibMetro's equity stands at Rs. 37.16 billion, with a capital adequacy level of 18.15% against the required 10.65%.

This review forms an integral part of the Directors' Report to the Shareholders.

In February, the Founder Chairman & Chief Executive of the Bank - Mr. Kassim Parekh - passed away. Mr. Parekh played a vital role in establishing HabibMetro Bank and has been an integral part of the Bank's growth since its inception. May Allah rest his soul in eternal peace.

I would like to take this opportunity to place on record our sincere gratitude to Ministry of Finance, State Bank of Pakistan and Securities and Exchange Commission of Pakistan for their support and continued guidance and to our valued customers for their trust and support. I thanked the staff members for their devotion and diligence. We bow our heads to Allah and pray for His blessings and continued guidance.

On behalf of the Board

MOHAMEDALI R. HABIB
Chairman

Karachi: 22 February 2017

DIRECTORS' REPORT TO THE SHAREHOLDERS

Dear Shareholders,

It gives me great pleasure to present to you the annual accounts of Habib Metropolitan Bank (HabibMetro Bank), for the financial year ended 31 December 2016.

ECONOMIC AND BANKING REVIEW

The economy witnessed progress with increased investor confidence, improved law and order situation, stable economic and political policies and the promise of CPEC-driven activity. Inflation marked at 3.9 percent during the second half of the year. Going forward in 2017, inflationary pressures are expected to remain below the targeted rate of 6 percent.

Current Account deficit widened to USD 3.6 billion in the second half of 2016 compared to a deficit of USD 1.7 billion in the corresponding period of 2015. This widening of the external deficit was driven by increased CPEC-related imports, continued decline in export activity and a deceleration in remittances. However, this was offset by increased multi- and bi-lateral funding and investment flows, leading to an overall surplus of USD 0.2 billion in the balance of payments.

Fiscal discipline was facilitated by a net retirement of government borrowing from the banking sector. This, in addition to the relaxed interest regime and low interest rates, has resulted in an increase in flow of private sector credit, which amounted to Rs. 375 billion in the second half of 2016 compared to Rs. 282 billion in the corresponding period of 2015. Demand for consumer finance has also exhibited a similar increasing trend.

Augmenting by 20 percent year-on-year, the banking sector's deposit base amounted to Rs. 11.2 trillion at the end of 2016; meanwhile, advances grew by 16.5 percent and stood at Rs. 5.71 trillion and investments grew by 7.55 percent to be recorded at Rs. 7.23 trillion. As of end of September 2016, the sector's stock of NPLs marked at Rs. 631 billion, and the infection ratio stood at 12.33%.

BANK'S PERFORMANCE FOR THE YEAR

By Allah's grace, the Bank's profit-after-tax amounted to Rs. 6.12 billion at the end of year 2016. EPS marked at Rs. 5.84 and return on Shareholder's Equity stood at 17.41 percent.

During the year under review, the Bank's deposits increased to Rs. 431 billion whereas gross Advances were recorded at Rs. 159.8 billion. Net Equity stood at Rs. 37.2 billion with Capital Adequacy marking at a comfortable 18.15%.

COMMITMENTS

No material changes in commitments affecting the financial position of the Bank have occurred between the end of financial year of the Bank and the date of the report.

CREDIT RATING

By the grace of Allah, for the sixteenth consecutive year, the credit rating of the Bank has been maintained at AA+ (double A plus) for long term and A1+ (A one plus) for short term by the Pakistan Credit Rating Agency Limited. These ratings denote a very high credit quality, a very low expectation of credit risk and a very strong capacity for timely payment of financial commitments.

AWARDS

HabibMetro Bank was awarded as 'Leading Partner in Pakistan' for the 2nd consecutive year in 2016, in addition to the 'Leading SME Trade Bank' award, by the Asian Development Bank. The Bank also received the 'Best Trade Financing Through Shariah Finance' award at the Regional Trade Conference on Islamic Banking & Finance 2016.

ENHANCED REACH TO OUR CUSTOMERS

With Allah's blessings, HabibMetro enhanced its outreach by opening 31 new branches in 2016; 10 new cities were added as the Bank increased its footprint to 307 branches in 87 cities across Pakistan including 25 Islamic banking branches.

Your Bank enjoys correspondent relationships with banks of repute in more than 100 countries, with a large number of banks having formal credit lines for the Bank. HabibMetro provides comprehensive banking services and products, inclusive of specialized trade finance products, along with technologically advanced services like secured SMS and Web Banking services, globally accepted Visa Debit Cards and nationwide ATM network to its customers across the country.

Your Bank's subsidiary company Habib Metropolitan Financial Services (HMFS), provides convenient and trusted equity brokerage and custody services. Furthermore, Habib Metropolitan Modaraba Management Company has been established with a prime objective of floating and managing modaraba.

ALTERNATIVE DELIVERY CHANNELS

Maintaining exemplary service quality remains fundamental to your Bank's strategy. During the year, the Bank installed 52 new Automated Teller Machines (ATMs), including 3 offsite ATMs, taking the total number of ATMs to 320 across the country. The Bank's Visa Debit Cards and SMS & Web Banking subscriptions also witnessed a significant increase during this period.

HUMAN RESOURCES

The total strength of the HabibMetro family has grown from 4,277 to 4,597 during the year. The Bank has been largely catering to the training needs of its human resource body internally by conducting in-house courses as well as sending staff for external trainings.

Your Bank remains an equal opportunity employer providing exciting careers and growth to prospective bankers.

CORPORATE SOCIAL RESPONSIBILITIES

Being a conscientious corporate citizen, your Bank acknowledges its corporate social responsibilities and continues to make regular contributions to a host of non-profit / social organizations. During the year, the Bank extended assistance in three major areas i.e. education, health care and welfare spending for the under-privileged. These donations amount to Rs. 92.4 million.

The Citizens Foundation remains one of the larger recipients and through them the Bank is running six schools in under privileged rural areas where more than 1,000 children are enrolled. A detail of your Bank's social contributions can be found in the notes to the accounts.

Your Bank continues to be one of the nation's leading taxpayers with more than Rs. 4.90 billion paid as direct taxes to the Government of Pakistan during the year 2016. Furthermore, an additional amount of about Rs. 8.21 billion comprising indirect tax deductions and recoveries for the exchequer was collected through the Bank's network.

CUSTOMER GRIEVANCES HANDLING

Customer satisfaction is considered as an important driver of the Bank's success. For fair and efficient resolution of customer grievances, the Bank has transformed its complaint handling mechanism whereby various initiatives were taken including automation of complaint handling mechanism, revision of complaint's turn-around-time, improvement of escalation matrix, swift monitoring of complaints and corrective measures on repetitive complaints.

While handling customer complaints received from various channels, the Bank maintains a practical and rational approach for fair and amicable outcome to the customer grievances. 4,951 complaints were received during 2016; with the efficient and effective complaint handling mechanism, the average resolution time is approximately 7 working days.

Customer Grievances handling is centralized for improved transparency and enhanced control environment The Bank is committed to providing excellent services and versatile products to its customers.

CORPORATE GOVERNANCE

BOARD MEETINGS

Details of the meetings of the Board of Directors and its Sub-Committees held during the year 2016 and the attendance by each director/ committee member are given as under:

Name of Directors	Board of Directors	Audit Committee	Credit Committee	Human Resource & Remuneration Committee	Risk & Compliance Committee
Late Mr. Kassim Parekh*	3/3	–	–	–	–
Mr. Ali S. Habib	3/4	4/4	–	–	–
Mr. Anjum Z. Iqbal*	–	–	–	–	1/1
Mr. Firasat Ali	4/4	4/4	–	–	–
Mr. Mohamedali R. Habib**	4/4	–	1/1	2/2	3/3
Mr. Mohamed Bashir	4/4	–	–	–	–
Mr. Muhammad H. Habib	3/4	–	0/1	–	–
Mr. Sohail Hasan	4/4	–	–	–	4/4
Mr. Tariq Ikram	4/4	4/4	–	2/2	–
Mr. Sirajuddin Aziz	4/4	–	1/1	2/2	4/4
Meetings held	4	4	1	2	4

* Late Mr. Kassim Parekh resigned from the Board of Directors on 19 August 2016 and Mr. Mohamedali R. Habib was elected as Chairman of the Board. Mr. Anjum Z. Iqbal was co-opted to fill the casual vacancy on 20 October 2016 in place of Mr. Kassim Parekh who sadly passed away on 9 February 2017.

** Mr. Mohamedali R. Habib resigned from the membership of Risk and Compliance Committee on 20 October 2016.

PATTERN OF SHAREHOLDING

The pattern of shareholdings as on 31 December 2016 is annexed to the report.

AUDITORS

The present auditors KPMG Taseer Hadi and Co., Chartered Accountants, retire and being eligible offers themselves for reappointment.

As required under the Code of Corporate Governance, the Board Audit Committee has recommended the appointment of KPMG Taseer Hadi and Co., Chartered Accountants as auditors of the Bank for the year ending 31 December 2017.

CORPORATE AND FINANCIAL REPORTING FRAMEWORK

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 accounts have been maintained by the Bank.
3. Appropriate accounting policies and estimates have been consistently applied in preparation of financial statements.

4. International 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 control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Bank's ability to continue as a going concern.
7. There has been no departure from the best practices of the corporate governance, as detailed in the listing regulations.
8. The key operating and financial data of last six years of the Bank is placed below:

Rs. in million

	2016	2015	2014	2013	2012	2011
Shareholders' Equity	37,165	33,120	30,200	27,364	26,002	24,190
Paid-up capital	10,478	10,478	10,478	10,478	10,478	10,478
Total assets	526,606	489,879	397,380	311,454	304,416	291,935
Deposits	430,888	403,355	320,023	247,644	217,798	185,400
Advances	142,962	132,647	134,751	129,834	110,444	113,347
Investments	314,619	292,779	221,761	142,444	160,850	147,525
Profit pre-tax	10,334	12,539	7,312	5,112	5,044	4,630
Profit post-tax	6,119	7,656	4,927	3,526	3,406	3,281
Earnings per share (Rs)	5.84	7.31	4.70	3.37	3.25	3.13
Dividend (%)	30 (C)	20 (C)(F) 20 (C)(I)	25 C	20 C	20 C	15 C
No. of staff	4,597	4,277	3,914	3,559	3,284	3,073
No. of branches / sub branches	307	276	240	214	183	163

Value of investments of Provident Fund and Gratuity Scheme are as under:

- Provident Fund Rs. 2,398 million as at 30 June 2016.
- Gratuity Fund Rs. 759 million as at 31 December 2015.

RISK MANAGEMENT

STATEMENT ON RISK MANAGEMENT FRAMEWORK

Risk Management aspects are embedded in HabibMetro Bank's strategy and organization structure. The Bank has devised a cohesive risk management structure for credit, operations, liquidity and market risk, with an integrated approach and strengthened internal controls.

The Bank's entire branch network is on-line and its state-of-the-art processing system is secure and has adequate capacity. Separation of duties is built into the Bank's system and organization. The Internal Audit Division conducts independent, risk-based review and verification of the Bank's branches and major functions throughout the year for evaluation of the control system. Comprehensive internal reports and MIS are additional tools for management in risk control. The Risk Management Division is staffed with professionals, covering all aspects of risks.

The Bank's Central Management Committee, along with Board Risk and Compliance Committee and Board of Directors, oversee the Bank's strategy, efforts and processes related to risk management.

CREDIT RISK

HabibMetro maintains a strategy to control credit risk through product, geography, industry and customer diversification. The Bank extends trade and working capital financing, keeping the major portion of its exposure on a short-term and self-liquidating basis.

A major portion of the Bank's credit portfolio is priced on a floating rate basis using KIBOR as a reference, which minimizes interest rate risk. The risk inherent in extending credit is further mitigated by robust credit granting procedures, which have been structured to ensure proper evaluation, adequacy of security, and monitoring of exposures on an ongoing basis. This is further augmented by centralized trade processing and credit administration.

MARKET / LIQUIDITY RISK

The Asset and Liability Management Committee reviews, recommends and monitors limits for FX and Money market exposures. The strategy is to balance risk, liquidity and profitability. The Board-approved investment policy focuses on, amongst other aspects, asset allocation and operating guidelines. Furthermore, the monitoring of market and liquidity risk is ensured in line with Board approved Market and Liquidity Risk Management Policy.

STRESS TESTING

Stress testing techniques are used to assess risk exposures across the institution and to estimate the changes in the value of the portfolio, when exposed to various risk factors. Risk factors used in stress testing models are Interest Rate, Credit, Equity Price, Exchange Rate and Liquidity. The Bank's stress testing methodology ensures adherence to the SBP guidelines as well. The stress testing results depict a solid and resilient financial position of your Bank.

OPERATIONAL RISK

Operational Risk is prevalent in all area of banking activities and remains a major challenge worldwide. Identification of this risk prior to the events, and building mitigating controls for the same, have always been the Bank's priority. The Bank has a dedicated Operational Risk Management Unit at the Risk Management Division for carrying out Risk and Control Self-Assessment. This is reviewed by the process owners (first line of defense) and thereafter by the Bank's Management, Board Committees and the Board. Accordingly, remedial actions are undertaken. It is imperative that all policies and procedures are reviewed by Risk Management, inter-alia by Operational risk and Internal control Unit of the Bank. This is to enhance the Bank's sustainability and for ensuring achievement of planned objectives. The Bank also has a well-established Business Continuity Plan, an Information Security Unit and strong independent internal audit set up.

NEW CAPITAL ACCORD - BASEL III

Recent financial crises have demonstrated numerous weaknesses in the global regulatory framework and in banks' risk management practices. In response, regulatory authorities have increased their focus on strengthening global capital and liquidity rules. Basel III aims to improve risk management and governance as well as strengthen banks' transparency and disclosure.

In line with global practice, the SBP has stipulated Basel III capital adequacy guidelines for banks in Pakistan. These instructions were made effective from 31 December 2013 in a phased manner with full implementation intended by 31 December, 2019.

The Bank has carried out an assessment of its future capital requirements in accordance with Basel III regulations, which are being phased in over subsequent periods, and the existing capital structure comfortably supports future growth. The Bank's capital adequacy stands at 18.21% as at the year-end against requirement of 10.65% as per SBP Basel III road map.

COMPLIANCE

Your Bank continued to strengthen compliance oversight across its network during the year that included enhancing stringent KYC / AML controls and regulatory compliance awareness. The Compliance function provides support and counsel to management and staff on compliance and regulatory issues. All new policies and procedures, initiatives, products, services, business processes etc. are reviewed from a Compliance perspective along with maintaining relationship with regulatory authorities. It is also involved in

developing and maintaining a regulatory library that includes circulars issued by the SBP and other relevant regulatory authorities. Furthermore, facilitation and liaison with the SBP and its on-site Inspection teams is a key role played by this unit to ensure smooth conduct of the SBP inspection.

With the highly challenging and demanding global AML / CFT environment, Bank's AML function is fully committed towards implementation of highest standards of compliance within the Bank and ensures management and employees adhere to these standards. The Bank's state of the art Transaction Monitoring System (TMS) prevents money laundering activities through the Bank's channels, products and services. The TMS monitors out-of-pattern transactions and reviews different transaction activity through multiple AML scenarios embedded in it. In addition, the Bank has a robust Customer Due Diligence (CDD) process that allows the Bank to document / update each profile of customer and conduct comprehensive CDD as per regulatory requirements. Being a trade-oriented bank, Cross Border Transactions are screened and pre-approved by Compliance to ensure that no business is conducted with sanctioned entities or countries. In addition, AML Unit in collaboration with Regulatory Risk and Compliance unit reviews products and policies from AML perspective.

Your Bank has also participated as a Foreign Financial Institution (FFI) and is fully compliant with the Foreign Account Tax Compliance Act (FATCA) by collecting additional information and documentation from prospective clients, in order to determine whether or not they have any US tax reporting responsibilities. FATCA is a US legislation aimed at preventing tax evasion by US Persons and Companies that came into effect on 1 July 2014. To ensure compliance with the FATCA legislation, Compliance division facilitates coordination, training, development and monitoring of FATCA requirements.

Compliance also assures identification, monitoring and resolution of regulatory issues (including follow-up) through on-site reviews by Area Compliance Officers (ACOs), who also provide training to the branch staff. Furthermore, ACOs also play a key role in enhancing the compliance culture in the Bank by ensuring improving standards of adherence with regulations at branch level.

Whilst focusing on creativity and innovation, Compliance function will continue to increase its effectiveness through professional development of its staff and strengthening of functional solutions.

CONTROLS

Internal Control Unit (ICU) working as a part of the risk management team of the Bank is responsible for implementation of controls within the business processes/ support functions as per the regulatory guidelines and good practices. The scope of ICU has been enhanced for ensuring effective controls monitoring and plans to further strengthen the same. The Bank has a comprehensive Business Continuity Plan (BCP) in place, which includes risk management strategies to prevent interruption of critical services caused by a disaster event.

The Bank's operating system contains control aspects embedded into all processes and functions.

The Bank's organization structure and lines of authority are well-defined and processes throughout the Bank are governed by policies and procedures approved by the Board. The Bank's accounting policies, practices and methodologies for various estimates have been reviewed by external auditors.

SBP Internal Control Guidelines require the Bank's management to evaluate the effectiveness of overall set of internal controls. The Bank has implemented a comprehensive Internal Control process and a stage wise roadmap for its implementation across the Bank considering an internationally accepted Committee of Sponsoring Organization of the Treadway Commission (COSO) Internal Control - Integrated Framework, as envisaged under the SBP Internal Control Guidelines for Financial Reporting. The SBP Internal Control Guidelines require the Bank's management to evaluate the effectiveness of internal controls. The Bank has devised a well-defined and comprehensive Internal Control Program and a staged roadmap for its implementation.

The Bank's core banking module relies on a state-of-the-art, award winning technology which has built-in risk mitigating features such as access controls, segregation of duties, necessary maker-checker concept and extensive monitoring / MIS tools keeping the overall operational risks to an acceptable level. Please refer to "The Statement of Internal Controls" annexed to this report.

INTERNAL AUDIT

While broadening risk awareness and assuring regulatory compliance, Internal Audit at HabibMetro is an important and independent pillar of the Bank's control infrastructure that provides independent assurance to the management and the Board in assessing the Bank's control environment. The department performs continuous reviews to improve the quality of the Bank's internal control environment, ensuring an effective balance in safety and performance of processes and adding value towards the Bank's risk mitigation endeavors.

HabibMetro has an active Board Audit Committee functioning under the Code of Corporate Governance as stipulated by SECP and as adopted by the SBP. The members of Board Audit Committee are Non-Executive Directors and its Chairman is an Independent Director.

Reporting directly to the Board Audit Committee, Internal Audit employees a risk-based and proactive approach to branches, operational areas and key activities of the Bank with a significant emphasis on corrective actions and elimination of control lapses. These reviews are focused on related key risk indicators and system weaknesses to identify control, cost and revenue efficiencies.

FUTURE OUTLOOK

Pakistan's economy is on a steady growth trajectory. IMF has upgraded Pakistan's growth forecast to 5% from a previous estimate of 4.7%. Large scale manufacturing likely to record 6% growth in FY 17 against a growth of 4.8% in FY 16. Growth prospects, CPEC-fuelled economic activity, relaxed interest regime and enhanced fiscal discipline indicate a further pick-up in flow of credit to the private sector and business activity therein. The external account deficit remains a cause of concern with the stunted exports, growing imports and decelerating remittances.

Going forward amidst a stable interest regime outlook in 2017, HabibMetro Bank remains committed to protecting its shareholders' interests, while maximizing the value and service offered to its customers through a varied spectrum of financial products architected upon an advanced technological platform. The Bank aims to target organic growth, mobilization of low-cost deposits, improvement of asset quality and enhancement of cost efficiency.

ACKNOWLEDGEMENTS

In the end, I would like to take this opportunity to place on record our sincere gratitude to the Board, Ministry of Finance, the SBP and Securities and Exchange Commission of Pakistan for their support and continued guidance and to our valued customers for their trust and support. I thank the staff members for their devotion, diligence and commendable performance.

On behalf of the Board

Karachi: 22 February 2017

SIRAJUDDIN AZIZ
President & Chief Executive Officer

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

FOR THE YEAR ENDED 31 DECEMBER 2016

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 35 of Chapter XI of listing regulations of 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 CCG in the following manner:

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

Category	Names
Independent Directors	Mr. Tariq Ikram
	Mr. Sohail Hasan
Non-Executive Directors	Mr. Ali S. Habib
	Mr. Anjum Z. Iqbal
	Mr. Firasat Ali
	Mr. Mohamedali R. Habib
	Mr. Mohamed Bashir
	Mr. Muhammad H. Habib
	Mr. Sirajuddin Aziz
President and Chief Executive Officer	

The independent directors meets the criteria of independence under clause i (b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Bank.
3. All the resident directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. One casual vacancy occurred on the Board during the year and was duly filled up by the director within stipulated time.
5. The Bank has developed a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Bank along with its supporting policies and procedure.
6. The Bank has placed a mechanism for an annual evaluation of Board's own performance.
7. 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.
8. 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 Chief Executive Officer (CEO), other executives and non-executive directors, have been taken by the board / shareholders.
9. The meetings of the board were presided over by the Chairman and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
10. The Bank is compliant with the requirement of directors training program provided in code.

11. 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.
12. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
13. The financial statements of the Bank were duly endorsed by CEO and CFO before approval of the board.
14. 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.
15. The Bank has complied with all the corporate and financial reporting requirements of the CCG.
16. The board has formed an Audit Committee. It comprises three members, all of whom are non-executive directors and the chairman of the committee is an independent director.
17. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Bank and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
18. The board has formed a Human Resource & Remuneration Committee. It comprises three members including an independent director.
19. The board has set up an effective internal audit function.
20. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
21. 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.
22. The 'closed period', prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange.
23. Material / price sensitive information has been disseminated among all market participants at once through stock exchange.
24. The Bank has developed a register in respect of the personnel who have access to inside information. However, the management is in the process of updating / aligning the register in line with the format prescribed by the SECP.
25. We confirm that all other material principles enshrined in the CCG have been complied with.

On behalf of the Board

SIRAJUDDIN AZIZ

President & Chief Executive Officer

Karachi: 22 February 2017

AUDITORS' 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 Habib Metropolitan Bank Limited ("the Bank") for the year ended 31 December 2016 to comply with the requirements of Listing Rule book number 5.19 of the 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 of 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 2016.

Karachi: 22 February 2017

KPMG Taseer Hadi & Co
Chartered Accountants
Mazhar Saleem

STATEMENT OF INTERNAL CONTROLS

This statement is being issued in compliance with the Guidelines on Internal Controls, issued by the State Bank of Pakistan vide BSD Circular No. 7 dated May 27, 2004.

MANAGEMENT EVALUATION OF INTERNAL CONTROL SYSTEM

The management of Habib Metropolitan Bank (HabibMetro) remains responsible for implementing strategies and policies as approved by the Board of Directors; maintaining an effective organization structure; instituting appropriate control procedures and monitoring the adequacy/effectiveness of internal control systems. The Board of Directors is ultimately responsible for ensuring that an adequate and effective System of Internal Controls is established and efforts are made to implement sound control procedures and to maintain a suitable control environment.

The Bank's fundamental policy is to embed controls in each process and make controls an important part of all business activities. Each member of the staff is also responsible for ensuring that the Bank always operates in a controlled manner and inordinate risks are not taken in any activity.

The Bank's organization structure and lines of authority are well-defined and processes throughout the Bank are largely governed by policies and procedures approved by the Board. However, their review and updating to meet regulatory requirements & changing practices remains a continued activity to achieve effective control objectives. The Bank's Operation Manual in accordance with best practices applicable to our environment for key areas is set in place to improve the quality of service, training and product knowledge across the organization. The Bank's accounting policies, practices and methodologies for various estimates have been reviewed by external auditors and there have been no material disputes thereon.

Effectiveness of Internal Controls is independently reviewed on a regular basis by Internal Audit and Board Audit Committee is updated accordingly. The Internal Audit framework incorporates extensive risk-based auditing throughout the year. Views expressed by External Auditors and Regulatory Inspectors are also provided utmost importance and corrective actions on all audit / inspection observations are followed-up rigorously. For operating effectiveness, compliance to laws and regulations and reliability of financial reporting, in addition to other control functions, an Internal Control Unit has also been established within Risk Management Division. The Unit provides an ongoing mechanism for establishing and maintaining a sound system and apt control environment duly backed by independent internal audit regime. This would give reasonable assurance to achieve the internal control objectives for continuously evaluating the nature and extent of the significant risks and to manage them effectively and efficiently.

SBP Internal Control Guidelines require the Bank's management to evaluate the effectiveness of overall set of internal controls including financial reporting controls which are required to be independently reviewed by the external auditors. As part of this exercise, the Bank has formulated a comprehensive Internal Control process and a stage wise roadmap for its implementation across the bank considering an internationally accepted COSO Internal Control - Integrated Framework, as envisaged under the SBP Internal Control Guidelines for Financial Reporting (ICFR). In accordance with this process, the Bank has completed all stages of internal control as defined under COSO framework and instituted initiatives for remediation of the identified gaps and also affected a system for testing effectiveness of all significant controls on ongoing basis. It is pertinent to note that although effective remediation of the gaps identified will further strengthen the Bank's existing control environment, management is confident that these gaps do not carry a significant bearing on the Bank's existing operations and related controls. Further, to strengthen the control culture the bank undertakes awareness sessions for process owners bank wide on regular basis.

Internal Controls always manage rather than eliminate possibility of process failures to achieve their objectives and hence, can only provide reasonable assurance against material misstatements or loss.

On an overall basis, Internal Controls at HabibMetro were operating with reasonable adequacy throughout the year ended December 31, 2016 and reflect improvement from last year in organization structure; effective adherence with lines of authority; automation and effectiveness of processes with enhanced testing of controls.

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; reports submitted as to the business policies and major risks related decision taken by the Management, the Board of Directors endorses Management's evaluation of internal control.

On behalf of the Board

SIRAJUDDIN AZIZ

President & Chief Executive Officer

Karachi: 22 February 2017

Shari'ah Board's Report

FOR THE YEAR ENDED 31 DECEMBER 2016

In the name of Allah, the Beneficent, the Merciful

By the Grace of Allah Almighty, the year under review was the first full year for the Shariah Board. During the year, the Shari'ah Board (SB) held 09 meetings to review various products, concepts, transactions, processes and their Shari'ah Compliance, referred by the Resident Shariah Board Member (RSBM).

