



KPMG Taseer Hadi & Co.
Chartered Accountants

Bank Alfalah Limited

**Consolidated Financial
Statements
For the year ended
31 December 2016**



KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
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Karachi, 75530 Pakistan

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Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated statement of financial position of **Bank Alfalah Limited** and its subsidiary companies (the Group) as at 31 December 2016 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of Bank Alfalah Limited and its subsidiary companies namely Alfalah Securities (Private) Limited and Alfalah GHP Investment Management Limited. These financial statements are responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of Bank Alfalah Limited and its subsidiary companies as at 31 December 2016 and the results of their operations for the year then ended.

Date: 23 February 2017

Karachi


KPMG Taseer Hadi & Co.
KPMG Taseer Hadi & Co.
Chartered Accountants
Syed Iftikhar Anjum

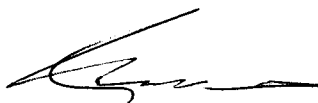
BANK ALFALAH LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016

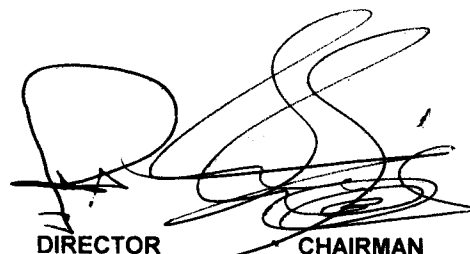
	Note	2016	2015 (Restated) (Rupees in '000)	January 01, 2015 (Restated)
ASSETS				
Cash and balances with treasury banks	6	74,071,394	62,368,827	50,515,645
Balances with other banks	7	9,498,787	16,583,138	12,334,368
Lendings to financial institutions	8	30,149,029	27,626,350	18,313,485
Investments - net	9	389,666,922	423,518,968	324,960,872
Advances - net	10	378,724,300	334,160,478	297,226,872
Operating fixed assets	11	18,216,937	17,317,691	15,796,592
Deferred tax assets	12	-	-	-
Other assets	13	19,115,471	21,840,305	24,810,965
		919,442,840	903,415,757	743,958,799
LIABILITIES				
Bills payable	14	12,886,990	9,733,929	11,758,155
Borrowings	15	178,710,629	172,393,198	55,232,916
Deposits and other accounts	16	640,854,225	640,137,161	605,956,904
Sub-ordinated loans	17	8,317,670	9,983,000	9,987,000
Liabilities against assets subject to finance lease		-	-	-
Deferred tax liabilities	12	2,911,531	1,826,270	821,038
Other liabilities	18	14,836,925	15,249,463	14,635,222
		858,517,970	849,323,021	698,391,235
NET ASSETS		<u>60,924,870</u>	<u>54,092,736</u>	<u>45,567,564</u>
REPRESENTED BY				
Share capital	19	15,952,076	15,898,062	15,872,427
Reserves		15,895,652	14,164,120	12,338,026
Unappropriated profit		17,777,737	12,813,488	10,091,872
Total equity attributable to the equity holders of the Bank		49,625,465	42,875,670	38,302,325
Non-controlling interest		323,466	274,134	255,999
Surplus on revaluation of assets - net of tax	20	10,975,939	10,942,932	7,009,240
		<u>60,924,870</u>	<u>54,092,736</u>	<u>45,567,564</u>
CONTINGENCIES AND COMMITMENTS	21			