Further, while the Board of Directors and Executive Management are solely responsible to ensure that the operations of HabibMetro Sirat are conducted in a manner that complies with Shari'ah principles at all times, the SB required to submit a report on the overall Shari'ah compliance environment of HabibMetro Sirat.

Thus, to form our opinion as expressed in this report, the Shari'ah Compliance Department of the Bank carried out reviews, on test check basis, of each class of transactions, the relevant documentation and process flows. Further, the SB has also reviewed the periodical reports of RSBM and internal Shari'ah Audit. Based on above, SB is of the view that:

- i. HabibMetro Sirat has complied with Shari'ah rules and principles in the light of fatawa, rulings and guidelines issued by its Shari'ah Board.
- ii. HabibMetro Sirat has complied with directives, regulations, instructions and guidelines related to Shari'ah compliance issued by SBP in accordance with the rulings of SBP's Shari'ah Board.
- iii. HabibMetro Sirat has a comprehensive mechanism in place to ensure Shari'ah compliance in their overall operations.
- iv. HabibMetro Sirat has a well-defined system in place sound enough to ensure that any earnings realized from sources or by means prohibited by Shari'ah have been credited to charity account and are being properly utilized.
- v. HabibMetro Sirat has complied with the SBP instructions on profit & loss distribution and pool management.
- vi. The management has arranged number of trainings for the staff of Islamic Banking as well as for the staff of conventional branches. Also, Shari'ah Board has conducted specific product wise trainings for the staff members of IBBs. The SB has also conducted orientation session for senior management of the Bank during the year.
- vii. The level of awareness, capacity and sensitization of the staff, management and the BOD in appreciating the importance of Shari'ah compliance in the products and processes of the Bank, is quite satisfactory.
- viii. The SB has been provided adequate resources enabling it to discharge its duties effectively.

In order to further enhance the scope of Islamic banking and facilitation in respect of Islamic Banking Windows, the SB recommends the following:

- i. The SB highly appreciates the efforts of the management to introduce employee facilities / benefits of house building finance and car finance through Shari'ah compliant modes of Diminishing Musharakah and Ijarah. However, the SB recommends to offer personal loan facility through Shari'ah compliant structure and provision of health insurance under Takaful arrangement.

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- ii. Trained and dedicated staff should be appointed over the counters of Islamic Banking windows (IBWs) to properly facilitate the Islamic banking customers in conventional branches.
 - iii. In respect of Islamic Banking, the Bank should have experienced staff in the area of Credit to ensure that documentation, review and securitization are all in conformity with Shari'ah Principles.

May Allah accept our efforts and grant us success in the field of Islamic Finance. We also pray to Allah Almighty and seek his guidance and blessings for further progress, development and prosperity of HabibMetro Sirat.

MUFTI MUHAMMAD ZUBAIR USMANI
Chairman Shari'ah Board

MUFTI ABDUL SATTAR LAGHARI
Resident Shari'ah Board Member

MUFTI MUHAMMAD IBRAHIM ESSA
Shari'ah Board Member

Karachi: 22 February 2017

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed unconsolidated statement of financial position of Habib Metropolitan Bank Limited ("the Bank") as at 31 December 2016 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 un-audited certified returns from the branches except for twenty-five 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 in accounting policy as stated in note 5.1.1 of 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 2016, and its true balance of profit, its comprehensive income, 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: 22 February 2017

KPMG Taseer Hadi & Co
Chartered Accountants
Mazhar Saleem

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	2016	2015
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks	8	35,561,885	30,645,728
Balances with other banks	9	2,259,974	13,806,513
Lendings to financial institutions	10	16,750,886	2,800,000
Investments	11	314,619,011	292,779,230
Advances	12	142,962,103	132,646,839
Operating fixed assets	13	3,246,376	3,124,779
Deferred tax assets	14	2,458,685	1,938,628
Other assets	15	8,747,497	12,137,391
		<u>526,606,417</u>	<u>489,879,108</u>
LIABILITIES			
Bills payable	16	8,108,633	6,344,461
Borrowings	17	37,205,175	31,462,822
Deposits and other accounts	18	430,888,036	403,354,957
Sub-ordinated loans		—	—
Liabilities against assets subject to finance lease		—	—
Deferred tax liabilities		—	—
Other liabilities	19	10,734,123	11,889,064
		<u>486,935,967</u>	<u>453,051,304</u>
NET ASSETS		<u>39,670,450</u>	<u>36,827,804</u>
REPRESENTED BY			
Share capital	20	10,478,315	10,478,315
Reserves		13,933,875	12,710,010
Unappropriated profit		12,753,139	9,931,633
		<u>37,165,329</u>	<u>33,119,958</u>
Surplus on revaluation of assets - net of tax	21	2,505,121	3,707,846
		<u>39,670,450</u>	<u>36,827,804</u>

The annexed notes 1 to 46 and annexures I & II form an integral part of these unconsolidated financial statements.

MOHAMEDALI R. HABIB
Chairman

SIRAJUDDIN AZIZ
President &
Chief Executive Officer

TARIQ IKRAM
Director

MOHOMED BASHIR
Director

UNCONSOLIDATED PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016	2015
		Rupees in '000	
Mark-up / return / interest earned	24	33,172,071	36,850,013
Mark-up / return / interest expensed	25	(21,409,855)	(22,466,055)
Net mark-up / interest income		11,762,216	14,383,958
Provision against non-performing loans and advances	12.5	811,651	2,116,885
Provision for diminution in the value of investments	11.3	32,964	109,077
Bad debts written off directly	12.7.1	—	—
		(844,615)	(2,225,962)
Net mark-up / interest income after provisions		10,917,601	12,157,996
Non mark-up / interest income			
Fee, commission and brokerage income		3,030,481	2,829,879
Dividend income		121,382	147,918
Income from dealing in foreign currencies		1,035,989	1,083,300
Gain on sale / redemption of securities - net	26	4,324,944	4,778,513
Unrealised gain / (loss) on revaluation of investments classified as held-for-trading		—	—
Other income	27	323,470	342,130
Total non mark-up / interest income		8,836,266	9,181,740
		19,753,867	21,339,736
Non mark-up / interest expenses			
Administrative expenses	28	9,359,596	8,445,940
Other provisions / write offs / reversals	29	(172,048)	14,989
Other charges	30	232,572	339,896
Total non-mark-up / interest expenses		(9,420,120)	(8,800,825)
		10,333,747	12,538,911
Extra ordinary / unusual items		—	—
Profit before taxation		10,333,747	12,538,911
Taxation – Current	31	(3,517,238)	(4,963,851)
– Prior years		(581,308)	(476,000)
– Deferred	14.1	(115,877)	556,873
		(4,214,423)	(4,882,978)
Profit after taxation		6,119,324	7,655,933
Unappropriated profit brought forward		9,931,633	8,543,116
Profit Available for appropriation		16,050,957	16,199,049
Basic and diluted earnings per share (Rupees)	32	5.84	7.31

The annexed notes 1 to 46 and annexures I & II form an integral part of these unconsolidated financial statements.

MOHAMEDALI R. HABIB
Chairman

SIRAJUDDIN AZIZ
President &
Chief Executive Officer

TARIQ IKRAM
Director

MOHOMED BASHIR
Director

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016	2015
		Rupees in '000	
Profit after taxation for the year		6,119,324	7,655,933
Other comprehensive income			
Items that are not to be reclassified to profit or loss in subsequent periods:			
Actuarial gain / (loss) on defined benefit plan	35.8	30,289	(32,288)
Related deferred tax (charge) / reversal	14.1	(10,601)	11,301
		19,688	(20,987)
Comprehensive income transferred to equity		6,139,012	7,634,946
Items that may be reclassified to profit or loss in subsequent periods and not to be reflected in equity:			
Deficit arising on revaluation of available for sale securities		(2,088,312)	(944,529)
Related deferred tax reversal	14.1	730,909	101,927
		(1,357,403)	(842,602)
Total comprehensive income		4,781,609	6,792,344

The annexed notes 1 to 46 and annexures I & II form an integral part of these unconsolidated financial statements.

MOHAMEDALI R. HABIB
Chairman

SIRAJUDDIN AZIZ
President &
Chief Executive Officer

TARIQ IKRAM
Director

MOHOMED BASHIR
Director

UNCONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016	2015
		Rupees in '000	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		10,333,747	12,538,911
Less: Dividend income		(121,382)	(147,918)
		10,212,365	12,390,993
Adjustments			
Depreciation and amortization (including depreciation on non-banking assets)	28	727,574	565,932
Provision against non-performing loans and advances - net	12.5	811,651	2,116,885
Provision against off-balance sheet obligation	19.1	—	14,989
Provision against other assets - net	15.2	(173,750)	—
Provision for diminution in the value of investments - net	11.3	32,964	109,077
Net gain on sale of non-banking assets	27.2	(583)	—
Net gain on sale of fixed assets	27	(20,959)	(59,186)
		1,376,897	2,747,697
		11,589,262	15,138,690
(Increase) / decrease in operating assets			
Lendings to financial institutions		(13,950,886)	608,776
Advances		(11,126,915)	(13,078)
Other assets (excluding current taxation and dividend receivable)		3,991,955	85,586
		(21,085,846)	681,284
Increase / (decrease) in operating liabilities			
Bills payable		1,764,172	1,142,979
Borrowings		5,245,299	7,061,268
Deposits and other accounts		27,533,079	83,331,497
Other liabilities (excluding current taxation)		(416,368)	(1,398,871)
		34,126,182	90,136,873
		24,629,598	105,956,847
Income tax paid		(4,910,215)	(4,302,168)
Net cash generated from operating activities		19,719,383	101,654,679
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(28,253,655)	(60,146,399)
Net investments in held-to-maturity securities		4,635,098	(11,917,775)
Net investments in subsidiary		(342,500)	(7,500)
Dividend received		119,276	150,266
Investments in operating fixed and intangibles assets		(1,106,740)	(668,601)
Proceeds from sale of non-banking assets		115,000	—
Proceeds from sale of fixed assets		83,436	61,664
Net cash used in investing activities		(24,750,085)	(72,528,345)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(2,096,734)	(4,702,253)
Net cash used in financing activities		(2,096,734)	(4,702,253)
(Decrease) / increase in cash and cash equivalents		(7,127,436)	24,424,081
Cash and cash equivalents at the beginning of the year		44,059,154	19,635,073
Cash and cash equivalents at the end of the year	33	36,931,718	44,059,154

The annexed notes 1 to 46 and annexures I & II form an integral part of these unconsolidated financial statements.

MOHAMEDALI R. HABIB
Chairman

SIRAJUDDIN AZIZ
President &
Chief Executive Officer

TARIQ IKRAM
Director

MOHOMED BASHIR
Director

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

		Reserves					
	Share Capital	Share Premium	Statutory Reserve	Special Reserve	Revenue Reserve	Un-appropriated Profit	Total
	Rupees in '000						
Balance as at 1 January 2015	10,478,315	2,550,985	6,887,477	240,361	1,500,000	8,543,116	30,200,254
Changes in equity for the year ended 31 December 2015							
Total comprehensive income for the year ended 31 December 2015 – profit for the year	–	–	–	–	–	7,655,933	7,655,933
Other comprehensive income – net of tax	–	–	–	–	–	(20,987)	(20,987)
Transactions with owners, recorded directly in equity							
Cash dividend (Rs. 2.50 per share) for the year ended 31 December 2014	–	–	–	–	–	(2,619,579)	(2,619,579)
Interim cash dividend (Rs. 2.00 per share) for the year ended 31 December 2015	–	–	–	–	–	(2,095,663)	(2,095,663)
Transfer to statutory reserve	–	–	1,531,187	–	–	(1,531,187)	–
Balance as at 31 December 2015	10,478,315	2,550,985	8,418,664	240,361	1,500,000	9,931,633	33,119,958
Changes in equity for the year ended 31 December 2016							
Total comprehensive income for the year ended 31 December 2016 – profit for the year	–	–	–	–	–	6,119,324	6,119,324
Other comprehensive income – net of tax	–	–	–	–	–	19,688	19,688
Transfer from surplus on revaluation of non-banking assets – net of tax	–	–	–	–	–	2,022	2,022
Transactions with owners, recorded directly in equity							
Final cash dividend (Rs. 2.00 per share) for the year ended 31 December 2015	–	–	–	–	–	(2,095,663)	(2,095,663)
Transfer to statutory reserve	–	–	1,223,865	–	–	(1,223,865)	–
Balance as at 31 December 2016	10,478,315	2,550,985	9,642,529	240,361	1,500,000	12,753,139	37,165,329

The annexed notes 1 to 46 and annexures I & II form an integral part of these unconsolidated financial statements.

MOHAMEDALI R. HABIB
Chairman

SIRAJUDDIN AZIZ
President &
Chief Executive Officer

TARIQ IKRAM
Director

MOHOMED BASHIR
Director

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. STATUS AND NATURE OF BUSINESS

Habib Metropolitan Bank Limited (the Bank) was incorporated in Pakistan on 3 August 1992, as a public limited company, under the Companies Ordinance, 1984 and is engaged in commercial banking and related services. Its shares are listed on Pakistan Stock Exchange. The Bank operates 273 (2015: 237) branches, including 25 (2015: 20) Islamic banking branches, and 34 (2015: 39) sub branches in Pakistan. The Bank is a subsidiary of Habib Bank AG Zurich - Switzerland (the holding company with 51% shares in the Bank) which is incorporated in Switzerland.

The registered office of the Bank is situated at Spencer's Building, I. I. Chundrigar Road, Karachi.

2. BASIS OF PRESENTATION

2.1 These unconsolidated financial statements represent separate financial statements of the Bank. The consolidated financial statements of the Bank and its subsidiary companies are being separately issued.

2.2 In accordance with the directives of the Federal Government regarding shifting of the banking system to Islamic modes, the State Bank of Pakistan (SBP) has issued various circulars from time to time. Permissible forms of trade related modes of financing include purchase of goods by the Bank from their customers and immediate resale to them at appropriate mark-up in price on a deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these unconsolidated financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.

2.3 Key financial figures of the Islamic Banking branches are disclosed in note 44 to these unconsolidated financial statements.

2.4 Basis of measurement

Accounting convention

These unconsolidated financial statements have been prepared under the historical cost convention except that certain investments and non-banking assets are stated at market value and derivative financial instruments are carried at fair value as disclosed in notes 5.4, 5.7 and 5.1.1 respectively.

3. STATEMENT OF COMPLIANCE

3.1 These unconsolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962 and the directives issued by the State Bank of Pakistan. In case the requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by the SBP shall prevail.

3.2 The SBP vide BSD Circular letter 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 a notification of the Securities and Exchange Commission of Pakistan (SECP) through S.R.O. No. 411(1)/2008 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 the SBP. Further, segment information has been disclosed in accordance with SBP's prescribed format as per BSD Circular No. 04 dated 17 February 2006.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of these unconsolidated financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgment in the application of its accounting policies. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgments were made by management in the application of accounting policies are as follows:

i) Classification of investments

- In classifying investments as "held-for-trading", the Bank has determined securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days.
- In classifying investments as "held-to-maturity", the Bank follows the guidance provided in SBP circulars on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.
- The investments which are not classified as held-for-trading or held-to-maturity are classified as "available-for-sale".

ii) Provision against non performing loans and advances and debt securities classified as investments

The Bank reviews its loan portfolio and debt securities classified as investments to assess amount of non-performing loans and advances and debt securities and provision required there-against. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower and the forced sale value of the securities, etc. as per the requirement of the Prudential Regulations are considered. For portfolio impairment provision on consumer advances and small enterprise advances, the Bank follows the general provision requirement set out in Prudential Regulations. In addition, the Bank also maintain a general provision against its loan portfolio discussed in note 5.5.

iii) Valuation and impairment of available for sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

iv) Impairment of non-financial assets (excluding deferred tax asset)

Non financial assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable. If any such indication exists, the Bank estimates the recoverable amount

of the asset and the impairment loss, if any. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of future cash flows from the asset discounted at a rate that reflects market interest rates adjusted for risks specific to the asset. If the recoverable amount of an intangible or tangible asset is less than its carrying value, an impairment loss is recognised immediately in the profit and loss account and the carrying value of the asset reduced by the amount of the loss. A reversal of an impairment loss on intangible assets is recognised as it arises provided the increased carrying value does not exceed which it would have been had no impairment loss been recognised.

v) Income taxes

In making the estimates for income taxes currently payable by the Bank, the management looks, at the current income tax laws and the decisions of appellate authorities on certain issues in the past. In making the provision for deferred taxes, estimates of the Bank's future taxable profits are taken into account.

vi) Fixed assets, depreciation and amortisation

In making estimates of the depreciation / amortisation method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method would be changed to reflect the change in pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard - 8, "Accounting Policies, Changes in Accounting Estimates and Errors".

vii) Defined benefits plan

Liability is determined on the basis of actuarial advice using the Projected Unit Credit Actuarial Cost Method, as fully disclosed in note 35 to these unconsolidated financial statements.

viii) Compensated Absences

The bank uses actuarial valuation for the determination of its compensated absences liability. This method makes certain assumptions, which may change, thereby effecting the profit and loss account of future period.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 The accounting policies adopted in preparation of these unconsolidated financial statement are consistent with those of the previous financial years, except for the change in accounting policy as disclosed in note 5.1.1.

5.1.1 Change in accounting policy

Effective from 1 January 2016, the Bank has changed its accounting policy for recording of non-banking assets acquired in satisfaction of claims to comply with the requirements of the 'Regulations for Debt Property Swap' (the regulations) issued by the SBP vide its BPRD Circular No. 1 of 2016, dated 1 January 2016. In line with the guidance provided in the Regulations, the non-banking assets acquired in satisfaction of claims are carried at revalued amounts less accumulated depreciation. These assets are revalued by professionally qualified valuers with sufficient regularity to ensure that their net carrying value does not differ materially from their fair value. A surplus arising on revaluation of property is credited to the 'surplus on revaluation of non-banking assets' account and any deficit arising on revaluation is taken to profit and loss account directly. Legal fees, transfer costs and direct costs of acquiring title of the property is charged to profit and loss account. Previously, non-banking assets

acquired in satisfaction of claims were carried at cost less impairment, if any. Had the accounting policy not been changed, non-banking assets (included in Other Assets in the statement of financial position) would have been lower by Rs 237,966 thousand while surplus on revaluation of assets would have been lower by Rs 154,678 thousand, unappropriated profit and deferred tax assets would have been higher by Rs 9,233 thousand and Rs 83,288 thousand respectively. Furthermore, profit before tax would have been higher by Rs 17,315 thousand.

5.2 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents include cash and balances with treasury banks and balances with other banks less overdrawn nostros and local bank accounts.

5.3 Lendings to / borrowings from financial institutions

The Bank enters into transactions of borrowing (re-purchase) from and lending (reverse re-purchase) to financial institutions, 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 and counter party liability is included in borrowing from financial institutions. The difference between sale and repurchase price is amortised as an 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 and instead amounts paid under these arrangements are included in lendings to financial institutions. The difference between purchase and resale price is accrued as income over the term of the agreement.

Other borrowings including borrowings from SBP are recorded at the proceeds received. Mark up on such borrowing is charged to the profit and loss account on a time proportion basis.

Bai Muajjal

The securities sold under Bai Muajjal agreement are derecognised on the date of disposal. Receivable against such sale is recognised at the agreed sale price. The difference between the sale price and the carrying value on the date of disposal is taken to income on straight line basis.

5.4 Investments

5.4.1 Investments in subsidiaries are stated at cost less provision for impairment, if any.

5.4.2 Other investments are classified as follows:

Held-for-trading

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

Held-to-maturity

These are securities with fixed or determinable payments and fixed maturities that are held with the positive intention and ability to hold till maturity.

Available-for-sale

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

- 5.4.3** Investments (other than held-for-trading) include transaction costs associated with the investments. In case of held-for-trading investments transaction costs are charged to profit and loss account.

In accordance with the requirements of the SBP, quoted securities, other than those classified as held-to-maturity and investment in subsidiaries, are carried at market value. Investments classified as held-to-maturity are carried at amortised cost whereas investments in subsidiaries are carried at cost less impairment losses, if any.

Unrealised surplus / deficit arising on the revaluation of the Bank's held-for-trading investment portfolio is taken to the profit and loss account. Surplus / deficit arising on revaluation of quoted securities classified as available for sale is kept in separate account shown in the statement of financial position below equity. Surplus / deficit arising on these securities is taken to the profit and loss account when actually realised upon disposal or when the investment is considered to be impaired.

Unquoted equity securities are valued at the lower of cost and break-up value. Subsequent decrease in the carrying value are charged to profit and loss account. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments in other unquoted securities are valued at cost less impairment losses, if any.

Provision for diminution in the value of term finance and Sukuk certificates are made as per the criteria prescribed under Prudential Regulation issued by the SBP.

Provision for impairment in the value of available for sale and held-to-maturity securities (other than term finance and sukuk certificates) is made after considering objective evidence of impairment, if any, in their value (as a result of one or more events that may have an impact on the estimated future cash flows of the investments). A significant or prolonged decline in the fair value of an equity investment below its cost is also considered an objective evidence of impairment. Impairment losses are taken to profit and loss account.

All "regular way" purchases and sales of investments are recognised on the trade date, i.e., the date that the Bank commits the purchase or sell the asset. Regular way purchases or sales are purchases or sales of investments that require delivery of assets within the time frame generally established by regulation or convention in the market place.

5.5 Advances (including net investment in finance lease and ijarah arrangements)

Loans and advances

Loans and advances and net investments in finance lease are stated net of provision for loan losses against non-performing advances. Provision for loan losses is made in accordance with the Prudential Regulations issued by the SBP 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 management's assessment of credit risk characteristics and general banking risk such as nature

of credit, collateral type, industry sector and other relevant factors. Murabaha receivables are stated at gross amount receivable less deferred income and provisions, if any.

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 lease. A receivable is recognised at an amount equal to the present value of the minimum lease payments including guaranteed residual value, if any. Finance lease receivables are included in advances to the customers.

Ijarah

In accordance with the requirements of Islamic Financial Accounting Standard (IFAS) No. 2 for the accounting and financial reporting of "Ijarah", Ijarah arrangements by the Islamic Banking branches are accounted for as 'Assets held under Ijarah' and are stated at cost less accumulated depreciation, residual value and impairment losses, if any. Accordingly assets subject to Ijarah have been reflected in note 12 to these unconsolidated financial statements under "Advances". Rental income on these Ijarah is recognised in the Bank's profit and loss account on a time proportion basis, while depreciation is calculated on Ijarah assets on a straight line basis over the period of Ijarah from the date of delivery of respective assets to mustajir (lessee) up to the date of maturity / termination of Ijarah agreement and is charged to the profit and loss account. The classification and provisioning of Ijarah assets is done in line with the requirements laid down in the Prudential Regulations and are recognised in the profit and loss account.

Diminishing Musharakah

In Diminishing Musharakah based financing, the Bank enters into a Musharakah 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 profit payment agreement for the utilization of the Bank's Mushariki share by the customer. Income from these transactions are recorded on an accrual basis.

Istisna

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

Al-Bai

The product is based on the Islamic Mode "Musawamah". Musawamah is a general kind of sale in which price of the commodity to be traded is agreed between seller and the buyer without any reference to the cost incurred and profit charged by the former.

Advances are written off when there are no realistic prospects of recovery.

5.6 Fixed assets

Tangible - owned (operating)

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except for freehold land which are stated at cost less accumulated impairment losses, if any.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset at the rates specified in note 13.2. Depreciation on additions during the year is calculated from the date of addition. In case of disposals during the

year, the depreciation is charged up till the date of disposal. Depreciation on ijarah assets referred to in note 44.4 is calculated on a straight line basis over the period of ijarah from the date of delivery of respective assets to the mustajir (lessee) up to the date of maturity / termination of ijarah agreed.

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognised in the profit and loss account in the year the asset is derecognised.

The residual values, useful lives and depreciation methods are reviewed and changes, if any, are treated as change in accounting estimates, at each Statement of Financial Position date.

Intangible

These are stated at cost less accumulated amortisation and impairment, if any. The cost of intangible assets are amortised from the month when the assets are available for intended use, using the straight line method, whereby the cost of the intangible asset is amortised over its estimated useful life over which economic benefits are expected to flow to the Bank. The useful life and amortisation method is reviewed and adjusted, if appropriate, at each Statement of Financial Position date.

Capital work-in-progress

These are stated at cost less impairment losses, if any.

5.7 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value at 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 liability when fair value is negative. Any change in the value of derivative financial instruments is taken to the profit and loss account.

5.8 Provisions

Provision against identified non-funded losses is recognised when intimated and reasonable certainty exists for the Bank to settle the obligation. The loss is charged to the profit and loss account net of expected recovery and is classified under other liabilities.

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

5.9 Non-current assets held for sale

The Bank classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

A non-current asset held for sale is carried at the lower of its carrying amount and the fair value less costs to sell. Impairment losses are recognised through the profit and loss account for any initial or subsequent write down of the non-current asset to fair value less costs to sell. Subsequent gains in fair value less costs to sell are recognised to the extent they do not exceed the cumulative impairment losses previously recorded. A non-current asset is not depreciated while classified as held for sale.

5.10 Taxation

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

Current

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

Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amount used for taxation purposes. Deferred tax is measured at the tax rate that are expected to be applied on the temporary differences when they reverse, based on the tax rates that have been enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that the future taxable profit will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of assets and actuarial gain / losses recognised in 'Other Comprehensive Income', which is adjusted against the related deficit / surplus.

5.11 Employees' benefits

5.11.1 Retirement benefits

Defined benefit plan

The Bank operates an approved funded gratuity scheme for all its permanent employees. Retirement benefits are payable to the members of the scheme on the completion of prescribed qualifying period of service under the scheme. Contribution is made in accordance with the actuarial recommendation. The actuarial valuation is carried out annually as at the statement of financial position date using "Projected Unit Credit Actuarial Cost Method".

All actuarial gains and losses are recognised in "Other Comprehensive Income" as they occur.

Past service cost resulting from changes to defined benefit plan is recognised in the profit and loss accounts.

Defined contribution plan

The Bank operates a recognised provident fund scheme for all its regular employees, which is administered by the Board of Trustees. Contributions are made by the Bank and its employees, to the fund at the rate of 10% of basic salary.

5.11.2 Compensated absences

A provision is made for estimated liability for annual leaves as a result of services rendered by the employees against unavailed leaves, as per term of service contract, up to the statement of financial position date.

The actuarial valuation under the 'Projected Unit Credit Actuarial Cost Method' has been carried out by the Bank for the determination of the liability for compensated absences. Liability so determined is fully recognised by the Bank.

5.12 Revenue recognition

Revenue is recognised to the extent that the economic benefits will flow to the Bank and the revenue can be reliably measured. These are recognised as follows:

a) Advances and investments

Mark-up / return on regular loans / advances and debt securities investments is recognised on a time proportion basis that take into account the effective yield on the asset. Where debt securities are purchased at premium or discount, the same is amortised through the profit and loss account using the effective interest rate method.

Interest or mark-up recoverable on classified loans and advances and investments is recognised on receipt basis. Interest / return / mark-up on classified rescheduled / restructured loans and advances and investments is recognised as permitted by the regulations of the SBP.

Dividend income is recognised when the Bank's right to receive the dividend is established.

Gains and losses on sale of investments are recognised in the profit and loss account.

Income on bills discounted are recognised over the period of the bill.

b) Lease financing / Ijarah contracts

Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) 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. Unrealised income on classified leases is recognised on receipt basis.

Rental income on ijarah executed by the Islamic Banking branches are accounted for under IFAS 2 (refer note 5.5) is recognised in the profit and loss account on a time proportion basis.

Gains / losses on termination of lease contracts and other lease income are recognised when realised.

c) Fees, commission and brokerage

Fees, commission and brokerage except income from letters of guarantee is accounted for on receipt basis. Income from letter of guarantee is recognised on an accrual basis over the period of the guarantee.

5.13 Off setting

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

5.14 Foreign currencies

Foreign currency transactions are translated into local currency at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the statement of financial position date. Forward exchange contracts are revalued using forward exchange rates applicable to their respective remaining maturities. Exchange gains or losses are included in income currently.

Commitments for outstanding forward foreign exchange contracts disclosed in these financial statements are translated at contracted rates. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the statement of financial position date.

5.15 Segment reporting

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

Business segments

a) Trading and sales

This segment undertakes the Bank's treasury, money market and capital market activities.

b) Retail banking

Retail banking provides services to small borrowers i.e. consumers, small and medium enterprises (SMEs) and borrowers' agriculture sector. It includes loans, deposits and other transactions with retail customers.

c) Commercial banking

This includes loans, deposits and other transactions with corporate customers and SME customers other than those included in retail banking.

Geographical segments

The Bank conducts all its operations in Pakistan.

5.16 Dividend distribution and appropriations

Bonus and cash dividend and other appropriations (except for the appropriations required by law), declared / approved subsequent to statement of financial position date are considered as non-adjusting events and are not recorded in unconsolidated financial statements of the current year. These are recognised in the period in which these are declared / approved.

5.17 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. 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. 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.

5.18 Impairment of assets (other than loans and advances and investments)

At each statement of financial position date, the Bank reviews the carrying amount of its assets (other than deferred tax asset) to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of relevant asset is estimated. Recoverable amount is the greater of the net selling price and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the assets is reduced to its recoverable amount. The resulting impairment loss is recognised as an expense immediately. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

Details of the basis of determination of impairment against loans and advances and investments have been discussed in their respective notes.

5.19 Financial instruments

All financial assets and liabilities are recognised at the time when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Bank loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognised when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to profit and loss account. Financial assets carried on the statement of financial position include cash and bank balances, lendings to financial institutions, investments, advances and certain receivables. Financial liabilities include borrowings, deposits, bills payable and other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy notes associated with them.

6. FUNCTIONAL AND PRESENTATION CURRENCY

These unconsolidated financial statements are presented in Pakistani Rupees, which is the Bank's functional currency. Except as indicated, financial information presented in Pakistani Rupees has been rounded to nearest thousand.

7. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED 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 1 January 2017:

- Amendments to IAS 12 Income Taxes are effective for annual periods beginning on or after 1 January 2017. The amendment clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments further clarify that when calculating deferred tax asset in respect of insufficient taxable temporary differences, the future taxable profit excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are not likely to have an impact on unconsolidated financial statements of the Bank.

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- Amendments to IAS 7 'Statement of Cash Flows' are part of IASB's broader disclosure initiative and are effective for annual periods beginning on or after 1 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non - cash changes.
 - Amendments to IFRS 2 Share based Payment clarify the accounting for certain types or arrangements and are effective for annual periods beginning on or after 1 January 2018. The amendments cover three accounting areas (a) measurement of cash - settled share - based payments; (b) classification of share - based payments settled net of tax withholdings; and (c) accounting for a modification of a share - based payment from cash - settled to equity - settled. The new requirements could affect the classification and / or measurement of these arrangements and potentially the timing and amount of expense recognised for new and outstanding awards. The amendments are not likely to have an impact on the Bank's unconsolidated financial statements.
 - Transfers of Investment Property (Amendments to IAS 40 'Investment Property' effective for annual periods beginning on or after 1 January 2018) clarifies that an entity shall transfer a property to, or from, investment property when and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are not likely to have an impact on the Bank's unconsolidated financial statements.
 - Annual Improvements 2014-2016 cycles (amendments are effective for annual periods beginning on or after 1 January 2017). The new cycle of improvements contain amendments to the following standards:
 - Amendments to IFRS 12 'Disclosure of Interests in Other Entities' (effective for annual periods beginning on or after 1 January 2017) clarify that the requirements of IFRS 12 apply to an entity's interests that are classified as held for sale or discontinued operations in accordance with IFRS 5 - 'Non - current Assets Held for Sale and Discontinued Operations'.
 - Amendments to IAS 28 Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2018) clarifies that a venture capital organisation and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non - investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture.
 - IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 1 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognised. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognised. If there are multiple payments or receipts in advance, the entity shall determine a date or the transaction for each payment or receipt or advance consideration. The amendments are not likely to have an impact on the Bank's unconsolidated financial statements.

The Bank expects that the above mentioned improvements will not have a material impact on the Bank's unconsolidated financial statements.

	Note	2016	2015
		Rupees in '000	
8. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		6,182,215	4,957,548
Foreign currencies		1,521,597	1,639,651
		7,703,812	6,597,199
With State Bank of Pakistan in			
Local currency current accounts	8.1	16,494,671	12,639,136
Foreign currency current account	8.2	68,118	113,817
Foreign currency deposit accounts			
– cash reserve account	8.3	2,541,535	2,668,068
– special cash reserve account	8.4	7,384,550	7,635,515
		26,488,874	23,056,536
With National Bank of Pakistan in			
Local currency current accounts		1,353,485	978,717
National Prize Bonds			
		15,714	13,276
		35,561,885	30,645,728

8.1 These accounts are maintained to comply with the statutory cash reserve requirements and include Rs. 2,036,491 thousand (2015: Rs. 3,022,097 thousand) in respect of the Islamic Banking branches of the Bank.

8.2 This represents US Dollar collection / settlement account with SBP.

8.3 This represents account maintained with the SBP to comply with the Cash Reserve requirement against foreign currencies deposits and includes amount of Rs. 135,769 thousand (2015: Rs. 206,654 thousand) in respect of the Islamic Banking branches of the Bank.

8.4 This represents account maintained with the SBP to comply with the Special Cash Reserve requirement against foreign currencies deposits. The return on this account is declared by the SBP on a monthly basis and, as at 31 December 2016, carries mark-up at the rate of 0.00% (2015: 0.00%) per annum and includes amount of Rs. 167,253 thousand (2015: Rs. 251,274 thousand) in respect of the Islamic Banking branches of the Bank.

9. BALANCES WITH OTHER BANKS

In Pakistan

On current accounts		181,268	177,508
On deposit accounts	9.1	44,415	10,480,666
		<u>225,683</u>	<u>10,658,174</u>

Outside Pakistan

On current accounts	9.2	2,034,291	3,148,339
		<u>2,259,974</u>	<u>13,806,513</u>

9.1 These carry mark-up rates of 3.75% (2015: 4.00% to 7.00%) per annum.

9.2 These include balances in current accounts of Rs. 292,215 thousand (2015: Rs. 122,080 thousand) with branches of the holding company.

10. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2016	2015
		Rupees in'000	
Call money lendings	10.2	2,500,000	2,800,000
Repurchase agreement lendings (Reverse Repo)	10.3	637,421	–
Bai Muajjal receivable from State Bank of Pakistan	10.4	5,113,465	–
Islamic Placement - Musharakah	10.5	8,500,000	–
		<u>16,750,886</u>	<u>2,800,000</u>

10.1 Particulars of lendings

In local currency	<u>16,750,886</u>	<u>2,800,000</u>
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10.2 This carry mark-up rate of 6.65% (2015: 6.25% to 7.25%) per annum, with maturity upto 3 March 2017 (2015: 13 January 2016).

10.3 Securities held as collateral against lending to financial institutions (Reverse repo)

	Note	2016			2015		
		Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
		Rupees in'000					
Market treasury bills	10.3.2	<u>638,315</u>	<u>–</u>	<u>638,315</u>	<u>–</u>	<u>–</u>	<u>–</u>

10.3.1 These carry mark-up rates ranging from 5.99% to 6.04% (2015: Nil) per annum, with maturity upto 1 February 2017 (2015: Nil).

10.3.2 Market value of securities held as collateral against lendings to financial institutions is Rs. 638,822 thousands (2015: Nil).

10.4 This carries profit / return of 5.98% per annum with maturity upto 10 February 2017.

10.5 These carry profit / return ranging from 4.50% to 5.25% per annum with maturity upto 6 March 2017.

11. INVESTMENTS

11.1 Investments by types

	Note	2016			2015		
		Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
Rupees in '000							
Available-for-sale securities							
Market treasury bills	11.5	158,277,735	12,042,862	170,320,597	72,360,324	3,558,874	75,919,198
Pakistan investment bonds	11.6	83,538,877	–	83,538,877	152,462,898	2,054,088	154,516,986
Ordinary shares of listed companies		1,572,398	–	1,572,398	1,062,338	–	1,062,338
Ordinary shares of unlisted companies		106,991	–	106,991	106,991	–	106,991
Listed term finance certificates		2,088,703	–	2,088,703	1,938,933	–	1,938,933
Unlisted term finance certificates		314,828	–	314,828	440,305	–	440,305
Sukuk certificates and bonds		18,542,294	–	18,542,294	12,626,088	–	12,626,088
Open end mutual funds		3,908,757	–	3,908,757	5,532,227	–	5,532,227
Close end mutual funds		419,685	–	419,685	416,409	–	416,409
		<u>268,770,268</u>	<u>12,042,862</u>	<u>280,813,130</u>	<u>246,946,513</u>	<u>5,612,962</u>	<u>252,559,475</u>
Held-to-maturity securities							
Pakistan investment bonds	11.7	27,642,036	–	27,642,036	19,532,493	–	19,532,493
Other federal govt. securities- Bai Muajjal		–	–	–	11,644,641	–	11,644,641
Certificates of investments	11.8	2,200,000	–	2,200,000	3,300,000	–	3,300,000
		<u>29,842,036</u>	<u>–</u>	<u>29,842,036</u>	<u>34,477,134</u>	<u>–</u>	<u>34,477,134</u>
Subsidiaries							
Habib Metropolitan Financial Services Limited - 29,999,997 (2015: 29,999,997) ordinary shares of Rs. 10/- each		300,000	–	300,000	300,000	–	300,000
Habib Metropolitan Modaraba Management Company (Private) Limited- 34,999,998 (2015: 749,998) ordinary shares of Rs. 10/- each	11.9	350,000	–	350,000	7,500	–	7,500
		<u>650,000</u>	<u>–</u>	<u>650,000</u>	<u>307,500</u>	<u>–</u>	<u>307,500</u>
Investments at cost		<u>299,262,304</u>	<u>12,042,862</u>	<u>311,305,166</u>	<u>281,731,147</u>	<u>5,612,962</u>	<u>287,344,109</u>
Provision for diminution in the value of investments	11.3	(302,221)	–	(302,221)	(269,257)	–	(269,257)
Investments – net of provisions		<u>298,960,083</u>	<u>12,042,862</u>	<u>311,002,945</u>	<u>281,461,890</u>	<u>5,612,962</u>	<u>287,074,852</u>
Surplus / (deficit) on revaluation of available-for-sale securities - net	21.2	3,622,581	(6,515)	3,616,066	5,708,836	(4,458)	5,704,378
Investments after revaluation of available-for-sale securities		<u><u>302,582,664</u></u>	<u><u>12,036,347</u></u>	<u><u>314,619,011</u></u>	<u><u>287,170,726</u></u>	<u><u>5,608,504</u></u>	<u><u>292,779,230</u></u>

	Note	2016	2015
		Rupees in '000	
11.2 Investments by segments			
Federal government securities			
Market treasury bills		170,320,597	75,919,198
Pakistan investment bonds		111,180,913	174,049,479
GOP ijarah sukuk		17,384,845	11,130,788
Other federal government securities - Bai Muajjal		–	11,644,641
		<u>298,886,355</u>	<u>272,744,106</u>
Fully paid up ordinary shares			
Listed companies		1,572,398	1,062,338
Unlisted companies		106,991	106,991
		<u>1,679,389</u>	<u>1,169,329</u>
Term finance certificates, sukuk certificates and bonds			
Listed term finance certificates		2,088,703	1,938,933
Unlisted term finance certificates		314,828	440,305
Sukuk certificates / bonds		1,157,449	1,495,300
		<u>3,560,980</u>	<u>3,874,538</u>
Mutual funds			
Open end		3,908,757	5,532,227
Close end		419,685	416,409
		<u>4,328,442</u>	<u>5,948,636</u>
Certificates of investments		2,200,000	3,300,000
Subsidiaries			
Habib Metropolitan Financial Services Limited - 29,999,997 (2015: 29,999,997) ordinary shares of Rs.10/- each		300,000	300,000
Habib Metropolitan Modaraba Management (Private) Limited - 34,999,998 (2015: 749,998) ordinary shares of Rs. 10/- each		350,000	7,500
Total investments at cost		<u>311,305,166</u>	<u>287,344,109</u>
Provision for diminution in the value of investments	11.3	(302,221)	(269,257)
Investments - net of provisions		<u>311,002,945</u>	<u>287,074,852</u>
Surplus on revaluation of available-for-sale securities – net	21.2	3,616,066	5,704,378
Investments after revaluation of available-for-sale securities		<u><u>314,619,011</u></u>	<u><u>292,779,230</u></u>

	2016	2015
	Rupees in '000	
11.3 Particulars of provision for diminution in the value of investments		
Opening balance	269,257	160,180
Charge for the year	45,156	118,089
Reversal for the year	(12,192)	(9,012)
Net charge for the year	32,964	109,077
Closing balance	302,221	269,257

11.3.1 Provision for diminution in respect of type and segment

Available-for-sale securities

Fully paid-up ordinary shares

Listed companies	83,710	82,502
Unlisted companies	78,029	75,487

Term finance certificates, sukuk certificates and bonds

Listed term finance certificates	82,558	41,279
Unlisted term finance certificates	28,840	28,840
Sukuk certificates / bonds	19,075	31,267

Mutual funds

Close end	10,009	9,882
	302,221	269,257

11.4 Information relating to investments in federal government securities, ordinary shares of listed and unlisted companies, listed and unlisted term finance certificates, sukuk certificates / bonds and open and close end mutual funds required to be disclosed as part of the financial statements under the SBP's BSD Circular No. 4, dated 17 February 2006, is given in Annexure "I" and is an integral part of these unconsolidated financial statements.

11.5 These carry mark-up rates ranging from 5.87% to 6.28% (2015: 6.39% to 8.50%) per annum, with maturity upto 31 August 2017 (2015: 1 September 2016).

11.6 These carry mark-up rates ranging from 7.00% to 12.00% (2015: 8.75% to 12.00%) per annum and will mature up to 19 July 2022 (2015: 19 July 2022). These includes Rs. 132,000 thousand (2015: Rs. 132,000 thousand) pledged with the State Bank of Pakistan against TT / DD discounting facilities and demand loan facilities.

11.7 These carry mark-up rates ranging from 8.75% to 12.00% (2015: 11.50% to 12.00%) per annum and will mature up to 21 April 2026 (2015: 19 July 2022).

11.8 These carry mark-up rates ranging from 4.50% to 5.25% (2015: 6.40% to 7.50%) per annum and will mature up to 6 March 2017 (2015: 28 March 2016).

11.9 During the year, further investment of Rs. 342,500 thousand was made in wholly owned subsidiary. The subsidiary company is in process of issuance of 34,250 thousand shares at Rs. 10 each.

	Note	2016	2015
		Rupees in '000	
12. ADVANCES			
Loans, cash credits, running finances, etc.			
In Pakistan		125,075,780	115,482,866
Islamic financing and related assets (gross)	44.5	8,802,424	8,254,307
Net investment in finance lease			
In Pakistan	12.2	568,510	655,517
Bills discounted and purchased			
Payable in Pakistan		6,961,624	7,244,944
Payable outside Pakistan		18,484,814	18,438,791
		25,446,438	25,683,735
Advances – gross		159,893,152	150,076,425
Provision against non-performing advances			
- specific		(16,796,939)	(16,532,837)
- general		(134,110)	(896,749)
	12.6	(16,931,049)	(17,429,586)
Advances – net of provisions	12.9	142,962,103	132,646,839

12.1 Particulars of advances – gross

12.1.1 In local currency	135,385,329	120,399,542
In foreign currencies	24,507,823	29,676,883
	159,893,152	150,076,425
12.1.2 Short term (for upto one year)	137,879,279	133,240,123
Long term (for over one year)	22,013,873	16,836,302
	159,893,152	150,076,425

12.2 Net investment in finance lease

	2016				2015			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	Rupees in '000							
Lease rentals receivable	172,202	329,535	–	501,737	172,206	451,796	4,937	628,939
Residual value	31,404	87,904	–	119,308	28,719	78,493	476	107,688
Minimum lease payments	203,606	417,439	–	621,045	200,925	530,289	5,413	736,627
Financial charges for future periods	(13,717)	(38,818)	–	(52,535)	(21,912)	(57,945)	(1,253)	(81,110)
Present value of minimum lease payments	189,889	378,621	–	568,510	179,013	472,344	4,160	655,517

12.3 Advances include Rs. 19,873,142 thousand (2015 : Rs.18,486,982 thousand) which have been placed under non-performing status as detailed below:

Category of classification	2016			2015		
	Classified advances	Provision required	Provision held	Classified advances	Provision required	Provision held
Rupees in '000						
Substandard	238,382	53,736	53,736	57,324	14,331	14,331
Doubtful	118,393	21,945	21,945	286,353	127,376	127,376
Loss	19,516,367	16,721,258	16,721,258	18,143,305	16,391,130	16,391,130
	<u>19,873,142</u>	<u>16,796,939</u>	<u>16,796,939</u>	<u>18,486,982</u>	<u>16,532,837</u>	<u>16,532,837</u>

12.4 Consideration of forced sales value (FSV) for the purposes of provisioning against non-performing loans

During the current year, the Bank availed additional forced value (FSV) benefit under BSD Circular No. 1 of 21 October 2011. This has resulted in reduction of provision against non-performing loans and advances by Rs. 2,179,431 thousand. Further, as of 31 December 2016, had the benefit of FSVs (including those availed in previous year) not been taken by the Bank, the specific provision against non-performing advances would have been higher by Rs. 2,838,225 thousand (2015: Rs. 1,767,976 thousand) and accumulated profit would have been lower by Rs. 1,844,846 thousand (2015: Rs. 1,149,184 thousand). This amount of Rs. 1,844,846 thousand is not available for distribution of cash and stock dividend to the shareholders and bonus to employees.

12.5 Provision against non-performing advances

Note	2016			2015		
	Specific	General	Total	Specific	General	Total
Rupees in '000						
Opening balance	16,532,837	896,749	17,429,586	15,661,846	326,696	15,988,542
Charge for the year	2,670,552	–	2,670,552	2,657,575	570,053	3,227,628
Reversals for the year	(1,096,262)	(762,639)	(1,858,901)	(1,110,743)	–	(1,110,743)
Net charge / (reversal) for the year	1,574,290	(762,639)	811,651	1,546,832	570,053	2,116,885
Amount written off	12.7 (1,310,188)	–	(1,310,188)	(675,841)	–	(675,841)
Closing balance	12.6 <u>16,796,939</u>	<u>134,110</u>	<u>16,931,049</u>	<u>16,532,837</u>	<u>896,749</u>	<u>17,429,586</u>

12.5.1 General provision includes provision of Rs. 3,387 thousand (2015: Rs. 1,824 thousand) made against consumer portfolio maintained at an amount equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required under the Prudential Regulations issued by the SBP. Moreover, general provision also includes provision of Rs. 16,814 thousand (2015: Rs. 28,806 thousand) made against small enterprises maintained at an amount equal to 1% of the fully secured performing portfolio and 2% of the unsecured performing portfolio.

12.6 Particulars of provision against non-performing advances

	2016			2015		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Against local currency exposure	16,518,304	134,110	16,652,414	16,153,105	896,749	17,049,854
Against foreign currencies exposure	278,635	–	278,635	379,732	–	379,732
	<u>16,796,939</u>	<u>134,110</u>	<u>16,931,049</u>	<u>16,532,837</u>	<u>896,749</u>	<u>17,429,586</u>

	Note	2016	2015
		Rupees in '000	
12.7 Particulars of write-offs			
12.7.1 Against provisions	12.5	1,310,188	675,841
Directly charged to profit and loss account		–	–
		<u>1,310,188</u>	<u>675,841</u>
12.7.2 Write offs of Rs. 500,000/- and above		1,310,188	675,841
Write offs of below Rs. 500,000/-		–	–
		<u>1,310,188</u>	<u>675,841</u>

12.8 Details of loan write offs of Rs. 500,000/- and above

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 Rs. 500,000 or above allowed to the persons during the year ended 31 December 2016 is enclosed as Annexure "II".

12.9 These include Islamic financing and related assets amounting to Rs. 8,429,751 thousand (2015: Rs. 7,897,487 thousand).

12.10 Particulars of loans and advances to directors, associated companies, subsidiaries etc.

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 year	2,177,624	1,758,827
Loans granted during the year	987,986	912,573
Repayments during the year	(538,454)	(493,776)
Balance at end of year	<u>2,627,156</u>	<u>2,177,624</u>

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 year	3,967,805	1,840,385
Loans granted during the year	63,535,889	44,364,667
Repayments during the year	(64,319,195)	(42,237,247)
Balance at end of year	<u>3,184,499</u>	<u>3,967,805</u>

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	Note	2016	2015
		Rupees in '000	
Debts due by subsidiary companies, controlled firms and other related parties;			
Balance at beginning of year		–	–
Loans granted during the year		10,937	281,577
Repayments during the year		–	(281,577)
Balance at end of year	41	10,937	–

13. OPERATING FIXED ASSETS

Capital work-in-progress	13.1	86,586	57,679
Property and equipment	13.2	2,969,280	3,067,100
Intangible assets	13.3	190,510	–
		3,246,376	3,124,779
13.1 Capital work-in-progress			
Civil works	13.1.1	41,172	40,076
Equipments, etc.		45,414	17,603
		86,586	57,679

13.1.1 This represents advance against renovation being carried out at various locations.

13.2 Property and equipment

	Cost			Depreciation			Book Value	
	As at 1 January 2016	Additions / (deletions) / (transfer)*	As at 31 December 2016	As at 1 January 2016	Charge for the year/ (deletions) / (transfer)*	As at 31 December 2016	As at 31 December 2016	Rate of depreciation %
	Rupees in '000							
Leasehold land	7,488	–	7,488	1,453	112	1,565	5,923	1.49
Buildings / office premises on freehold land	638,933	– (286,150)*	352,783	203,216	23,607 (71,192)*	155,631	197,152	4
Buildings / office premises on leasehold land	1,941,903	– (74,990)	1,866,913	685,591	67,045 (13,665)	738,971	1,127,942	4
Furniture and fixtures, office and computer equipments	1,831,356	540,215 (19,578)	2,351,993	1,160,384	316,993 (18,510)	1,458,867	893,126	15 & 25
Vehicles	12,362	1,738 (697)	13,403	9,413	1,211 (613)	10,011	3,392	20
Leasehold improvements	1,987,467	300,197 (7,372)	2,280,292	1,292,352	253,567 (7,372)	1,538,547	741,745	20
2016	6,419,509	842,150 (102,637) (286,150)*	6,872,872	3,352,409	662,535 (40,160) (71,192)*	3,903,592	2,969,280	

* This represents amount transferred to non-current assets held for sale refer note 15.1 to these unconsolidated financial statements.

	Cost			Depreciation			Book Value	Rate of depreciation %
	As at 1 January 2015	Additions / (deletions)	As at 31 December 2015	As at 1 January 2015	Charge for the year/ (deletions)	As at 31 December 2015	As at 31 December 2015	
	Rupees in '000							
Leasehold land	7,488	–	7,488	1,341	112	1,453	6,035	1.49
Buildings / office premises on freehold land	634,313	4,620	638,933	180,198	23,018	203,216	435,717	4
Buildings / office premises on leasehold land	1,922,797	19,106	1,941,903	616,290	69,301	685,591	1,256,312	4
Furniture and fixtures, office and computer equipment	1,499,933	350,118 (18,695)	1,831,356	940,080	238,531 (18,227)	1,160,384	670,972	15 & 25
Vehicles	15,776	2,959 (6,373)	12,362	12,570	1,206 (4,363)	9,413	2,949	20
Leasehold improvements	1,746,352	241,115	1,987,467	1,058,588	233,764	1,292,352	695,115	20
2015	5,826,659	617,918 (25,068)	6,419,509	2,809,067	565,932 (22,590)	3,352,409	3,067,100	

13.2.1 The cost of fully depreciated assets still in use is Rs. 1,838,729 thousand (2015: Rs. 1,486,446 thousand).

13.2.2 Carrying amount of idle properties held as at 31 December 2015 is Rs. 265,213 thousand.

13.2.3 Details of fixed assets disposed with original cost or book value in excess of Rs. 1,000 thousand or Rs. 250 thousand respectively, whichever is lower are as follows:

Particulars	Cost	Book value	Sale proceed	Mode of disposal	Particulars of purchaser
	Rupees in '000				
Premises	74,990	61,325	70,000	Negotiation	Century 21 Textile & Sportswear (Private) Limited
Leasehold improvement	5,070	–	12	Best available quotation	Sadaat Ali Soomro
Leasehold improvement	1,657	–	16	Best available quotation	Bhai Jan Steel Merchant
Office equipment	328	277	322	Insurance claim	EFU Insurance Company
	82,045	61,602	70,350		

13.3 Intangible assets

	Cost			Amortization			Book Value	Rate of depreciation %
	As at 1 January 2016	Additions / (deletions)	As at 31 December 2016	As at 1 January 2016	Charge for the year/ (deletions)	As at 31 December 2016	As at 31 December 2016	
	Rupees in '000							
Computer software	27,875	235,683	263,558	27,875	45,173	73,048	190,510	33.33
	Cost			Amortization			Book Value	Rate of depreciation %
	As at 1 January 2015	Additions / (deletions)	As at 31 December 2015	As at 1 January 2015	Charge for the year/ (deletions)	As at 31 December 2015	As at 31 December 2015	
	Rupees in '000							
Computer software	27,875	–	27,875	27,875	–	27,875	–	33.33

13.3.1 The cost of fully amortised intangible assets (computer software) still in use is Rs. 27,875 thousand (2015: Rs. 27,875 thousand).

	Note	2016	2015
		Rupees in '000	
14. DEFERRED TAX ASSETS			
Deferred tax debits arising in respect of:			
– Provision against diminution in the value of investments		105,777	94,240
– Provisions against non-performing advances (including off-balance sheet obligations)	31.3	3,761,929	3,878,902
– Provision against other assets		140,090	200,900
– Deferred liability on defined benefit plan		70,249	80,850
		<u>4,078,045</u>	<u>4,254,892</u>
Deferred tax credits arising due to:			
– Surplus on revaluation of investment securities		(1,265,623)	(1,996,532)
– Surplus on revaluation of non-banking assets		(83,288)	–
– Accelerated depreciation		(270,449)	(319,732)
		<u>(1,619,360)</u>	<u>(2,316,264)</u>
Net deferred tax asset	14.1	<u>2,458,685</u>	<u>1,938,628</u>

14.1 Reconciliation of deferred tax

	Balance as at 1 January 2015	Recognised in profit & loss account	Recognised in equity	Balance as at 31 December 2015	Recognised in profit & loss account	Recognised in equity	Balance as at 31 December 2016
	Rupees in '000						
Deferred debits arising in respect of							
Provision against diminution in value of investments	56,063	38,177	–	94,240	11,537	–	105,777
Provision against non-performing advances (including off-balance sheet obligations) - note 31.3	3,408,971	469,931	–	3,878,902	(116,973)	–	3,761,929
Provision against other assets	200,900	–	–	200,900	(60,810)	–	140,090
Deferred liability on defined benefit plan	69,549	–	11,301	80,850	–	(10,601)	70,249
	<u>3,735,483</u>	<u>508,108</u>	<u>11,301</u>	<u>4,254,892</u>	<u>(166,246)</u>	<u>(10,601)</u>	<u>4,078,045</u>
Deferred credits arising due to							
Surplus on revaluation of investment	(2,098,459)	–	101,927	(1,996,532)	–	730,909	(1,265,623)
Surplus on revaluation of non-banking assets	–	–	–	–	1,086	(84,374)	(83,288)
Accelerated depreciation	(368,497)	48,765	–	(319,732)	49,283	–	(270,449)
	<u>(2,466,956)</u>	<u>48,765</u>	<u>101,927</u>	<u>(2,316,264)</u>	<u>50,369</u>	<u>646,535</u>	<u>(1,619,360)</u>
Net deferred tax asset	<u>1,268,527</u>	<u>556,873</u>	<u>113,228</u>	<u>1,938,628</u>	<u>(115,877)</u>	<u>635,934</u>	<u>2,458,685</u>

	Note	2016	2015
		Rupees in '000	
15. OTHER ASSETS			
Income / mark-up / profit accrued in local currency		5,721,088	9,582,577
Income / mark-up / profit accrued in foreign currencies		31,064	31,788
Advances, deposits, advance rent and other prepayments		502,428	480,444
Advance tax (payments less provisions)		104,456	–
Branch adjustment account		211	53
Unrealised gain on forward foreign exchange contracts		769,626	624,018
Receivable from the SBP against encashment of government securities		24,197	19,648
Stationery and stamps on hand		34,033	37,848
Dividend receivable		2,106	–
Non-banking assets acquired in satisfaction of claims	15.1	1,664,871	1,558,077
Non-current assets - held for sale	15.1	214,958	–
Others		78,709	376,938
		<u>9,147,747</u>	<u>12,711,391</u>
Provision against other assets	15.2	<u>(400,250)</u>	<u>(574,000)</u>
		<u>8,747,497</u>	<u>12,137,391</u>

15.1 Non-current assets held for sale represents a property of Rs. 214,958 thousand (refer note 13.2) and non-banking assets acquired in satisfaction of claims includes a property amounting to Rs. 401,764 thousand against which the Bank has entered into an agreement to sell with a buyer on deferred payment basis. The possession of the properties has been effected against receipt of earnest money, however, the title will be transferred upon receiving the entire sale consideration.

15.2 Provision held against other assets

Opening balance	574,000	574,000
Charge for the year	101,250	–
Reversal for the year	(275,000)	–
	<u>(173,750)</u>	<u>–</u>
Closing balance	<u>400,250</u>	<u>574,000</u>

16. BILLS PAYABLE

In Pakistan	<u>8,108,633</u>	<u>6,344,461</u>
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17. BORROWINGS

In Pakistan	34,515,931	28,515,900
Outside Pakistan	<u>2,689,244</u>	<u>2,946,922</u>
	<u>37,205,175</u>	<u>31,462,822</u>

17.1 Particulars of borrowings in respect of currencies

In local currency	34,515,931	28,515,900
In foreign currencies	<u>2,689,244</u>	<u>2,946,922</u>
	<u>37,205,175</u>	<u>31,462,822</u>

	Note	2016	2015
		Rupees in '000	
17.2 Details of borrowings			
Secured			
Borrowings from the State Bank of Pakistan			
– under export refinance scheme		18,749,236	21,274,506
– under long term financing - export oriented projects		–	19,413
– under long term financing facility - locally manufactured plant and machinery		3,616,963	1,423,239
	17.2.1	22,366,199	22,717,158
Repurchase agreement borrowings (Repo)	17.2.2	12,032,715	5,603,311
Due against bills re-discounting	17.2.3	1,916,120	2,749,266
		36,315,034	31,069,735
Unsecured			
Overdrawn nostro accounts		773,124	197,656
Overdrawn local bank accounts		117,017	195,431
		890,141	393,087
		37,205,175	31,462,822

17.2.1 These carry mark-up rates ranging between 2.00% to 5.00% (2015: 5.00% to 10.10%) per annum which is payable quarterly or upon maturity of loans, whichever is earlier.

17.2.2 These carry mark-up rates ranging between 5.75% to 5.90% (2015: 6.05% to 6.20%) per annum having maturity upto 13 January 2017 (2015: 11 January 2016).

17.2.3 This represents the obligation to the corresponding Banks on the discounting of foreign documentary bills purchased by the Bank on discount. The balance carries discount rate at 1.00% (2015: 1.00%) per annum having maturity upto 15 May 2017 (2015: 1 June 2016).

	Note	2016	2015
		Rupees in '000	
18. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		180,348,374	169,177,912
Savings deposits		110,647,888	116,432,300
Current accounts (non-remunerative)		120,721,112	101,487,138
Others		4,320,917	2,761,126
		<u>416,038,291</u>	<u>389,858,476</u>
Financial institutions			
Remunerative deposits		13,191,894	12,508,420
Non-remunerative deposits		1,657,851	988,061
		<u>14,849,745</u>	<u>13,496,481</u>
		<u>430,888,036</u>	<u>403,354,957</u>
18.1 Particulars of deposits			
In local currency		384,013,986	351,941,625
In foreign currencies		46,874,050	51,413,332
		<u>430,888,036</u>	<u>403,354,957</u>
19. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		6,396,081	6,723,356
Mark-up / return / interest payable in foreign currencies		104,142	151,557
Unearned commission and income on bills discounted		149,431	117,364
Accrued expenses		445,462	616,256
Current taxation (provision less payments)		–	707,213
Provision against off-balance sheet obligations	19.1	113,716	113,716
Unclaimed dividend		20,699	21,770
Unrealised loss on forward foreign exchange contracts		917,476	793,645
Workers' welfare fund	30.1	555,189	513,501
Excise duty payable		2,287	3,912
Locker deposits		668,055	599,952
Advance against diminishing musharakah		223	66,466
Advance rental for ijarah		1,800	9,070
Security deposits against leases / ijarah		171,044	164,523
Sundry creditors		389,937	390,587
Withholding tax / duties		167,093	165,970
Provision for compensated absences		187,527	89,311
Deferred liability on defined benefit plan		197,816	228,105
Others		246,145	412,790
		<u>10,734,123</u>	<u>11,889,064</u>
19.1 Provision against off-balance sheet obligations			
Opening balance		113,716	98,727
Charge for the year		–	14,989
Closing balance		<u>113,716</u>	<u>113,716</u>

20. SHARE CAPITAL

20.1 Authorised capital

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

20.2 Issued, subscribed and paid-up capital

		Ordinary shares of Rs. 10/- each		
30,000,000	30,000,000	- issued for cash	300,000	300,000
92,500,000	92,500,000	- issued upon amalgamation	925,000	925,000
925,331,480	925,331,480	- issued as bonus shares	9,253,315	9,253,315
<u>1,047,831,480</u>	<u>1,047,831,480</u>		<u>10,478,315</u>	<u>10,478,315</u>

20.3 As of the date of statement of financial position, the holding company held 534,394 thousand (2015: 534,394 thousand) ordinary shares of Rs. 10/- each (51% holding).

21. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX

Non-banking assets	21.1	154,678	-
Available for sale securities	21.2	2,350,443	3,707,846
		<u>2,505,121</u>	<u>3,707,846</u>

21.1 Non-banking assets

Surplus on revaluation of non-banking assets as at January	-	-
Revaluation of non-banking assets during the year	258,227	-
Transferred to unappropriated profit in respect of disposal and incremental depreciation during the year - net of deferred tax	(13,170)	-
Related deferred tax liability on disposal and incremental depreciation during the year	(7,091)	-
Surplus on revaluation of non banking assets	237,966	-
Less: Related deferred tax liability on:		
Revaluation as at January	-	-
Revaluation of non-banking assets during the year	90,379	-
Disposal and incremental depreciation during the year	(7,091)	-
Related deferred tax liability	(83,288)	-
	<u>154,678</u>	<u>-</u>

	2016	2015
	Rupees in '000	
21.2 Available-for-sale securities		
Federal government securities		
Market treasury bills	8,896	176,303
Pakistan investment bonds	2,476,838	5,214,298
GOP ijarah sukuk	387,580	41,461
Fully paid-up ordinary shares and mutual funds		
Listed shares and mutual funds	712,299	290,872
Term finance certificates, sukuk certificates and bonds		
Listed term finance certificates	18,123	(6,813)
Unlisted term finance certificates	1,342	4,645
Sukuk certificates / bonds	10,988	(16,388)
	<u>3,616,066</u>	<u>5,704,378</u>
Related deferred tax liability - net	<u>(1,265,623)</u>	<u>(1,996,532)</u>
	<u>2,350,443</u>	<u>3,707,846</u>
22. CONTINGENCIES AND COMMITMENTS		
22.1 Direct credit substitutes		
Bank guarantees of indebtedness in favour of:		
– Banking companies and other financial institutions	<u>872</u>	<u>2,286</u>
22.2 Transaction-related contingent liabilities		
Includes performance bonds, bid bonds, advance payment guarantees and shipping guarantees favouring:		
i) Government	21,036,923	17,163,286
ii) Banking companies and other financial institutions	499,127	436,358
iii) Others	16,022,300	10,077,952
	<u>37,558,350</u>	<u>27,677,596</u>
22.3 Trade-related contingent liabilities		
Letters of credit	<u>61,829,418</u>	<u>63,545,499</u>
Acceptances	<u>11,400,550</u>	<u>12,554,226</u>
22.4 Commitments in respect of forward exchange contracts		
Purchase	<u>76,832,902</u>	<u>80,770,251</u>
Sale	<u>66,117,312</u>	<u>73,381,353</u>
22.5 Commitments in respect of operating leases		
Not later than one year	41,488	20,757
Later than one year and not later than five years	43,205	18,890
	<u>84,693</u>	<u>39,647</u>

The Bank has entered into non-cancellable lease agreements with a Modaraba which has been duly approved by the Religious Board as Ijarah transactions. The monthly rental installments are spread over a period of 36 months. When a lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

22.6 Commitments for the acquisition of operating fixed assets	<u>61,774</u>	<u>57,582</u>
22.7 Claims against bank not acknowledged as debt	<u>23,071,676</u>	<u>1,348,358</u>

22.8 Commitments in respect of forward lendings

The Bank has made commitments to extend credit in the normal course of its business, but none of these commitments are irrevocable and do not attract any penalty if the facility is unilaterally withdrawn.

22.9 Commitments in respect of syndicate financing	<u>628,948</u>	<u>1,210,595</u>
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22.10 Taxation

Income tax assessments of the Bank have been finalised upto the tax year 2016 (corresponding to the accounting year ended 31 December 2015). Certain appeals are pending with the Commissioner of Inland Revenue (Appeal) and Appellate Tribunal Revenue (ATIR). However, adequate provisions are being held by the Bank.

22.11 Foreign Exchange repatriation case

While adjudicating Foreign Exchange repatriation cases of exporters, the Foreign Exchange Adjudicating Court of the State Bank of Pakistan has also adjudicated penalty of Rs. 106,056 thousand, arbitrarily on the Bank. The Bank has filed appeal before the Appellate Board and Constitutional Petition in the Honorable High Court of Sindh against the said judgment. The Honorable High Court has granted relief to the Bank by way of interim order. Based on merits of the case, the management is confident that this shall be decided in favor of the Bank and therefore no provision has been made against the impugned penalty.

23. 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 on the statement of financial position under "other assets and 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.

These positions are reviewed on a regular basis by the Bank's Asset and Liability Committee (ALCO).

24. MARK-UP / RETURN / INTEREST EARNED	Note	2016	2015
		Rupees in '000	
On loans and advances to:			
Customers		8,734,055	9,565,369
Financial institutions		106,606	121,503
		8,840,661	9,686,872
On investments in:			
Available-for-sale securities		20,039,416	23,843,992
Held-to-maturity securities		3,319,129	2,815,895
		23,358,545	26,659,887
On Bai-Muajjal with SBP		272,366	—
On deposits with financial institutions		439,341	276,436
On securities purchased under resale agreements (reverse repo)		261,158	226,818
		33,172,071	36,850,013
25. MARK-UP / RETURN / INTEREST EXPENSED			
Deposits		17,626,445	16,652,269
Securities sold under repurchase agreements		1,428,679	3,006,435
Short term borrowings		2,227,713	2,677,616
Long term borrowings		127,018	129,735
		21,409,855	22,466,055
26. GAIN / (LOSS) ON SALE / REDEMPTION OF SECURITIES – NET			
Federal government securities			
Market treasury bills		29,588	277,186
Pakistan investment bonds		3,395,821	3,187,060
GOP ijarah sukuk		(1,435)	(16,282)
Fully paid-up ordinary shares			
Listed companies		115,841	83,110
Mutual funds		785,129	1,247,439
		4,324,944	4,778,513
27. OTHER INCOME			
Rent on properties		28,189	82,284
Net gain on sale of fixed assets		20,959	59,186
Recovery of charges from customers	27.1	136,655	127,913
Incidental and service charges		58,307	65,449
Gain on sale of ijarah assets		32	604
Income from non-banking assets and gain on sale of such assets	27.2	5,083	4,500
Bad debts recovered previously written off		72,730	16
Staff notice period and other recoveries		1,515	2,178
		323,470	342,130

27.1 Includes courier, telephone and swift charges etc. recovered from customers.

27.2 This includes gain on sale of a property amounting to Rs. 583 thousand (2015: Rs. Nil).

		2016	2015
		Rupees in '000	
28. ADMINISTRATIVE EXPENSES			
Salaries, allowances etc.		4,683,723	4,256,657
Charge for defined benefit plan	35.5	149,094	123,765
Contribution to defined contribution plan		151,285	138,495
Non-executive directors' fees, allowances and other expenses		7,800	8,775
Brokerage and commission		135,876	110,093
Rent, taxes, insurance, electricity etc.		1,377,478	1,202,962
Legal and professional charges		121,039	114,107
Communication		249,898	238,526
Repairs and maintenance		265,950	281,015
Rentals of operating leases		33,376	23,124
Stationery and printing		174,250	152,731
Management fee		107,620	246,524
Advertisement and publicity		140,758	102,711
Donations	28.2	92,450	62,845
Auditors' remuneration	28.3	12,110	9,872
Depreciation and amortization	13 & 28.4	727,574	565,932
Security charges		380,539	299,372
Travelling and conveyance		134,754	151,967
Computer software maintenance		101,840	68,319
Subscriptions		140,542	113,750
Others		171,640	174,398
		9,359,596	8,445,940

28.1 The administrative expenses includes Rs. 5,482 thousand (2015: Rs. 8,497 thousand) incurred for providing office premises and support staff to the Chairman for carrying out his duties as the Chairman of the Board.

	2016	2015
	Rupees in '000	

28.2 Donations paid in excess of Rs. 100,000 to a single party during the year are as follows:

DONEE

Habib Metropolitan Employees Endowment Fund	25,000	—
The Citizens Foundation	13,500	12,000
Habib University Foundation	12,000	12,000
Patients' Aid Foundation	10,030	10,300
Sindh Institute of Urology and Transplantation	5,000	3,000
Mohamedali Habib Welfare Trust	2,000	2,000
Masoomen Hospital Trust	1,500	1,700
Zehra Homes	1,140	1,000
Fatimiyah Education Network	1,000	1,000

	2016	2015
	Rupees in '000	
DONEE		
Aziz Tabba Foundation (Tabba Heart Institute)	1,000	1,000
Habib Education Trust	1,000	–
Alleviate Addiction Suffering Trust	1,000	–
Habib Public School	1,000	–
Habib Medical Trust	960	960
Habib Poor Fund	960	960
Al-Sayyeda Benevolent Trust	960	960
RehmatBai Habib Food & Clothing Trust	960	960
Abbas-e-Alamdard Hostel	960	300
RehmatBai Habib Widows & Orphans Trust	960	960
Pakistan Memon Educational & Welfare Society	600	600
Developments in Literacy	550	–
MBJ Health Association	500	500
Abdul Sattar Edhi Foundation	500	500
Memon Educational Board	500	500
Pakistan Memon Women Educational Society	500	500
Afzaal Memorial Thalassemia Foundation	500	500
Marie Adelaide Leprosy Centre	500	300
Karachi Down Syndrome Program	500	–
Poor Patients Aid Society Civil Hospital	500	–
The Aga Khan Hospital and Medical College Foundation	500	–
The Health Foundation	500	–
Vocational Welfare Society For Mentally Retarded (Markaz-e-Umeed)	300	300
Institute of Business Administration	300	–
Child Aid Association	300	–
Rotary Club of Karachi Continental	300	–
Al-Umeed Rehabilitation Association	250	250
Anjuman Behbood-e-Samat-e-Atfal	250	250
Bantva Memon Jamat	250	250
Bantva Memon Rahat Committee	250	250
Caravan of Life (Pak) Trust	250	250
Pak Medical and Welfare Trust	250	250
Dow 86 Children Critical Care Foundation	250	–
The Indus Hospital	250	–
Health Oriented Preventive Education	250	–
The Medical Aid Foundation	250	–
The Patients Behbud Society	250	–
Dhoraji Youth Services Foundation	200	300
Ahmed Abdullah Foundation (MA Ayesha Memorial Centre)	200	200
Kashmir Education Foundation	200	200
Family Educational Services Foundation	200	–
Dhoraji Association	150	250
Bantva Anjuman Himayat-e-Islam	150	150
Academy of Quranic Studies	120	120
Memon Health and Education Foundation	–	5,000
Panah Trust	–	500
Habib Girls School Trust	–	500

	2016	2015
	Rupees in '000	
DONEE		
Professional Education Foundation	—	300
Dar-UI-Khushnud	—	250
Publican Alumni Trust	—	250
True Worth Foundation	—	250
Special Children Educational Institute	—	150

None of the directors, executives and their spouses had interest in the donations disbursed during the years 2016 and 2015, except for donations paid to:

Name of Donee	Directors	Interest in Donee as
Habib Education Trust	Mr. Ali S. Habib Mr. Mohamedali R. Habib Mr. Muhammad H. Habib	Member of the Board of Trustees Member of the Board of Trustees Member of the Board of Trustees
Habib Medical Trust	Mr. Mohamedali R. Habib	Member of the Board of Trustees
Habib Poor Fund	Mr. Mohamedali R. Habib	Member of the Board of Trustees
Habib University Foundation	Mr. Ali S. Habib Mr. Mohamedali R. Habib Mr. Mohamed Bashir Mr. Muhammad H. Habib	Member of the Board of Directors Member of the Board of Directors Member of the Board of Directors Member of the Board of Directors
Mohamedali Habib Welfare Trust	Mr. Ali S. Habib	Member of the Board of Trustees
RahmatBai Habib Food & Clothing Trust	Mr. Mohamedali R. Habib Mr. Muhammad H. Habib	Member of the Board of Trustees Member of the Board of Trustees
RahmatBai Habib Widows & Orphans Trust	Mr. Muhammad H. Habib	Member of the Board of Trustees

28.3 Auditors' remuneration	Note	2016	2015
		Rupees in '000	
Audit fee		2,200	2,000
Review of half-yearly financial statements		750	650
Certifications and agreed upon procedures engagements		7,723	6,178
Out-of-pocket expenses		1,437	1,044
		<u>12,110</u>	<u>9,872</u>

28.4 This includes Rs. 19,866 thousand (2015: Nil) charged against non-banking assets.

29. OTHER PROVISIONS / WRITE OFF / (REVERSAL)

Reversal of provision against other assets - net	15.2	(173,750)	—
Provision against off balance sheet obligations	19.1	—	14,989
Other write off		1,702	—
		<u>(172,048)</u>	<u>14,989</u>

	Note	2016	2015
		Rupees in '000	
30. OTHER CHARGES			
Penalties imposed by the SBP		18,572	39,896
Workers' welfare fund	30.1	214,000	300,000
		<u>232,572</u>	<u>339,896</u>

30.1 Under the Workers' Welfare Ordinance 1971, the Bank is liable to pay workers' welfare fund (WWF) @ 2% of accounting profit before tax or taxable income, whichever is higher.

The Bank has made full provision for WWF based on profit for the respective years.

During the current year, the Supreme Court of Pakistan vide its order dated November 10, 2016 has held that the amendments made in the law introduced by the Federal Government for the levy of WWF were not lawful. The Federal Board of Revenue has filed review petitions against this order which are currently pending.

Legal advice obtained on the matter indicates that consequent to filing of these review petitions the judgement may not currently be treated as conclusive. Accordingly the Bank maintains its provision in respect of WWF.

31. TAXATION

For the year			
Current		3,517,238	4,963,851
Deferred	14.1	115,877	(556,873)
		<u>3,633,115</u>	<u>4,406,978</u>
For prior years			
Current		581,308	476,000
	31.2	<u>4,214,423</u>	<u>4,882,978</u>

31.1 Income tax assessments of the Bank have been finalised up to the tax year 2016 (corresponding to the accounting year ended 31 December 2015). Certain appeals are pending with the Commissioner of Inland Revenue (Appeal) and Appellate Tribunal Inland Revenue (ATIR). However, adequate provisions are being held by the Bank.

31.2 Relationship between tax expense and accounting profit

Profit before tax	10,333,747	12,538,911
Tax at the applicable tax rate of 35% (2015: 35%)	3,616,811	4,388,619
Prior years taxation	581,308	476,000
Others	16,304	18,359
Tax charge for the year	<u>4,214,423</u>	<u>4,882,978</u>

31.3 Through Finance Act, 2010 certain amendments have been introduced in Seventh Schedule to the Income Tax Ordinance, 2001. The provision for advances & off balance sheet items are allowed at 5% of total gross advances for consumer and SMEs (as defined in the SBP Prudential Regulation). The provision for advances and off balance sheet items other than those falling in definition of consumer & SMEs are allowed up to 1% of such total gross advances.

Further, Rule 8(A) of Seventh Schedule allows for amounts provided for in tax year 2008 and prior to said tax year for doubtful debts, which were neither claimed nor allowed as tax deductible in any year shall be allowed as deduction in tax year in which such doubtful debts are written off.

With reference to allowability of provision, the management has carried out an exercise at period end and concluded that full deduction of provision in succeeding years would be allowed and accordingly recognized deferred tax asset on such provision amounting to Rs. 3,761,929 thousand (2015: Rs. 3,878,902 thousand).

	Note	2016	2015
		Rupees in '000	
32. BASIC AND DILUTED EARNINGS PER SHARE			
Profit after taxation		<u>6,119,324</u>	<u>7,655,933</u>
		(Number in '000)	
Weighted average number of ordinary shares		<u>1,047,831</u>	<u>1,047,831</u>
		(Rupees)	
Basic and diluted earnings per share		<u>5.84</u>	<u>7.31</u>
33. CASH AND CASH EQUIVALENTS			
		Rupees in '000	
Cash and balances with treasury banks	8	35,561,885	30,645,728
Balances with other banks	9	2,259,974	13,806,513
Overdrawn nostro accounts	17.2	(773,124)	(197,656)
Overdrawn local bank accounts	17.2	(117,017)	(195,431)
		<u>36,931,718</u>	<u>44,059,154</u>
34. STAFF STRENGTH			
		(Number)	
Permanent		3,646	3,331
Temporary / on contractual basis		265	279
Bank's own staff strength at end of the year		3,911	3,610
Outsourced		686	667
Total staff strength		<u>4,597</u>	<u>4,277</u>

35. DEFINED BENEFIT PLAN

35.1 General description

The benefits under the funded gratuity scheme are payable on retirement at the age of 60 or earlier cessation of service. The benefit is equal to one month's last basic salary drawn for each year of eligible service subject to a maximum of 24 months last drawn basic salary. The minimum qualifying period for eligibility under the plan is five years of continuous service.

35.2 Principal actuarial assumptions

The latest actuarial valuation was carried out on 31 December 2016 using "Projected Unit Credit Actuarial Cost Method". The main assumptions used for the actuarial valuation were as follows:

	Note	2016	2015
Discount rate - percent (per annum)		9.25	10.00
Expected rate of return on plan assets - percent (per annum)		9.25	10.00
Long term rate of salary increase - percent (per annum)		8.75	9.50
Mortality rates (for death in service)		Adjusted SLIC	Adjusted SLIC
		2001-2005	2001-2005
Rate of employees turnover		Moderate	Moderate

35.3 Reconciliation of payable to defined benefit plan

		Rupees in '000	
Fair value of plan assets	35.6	998,280	915,700
Present value of defined benefit obligations	35.7	(1,196,096)	(1,143,805)
Amount payable to the plan (deficit)		<u>(197,816)</u>	<u>(228,105)</u>

The above balance includes actuarial gain of Rs. 30,289 thousand (2015: actuarial loss of Rs. 32,288 thousand).

35.4 Movement in payable to defined benefit plan

Opening balance (actuarial losses)		228,105	198,712
Defined benefit charge to profit and loss account	35.5	149,094	123,765
Defined benefit charged to other comprehensive income - actuarial (gain) / loss for the year	35.8	(30,289)	32,288
Contribution to the fund	35.6	(149,094)	(126,660)
Closing balance		<u>197,816</u>	<u>228,105</u>

35.5 Charge for defined benefit plan

Current service cost	35.7	126,284	103,808
Net interest	35.7	110,415	107,691
Expected return on plan assets	35.6	(87,605)	(87,734)
Total charge recognised in the profit and loss account		<u>149,094</u>	<u>123,765</u>

The expected gratuity cost for the year 2017 is Rs. 130,576 thousand as per actuarial valuation.

35.6 Movement in fair value of plan assets

Opening balance		915,700	762,904
Expected return on plan assets	35.5	87,605	87,734
Actuarial loss recognised in 'Other Comprehensive Income'	35.8	(74,825)	(11,253)
Benefits paid	35.7	(79,294)	(50,345)
Contribution to the fund	35.4	149,094	126,660
Closing balance		<u>998,280</u>	<u>915,700</u>

	Note	2016	2015
		Rupees in '000	
35.7 Movement in present value of defined benefit obligation			
Opening balance		1,143,805	961,616
Current service cost	35.5	126,284	103,808
Interest cost	35.5	110,415	107,691
Actuarial (gain) / loss recognised in 'Other Comprehensive Income'	35.8	(105,114)	21,035
Benefits paid	35.6	(79,294)	(50,345)
Closing balance		<u>1,196,096</u>	<u>1,143,805</u>

35.8 Annual actuarial loss / (gain) recognised in 'Other Comprehensive Income'

Experience (gain) / loss on obligation	35.7	(105,114)	21,035
Experience loss on plan assets	35.6	74,825	11,253
Total (gain) / loss recognised during the year	35.4	<u>(30,289)</u>	<u>32,288</u>

35.9 Actual return on plan assets

<u>12,780</u>	<u>76,481</u>
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35.10 Plan assets comprise the following:

	Note	2016		2015	
		(Rupees in '000)	%	(Rupees in '000)	%
Bank deposits	35.10.1	527,193	52.81	290,300	31.70
Federal government securities (Pakistan Investment Bonds)		471,088	47.19	625,400	68.30
		<u>998,281</u>	<u>100.00</u>	<u>915,700</u>	<u>100.00</u>

35.10.1 The amount represents balance which is deposited with branches of the Bank.

35.11 Re-measurements recognised in 'Other Comprehensive Income' during the year

	Note	2016	2015
		Rupees in '000	
Actuarial gain / (loss) on obligation			
– Demographic assumption		–	–
– Financial assumptions		(438)	51,619
– Experience adjustment		(104,676)	(30,584)
Return on plan assets over interest income		(12,780)	(76,481)
Adjustment for mark-up		87,605	87,734
Total re-measurements recognised in Other Comprehensive Income	35.8	<u>(30,289)</u>	<u>32,288</u>

35.12 Sensitivity analysis

Sensitivity analysis has been performed by varying one assumption keeping all other assumptions constant and calculating the impact on the present value of the defined benefit obligations under the various employee benefit schemes. The increase / (decrease) in the present value of defined benefit obligations as a result of change in each assumption is summarized below:

	2016 Rupees in '000
Increase in discount rate by 1 %	(117,823)
Decrease in discount rate by 1 %	139,316
Increase in expected future increment in salary by 1%	138,626
Decrease in expected future increment in salary by 1%	(119,331)
Increase in expected withdrawal rate by 10%	289
Decrease in expected withdrawal rate by 10%	(304)
Increase in expected mortality rate by 1%	234
Decrease in expected mortality rate by 1%	(212)

Although the analysis does not take account of the full distribution of expected cash flows, it does provide an approximation of the sensitivity of the assumptions shown.

35.13 Historical information

	2016	2015	2014	2013	2012
	Rupees in '000				
Present value of defined benefit obligation	1,196,096	1,143,805	961,616	816,018	613,972
Fair value of plan assets	(998,280)	(915,700)	(762,904)	(518,394)	(512,140)
Deficit	197,816	228,105	198,712	297,624	101,832
Actuarial (gain) / loss on obligation	(105,114)	21,035	(16,895)	80,322	27,416
Actuarial loss on assets	74,825	11,253	9,327	24,126	7,089

36. DEFINED CONTRIBUTION PLAN

The Bank operates a contributory provident fund scheme for permanent employees. The employer and employee each contribute 10% of the basic salary to the funded scheme every month. Investment made out of provident fund have been made in accordance with the provision of section 227 of the Companies Ordinance 1984.

36.1 Following information relates to provident fund scheme based on audited accounts as of June 2016:

	Note	2016	2015
		Rupees in '000	
Size of the fund		2,631,087	2,277,064
Cost of investments made	36.1.1	2,398,340	1,854,256
Percentage of investments made		91%	81%
Fair value of investments		2,474,435	1,932,145

	Note	2016	2015
		Rupees in '000	
36.1.1 Breakup of investments made			
Pakistan Investment Bonds		1,248,340	1,254,256
Term Deposits Receipts		1,150,000	600,000
		<u>2,398,340</u>	<u>1,854,256</u>

Number of the members participating in the fund at the end of the year as per audited accounts are 3,087 (2015: 2,806).

37. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President & Chief Executive		Directors		Executives	
	2016	2015	2016	2015	2016	2015
	Rupees in '000					
Fees	—	—	7,800	8,775	—	—
Managerial remuneration	59,100	55,500	—	—	2,483,664	2,118,271
Charge for defined benefit plan	2,767	2,575	—	—	89,723	81,987
Contribution to defined contribution plan	3,300	3,120	—	—	95,204	88,063
Utilities	—	—	—	783	—	—
Bonus	8,250	10,400	—	—	263,639	327,963
Others	—	—	—	4,136	—	—
	<u>73,417</u>	<u>71,595</u>	<u>7,800</u>	<u>13,694</u>	<u>2,932,230</u>	<u>2,616,284</u>
Number of persons	<u>1</u>	<u>1</u>	<u>6</u>	<u>7</u>	<u>1,208</u>	<u>1,083</u>

37.1 The Chief Executive and certain executives are provided with free use of car and household equipment in accordance with their terms of employment. The Chief Executive is also provided with leave fare assistance.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of traded investments is based on quoted market prices except for tradable securities classified by the Bank as "held-to-maturity". These securities are being carried at amortized cost in order to comply with the requirements of BSD Circular No. 14 dated 24 September 2004, and have been disclosed in "Annexure I".

Fair value of unlisted equity investments is determined on the basis of breakup value of these investments as per the latest available financial statements.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to the absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.5.

The maturity and repricing profile and effective rates are stated in notes 43.5.1 and 43.4 respectively.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently repriced.

38.1 Off-balance sheet financial instruments

	2016		2015	
	Contracted Value	Fair Value	Contracted Value	Fair Value
Rupees in '000				
Forward purchase of foreign exchange contracts	76,832,902	76,022,687	80,770,251	80,490,986
Forward sale of foreign exchange contracts	66,117,312	66,779,677	73,381,353	73,490,991

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

		2016			
	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
		Rupees in '000			
Financial assets measured at fair value					
- Investments					
- Available-for-sale securities					
Federal government securities	274,117,633	–	274,117,633	–	274,117,633
Sukuk certificates and bonds	1,149,362	–	1,149,362	–	1,149,362
Ordinary shares of listed companies	1,840,554	1,840,554	–	–	1,840,554
Ordinary shares of unlisted companies	28,962	–	28,962	–	28,962
Mutual funds	4,678,866	4,678,866	–	–	4,678,866
Listed term finance certificates	2,024,268	2,024,268	–	–	2,024,268
Unlisted term finance certificates	287,330	–	287,330	–	287,330
Financial assets not measured at fair value					
- Cash and balances with treasury banks	35,561,885	–	–	–	–
- Balances with other banks	2,259,974	–	–	–	–
- Lending to financial institutions	16,750,886	–	–	–	–
- Investments					
- Held-to-maturity securities					
Federal government securities	27,642,036	–	–	–	–
Certificates of investments	2,200,000	–	–	–	–
- Subsidiaries					
Ordinary shares of unlisted companies	650,000	–	–	–	–
- Advances	142,962,103	–	–	–	–
- Other assets	6,731,246	–	–	–	–
	518,885,105	8,543,688	275,583,287	–	284,126,975
Financial liabilities not measured at fair value					
- Bills Payable	8,108,633	–	–	–	–
- Deposits and other accounts	430,888,036	–	–	–	–
- Borrowings	37,205,175	–	–	–	–
- Other liabilities	9,815,265	–	–	–	–
	486,017,109	–	–	–	–
	32,867,996	8,543,688	275,583,287	–	284,126,975

	2015				
	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
	Rupees in '000				
Financial assets measured at fair value					
- Investments					
- Available-for-sale securities					
Federal government securities	246,999,034	–	246,999,034	–	246,999,034
Sukuk certificates and bonds	1,447,645	–	1,447,645	–	1,447,645
Ordinary shares of listed companies	1,081,362	1,081,362	–	–	1,081,362
Ordinary shares of unlisted companies	31,504	–	31,504	–	31,504
Mutual funds	6,128,101	6,128,101	–	–	6,128,101
Listed term finance certificates	1,890,841	1,890,841	–	–	1,890,841
Unlisted term finance certificates	416,110	–	416,110	–	416,110
Financial assets not measured at fair value					
- Cash and balances with treasury banks	30,645,728	–	–	–	–
- Balances with other banks	13,806,513	–	–	–	–
- Lending to financial institutions	2,800,000	–	–	–	–
- Investments					
- Held-to-maturity securities					
Federal government securities	31,177,134	–	–	–	–
Certificates of investments	3,300,000	–	–	–	–
- Subsidiaries					
Ordinary shares of unlisted companies	307,500	–	–	–	–
- Advances	132,646,839	–	–	–	–
- Other assets	10,359,968	–	–	–	–
	483,038,279	9,100,304	248,894,293	–	257,994,597
Financial liabilities not measured at fair value					
- Bills Payable	6,344,461	–	–	–	–
- Deposits and other accounts	403,354,957	–	–	–	–
- Borrowings	31,462,822	–	–	–	–
- Other liabilities	10,840,843	–	–	–	–
	452,003,083	–	–	–	–
	31,035,196	9,100,304	248,894,293	–	257,994,597

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

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

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

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

39. TRUST ACTIVITIES

The Bank is currently not engaged in any trust activities.

40. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	2016			
	Trade & Sales	Retail banking	Commercial banking	Total
	Rupees in '000			
Total income *	27,916,813	3,837,879	27,795,710	59,550,402
Total expenses *	(20,947,981)	(2,738,219)	(25,530,455)	(49,216,655)
Net income	6,968,832	1,099,660	2,265,255	10,333,747
Segment assets	334,350,424	2,363,424	189,892,569	526,606,417
Segment non performing loans	—	4,554	19,868,588	19,873,142
Segment provision required	—	4,554	16,792,385	16,796,939
Segment liabilities	14,822,820	65,055,739	407,057,408	486,935,967
Segment return on net assets (ROA) (%)	8.35%	5.90%	6.83%	
Segment cost of funds (%)	6.27%	4.21%	6.27%	

	2015			
	Trade & Sales	Retail banking	Commercial banking	Total
	Rupees in '000			
Total income *	31,661,506	6,044,141	25,058,381	62,764,028
Total expenses *	(23,875,914)	(4,069,849)	(22,279,354)	(50,225,117)
Net income	7,785,592	1,974,292	2,779,027	12,538,911
Segment assets	318,305,369	2,274,418	169,299,321	489,879,108
Segment non performing loans	—	5,614	18,481,368	18,486,982
Segment provision required	—	5,614	16,527,223	16,532,837
Segment liabilities	9,539,309	91,433,517	352,078,478	453,051,304
Segment return on net assets (ROA) (%)	9.95%	6.61%	7.12%	
Segment cost of funds (%)	7.50%	4.45%	6.33%	

* Includes Rs. 17,542,065 thousand (2015: Rs. 16,732,275 thousand) of inter-segment revenues and expenses.

41. TRANSACTIONS WITH RELATED PARTIES

The Bank has related party relationships with its holding company, subsidiaries, companies with common directorship, key management personnel, directors and employees' retirement benefit plans.

Contributions in respect of employees' retirement benefits are made in accordance with actuarial valuation and terms of contribution plan. Salaries & allowances of the key management personnel are in accordance with the terms of their employment. Other transactions are at agreed terms.

	31 December 2016						
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	Rupees in '000						
Deposits							
At beginning of the year	304,504	152,334	17,875,031	66,322	498,364	1,121,035	20,017,590
Received during the year	22,750,934	68,102,830	1,433,239,459	758,702	2,016,849	2,406,913	1,529,275,687
Repaid during the year	(22,551,639)	(67,810,835)	(1,431,122,046)	(695,338)	(1,976,678)	(1,861,670)	(1,526,018,206)
At end of the year	503,799	444,329	19,992,444	129,686	538,535	1,666,278	23,275,071
Advances							
At beginning of the year	-	-	3,967,805	128,974	-	-	4,096,779
Disbursed during the year	-	10,937	63,535,889	61,857	-	-	63,608,683
Recovered during the year	-	-	(64,319,195)	(46,187)	-	-	(64,365,382)
At end of the year	-	10,937	3,184,499	144,644	-	-	3,340,080
Bank balances held by the Bank	292,215	-	29,364	-	-	-	321,579
Overdrawn bank balances held by the Bank	-	-	6,472	-	-	-	6,472
Mark-up / return / interest receivable	-	-	1,457	-	-	-	1,457
Mark-up / return / interest payable	-	94	325,084	4,954	2,169	351,899	684,200
Management fee payable for technical and consultancy services *	180,265	-	-	-	-	-	180,265
Prepayments / Advance deposits	-	-	26,265	-	-	-	26,265
Insurance premium and other payables	-	-	830	-	-	-	830
Transaction-related contingent liabilities	-	-	4,670,305	-	-	-	4,670,305
Trade-related contingent liabilities	-	-	5,041,474	-	-	-	5,041,474

* Management fee is as per the agreement with the holding company.

	31 December 2015						
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	Rupees in '000						
Deposits							
At beginning of the year	294,869	81,605	19,676,536	49,180	385,250	1,098,520	21,585,960
Received during the year	23,579,657	83,342,253	1,346,712,261	601,770	3,069,135	1,180,760	1,458,485,836
Repaid during the year	(23,570,022)	(83,271,524)	(1,348,513,766)	(584,628)	(2,956,021)	(1,158,245)	(1,460,054,206)
At end of the year	304,504	152,334	17,875,031	66,322	498,364	1,121,035	20,017,590
Advances							
At beginning of the year	-	-	1,840,385	163,281	-	-	2,003,666
Disbursed during the year	-	281,577	44,364,667	69,149	-	-	44,715,393
Recovered during the year	-	(281,577)	(42,237,247)	(103,456)	-	-	(42,622,280)
At end of the year	-	-	3,967,805	128,974	-	-	4,096,779
Bank balances held by the Bank	122,080	-	59,632	-	-	-	181,712
Mark-up / return / interest receivable	-	-	3,898	-	-	-	3,898
Mark-up / return / interest payable	-	415	322,640	856	2,352	194,406	520,669
Management fee payable for technical and consultancy services *	283,577	-	-	-	-	-	283,577
Prepayments / Advance deposits	-	-	2,563	-	-	-	2,563
Insurance Premium and other payable	30,200	-	4,371	-	-	-	34,571
Transaction-related contingent liabilities	-	-	2,598,280	-	-	-	2,598,280
Trade-related contingent liabilities	-	-	4,342,731	-	-	-	4,342,731

* Management fee is as per the agreement with the holding company.

Transactions during the year

	For the year ended 31 December 2016					
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans
	Rupees in '000					
Mark-up / return / interest earned	–	79	101,224	5,459	–	–
Mark-up / return/interest expensed	–	3,867	1,145,812	5,815	23,557	173,421
Commission / Brokerage / Bank charges recovered	5,568	190	164,783	–	79	–
Commission / Brokerage / Bank charges paid	295	244	756	–	–	–
Rent income	5,615	1,200	–	–	–	–
Salaries and allowances	–	–	–	329,416	–	–
Directors' fees	–	–	–	–	7,800	–
Charge for defined benefit plan	–	–	–	–	–	149,094
Charge for defined contribution plan	–	–	–	–	–	151,285
Rent expenses	–	–	11,441	–	–	–
Insurance premium expenses	2,752	–	43,859	–	–	–
Maintenance, electricity, stationery and entertainment	–	–	52,769	–	–	–
Management fee expense for technical and consultancy services *	107,620	–	–	–	–	–
Donation paid	–	–	43,840	–	–	–
Professional / Other charges paid	–	–	209	–	–	–

* Management fee is as per the agreement with the holding company.

Transactions during the year

	For the year ended 31 December 2015					
	Holding company	Subsidiaries	Associates	Key management personnel	Directors	Retirement benefit plans
	Rupees in '000					
Mark-up / return / interest earned	–	851	68,824	10,200	–	–
Mark-up / return / interest expensed	–	5,349	1,440,674	3,913	27,301	162,386
Commission / Brokerage / Bank charges recovered	7,670	22	135,810	–	137	–
Commission / Brokerage / Bank charges paid	703	242	825	–	–	–
Rent income	21,440	1,200	–	–	–	–
Salaries and allowances	–	–	–	328,119	–	–
Directors' fees	–	–	–	–	8,775	–
Charge for defined benefit plan	–	–	–	–	–	123,765
Charge for defined contribution plan	–	–	–	–	–	138,495
Rent expenses	–	–	12,990	–	–	–
Insurance premium expenses	–	–	6,215	–	–	–
Maintenance, electricity, stationery and entertainment	–	–	53,104	–	–	–
Management fee expense for technical and consultancy services *	246,524	–	–	–	–	–
Donation paid	–	–	17,840	–	–	–
Professional / Other charges paid	–	–	2,087	–	–	–

* Management fee is as per the agreement with the holding company.

42. CAPITAL ASSESSMENT AND ADEQUACY

42.1 Scope of Applications

The State Bank of Pakistan (SBP) through its BPRD Circular No 6 dated 15 August 2013 has issued Basel III Capital instructions for Banks / DFIs. The revision to the previously applicable Capital Adequacy regulations pertain to components of eligible capital and related deductions. The amendments have been introduced with an aim to further strengthen the existing capital related rules. Basel III instructions have become effective from 31 December 2013; however, there is a transitional phase during which the complete requirements would become applicable with full implementation by 31 December 2019. This Capital Adequacy framework is applicable to the Bank.

The Bank's capital adequacy is reported using the rules and ratios provided by the State Bank of Pakistan. The capital adequacy ratio is a measure of the amount of the Bank's capital expressed as a percentage of its risk weighted assets (RWAs). Banking operations are categorized as either Trading Book or Banking Book and RWAs are determined according to specific treatments as per the requirements of the SBP that measure the varying levels of risk attached to on balance sheet and off-balance sheet exposures. Under the current capital adequacy regulations, credit risk and market risk exposures are measured using the Standardized Approach and operational risk is measured using the Basic Indicator Approach. Credit risk mitigates are also applied against the Bank's exposures based on eligible collateral.

42.1.1 Capital management

The objective of managing capital is to safeguard the Bank's ability to continue as a going concern. It is the policy of the Bank to maintain a strong capital base so as to maintain investor, depositor and market confidence and to sustain future development of the business. The Bank aims to maintain an optimum level of capital along with maximizing shareholders' return.

Statutory minimum capital requirement and capital adequacy ratio

The SBP through its BSD Circular No. 07 dated 15 April 2009 has prescribed the minimum paid-up capital (net of accumulated losses) for Banks to be raised to Rs.10 billion by the year ending 31 December 2013. The paid-up capital of the Bank for the year ended 31 December 2016 stood at Rs. 10,478 million (2015: Rs. 10,478 million) and is in compliance with the SBP requirements.

Banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 10.65% of the risk weighted exposures of the Bank. Further, under Basel III instructions, Banks are also required to maintain a Common Equity Tier 1 (CET 1) ratio and Tier 1 ratio of 6.00% and 7.50%, respectively, as at 31 December 2016. As at 31 December 2016 the Bank was fully compliant with prescribed ratios as the Bank's CAR was 18.15% whereas CET 1 and Tier 1 ratios both stood at 17.27%. The Bank and its individually regulated operations have complied with all capital requirements throughout the year.

Tier 1 capital comprises of Common Equity Tier 1 (CET 1) and Additional Tier 1 (AT 1) capital.

CET 1 capital includes fully paid-up capital, balance in share premium account, general reserves as per the financial statements and net un-appropriated profits meeting the eligibility criteria.

AT 1 capital includes instruments meeting the prescribed SBP criteria e.g. perpetual non-cumulative preference shares.

The deductions from Tier 1 capital include mainly;

- i) Book value of goodwill / intangibles;
- ii) Deficit on revaluation of available for sale investments;
- iii) Reciprocal cross holdings in equity capital instruments of other banks, financial institutions and insurance companies;
- iv) Investment in mutual funds above a prescribed ceiling;
- v) Threshold deductions applicable from 2014 on deferred tax assets and certain investments;
- vi) 20% of investments in majority owned securities or other financial subsidiaries not consolidated in the statement of financial position, during transition phase.

Tier 2 capital includes general provisions for loan losses, surplus on the revaluation of assets - net of tax, foreign exchange translation reserves and subordinated debts (meeting the revised eligibility criteria). The deductions from Tier 2 include mainly:

- i) Reciprocal cross holdings in other capital instruments of other banks, financial institution and insurance companies;
- ii) 20% of investments in majority owned securities or other financial subsidiaries not consolidated in the statement of financial position, during transition phase.

42.2 Capital Structure

	Note	2016	2015	Source based on reference number from Note 42.4.2
Rupees in '000				
Common Equity Tier 1 capital (CET1): Instruments and reserves				
Fully paid-up capital / capital deposited with SBP		10,478,315	10,478,315	(s)
Balance in share premium account		2,550,985	2,550,985	
Reserve for issue of bonus shares		-	-	
Discount on issue of shares		-	-	
General / statutory reserves		11,382,890	10,159,025	(u)
Gain / (losses) on derivatives held as cash flow hedge		-	-	
Unappropriated / unremitted profits / (losses)		12,753,139	9,931,633	(w)
Minority interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)		-	-	(x)
CET 1 before regulatory adjustments		37,165,329	33,119,958	
Total regulatory adjustments applied to CET1	42.2.1	1,060,732	614,812	
Common Equity Tier 1		36,104,597	32,505,146	
Additional Tier 1 (AT 1) Capital				
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 to third parties by consolidated subsidiaries (amount allowed in group AT 1)		-	-	
of which: instrument issued by subsidiaries subject to phase out		-	-	(y)
AT1 before regulatory adjustments		-	-	
Total regulatory adjustment applied to AT1 capital	42.2.2	-	-	
Additional Tier 1 capital after regulatory adjustments		-	-	
Additional Tier 1 capital recognized for capital adequacy		-	-	
Tier 1 Capital (CET1 + admissible AT1)		36,104,597	32,505,146	

	Note	2016	2015	Source based on reference number from Note 42.4.2
Rupees in '000				
Tier 2 Capital				
Qualifying Tier 2 capital instruments under Basel III plus any related share premium		-	-	(n)
Tier 2 capital instruments subject to phase out arrangement issued under pre-Basel III Rules		-	-	
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		134,110	896,749	(g)
Revaluation reserves (net of taxes)		-	-	portion of (aa)
of which: revaluation reserves on fixed assets		-	-	
of which: unrealized gains / losses on AFS		1,833,346	2,484,257	
Foreign exchange translation reserves		-	-	(v)
Undisclosed / other reserves		-	-	
T2 before regulatory adjustments		1,967,456	3,381,006	
Total regulatory adjustment applied to T2 capital	42.2.3	(130,000)	(92,250)	
Tier 2 capital (T2) after regulatory adjustments		1,837,456	3,288,756	
Tier 2 capital recognized for capital adequacy		1,837,456	3,288,756	
Portion of Additional Tier 1 capital recognized in Tier 2 capital		-	-	
Total Tier 2 capital admissible for capital adequacy		1,837,456	3,288,756	
Total capital (T1 + admissible T2)		37,942,053	35,793,902	
Total Risk Weighted Assets (RWA)	42.5	209,026,637	195,063,432	
Capital Ratios and buffers (in percentage of risk weighted assets)				
CET1 to total RWA		17.27%	16.66%	
Tier-1 capital to total RWA		17.27%	16.66%	
Total capital to total RWA		18.15%	18.35%	
Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)		6.00%	6.00%	
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)		11.27%	10.66%	
National minimum capital requirements prescribed by SBP				
CET1 minimum ratio		6.00%	6.00%	
Tier 1 minimum ratio		7.50%	7.50%	
Total capital minimum ratio		10.65%	10.25%	

42.2.1 Common Equity Tier 1 capital: Regulatory adjustments

	2016	Amounts subject to Pre-Basel III treatment	2015	Source based on reference number from Note 42.4.2
	Rupees in '000			
Goodwill (net of related deferred tax liability)	-	-	-	(j) – (o)
All other intangibles (net of any associated deferred tax liability)	190,510	-	-	(h) – (p)
Shortfall in provisions against classified assets	-	-	-	(f)
Deferred tax assets that rely on future profitability excluding those 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 of banking, financial and insurance entities	740,222	-	522,562	(d)
Cash flow hedge reserve	-	-	-	
Investment in own shares/ CET1 instruments	-	-	-	
Securitization gain on sale	-	-	-	
Capital shortfall of regulated subsidiaries	-	-	-	
Deficit on account of revaluation from bank's holdings of fixed assets / AFS	-	-	-	(ab)
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	(a) – (ac) – (ae)
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	-	(b) – (ad) – (af)
Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-	-	(j)
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	-	-	-	
Investment in TFCs of other banks exceeding the prescribed limit	-	-	-	
Any other deduction specified by SBP	-	-	-	
Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	130,000	130,000	92,250	
Total regulatory adjustments applied to CET1	1,060,732	130,000	614,812	

42.2.2 Additional Tier 1 Capital: regulatory adjustments

Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	-	-	
Investment in own AT1 capital instruments	-	-	-	
Reciprocal cross holdings in Additional Tier 1 capital instruments	-	-	-	
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	(ac)
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-	(ad)28
Portion of deduction applied 50:50 to Tier 1 and Tier 2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from additional tier-1 capital	-	-	-	
Adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-	-	
Total of Regulatory Adjustment applied to AT1 capital	-	-	-	

2016	Amounts subject to Pre-Basel III treatment	2015	Source based on reference number from Note 42.4.2
Rupees in '000			

42.2.3 Tier 2 Capital: regulatory adjustments

Portion of deduction applied 50:50 to Tier 1 and Tier 2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 2 capital			
Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities			
Investment in own Tier 2 capital instrument			
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)			(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 Tier 2 capital			

130,000	130,000	92,250	
-	-	-	
-	-	-	
-	-	-	(ae)
-	-	-	(af)
130,000	130,000	92,250	

42.2.4 Additional Information

2016	2015
Rupees in '000	

Risk weighted assets in respect of amounts 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)		
(i) of which: deferred tax assets	-	-
(ii) of which: Defined-benefit pension fund net assets	-	-
(iii) of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity	-	-
(iv) of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity	-	-

Amounts below the thresholds for deduction (before risk weighting)

Non-significant investments in the capital of other financial entities	3,023,453	2,577,212
Significant investments in the common stock of financial entities	390,000	123,000
Deferred tax assets arising from temporary differences (net of related tax liability)	2,541,973	1,938,628

Applicable caps on the inclusion of provisions in Tier 2

Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	134,110	896,749
Cap on inclusion of provisions in Tier 2 under standardized approach	2,102,633	1,971,683
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	-	-

42.3 Capital Structure Reconciliation

42.3.1 Step 1

The accounting consolidation is identical to the scope of regulatory consolidation.

42.3.2 Step 2

	2016		
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Ref.
	Rupees in '000		
ASSETS			
Cash and balances with treasury banks	35,561,885	35,561,885	
Balances with other banks	2,259,974	2,259,974	
Lendings to financial institutions	16,750,886	16,750,886	
Investments	314,619,011	314,619,011	
of which: Non-significant 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 (separate for CET1, AT1, T2)	740,222	740,222	d
of which: others	—	—	e
Advances	142,962,103	142,962,103	
shortfall in provisions / excess of total EL amount over eligible			
provisions under IRB	—	—	f
general provisions reflected in Tier 2 capital	134,110	134,110	g
Fixed Assets	3,246,376	3,246,376	
of which: Intangibles	190,510	190,510	h
Deferred Tax Assets	2,458,685	2,458,685	
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	8,747,497	8,747,497	
of which: Goodwill	—	—	k
of which: Defined-benefit pension fund net assets	—	—	l
Total assets	526,606,417	526,606,417	

	2016		
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Ref.
	Rupees in '000		
Liabilities & Equity			
Bills payable	8,108,633	8,108,633	
Borrowings	37,205,175	37,205,175	
Deposits and other accounts	430,888,036	430,888,036	
Sub-ordinated loans	-	-	m
of which: eligible for inclusion in AT1	-	-	n
of which: eligible for inclusion in Tier 2	-	-	
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	-	-	o
of which: DTLs related to goodwill	-	-	p
of which: DTLs related to intangible assets	-	-	q
of which: DTLs related to defined pension fund net assets	-	-	r
of which: other deferred tax liabilities	-	-	
Other liabilities	10,734,123	10,734,123	
Total liabilities	486,935,967	486,935,967	
Share capital	13,029,300	13,029,300	s
of which: amount eligible for CET1	13,029,300	13,029,300	t
of which: amount eligible for AT1	-	-	
Reserves	11,382,890	11,382,890	u
of which: portion eligible for inclusion in CET1 (statutory reserve, special reserve & revenue reserve)	11,382,890	11,382,890	v
of which: portion eligible for inclusion in Tier 2	-	-	
Unappropriated profit/ (losses)	12,753,139	12,753,139	w
Minority Interest	-	-	x
of which: portion eligible for inclusion in CET1	-	-	y
of which: portion eligible for inclusion in AT1	-	-	z
of which: portion eligible for inclusion in Tier 2	-	-	
Surplus on revaluation of assets	2,505,121	2,505,121	aa
of which: revaluation reserves on non-banking assets	154,678	154,678	
of which: unrealized gains / losses on AFS - recognised	1,833,346	1,833,346	aaa
of which: unrealized gains / losses on AFS - unrecognised	517,097	517,097	
In case of deficit on revaluation (deduction from CET1)	-	-	
Total Equity	39,670,450	39,670,450	
Total liabilities and Equity	526,606,417	526,606,417	

42.4 Main features template of regulatory capital instruments

1	Issuer	Habib Metropolitan Bank Ltd.
2	Unique identifier (eg PSX Symbol or Bloomberg identifier etc.)	HMB
3	Governing law(s) of the instrument	Capital Market Law
	Regulatory treatment	
4	Transitional Basel III rules	Common Equity Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1
6	Eligible at solo / group / group & solo	Group & standalone
7	Instrument type	Common Shares
8	Amount recognized in regulatory capital (Currency in PKR thousand, as of reporting date)	37,942,053
9	Par value of instrument	PKR 10
10	Accounting classification	Shareholder equity
11	Original date of issuance	1992
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Not Applicable
15	Optional call date, contingent call dates and redemption amount	Not Applicable
16	Subsequent call dates, if applicable	
	Coupons / dividends	Not Applicable
17	Fixed or floating dividend/ coupon	Not Applicable
18	coupon rate and any related index/ benchmark	Not Applicable
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Not Applicable
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	Not Applicable
25	If convertible, fully or partially	Not Applicable
26	If convertible, conversion rate	Not Applicable
27	If convertible, mandatory or optional conversion	Not Applicable
28	If convertible, specify instrument type convertible into	Not Applicable
29	If convertible, specify issuer of instrument it converts into	Not Applicable
30	Write-down feature	Not Applicable
31	If write-down, write-down trigger(s)	Not Applicable
32	If write-down, full or partial	Not Applicable
33	If write-down, permanent or temporary	Not Applicable
34	If temporary write-down, description of write-up mechanism	Not Applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not Applicable
36	Non-compliant transitioned features	Not Applicable
37	If yes, specify non-compliant features	Not Applicable

42.5 Risk Weighted Assets

The risk weighted assets to capital ratio, calculated in accordance with the SBP's guidelines on capital adequacy is as follows:

Credit risk	Capital Requirements		Risk Weighted Assets	
	2016	2015	2016	2015
Portfolios subject to standardised approach (Simple)	Rupees in '000			
On-balance sheet				
Cash and cash equivalents	—	—	—	—
Government of Pakistan and SBP	—	—	—	—
Public sector entities	206,003	189,604	2,060,031	1,896,038
Banks	727,202	867,766	7,272,022	8,677,659
Corporate	9,504,482	8,939,024	95,044,818	89,390,240
Retail	510,882	320,244	5,108,816	3,202,441
Residential mortgage finance	77,413	61,222	774,128	612,217
Past due loans	356,783	194,565	3,567,825	1,945,650
Operating fixed assets	305,587	312,478	3,055,866	3,124,779
Other assets	916,420	697,534	9,164,196	6,975,336
	12,604,772	11,582,437	126,047,702	115,824,360
Off-balance sheet				
Non market related	3,772,404	3,808,163	37,724,037	38,081,626
Market related	86,924	97,895	869,238	978,954
	3,859,328	3,906,058	38,593,275	39,060,580
Equity Exposure Risk in the Banking Book				
Under simple risk weight method e.g. Listed, Unlisted	356,964	284,969	3,569,637	2,849,691
Under Internal models approach	—	—	—	—
	356,964	284,969	3,569,637	2,849,691
Total Credit Risk	16,821,064	15,773,464	168,210,614	157,734,631
Market risk				
Capital requirement for portfolios subject to Standardised Approach				
Interest rate risk	39,842	149,566	498,025	1,869,575
Equity position risk	671,075	506,991	8,388,432	6,337,388
Foreign exchange risk	50,216	13,929	627,700	174,112
Total Market risk	761,133	670,486	9,514,157	8,381,075
Operational risk				
Capital requirement for operational risks subject to Basic Indicator Approach	2,504,149	2,315,818	31,301,866	28,947,726
Total Risk Weighted Assets	20,086,346	18,759,768	209,026,637	195,063,432
Capital adequacy ratio	2016		2015	
	Required	Actual	Required	Actual
	%		%	
CET1 to total RWA	6.00%	17.27%	6.00%	16.66%
Tier-1 capital to total RWA	7.50%	17.27%	7.50%	16.66%
Total capital to total RWA including capital conversion buffer	10.65%	18.15%	10.25%	18.35%

42.6 Credit risk - General disclosures

The Bank uses the 'Standardised Approach' in calculation of credit risk and capital requirements.

The Bank uses reputable and SBP approved rating agencies for deriving risk weight to specific credit exposures. These are applied consistently across the Bank credit portfolio for both on - balance sheet and off - balance sheet exposures. The methodology applied for using External Credit Assessment Institutions (ECAI's) inclusive of the alignment of alpha numerical scale of each agency used with risk bucket is as per SBP guidelines as given below:

Types of exposures and ECAI's used

Exposures	2016				
	JCR-VIS	PACRA	S & P	Fitch	Moody's
Corporate	✓	✓	–	–	–
Banks	✓	✓	✓	✓	✓
Sovereigns	–	–	–	–	–
SME's	✓	✓	–	–	–
Securitisation	–	–	–	–	–
Others	–	–	–	–	–

42.7 Credit Exposures subject to Standardised Approach

Exposures	Rating category	2016			2015		
		Amount outstanding	Deduction CRM	Net amount	Amount outstanding	Deduction CRM	Net amount
		Rupees in '000					
Corporate	1	10,902,240	37,409	10,864,831	8,444,231	37,503	8,406,728
	2	5,930,650	892,506	5,038,144	4,001,131	830,135	3,170,996
	3,4	494,949	–	494,949	–	–	–
	5,6	–	–	–	–	–	–
Claims on banks with original maturity of 3 months or less		11,646,102	478,066	11,168,036	8,671,285	–	8,671,285
Retail		12,048,722	3,162,578	8,886,144	8,576,628	2,502,144	6,074,484
Public sector entities	1	5,957,423	14,273	5,943,150	12,653,222	13,638	12,639,584
	2,3	1,405,364	–	1,405,364	–	–	–
Others		388,827,871	12,093,000	376,734,871	359,339,797	9,407,000	349,932,797
Unrated		134,090,357	17,339,243	116,751,114	128,990,387	13,823,401	115,166,986

The forms of collateral that are deemed eligible under the 'Simple Approach' to credit risk mitigation as per the SBP guidelines are used by the Bank and primarily includes cash, government and rated debt securities.

The Bank applies SBP specified haircut to collateral for credit risk mitigation. Collateral management is embedded in the Bank's risk taking and risk management policy and procedures. A standard credit granting procedure exists which has been well-disseminated down the line, ensuring proper pre-sanction evaluation, adequacy of security, pre-examination of charge / control documents and monitoring of each exposure on an ongoing basis.

Collateral information is recorded diligently in the Bank's main processing systems by type of collateral, amount of collateral against relevant credit exposures. A cohesive accounting / risk management system facilitates effective collateral management for Basel II reporting.

42.8 Leverage Ratio

The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as a percentage. As at 31 December 2016 the Bank's Leverage ratio stood at 5.66% (2015: 5.46%) which is well above the minimum requirement of 3.0%.

	Note	2016	2015
		Rupees in '000	
Total assets		526,606,417	489,879,108
Less: Total regulatory adjustments applied to CET1	42.2	1,060,732	614,812
Total assets net of regulatory adjustments		525,545,685	489,264,296
Commitments in respect of derivatives - off balance sheet items		1,283,686	1,334,860
Total off-balance sheet commitments excluding derivatives	22	111,574,752	105,097,082
Total exposures (A)		638,404,123	595,696,238
Tier-1 Capital (B)	42.2	36,104,597	32,505,146
Leverage Ratio (B/A)		5.66%	5.46%

43. RISK MANAGEMENT

Risk management aspects are embedded in the Bank's strategy, organization structure and processes. The Bank has adopted a cohesive risk management structure for credit, operations, liquidity, market risk with an integrated approach to strengthen the process and system as controls are more effective and valuable when built into the process. Effective risk management is considered essential in the preservation of the assets and long-term profitability of the Bank. Clear guidelines and limits, which are under regular review, are backed by a system of internal controls and independent audit inspections. Internal reporting / MIS are additional tools for measuring and controlling risks. Separation of duties is also embedded in the Bank's system and organization.

43.1 Credit risk

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises principally in relation to the lending and trade finance business carried out by the Bank.

As per Basel II methodology the gross credit risk weighted exposure incorporating relevant credit conversion factor is Rs. 168,210,614 thousand (2015: Rs. 157,734,631 thousand) as depicted in note 42.5.

The Bank's strategy is to minimize credit risk through a strong pre-disbursement credit analysis, approval and risk measurement process added with product, geography and customer diversification. The Bank, as its strategic preference, extends trade and working capital financing, so as to keep the major portion of exposure (funded and non-funded) on a short-term, self-liquidating basis. Major portion of the Bank's credit portfolio is priced on flexible basis with pricing reviewed on periodic basis.

Centralized Credit and Trade processing centres staffed with experienced resource provide strength to post-disbursement aspect of credit risk management.

The Bank's credit policy / manual defines the credit extension criteria, the credit approval and monitoring process, the loan classification system and provisioning policy.

The Bank continually assesses and monitors credit exposures. The Bank follows both objective and subjective criteria of SBP regarding loans classification. The subjective assessment process is based on management's judgment with respect to the borrower's character, activity, cash flow, capital structure, security, quality of management and delinquency.

43.1.1 Segmental information

Segment by class of business	2016					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rs. in '000)	%	(Rs. in '000)	%	(Rs. in '000)	%
Agriculture, forestry, hunting and fishing	781,149	0.49	16,412,506	3.81	139,392	0.05
Automobile and transportation equipment	1,674,373	1.05	19,725,977	4.58	7,318,858	2.64
Cement	1,205,318	0.75	5,755,722	1.34	2,899,744	1.04
Chemicals and pharmaceuticals	9,139,668	5.72	19,531,761	4.53	10,327,251	3.72
Construction	2,945,764	1.84	17,793,045	4.13	1,312,322	0.47
Commodity Finance	12,093,000	7.56	—	—	—	—
Electronics and electrical appliances	5,299,006	3.31	31,403,493	7.29	4,604,132	1.66
Exports / imports	4,525,538	2.83	11,722,008	2.72	15,434,961	5.56
Financial	1,692,493	1.06	11,885,676	2.76	113,781,180	40.99
Footwear and leather garments	706,630	0.44	11,700,093	2.72	298,991	0.11
Individuals	2,841,087	1.78	43,338,486	10.06	205,311	0.07
Insurance	—	—	604,593	0.14	—	—
Mining and quarrying	3,487,784	2.18	16,373,814	3.80	304,785	0.11
Power (electricity), gas, water, sanitary	22,678,878	14.18	10,529,617	2.44	10,841,518	3.91
Services	485,113	0.30	30,114,136	6.99	3,670,837	1.32
Sugar	2,287,400	1.43	2,298,547	0.53	314,804	0.11
Textile	65,060,557	40.69	34,709,573	8.06	69,471,545	25.03
Transport, storage and communication	1,881,832	1.18	21,929,423	5.09	1,624,699	0.59
Wholesale and retail trade	4,910,124	3.07	10,074,932	2.34	7,495,868	2.70
Others	16,197,438	10.14	114,984,634	26.67	27,540,297	9.92
	159,893,152	100.00	430,888,036	100.00	277,586,495	100.00

Segment by sector	2016					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rs. in '000)	%	(Rs. in '000)	%	(Rs. in '000)	%
Public / Government	25,446,807	15.91	40,427,614	9.38	5,107,914	1.84
Private	134,446,345	84.09	390,460,422	90.62	272,478,581	98.16
	159,893,152	100.00	430,888,036	100.00	277,586,495	100.00

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

	2016		2015	
	Classified advances	Specific provision held	Classified advances	Specific provision held
	Rupees in '000			
Automobile and transportation equipment	1,519,602	1,518,885	1,514,514	1,514,514
Chemicals and pharmaceuticals	339,687	301,854	366,002	296,909
Construction	189,056	68,412	194,060	29,764
Electronics and electrical appliances	523,887	523,887	529,272	527,022
Exports / imports	99,020	—	981,241	864,839
Footwear and leather garments	17,430	17,430	23,428	17,668
Individuals	6,691	5,671	7,138	5,863
Power (electricity), gas, water, sanitary	23,229	23,229	245,504	52,867
Services	100,384	51,785	87,377	51,135
Textile	14,728,045	12,284,223	12,095,339	11,314,648
Transport, storage and communication	5,619	4,999	9,201	6,823
Wholesale and retail trade	427,690	303,006	778,827	471,751
Others	1,892,802	1,693,558	1,655,079	1,379,034
	19,873,142	16,796,939	18,486,982	16,532,837

Details of non-performing advances and specific provisions by sector

	2016		2015	
	Classified advances	Specific provision held	Classified advances	Specific provision held
Rupees in '000				
Private	<u>19,873,982</u>	<u>16,796,939</u>	<u>18,486,982</u>	<u>16,532,837</u>

Geographical segment analysis

	2016			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
Rupees in '000				
Pakistan	<u>10,333,747</u>	<u>526,606,417</u>	<u>39,670,450</u>	<u>277,586,495</u>

Total assets employed include intra group items of Rs. 292,215 thousand.

43.2 Market risk

Market Risk is the risk of loss in earnings and capital due to adverse changes in interest rates, foreign exchange rates, equity prices and market conditions.

The Board of Directors oversees the Bank's strategy for market risk exposures. Asset and Liability Committee (ALCO) which comprises of senior management oversees the statement of financial position of the Bank, assesses the impact of interest rate change on the Bank's investment portfolio through stress testing, and performs oversight function to ensure sound asset quality, liquidity and pricing. The investment policy amongst other aspects covers the Bank asset allocation guidelines inclusive of equity investments. While market risk limits are in place and are monitored effectively, the Bank has also formalized liquidity and market risk management policies which contain action plans to strengthen the market risk management system and a middle office function oversees limit adherence. Market risk can be categorised into Interest Rate Risk, Foreign Exchange Risk and Equity Position Risk.

43.3 Foreign exchange risk

Foreign exchange risk is the probability of loss resulting from adverse movement in exchange rates.

The Bank's business model for foreign exchange risk is to serve trading activities of its clients in an efficient and cost effective manner. The Bank is not in the business of actively trading and market making activities and all FX exposures are backed by customer's trade transaction. A conservative risk approach backed by the Bank's business strategy to work with export oriented clients gives the ability to meet its foreign exchange needs.

	2016			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
Pakistan Rupee	488,714,936	437,298,381	(11,969,666)	39,446,889
United States Dollar	33,997,469	43,817,954	10,425,758	605,273
Euro	2,594,738	1,240,805	(1,355,104)	(1,171)
Great Britain Pound	551,032	3,696,076	3,145,172	128
Asian Currency Unit	465,943	868,699	–	(402,756)
Japanese Yen	63,265	685	(57,502)	5,078
Arab Emirates Dirham	201,991	17	(202,186)	(212)
Canadian Dollar	–	6,472	9,925	3,453
Australian Dollar	696	–	–	696
Saudi Riyal	441	–	–	441
Other Currencies	15,906	6,878	3,603	12,631
	37,891,481	49,637,586	11,969,666	223,561
	526,606,417	486,935,967	–	39,670,450
	2015			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
Pakistan Rupee	444,962,281	398,581,461	(9,471,367)	36,909,453
United States Dollar	41,771,205	49,348,050	7,440,081	(136,764)
Euro	1,802,589	1,173,106	(648,859)	(19,376)
Great Britain Pound	774,760	3,441,155	2,674,339	7,944
Asian Currency Unit	468,845	486,817	–	(17,972)
Japanese Yen	25,726	19,005	(1,038)	5,683
Arab Emirates Dirham	30,510	17	–	30,493
Canadian Dollar	5,601	–	8,935	14,536
Australian Dollar	2,579	–	–	2,579
Saudi Riyal	9,048	–	–	9,048
Other Currencies	25,964	1,693	(2,091)	22,180
	44,916,827	54,469,843	9,471,367	(81,649)
	489,879,108	453,051,304	–	36,827,804

43.4 Interest rate risk

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. Interest rate risk is also controlled through flexible credit pricing mechanism and variable deposit rates. Duration analysis and stress testing are being carried out regularly to estimate the impact of adverse changes in the interest rates on bank's fixed income portfolio. Optimization of yield is achieved through the Bank's investment strategy which aims on attaining a balance between yield and liquidity under the strategic guidance of ALCO. The advances and deposits of the Bank are repriced on a periodic basis based on interest rates scenario. Details of the interest rate profile of the Bank based on the earlier of contractual repricing or maturity date is as follows:

2016											
		Exposed to yield/interest risk									
Effective yield/interest rate %		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	Non-interest bearing financial instruments
Rupees in '000											
On-balance sheet financial instruments											
Assets											
-	Cash and balances with treasury banks	35,561,885	-	-	-	-	-	-	-	-	35,561,885
3.75%	Balances with other banks	2,259,974	44,415	-	-	-	-	-	-	-	2,215,559
4.50% to 6.65%	Lendings to financial institutions	16,750,886	3,492,366	13,258,520	-	-	-	-	-	-	-
6.10% to 12.00%	Investments	314,619,011	2,289,380	121,821,854	50,000,871	10,233,533	20,725,550	24,381,025	47,774,106	30,022,561	7,370,131
1.15% to 20.55%	Advances	142,962,103	13,182,387	107,146,489	15,812,764	588,782	745,821	966,999	1,428,159	2,118,485	-
-	Other assets	6,731,246	-	-	-	-	-	-	-	-	6,731,246
		518,885,105	19,008,548	242,226,863	65,813,635	10,822,315	21,471,371	25,348,024	49,202,265	32,141,046	51,878,821
Liabilities											
-	Bills payable	8,108,633	-	-	-	-	-	-	-	-	8,108,633
1.00% to 5.90%	Borrowings	37,205,175	17,319,993	7,139,554	6,641,393	2,016,461	521,870	581,186	944,096	1,149,018	890,142
0.25% to 16.67%	Deposits and other accounts	430,888,036	110,713,312	52,606,915	104,729,501	27,085,389	2,015,855	1,665,452	5,371,721	-	126,699,891
	Other liabilities	9,815,265	-	-	-	-	-	-	-	-	9,815,265
		486,017,109	128,033,305	59,746,469	111,370,894	29,101,850	2,537,725	2,246,638	6,315,817	1,149,018	145,513,931
	On-balance sheet gap	32,867,996	(109,024,757)	182,480,394	(45,557,259)	(18,279,535)	18,933,646	23,101,386	42,886,448	30,992,028	(93,635,110)
Off-balance sheet financial instruments											
	Forward purchase	76,832,902	-	-	-	-	-	-	-	-	76,832,902
	Forward sale	(66,117,312)	-	-	-	-	-	-	-	-	(66,117,312)
	Off-balance sheet gap	10,715,590	-	-	-	-	-	-	-	-	10,715,590
	Total yield / interest risk sensitivity gap	43,583,586	(109,024,757)	182,480,394	(45,557,259)	(18,279,535)	18,933,646	23,101,386	42,886,448	30,992,028	(82,919,520)
	Cumulative yield / interest risk sensitivity gap	43,583,586	(109,024,757)	73,455,637	27,898,378	9,618,843	28,552,489	51,653,875	94,540,323	125,532,351	43,583,586

2015

Effective yield/ interest rate %	Exposed to yield/interest 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
						</			

Rupees in '000

On-balance sheet financial instruments

Assets

Cash and balances with treasury banks	30,645,728	–	–	–	–	–	–	–	–	30,645,728
Balances with other banks	13,806,513	6,830,666	3,650,000	–	–	–	–	–	–	3,325,847
Lendings to financial Institutions	2,800,000	2,800,000	–	–	–	–	–	–	–	–
Investments	292,779,230	3,379,675	34,213,453	14,570,039	150,135,298	1,124,299	45,977,920	12,158,894	23,503,314	7,716,338
Advances	132,646,839	19,742,865	90,771,215	16,755,236	1,266,613	547,502	648,447	897,877	1,456,723	–
Other assets	10,359,969	–	–	–	–	–	–	–	–	10,359,969
	483,038,279	32,753,206	128,634,668	31,325,275	151,401,911	1,671,801	46,626,367	13,056,771	24,960,037	52,047,882

Liabilities

Bills payable	6,344,461	–	–	–	–	–	–	–	–	6,344,461
Borrowings	31,462,822	10,509,424	10,834,254	8,353,574	76,657	171,797	221,019	371,980	531,030	393,087
Deposits and other accounts	403,354,957	99,559,681	66,998,936	97,342,642	24,648,915	2,287,939	1,941,682	4,768,636	570,200	105,236,326
Other liabilities	10,840,843	–	–	–	–	–	–	–	–	10,840,843
	452,003,083	110,069,105	77,833,190	105,696,216	24,725,572	2,459,736	2,162,701	5,140,616	1,101,230	122,814,717
On-balance sheet gap	31,035,196	(77,315,899)	50,801,478	(74,370,941)	126,676,339	(787,935)	44,463,666	7,916,155	23,858,807	(70,766,835)

Off-balance sheet financial instruments

Forward purchase	80,770,251	–	–	–	–	–	–	–	–	80,770,251
Forward sale	(73,381,353)	–	–	–	–	–	–	–	–	(73,381,353)
Off-balance sheet gap	7,388,898	–	–	–	–	–	–	–	–	7,388,898
Total yield / interest risk sensitivity gap	38,424,094	(77,315,899)	50,801,478	(74,370,941)	126,676,339	(787,935)	44,463,666	7,916,155	23,858,807	(63,377,937)
Cumulative yield / interest risk sensitivity gap	38,424,094	(77,315,899)	(26,514,421)	(100,885,362)	25,790,977	25,003,042	69,466,708	77,382,863	101,241,670	38,424,094

43.4.1 Reconciliation of assets and liabilities exposed to yield / interest rate risk with total assets and liabilities

	2016		2015		2016		2015	
	(Rupees in '000)		(Rupees in '000)		(Rupees in '000)		(Rupees in '000)	
Reconciliation to total assets					Reconciliation to total liabilities			
Total financial assets	518,885,105		483,038,279		Total financial liabilities	486,017,109		452,003,083
Add: Non financial assets					Add: Non financial liabilities			
Operating fixed assets	3,246,376		3,124,779		Other liabilities	918,858		1,048,221
Deferred tax assets	2,458,685		1,938,628					
Other assets	2,016,251		1,777,422					
	7,721,312		6,840,829					
Balance as per statement of financial position	526,606,417		489,879,108		Balance as per statement of financial position	486,935,967		453,051,304

43.5 Liquidity risk

Liquidity risk is the risk that the Bank will not be able to raise funds to meet its commitments. ALCO manages the liquidity position on a continuous basis.

The Bank's liquidity model is based on "self-reliance" with an extensive branch network to diversify the Bank deposit base. The Bank as a policy invests significantly in highly liquid government securities that can be readily converted into cash to meet unforeseen liquidity requirements, besides yielding attractive returns. Furthermore, long term loans are generally kept at an amount lower than the Bank's capital / reserves.

The contractual maturities of assets and liabilities at the year-end have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date. Assets and liabilities that do not have contractual time / payable on demand have been classified in the first bucket, except investments in equity securities, certain other liabilities and other assets that are assumed to mature on the expected date on which the assets / liabilities will be realized / settled.

43.5.1 Maturities of assets and liabilities - based on contractual maturity of assets and liabilities of the Bank

The maturity profile set out below has been prepared as required by IFRS on the basis of contractual maturities, except for products that do not have a contractual maturity which are shown in the manner as explained above.

2016

		Rupees in '000							
		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
Assets									
Cash and balances with treasury banks	35,561,885	35,561,885	-	-	-	-	-	-	-
Balances with other banks	2,259,974	2,259,974	-	-	-	-	-	-	-
Lendings to financial institutions	16,750,886	3,492,366	13,258,520	-	-	-	-	-	-
Investments	314,619,011	8,868,221	120,134,421	44,586,020	10,471,460	25,030,964	24,966,164	48,525,086	31,386,675
Advances	142,962,103	37,890,893	46,131,950	25,903,482	11,021,905	5,336,734	5,094,967	6,237,958	4,152,544
Operating fixed assets	3,246,376	178,742	184,312	276,468	552,936	797,370	161,381	177,792	444,480
Deferred tax assets	2,458,685	1,349,137	557,592	393,585	314,175	(47,783)	(2,216)	(79,587)	(9,159)
Other assets	8,747,497	6,546,713	387,025	202,831	1,215,536	73,739	238,137	22,474	30,446
	526,606,417	96,147,931	180,653,820	71,362,386	23,576,012	31,191,024	30,458,433	54,883,723	36,004,986
									2,328,102
Liabilities									
Bills payable	8,108,633	8,108,633	-	-	-	-	-	-	-
Borrowings	37,205,175	18,210,135	7,139,554	6,641,393	2,016,461	521,870	581,186	944,096	1,145,018
Deposits and other accounts	430,888,036	301,531,178	52,606,915	40,611,527	27,085,389	2,015,855	1,665,452	5,371,720	-
Other liabilities	10,734,123	4,734,305	1,813,883	1,223,043	1,591,286	76,678	63,923	845,662	385,343
	486,935,967	332,584,251	61,560,352	48,475,963	30,693,136	2,614,403	2,310,561	7,161,478	1,534,361
Net assets / (liabilities)	39,670,450	(236,436,320)	119,093,468	22,886,423	(7,117,124)	28,576,621	28,147,872	47,722,245	34,470,625
									2,326,640
Share capital	10,478,315								
Reserves	13,933,875								
Unappropriated profit	12,753,139								
Surplus on revaluation of assets - net of tax	2,505,121								
	39,670,450								

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
Rupees in '000										
Assets										
Cash and balances with treasury banks	30,645,728	30,645,728	-	-	-	-	-	-	-	-
Balances with other banks	13,806,513	10,156,513	3,650,000	-	-	-	-	-	-	-
Lendings to financial institutions	2,800,000	2,800,000	-	-	-	-	-	-	-	-
Investments	292,779,230	9,650,978	33,249,053	9,254,735	150,238,021	5,482,770	46,596,706	12,969,364	25,030,103	307,500
Advances	132,646,839	33,635,372	38,371,992	29,820,237	13,982,936	4,170,190	3,636,952	4,995,139	3,316,462	717,559
Operating fixed assets	3,124,779	130,144	144,930	217,395	434,172	467,708	103,344	206,688	516,720	903,678
Deferred tax assets	1,938,628	1,333,883	769,881	684,120	(514,437)	21,180	(238,314)	18,051	(60,023)	(75,713)
Other assets	12,137,391	9,711,043	356,001	220,700	1,763,925	54,145	22,453	2,647	3,792	2,685
	489,879,108	98,063,661	76,541,857	40,197,187	165,904,617	10,195,993	50,121,141	18,191,889	28,807,054	1,855,709
Liabilities										
Bills payable	6,344,461	6,344,461	-	-	-	-	-	-	-	-
Borrowings	31,462,822	10,902,511	10,834,254	8,353,574	76,657	171,797	221,019	371,980	531,030	-
Deposits and other accounts	403,354,957	272,112,833	66,998,936	30,025,815	24,648,916	2,287,939	1,941,682	4,768,636	570,200	-
Other liabilities	11,889,064	5,118,520	2,192,766	1,111,805	2,084,233	85,435	74,804	775,549	445,952	-
	453,051,304	294,478,325	80,025,956	39,491,194	26,809,806	2,545,171	2,237,505	5,916,165	1,547,182	-
Net assets / (liabilities)	36,827,804	(196,414,664)	(3,484,099)	705,993	139,094,811	7,650,822	47,883,636	12,275,724	27,259,872	1,855,709
Share capital	10,478,315									
Reserves	12,710,010									
Unappropriated profit	9,931,633									
Surplus on revaluation of assets - net of tax	3,707,846									
	36,827,804									

43.5.2 Maturities of assets and liabilities - based on historical pattern of assets and liabilities of the Bank

The maturity profile set out below has been prepared as determined by the ALCO, keeping in view the historical pattern of those current and saving deposit accounts which do not have contractual maturity.

		2016							
		Rupees in '000							
		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
Assets									
Cash and balances with treasury banks	35,561,885	35,561,885	-	-	-	-	-	-	-
Balances with other banks	2,259,974	2,259,974	-	-	-	-	-	-	-
Lendings to financial institutions	16,750,886	3,492,366	13,258,520	-	-	-	-	-	-
Investments	314,619,011	8,868,221	120,134,421	44,586,020	10,471,460	25,030,964	24,966,164	48,525,086	650,000
Advances	142,962,103	37,890,893	46,131,950	25,903,482	11,021,905	5,336,734	5,094,967	6,237,958	4,152,544
Operating fixed assets	3,246,376	178,742	184,312	276,468	552,936	797,370	161,381	177,792	444,480
Deferred tax assets	2,458,685	1,349,137	557,592	393,585	314,175	(47,783)	(2,216)	(79,587)	(9,159)
Other assets	8,747,497	6,546,713	387,025	202,831	1,215,536	73,739	238,137	22,474	30,446
	526,606,417	96,147,931	180,653,820	71,362,386	23,576,012	31,191,024	30,458,433	54,883,723	36,004,986
									2,328,102
Liabilities									
Bills payable	8,108,633	8,108,633	-	-	-	-	-	-	-
Borrowings	37,205,175	18,210,135	6,641,393	2,016,461	521,870	581,186	1,149,018	1,462	-
Deposits and other accounts	430,888,036	57,562,701	65,008,377	149,069,628	38,611,124	38,260,721	5,371,720	-	-
Other Liabilities	10,734,123	4,734,305	1,223,043	1,591,286	76,678	63,923	845,662	385,343	-
	486,935,967	88,615,775	72,872,813	152,677,375	39,209,672	38,905,830	7,161,478	1,534,361	1,462
	39,670,450	7,532,156	(1,510,427)	(129,101,363)	(8,018,648)	(8,447,397)	47,722,245	34,470,625	2,326,640
Net assets / (liabilities)									
Share capital	10,478,315								
Reserves	13,933,875								
Unappropriated profit	12,753,139								
Surplus on revaluation of assets - net of tax	2,505,121								
	39,670,450								

Rupees in '000

Surplus on revaluation of assets - net of tax

43.6 Operational risk

The Bank operates in a controlled manner and operational risk is generally managed effectively. With the evolution of operation risk management into a separate distinct discipline, the Bank's strategy is to further strengthen risk management system along new industry standards.

The Bank's operational risk management strategy takes guidance from Basel – II, Committee of Sponsoring Organization of Treadway Commission (COSO) publications, the SBP guidelines and standard industry practices. The operational risk management manual addresses enterprise wide risk drivers inclusive of technology infrastructure, software hardware and I.T. security.

The Bank's ORM framework includes Risk Control Self-Assessment (RCSA), Key Risk Indicators (KRIs), Operational Risk Events Management, and Operational Risk reporting. The ORM unit engages with Bank's business / support units and regularly collaborates in determining and reviewing the risks, and assessment of residual risk leading to improved quality of control infrastructure and strengthening of the processes (sub processes) & management information.

The Bank's business continuity plan includes risk management strategies to mitigate inherent risk and prevent interruption of mission critical services caused by disaster event. The Bank's operational risk management infrastructure has been further strengthened through the establishment of a separate operational and risk control unit.

43.7 Operational risk - Disclosures Basel II specific

The Bank uses Basic Indicator Approach (BIA) for regulatory capital at risk calculation for operational risk. Under BIA the capital charge for operational risk is a fixed percentage of average positive annual gross income of the Bank over the past three years. Figures of capital charge of operation risk for the year is Rs. 2,504,149 thousand (2015: Rs. 2,315,818 thousand).

44. KEY ISLAMIC BANKING OPERATIONS

44.1 The Bank is operating 25 (2015: 20) Islamic banking branches in Pakistan. The statement of financial position and profit and loss account of these branches as at 31 December 2016 and for the year are as follows:

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	2016	2015
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks		2,723,811	3,842,878
Balances with other banks		—	10,450,000
Due from financial institutions		13,613,465	2,907,631
Investments		20,540,621	26,593,986
Islamic financing and related assets	44.5	8,429,751	7,897,487
Operating fixed assets		79,530	76,730
Deferred tax assets		—	—
Other assets		1,414,567	3,460,038
		<u>46,801,745</u>	<u>55,228,750</u>
LIABILITIES			
Bills payable		304,581	228,456
Due to financial institutions		860,517	966,307
Deposits and other accounts		43,154,644	52,067,283
— Current accounts		7,660,817	6,918,381
— Saving deposits		10,641,554	19,962,616
— Term deposits		16,415,145	15,390,612
— Others		111,661	84,674
— Deposits from financial institutions - remunerative		8,321,653	9,709,697
— Deposits from financial institutions - non - remunerative		3,814	1,303
Due to head office		—	—
Other liabilities		506,326	575,043
		<u>44,826,068</u>	<u>53,837,089</u>
NET ASSETS		<u>1,975,677</u>	<u>1,391,661</u>
REPRESENTED BY			
Islamic banking fund		1,402,615	1,002,619
Reserves		—	—
Unappropriated profit		191,936	363,777
		<u>1,594,551</u>	<u>1,366,396</u>
Surplus on revaluation of assets		381,126	25,265
		<u>1,975,677</u>	<u>1,391,661</u>

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016	2015
	Rupees in '000	
Profit / return on financing, investments and placements earned	2,752,564	2,723,686
Profit / return on deposit & other dues expensed	(2,306,490)	(2,116,829)
Net spread earned	446,074	606,857
Provision against non performing financing	15,852	81,757
Provision for diminution in the value of investments	—	—
Provision for consumer financing ljarah	—	—
Bad debts written off directly	—	—
	(15,852)	(81,757)
Net spread after provisions	430,222	525,100
OTHER INCOME		
Fee, commission and brokerage income	40,746	33,188
Dividend income	—	—
Income from dealing in foreign currencies	23,661	14,829
Gain on sale / redemption of securities	66,907	13,803
Unrealized gain / (loss) on revaluation of investments classified as 'held-for-trading'	—	—
Other income	44,146	61,681
Total other income	175,460	123,501
	605,682	648,601
OTHER EXPENSES		
Administrative expenses	413,464	284,803
Other provisions / write offs	—	—
Other charges	282	21
Total other expenses	(413,746)	(284,824)
	191,936	363,777
Extra-ordinary / unusual items	—	—
PROFIT BEFORE TAXATION	191,936	363,777
44.2 Remuneration to Shariah Advisor / Board	7,747	2,794
44.3 Charity Fund		
Opening balance	491	—
Additions during the year		
Received from customer on delayed payments	550	491
Payments / utilization during the year		
Education	(148)	—
Health	(566)	—
	(714)	—
Closing balance	327	491

	Note	2016	2015
		Rupees in '000	
44.4 FINANCINGS / INVESTMENTS / RECEIVABLES			
Murabaha financing			
Murabaha receivable - gross		4,257,445	4,218,831
Less: Deferred Murabaha income		(125,683)	(166,802)
Advance against Murabaha		109,071	79,898
		4,240,833	4,131,927
Provision against Murabaha Financing		(345,550)	(330,980)
		3,895,283	3,800,947
Ijarah			
Asset held for Ijarah		367,292	315,303
Less: Accumulated Depreciation		(115,788)	(143,395)
Ijarah Financing		–	55,480
Less: Unearned Income		–	(9,089)
Advance against Ijarah		32,218	23,854
		283,722	242,153
Provision against Ijarah Financing		(23,796)	(25,840)
		259,926	216,313
Diminishing Musharakah			
Diminishing Musharakah - gross		3,477,592	3,204,826
Less: Unrealised Income on Diminishing Musharakah		(779,718)	(497,059)
Advance against Diminishing Musharakah		146,306	44,324
		2,844,180	2,752,091
Provision against Diminishing Musharakah		(3,327)	–
		2,840,853	2,752,091
Export Refinance Murabaha			
Export Refinance Murabaha receivable - gross		95,142	129,691
Less: Deferred Export Refinance Murabaha income		(1,247)	(2,317)
Advance against Murabaha IERF		6,673	5,899
		100,568	133,273
Istisna Financing			
Istisna Financing - gross		44,645	46,429
Less: Deferred Istisna Income		(13,394)	(13,929)
Advance against Istisna		146,308	102,275
		177,559	134,775
Advance against Export Refinance Istisna			
Export Refinance Istisna receivable - gross		13,226	–
Less: Deferred Export Refinance Istisna income		(2,645)	–
Advance against Istisna IERF		754,400	835,000
		764,981	835,000
Al-Bai Financing		–	25,088
Al-Bai Goods		55,081	–
Istisna Goods		29,500	–
Working Capital Musharaka		306,000	–
44.5 Islamic Mode of Financing			
Financings / investments / receivables		7,522,867	7,163,057
Assets/Inventories		84,581	–
Advances		1,194,976	1,091,250
Gross Islamic financing and related assets		8,802,424	8,254,307
Provision against financing and related assets		(372,673)	(356,820)
		8,429,751	7,897,487

44.6 Following pools are maintained by the Bank's Islamic Banking Division (IBD)

- **General pool - local currency and foreign currency**
Deposit accepted in general pool local and foreign currencies is based on Modaraba. Profit distributed to depositors as per pre-agreed weightages.
- **Specific pool**
Deposit accepted in special pools are based on Modaraba. Profit distributed to depositors as per pre-agreed profit sharing ratio.
- **Islamic Export Refinance Scheme musharakah pool**
The IERS Pool caters to the 'Islamic Export Refinance' requirements based on the guidelines issued by the SBP.

44.6.1 Nature of general / specific pools local and foreign currencies

- a) Consideration attached with risk and reward
 - Period, return, safety, security and liquidity of investments.
 - All financing proposals under process at various stages and likely to be extended in near future.
 - Expected withdrawal of deposits according to the maturities affecting the deposit base.
 - Maturities of funds obtained under modaraba arrangement from head office, Islamic Banking financial institutions.
 - Element of risk associated with different kind of investments.
 - Regulatory requirement.
 - Shari'ah compliance.
- b) Priority of utilization of funds
 - Depositors' funds
 - Equity funds
 - Placement / investments of other IBI
 - Modaraba placement of HabibMetro (head office)

- c) Weightages for distribution of profits

Profits are calculated on the basis of weightages assigned to different tiers and tenors (General pool). These weightages are announced at the beginning of the period, while considering weightages emphasis shall be given to the quantum, type and the period of risk assessed by applying following factors.

- Contracted period, nature and type of deposit / fund.
- Payment cycle of profit on such deposit / fund, i.e. monthly, quarterly or on maturity.
- Magnitude of risk.

Any change in profit sharing weightages of any category of deposit / fund providers shall be applicable from the next month.

- d) Identification and allocation of pool related income and expenditure:

The allocation of income and expenditure to different pools is being done based on pre-defined basis and accounting principles as mentioned below:

The direct expenditure shall be charged to respective pool, while indirect expenses including the establishment cost shall be borne by HabibMetro IBD as Mudarib. The direct expenses to be charged to the pool may include depreciation of ijarah assets, insurance / takaful expenses of pool assets, stamp fee or documentation charges, brokerage fee for purchase of securities, impairment / losses due to physical damages to specific assets in pools etc. However, this is not an exhaustive list. HabibMetro IBD pool management framework and the respective pool creation memorandum may identify and specify these and other similar expenses to be charged to the pool.

44.6.2 Islamic export refinance scheme musharakah pool

All the features and other details of this pool are in accordance with the SBP IERS Scheme and all circulars and instructions issued from time to time in this regard.

44.7 Avenues / sectors of economy / business where modaraba based deposits have been deployed

- Agriculture, forestry, hunting and fishing
- Automobile and transportation equipment
- Chemical and pharmaceuticals
- Electronic and electrical appliances
- Financial
- Production and transmission of energy
- Footwear and leather garments
- Textile
- Cement
- Others

44.8 Parameters used for allocation of profit, charging of expenses and provisions etc.

a) Basis of profit allocation

	From January 01, 2016 to December 31, 2016	
	Local Currency	Foreign Currency
- Rabbul Maal	50%	10%
- Mudarib	50%	90%

b) Charging expenses

The direct expenses are charged to respective pool, while indirect expenses including the establishment costs are borne by the Islamic Banking Division as Mudarib.

c) Provisions

Specific provision amounting to Rs. 15,852 thousand has been made during the year 2016.

44.9 Mudarib share (in amount and percentage of distributable income)

	2016		2015	
	Rupees in '000	%	Rupees in '000	%
Rabbul Maal	1,237,019	44.23	1,168,534	42.64
Mudarib	1,560,018	55.77	1,572,008	57.36
Distributable Income	2,797,037	100.00	2,740,542	100.00

44.10 Amount and percentage of mudarib share transferred to depositors through Hiba

	2016	2015
	Rupees in '000	
Mudarib share	1,560,018	1,572,008
Hiba	551,899	626,854
Hiba percentage of mudarib share	35.38%	39.88%

44.11 Profit rate earned and profit rate distributed to depositors during the year

	2016	2015
	%	
Profit rate earned	6.32	7.35
Profit rate distributed to depositors	4.82	5.67

45 GENERAL

45.1 State Bank of Pakistan has issued BPRD Circular Letter No. 5 dated 29 February 2016 regarding the classification of Bai-Muajjal with Government of Pakistan. Accordingly corresponding figures pertaining to "Bai-Muajjal with Government of Pakistan" amounting to Rs 11,644,641 thousand have been reclassified from "Lendings to Financial Institutions" to "Investments".

45.2 These financial statements have been prepared in accordance with the revised forms of annual financial statements of the Banks' issued by the State Bank of Pakistan through its BSD Circular No. 04 dated 17 February 2006.

45.3 Non adjusting event after statement of financial position date

The Board of Directors in its meeting held on 22 February 2017 has proposed a final cash dividend of Rs. 3.00 per share amounting to Rs. 3,143,494 thousand (2015: final cash dividend of Rs. 2.00 per share amounting to Rs. 2,095,663 thousand) for approval by the members of the Bank in the forthcoming Annual General Meeting.

46. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 22 February 2017 by the Board of Directors of the Bank.

MOHAMEDALI R. HABIB
Chairman

SIRAJUDDIN AZIZ
President &
Chief Executive Officer

TARIQ IKRAM
Director

MOHOMED BASHIR
Director

1. MARKET TREASURY BILLS

These securities have a maturity period of 1 year, with yield ranging between 5.87% to 6.28% (2015: 6.39% to 8.50%) per annum.

2. PAKISTAN INVESTMENT BONDS

These securities have a maturity period of 3 to 10 years with interest rates ranging between 7.00% to 12.00% (2015: 8.75% to 12.00%) per annum.

3. FULLY PAID-UP ORDINARY SHARES - LISTED

	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	No. of shares of Rs. 10/- each	Paid up value		Market Value		Cost		Rating				
		2016	2015	2016	2015	2016	2015	2016	2015	Rupees in '000		
Allied Bank Limited	582,500	640,000	58,250	6,400	69,440	60,326	73,186	AA+	AA+	AA+	AA+	AA+
Amreli Steel Limited	1,375,000	1,375,000	137,500	13,750	91,561	82,596	71,563	A	A	A	A	A-
Bank AL Habib Limited	2,237,737	2,295,737	223,774	22,957	132,004	95,503	99,235	AA+	AA+	AA+	AA+	AA+
Bank Alfalah Limited	1,822,000	1,382,500	182,200	13,825	69,163	39,844	37,264	AA	AA	AA	AA	AA
Cherat Cement Company Limited	571,060	521,160	57,106	5,212	99,387	46,998	41,679	A	A	A	A	A
D. D. Khan Cement Company Limited	435,000	505,000	43,500	5,050	96,453	74,533	50,506	**	**	**	**	**
Engro Foods Limited	81,800	62,000	8,180	620	15,701	9,089	9,079	A+	A+	A+	A+	A+
Engro Fertilizer Limited	1,005,000	-	100,500	-	68,320	-	65,598	AA-	AA-	AA-	AA-	AA-
Fatima Fertilizers Company Limited	2,371,500	1,718,500	237,150	17,185	87,485	76,869	49,499	AA-	AA-	AA-	AA-	AA-
Fauji Fertilizers Bin Qasim Limited	897,000	1,552,000	89,700	15,520	45,935	81,759	70,744	AA	AA	AA	AA	**
Fauji Fertilizers Company Limited	662,200	662,200	66,220	6,622	69,114	78,126	74,818	AA	AA	AA	AA	**
Habib Bank Limited	197,960	71,960	19,796	720	54,093	14,401	12,090	AAA	AAA	AAA	AAA	AAA
Hi-Tech Lubricants Limited	164,500	-	16,450	-	18,896	-	13,966	**	**	**	**	**
Honda Atlas Cars (Pakistan) Limited	50,100	-	5,010	-	33,499	-	29,349	-	-	-	-	-
HUB Power Company Limited	934,425	1,028,625	93,443	10,286	115,383	105,537	66,072	AA+	AA+	AA+	AA+	AA+
Kot Addu Power Company Limited	942,000	1,032,500	94,200	10,325	74,230	83,632	74,084	AA+	AA+	AA+	AA+	AA+
Lucky Cement Limited	56,400	38,000	5,640	380	48,856	18,811	19,520	**	**	**	**	**
MCB Bank Limited	263,000	263,000	26,300	2,630	62,546	57,032	70,354	AAA	AAA	AAA	AAA	AAA
Meezan Bank Limited	524,500	8,000	52,450	80	35,724	366	337	AA	AA	AA	AA	AA
National Bank of Pakistan	1,055,000	-	105,500	-	79,008	-	74,408	AAA	AAA	AAA	AAA	-
Nishat Power Limited	326,000	-	32,600	-	20,893	-	17,068	A+	A+	A+	A+	-
Oil and Gas Development Corporation Limited	529,700	414,700	52,970	4,147	87,584	48,661	105,592	AAA	AAA	AAA	AAA	**
Pakistan Petroleum Limited	347,000	250,000	34,700	2,500	65,296	30,453	56,024	**	**	**	**	**
Pakistan Oilfield Limited	353,200	40,000	35,320	400	188,828	10,721	141,644	**	**	**	**	**
General Tyre & Rubber Company of Pakistan Limited	55,800	-	5,580	-	15,543	-	15,230	**	**	**	**	-
United Bank Limited	400,218	426,618	40,022	4,266	95,612	66,104	68,056	AAA	AAA	AAA	AAA	AA+
					1,840,554	1,081,361	1,572,398					1,062,338

***Ratings not available

4. FULLY PAID-UP ORDINARY SHARES - UNLISTED

	Percentage of holding	No. of shares held	Cost	Breakup value of investment	Based on audited financial statements	Name of Chief Executive	Credit rating
			— Rupees in '000	—			
Pakistan Export Finance Guarantee Limited	5.26%	1,136,088	11,361	—	—	Under liquidation	**
DHA Cogen Limited	1.77%	5,000,000	50,000	—	31 December 2014	Mr. M. Waqas Mohsin	**
Dawood Family Takaful Limited	4.67%	3,500,000	35,000	18,332	31 December 2015	Mr. Rizwan Ahmed Farid	**
Society for World Wide Inter Bank Fund Transfer (SWIFT)	—	43	10,630	12,906	31 December 2014	Mr. Gottfried Liebbrandt	**
			<u>106,991</u>				

** Ratings not available

5. TERM FINANCE CERTIFICATES - LISTED

	2016	2015	2016	2015	2016	2015	2016	2015
	No. of certificates of Rs. 5,000/- each		Market Value		Cost		Rating	
			Rupees in '000					
Askari Bank Limited - V	50,000	50,000	254,446	249,350	249,800	249,900	AA-	AA-
Bank AL Habib Limited - V	54,000	—	273,185	—	269,946	—	AA	—
Bank Alfalah Limited - V	7,350	7,350	37,660	37,381	36,699	36,714	AA-	AA-
Engro Fertilizer Limited - Perpetual	—	24,000	—	119,904	—	119,787	AA-	AA
Habib Bank Limited (TFC Rs 100,000/- each)	10,000	10,000	1,002,500	1,000,000	1,000,000	1,000,000	AAA	AAA
NIB Bank Limited - II	40,000	40,000	202,078	197,881	199,800	199,880	A+	A+
Soneri Bank Limited - II	50,000	50,000	254,398	244,950	249,900	250,000	A+	A+
World Call Telecom Limited - III	42,000	42,000	82,559	82,652	82,558	82,652	**	**
			<u>2,106,826</u>	<u>1,932,118</u>	<u>2,088,703</u>	<u>1,938,933</u>		

**Ratings not available

5.1 Other particulars of listed term finance certificates are as follows:

Askari Bank Limited - V	6 months KIBOR plus 120 bps	Semi annually	30-Sep-21			
Bank AL Habib Limited - V	6 months KIBOR plus 75 bps	Semi annually	30-Sep-21			
Bank Alfalah Limited - V	6 months KIBOR plus 125 bps	Semi annually	20-Feb-21			
Engro Fertilizer Limited - Perpetual	6 months KIBOR plus 170 bps	Semi annually	18-Nov-18			
Habib Bank Limited (TFC Rs 100,000/- each)	6 months KIBOR plus 50 bps	Semi annually	21-Dec-25			
NIB Bank Limited - II	6 months KIBOR plus 115 bps	Semi annually	19-Jun-22			
Soneri Bank Limited - II	6 months KIBOR plus 135 bps	Semi annually	31-Mar-23			
World Call Telecom Limited - III	6 months KIBOR plus 160 bps	Semi annually	7-Oct-17			
FINANCE CERTIFICATES - UNLISTED						
	2016	2015	2016	2015	2016	2015

6. TERM FINANCE CERTIFICATES - UNLISTED

	No. of certificates of Rs. 5,000/- each	Cost Rupees in '000	Rating
New Allied Electronics Industries (Private) Limited (Chief Executive: Mr. Mian Pervaiz Akhtar)	10,000	21,138	**
Pakistan International Airlines Corporation Limited (Managing Director: Mr. Muhammad Junaid Yunus)	27,411	111,268	**
Bank Alfalah Limited - IV (Chief Executive: Mr. Atif Bajwa)	15,000	49,870	AA-
Faysal Bank Limited - III (Chief Executive: Mr. Noman Ansari)	30,000	74,850	AA-
Security Leasing Corporation Limited (Chief Executive: Mr. S. Nauman Akhtar)	10,000	7,702	**
Standard Chartered Bank Limited - II (Chief Executive: Mr. Shanzad Dada)	10,000	50,000	**
		314,828	
		440,305	

**Ratings not available

6.1 Other particulars of unlisted term finance certificates are as follows:

	Coupon rate	Payment	Maturity date
New Allied Electronics Industries (Private) Limited	3 months KIBOR plus 275 bps	Quarterly	14-Feb-17
Pakistan International Airlines Corporation Limited	6 months KIBOR plus 85 bps	Semi annually	19-Feb-20
Bank Al-Falah Limited IV	6 months KIBOR plus 250 bps	Semi annually	2-Dec-17
Faysal Bank Limited III	6 months KIBOR plus 225 bps	Semi annually	27-Dec-17
Security Leasing Corporation Limited	Fixed at the rate 6% per annum	Monthly	28-Jan-22
Standard Chartered Bank Limited II	6 months KIBOR plus 75 bps	Semi annually	29-Jun-22

7. SUKUK CERTIFICATES AND BONDS

	2016	2015	2016	2015	2016	2015
	No. of certificates of Rs. 5,000/- each		Cost Rupees in '000		Rating	
Al-Baraka Bank Limited (Sukuk Rs 1,000,000/- each)	250	250	178,571	214,285	A	A
Amreli Steel (Private) Limited	-	16,000	-	30,400	**	**
Engro Foods Limited	20,000	20,000	42,500	92,500	**	**
GOP Ijarah Sukuk - 14th Issue	-	1,452,200	-	7,261,000	**	**
GOP Ijarah Sukuk - 15th Issue	700,000	200,000	3,510,666	988,589	**	**
GOP Ijarah Sukuk - 16th Issue	770,000	570,000	3,874,180	2,881,199	**	**
GOP Ijarah Sukuk - 17th Issue	2,000,000	-	10,000,000	-	**	**
Liberty Power Technology Limited	109,942	109,942	326,674	380,154	A+	A+
Maple Leaf Cement Limited - I	-	21,000	-	35,655	**	A
Pakistan Mobile Communication	40,000	17,391	200,000	200,000	AA	AA
Sitara Per Oxide Limited	20,000	20,000	38,300	51,853	**	**
Three Star Hosiery Mills Limited	1,900	1,900	9,500	9,500	**	**
WAPDA Sukuk Bonds - 2nd Issue	70,000	70,000	58,333	116,667	**	**
WAPDA Sukuk Bonds - 3rd Issue	85,000	85,000	303,570	364,286	**	**
			<u>18,542,294</u>	<u>12,626,088</u>		

**Ratings are not available

7.1 Other particulars of Sukuk Certificates / Bonds are as follows:

	Coupon rate	Payment	Maturity date
Al-Baraka Bank Limited (Sukuk Rs 1,000,000/- each)	6 months KIBOR plus 125 bps	Semi annually	26-Sep-24
Amreli Steel (Private) Limited	3 months KIBOR plus 250 bps	Quarterly	9-Dec-16
Engro Foods Limited	6 months KIBOR plus 69 bps	Semi annually	13-Jan-17
GOP Ijarah Sukuk - 14th Issue	6 months T Bills minus 30 bps	Semi annually	28-Mar-16
GOP Ijarah Sukuk - 15th Issue	6 months T Bills minus 200 bps	Semi annually	25-Jun-17
GOP Ijarah Sukuk - 16th Issue	6 months T Bills minus 50 bps	Semi annually	18-Dec-18
GOP Ijarah Sukuk - 17th Issue	Fixed at the rate 6.10% per annum	Semi annually	15-Feb-19
Liberty Power Technology Limited	3 months KIBOR plus 300 bps	Quarterly	18-Mar-21
Maple Leaf Cement Limited - I	3 months KIBOR plus 100 bps	Quarterly	3-Dec-18
Pakistan Mobile Communication Limited	3 months KIBOR plus 210 bps	Quarterly	22-Dec-19
Sitara Per Oxide Limited	3 months KIBOR plus 110 bps	Quarterly	19-Feb-20
Three Star Hosiery Mills Limited	6 months KIBOR plus 325 bps	Semi annually	4-Aug-17
WAPDA Sukuk Bonds - 2nd Issue	6 months KIBOR minus 25 bps	Semi annually	13-Jul-17
WAPDA Sukuk Bonds - 3rd Issue	6 months KIBOR plus 100 bps	Semi annually	14-Oct-21

* These rates are based on Reuters sheet applicable for next six months.

8. OPEN END MUTUAL FUNDS

	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	Number of Units		Net Asset Value		Rupees in '000		Cost		Rating	
ABL Income Fund	—	29,123,952	—	302,863	—	300,000	—	300,000	A(f)	
ABL Stock Fund	17,627,151	7,665,007	331,977	101,545	300,000	80,000	—	80,000	**	A(f)
ABL Islamic Principal Preservation Fund - II	—	4,242,457	—	46,925	—	40,000	—	40,000	**	**
AKD Aggressive Income Fund	980,483	9,676,046	52,244	100,031	50,000	100,000	50,000	100,000	BBB+(f)	CP2
AKD Opportunity Fund	448,833	927,292	51,015	71,633	50,000	50,000	50,000	50,000	4 Star	BBB(f)
Atlas Stock Market Fund	254,742	106,478	170,233	48,062	150,000	50,000	50,000	50,000	**	5 Star
Al-Ameen Islamic Sovereign Fund	—	486,334	—	50,000	—	50,000	—	50,000	AA-(f)	3 Star
Al-Ameen Islamic Aggressive Income Fund	312,600	447,005	31,931	45,000	25,000	45,000	25,000	45,000	BBB+(f)	AA-(f)
Askari High Yield Scheme	979,270	1,919,837	102,119	205,100	100,000	200,000	100,000	200,000	A(f)	**
Atlas Income Fund	—	385,802	—	204,709	—	200,000	—	200,000	AA-(f)	A(f)
BMA Chundrigar Road Savings Fund	3,014,627	—	25,465	—	25,000	—	25,000	—	A+(f)	AA-(f)
HBL Islamic Asset Allocation Fund	195,843	—	21,693	—	20,000	—	20,000	—	**	—
HBL Mustahikum Sarmaya Fund - 1	516,814	493,564	54,923	50,651	50,000	50,000	50,000	50,000	**	—
HBL Stock Fund	2,392,928	—	305,148	—	300,000	—	300,000	—	**	**

	Number of Units		Net Asset Value		Rupees in '000		Cost		Rating	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Lakson Equity Fund	2,553,836	2,553,836	366,161	262,660	303,063	303,063	3 Star	3 Star	3 Star	3 Star
JS Large Capital Fund	460,596	—	68,067	—	50,000	—	—	—	—	—
Lakson Asset Allocation Developed Market Fund	187,015	258,381	21,834	30,791	20,324	28,080	**	**	**	**
Lakson Income Fund	491,366	—	51,070	—	50,000	—	A+(f)	A+(f)	A+(f)	A+(f)
MCB Pakistan Stock Fund	3,948,270	3,148,565	442,798	252,987	403,260	226,400	**	**	**	**
Meezan Islamic Income Fund	—	16,150,485	—	850,160	—	850,000	A-(f)	A-(f)	A-(f)	A-(f)
Meezan Sovereign Fund	—	16,352,443	—	850,000	—	850,000	AA(f)	AA(f)	AA(f)	AA(f)
NAFA Income Opportunity Fund	18,728,536	46,657,677	207,081	519,944	200,000	500,000	A(f)	A(f)	A(f)	A(f)
NAFA Islamic Energy Fund	9,394,834	—	131,851	—	99,554	—	**	**	**	**
NAFA Stock Fund	42,960,523	35,170,139	752,253	436,134	704,049	401,408	**	**	**	**
NAFA Multi Asset Fund	—	8,339,051	—	125,785	—	100,000	**	**	**	**
National Investment Trust	1,198,322	—	104,902	—	100,000	—	AM2+	AM2+	AM2+	AM2+
Pak Oman Advantage Asset Allocation Fund	407,365	—	27,456	—	25,000	—	2-Star	2-Star	2-Star	2-Star
PIML Asset Allocation Fund	153,563	—	16,180	—	15,000	—	**	**	**	**
PIML Income Fund	4,419,559	5,411,825	449,513	582,258	436,507	565,597	A+(f)	A+(f)	A+(f)	A+(f)
PIML Value Equity Fund	106,015	103,847	14,528	10,599	10,000	10,000	**	**	**	**
Primus Daily Reserve Fund	—	1,732,939	—	177,904	—	176,774	AA+(f)	AA+(f)	AA+(f)	AA+(f)
Primus Strategic Multi Asset Fund	216,848	185,097	26,427	21,012	22,000	22,000	**	**	**	**
UBL Asset Allocation Fund	—	399,473	—	48,231	—	37,927	**	**	**	**
UBL Islamic Income Fund	—	296,954	—	29,894	—	25,000	**	**	**	**
United Stock Fund	5,587,732	2,578,721	437,352	155,703	400,000	125,860	**	**	**	**
United Growth & Income Fund	—	1,758,006	—	148,986	—	145,118	BBB+(f)	BBB+(f)	BBB+(f)	BBB+(f)
			<u>4,264,221</u>	<u>5,729,567</u>	<u>3,908,757</u>	<u>5,532,227</u>				

9. CLOSE END MUTUAL FUNDS

	No. of Units		Market Value		Rupees in '000		Cost		Rating	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Dolmen City RIET	35,097,833	35,097,833	384,992	376,600	387,869	384,593	**	**	**	**
PICIC Growth Fund	973,500	973,500	29,653	21,934	31,816	31,816	**	**	**	**
			<u>414,645</u>	<u>398,534</u>	<u>419,685</u>	<u>416,409</u>				

**Ratings not available

- 10.** Break-up value per ordinary share of Habib Metropolitan Financial Services Limited and Habib Metropolitan Modarabha Management Company (Private) Limited (subsidiaries) based on its financial statements as of 31 December 2016 amounted to Rs. 11.45 and Rs. 10 respectively (2015: Rs. 11.14 and Rs. 10) per share.

ANNEXURE "II" AS REFERRED TO IN NOTE 12.8 OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF RS. 500,000/- OR ABOVE
PROVIDED DURING THE YEAR ENDED 31 DECEMBER 2016

S. No.	Name and address of the borrower	Name of individuals / partners / directors (with CNIC / NIC Number)	Father's / Husband's Name	Outstanding liabilities at beginning of the year				Principal written-off	Interest / mark-up written-off	Other financial relief provided	Total
				Principal	Interest / mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	12
				Rupees in '000							
1	Akbar Brothers 3, 1st Floor, Khawaja House, Chowk B.C.G, Multan.	Khawaja Azhar Ahmed 37405-8925293-7 Khawaja Adil Ahmed 37405-0299356-7	Khawaja Muhammad Akbar Khawaja Azhar Ahmed	14,857	2,314	-	17,171	-	2,171	-	2,171
2	Almas Trading Company & Diaper Company M/R-6/31, M. Feroz Street, Suit # 202, Sidra Trade Centre Jodia Bazar, Karachi.	Mrs. Heena Masood 42201-1271651-6 Mr. Masood Latif 42201-8377295-7	Masood Latif Abdul Latif Moomal	28,333	2,734	1,559	32,626	-	1,067	1,559	2,626
3	Disco Shoes Industries (Pvt) Ltd. 53-Nisbat Road, Lahore.	Mr. Saud Hanif 35202-1963249-5 Mr. Saad Saud 35202-8431235-9 Mr. Fahad Saud 35202-0542836-1 Javaid Shah 35202-2779741-1	Muhammad Ishaq Hanif Saud Hanif Saud Hanif Imran Shah	16,505	840	-	17,345	-	840	-	840
4	Azzalea Pharma 12-A, Kapoorthala House, Lake Road, Lahore.	Mr. Ali Mukhtar 35202-5481675-5 Ms. Farah Amir 35202-0489736-2	Chaudhary Mukhtar Ahmed Amir Waheed Chaudhary	3,171	1,175	722	5,068	-	346	722	1,068

S. No.	Name and address of the borrower	Name of individuals / partners / directors (with CNIC / NIC Number)	Father's / Husband's Name	Outstanding liabilities at beginning of the year				Principal written-off	Interest / mark-up written-off	Other financial relief provided	Total
				Principal	Interest / mark-up	Others	Total				
				5	6	7	8	9	10	11	12
1	2	3	4	Rupees in '000							
5	Global Group Global Comodities & Global Enterprises H-No. A-25/C, KDA Scheme No. 1, Karachi.	Mr. Tayyab Rafiq Balagamwala 42201-20045175-5 Mr. Muhammad Aly Balagamwala 42201-8085187-9	Rafiq Balagamwala Majyed Aziz Balagamwala	525,139	80,650	-	605,789	281,274	80,650	-	361,924
6	Golden Textile Mills Ltd. 197 - Amynabad Colony, Near PIB Colony, Karachi.	Mr. Amir Ali Chatoor 42201-3686754-5 Mr. Karim H Chatoor 35200-6742103-9 Mr. Imran Kassim Ali 35200-1559192-3	Hassan Ali Chatoor Hassan Ali Chatoor Kassim Ali	136,777	38,637	84,802	260,216	52,277	38,637	84,802	175,716
7	Innovative Business Solutions Residence: H # 28, Margalla Road, F6-3, Islamabad.	Syed Farrukh Abbas 61101-2880920-9	Syed Khurshid Anwar	12,497	-	4,761	17,258	-	-	2,258	2,258
8	Kausar Bano & M. Munir Suria D-286, K.D.A. Scheme-1, Extension-A, Karachi.	Kausar Bano 42201-4781748-6 Munir Suria 42201-4502528-3	Munir Suria Haroon Suria	394	1,434	19	1,847	-	328	19	347
9	Khayaban Enterprises Malik Road, House No. 04, Faisalabad.	Masroor Elahi 33100-0370205-7	Magsood Elahi Arshad	20,520	11,315	14,612	46,447	-	11,315	14,612	25,927
10	Mustafa Apparels Madina Arcade Building, Office No. 9, 154/S/2, PECHS, Karachi.	Mr. Riaz Tufiq 42201-8291438-3	Muhammad Tufiq	635	1,977	-	2,612	-	-	1,977	1,977
11	M. R. Industries 9-A/1, Golf Course Road, Phase-IV, DHA, Karachi.	Muhammad Hussain 42301-1531371-7	Abdul Rahim	82,232	-	-	82,232	59,424	-	-	59,424

S. No.	Name and address of the borrower	Name of individuals / partners / directors (with CNIC / NIC Number)	Father's / Husband's Name	Outstanding liabilities at beginning of the year				Principal written-off	Interest / mark-up written-off	Other financial relief provided	Total
				Principal	Interest / mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	12
12	N.P. Waterproof Textile Mills Ltd. A-133, Near Hill Park, KMCHS, Karachi East.	Mr. Zikr Ur Rehman 42201-7900769-3 Mr. Junaid Rehman 42201-7805846-3 Mrs. Rehana Rehman 42201-6215755-0	Mr. Muhammd Yahya Mr. Zikr Ur Rehman Mr. Zikr Ur Rehman	1,293	2,232	916	4,441	-	1,525	916	2,441
13	Naeem Enterprises A-25/B, S.I.T.E, Karachi.	Muhammad Ismail Shekhani 42201-0615956-9	Abdul Karim	65,100	27,072	-	92,172	-	24,912	-	24,912
14	Prestige Apparel 34, Maqboolabad, Tipu Sultan, Karachi.	Mr. Masood Naqvi 42201-5045301-1	Naqi Ahmed Allahwala	95,421	44,099	-	139,520	45,421	44,099	-	89,520
15	Rehan Electronics 17/2, Gizri Lane-6, Phase-IV, DHA, Karachi.	Mr. Rehan Zafar 42301-11048809	Zafar Alam	3,484	7,733	-	11,217	-	6,717	-	6,717
16	Saasoh Textile Corporation (Pvt) Ltd. C-39, S.I.T.E., Super Highway, Scheme-33, Karachi.	Abdul Rauf Khan 42000-0549323-5 Saleem Rauf Khan 42301-1025671-9 Saad Rauf Khan 42000-0547544-7	Abdul Shakoar Khan Abdul Rauf Khan Abdul Rauf Khan	33,425	462	15,983	49,870	-	-	14,870	14,870
17	Samad Enterprises Plbt No.165, Sector 24, Korangi Industrial Area, Korangi, Karachi.	Abdus Samad 42000-5468724-1	Abdul Shakoar	6,276	6,076	354	12,706	-	3,352	354	3,706

S. No.	Name and address of the borrower	Name of individuals / partners / directors (with CNIC / NIC Number)	Father's / Husband's Name	Outstanding liabilities at beginning of the year				Principal written-off	Interest / mark-up written-off	Other financial relief provided	Total
				Principal	Interest / mark-up	Others	Total				
				5	6	7	8	9	10	11	12
1	2	3	4	Rupees in '000							
18	Signature Stone C-240, Block-10, F.B. Area, Karachi.	Mr. Muhammad Anwer Chughtai 42000-9763031-7	Muhammad Asghar Chughtai	14,908	4,734	2,158	21,800	-	-	1,800	1,800
19	Union Industries (Pvt) Ltd. D-92, Block 5, Clifton, Karachi.	Mr. M Javaid Habib 42301-1176752-3 Mr. Mirza Kamran Ali Khan 42301-1791682-5	Abdul Habib Ahmed Mirza Ali Khan	45,571	10,829	34,700	91,100	10,601	10,829	34,700	56,130
20	Zafar Autos R-1103, Sector Bufferzone, North Karachi.	Mr. Afeef Hameed Khan 42101-5024630-5	Qaiser Hameed Khan	981	-	156	1,137	-	-	137	137
21	Zainab Garments (Pvt) Limited Plot 34, Sec 12/B, North Karachi Ind Area, Karachi. Yusuf Dyeing & Bleaching Mills (Pvt) Limited 29, Cochinwala Market, M.A. Jinnah Road, Karachi & P.O. Box No. 13604, F.B. Area, Karachi. Mohammad Yusuf & Bros (Pvt) Ltd. 29, Cochinwala Market, M.A. Jinnah Road,	Mr Farooq Jangda 42001-11723070-5 Mr Mohammad Shahzad 42401-1992190-3 Mr Altamash Jangda 42000-8654000-5 Mr Nabil Jangda 42000-0508155-9 Mr Farooq Jangda 42001-11723070-5 Mr Nabil Jangda 42000-0508155-9	Late Yusuf Jangda Muhammad Farooq Late Pervaiz Jangda Farooq Jangda Late Yusuf Jangda Farooq Jangda	1,051,579	616,814	43,946	1,712,339	851,590	616,814	43,946	1,512,350
22	Well Worth Enterprises Plot No. C-4, SITE, Karachi.	Asif Sattar Dagra 42301-0642753-5	Abdul Sattar Dagra	19,601	5,532	5,650	30,783	9,601	5,532	5,650	20,783
				2,178,699	866,659	210,338	3,255,696	1,310,188	849,134	208,322	2,367,644

PATTERN OF SHAREHOLDINGS - CDC AND PHYSICAL

AS ON 31 DECEMBER 2016

Number of shareholders	Size of shareholding Rs. 10 each			Total shares held
354	1	—	100	8,405
330	101	—	500	110,438
289	501	—	1,000	249,923
753	1,001	—	5,000	2,009,272
278	5,001	—	10,000	2,135,447
333	10,001	—	15,000	4,064,134
70	15,001	—	20,000	1,294,111
67	20,001	—	25,000	1,598,637
30	25,001	—	30,000	839,841
16	30,001	—	35,000	525,107
36	35,001	—	40,000	1,371,690
48	40,001	—	50,000	2,249,420
31	50,001	—	60,000	1,676,808
36	60,001	—	80,000	2,531,372
30	80,001	—	100,000	2,751,571
46	100,001	—	150,000	5,662,340
29	150,001	—	200,000	5,136,079
21	200,001	—	250,000	4,685,209
39	250,001	—	500,000	14,691,048
39	500,001	—	1,000,000	27,465,819
15	1,010,001	—	1,450,000	17,245,984
9	1,510,001	—	2,000,000	15,128,082
19	2,020,001	—	2,860,000	44,307,698
9	3,055,001	—	4,500,000	33,535,495
11	5,010,001	—	9,845,000	77,673,571
11	9,995,001	—	49,415,000	244,489,925
1	534,390,001	—	534,395,000	534,394,054
2950				1,047,831,480

COMBINED PATTERN OF CDC AND PHYSICAL SHAREHOLDINGS

AS ON 31 DECEMBER 2016

Categories of Shareholders	Number of Shareholders	Number of Shares held	(%)
Directors and their spouse(s) and minor children			
Mr. Mohamedali R. Habib	1	1,612,524	0.15
Mr. Ali S. Habib	1	1,510,994	0.14
Mr. Mohomed Bashir	1	16,340,985	1.56
Mr. Muhammad H. Habib	1	2,069,454	0.20
Mr. Sohail Hasan	1	500	0.00
Mr. Tariq Ikram	1	600	0.00
Mr. Sirajuddin Aziz	1	1,000	0.00
Mrs. Farah Fatimah Muhammad H. Habib	1	1,037,157	0.10
Mrs. Munizeh Ali Habib	1	604,374	0.06
Mrs. Sayeda Mohamedali R. Habib	1	805,065	0.08
Associated companies, undertakings and related parties			
Habib Bank AG Zurich	1	534,394,054	51.00
Habib Insurance Company Limited	2	3,000,424	0.29
Executives	5	692,636	0.07
Public sector companies and corporations	7	13,327,386	1.27
Banks, development finance institutions, non-banking finance companies, insurance companies, takaful, modarabas and pension funds	20	62,716,012	5.99
Mutual Funds			
CDC - Trustee MCB Pakistan Stock Market Fund	1	3,060,000	0.29
MCBFSL - Trustee JS Value Fund	1	70,000	0.01
CDC - Trustee Atlas Stock Market Fund	1	1,884,000	0.18
CDC - Trustee AKD Index Tracker Fund	1	105,568	0.01
CDC - Trustee APF-Equity sub-Fund	1	245,000	0.02
CDC - Trustee MCB Pakistan Asset Allocation Fund	1	750,000	0.07
CDC - Trustee NIT-Equity Market Opportunity Fund	1	316,000	0.03
CDC - Trustee PICIC Stock Fund	1	120,000	0.01
CDC - Trustee HBL PF Equity sub-Fund	1	55,000	0.01
CDC - Trustee National Investment (Unit) Trust	1	49,412,107	4.72

Categories of Shareholders	Number of Shareholders	Number of Shares held	(%)
General Public			
a. Local	2781	153,436,914	14.64
b. Foreign	15	868,216	0.08
Foreign Companies	28	124,253,350	11.86
Others	71	75,142,160	7.17
Totals	2950	1,047,831,480	100.00

Shareholders holding five percent or more voting interest in the listed company		
Habib Bank AG Zurich, Switzerland	534,394,054	51.00
Trade in the shares by executives		
Name of Executive	Purchase	Sale
Mr. Asad Ali Aziz Dharamsey	17,621	–

The expression “executives” means as key management which includes all executives of grade Executive Vice President and above including any other executive in direct reporting to CEO.