The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

K. P. M. N.


CHIEF EXECUTIVE OFFICER


DIRECTOR


DIRECTOR


CHAIRMAN

BANK ALFALAH LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2016

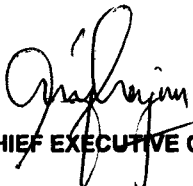
	Note	2016 (Rupees in '000)	2015 (Rupees in '000)
Mark-up / return / interest earned	23	57,245,259	61,404,178
Mark-up / return / interest expensed	24	28,474,583	32,810,469
Net mark-up / interest income		28,770,676	28,593,709
Provision against non-performing loans and advances - net	10.5	1,082,506	2,150,209
Provision for diminution in the value of investments - net	9.25	100,766	136,691
Bad debts written off directly	10.6.1	-	-
		1,183,272	2,286,900
Net mark-up / interest income after provisions		27,587,404	26,306,809
Non mark-up / interest income			
Fee, commission and brokerage income		5,121,885	4,570,382
Dividend income		479,251	349,963
Income from dealing in foreign currencies	25	1,120,736	1,379,097
Gain on sale of securities - net	26	1,519,335	1,534,994
Unrealised gain on revaluation of investments classified as held for trading - net	9.27	109	229,063
Share of profit from associates	9.23	531,852	309,017
Other income	27	706,680	750,833
Total non mark-up / interest income		9,479,848	9,123,349
		37,067,252	35,430,158
Non mark-up / interest expenses			
Administrative expenses	28	23,708,444	22,119,740
(Reversal) / provision against off-balance sheet obligations	18.1	(7,508)	1,066
(Reversal) / provision against other assets	13.3	(106,138)	322,391
Other charges	29	118,399	329,789
Total non mark-up / interest expenses		23,713,197	22,772,986
		13,354,055	12,657,172
Extra ordinary / unusual items		-	-
Profit before taxation		13,354,055	12,657,172
Taxation	30		
- Current		4,729,131	5,036,065
- Deferred		1,123,431	(461,035)
- Prior years		(437,633)	567,813
		5,414,929	5,142,843
Profit after taxation		7,939,126	7,514,329
Profit attributable to:			
Equity holders of the Bank		7,889,794	7,502,660
Non-controlling interest		49,332	11,669
		7,939,126	7,514,329

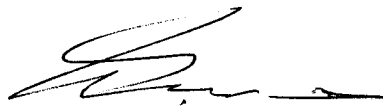
(Rupees)


Basic earnings per share	31.1	<u>4.95</u>	<u>4.72</u>
Diluted earnings per share	31.2	<u>4.92</u>	<u>4.72</u>


The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

K.P.N.


CHIEF EXECUTIVE OFFICER


DIRECTOR


DIRECTOR

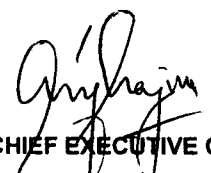

CHAIRMAN

BANK ALFALAH LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016


	Note	2016 (Rupees in '000)	2015
Profit after taxation		7,939,126	7,514,329
Other comprehensive income			
Items that are or may be reclassified subsequently to profit and loss account			
Exchange differences on translation of net investments in foreign branches		11,054	210,501
Items that will never be reclassified to profit and loss account			
Remeasurement of defined benefit plans	35.1.4	309,314	(199,200)
Related tax on remeasurement of defined benefit plans		(108,260)	69,637
		201,054	(129,563)
Share of Remeasurement of defined benefit plans of associate		(499)	(752)
Comprehensive income - transferred to statement of changes in equity		<u>8,150,735</u>	<u>7,594,515</u>
Attributable to:			
Equity holders of the Bank		8,101,403	7,576,380
Non-controlling interest		49,332	18,135
Comprehensive income - transferred to statement of changes in equity		<u>8,150,735</u>	<u>7,594,515</u>
Components of comprehensive income not reflected in equity			
Items that are or may be reclassified subsequently to profit and loss account			
Surplus on revaluation of available for sale securities		(59,396)	3,791,058
Related deferred tax liability		54,245	(1,346,452)
		(5,151)	2,444,606
Share of surplus on revaluation on associates' available for sale securities		-	536
		<u>(5,151)</u>	<u>2,445,142</u>

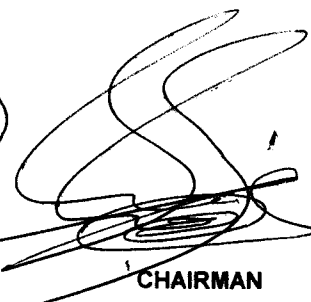
The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

KPM


CHIEF EXECUTIVE OFFICER


DIRECTOR


DIRECTOR


CHAIRMAN

BANK ALFALAH LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016

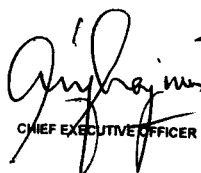
	Capital Reserves				Revenue Reserves					
	Share capital	Share premium	Statutory reserve*	Exchange translation reserve	Employee share option compensation reserve	Unappropriated profit	Sub-total	Non Controlling Interest	Total	
	(Rupees in '000)									
Balance as at January 1, 2015	15,872,427	4,285,556	6,636,342	1,362,465	53,663	10,091,872	38,302,325	255,999	38,558,324	
Changes in equity for 2015										
Total comprehensive income										
Profit after taxation						7,502,660	7,502,660	11,689	7,514,329	
Effect of change in minority interest						(6,466)	(6,466)	6,466	-	
Other comprehensive income										
Exchange difference on translation of net investment in foreign branches				210,501			210,501	-	210,501	
Remeasurement of defined benefit plans (Note 35.1.4)						(199,200)	(199,200)	-	(199,200)	
Related tax charge						69,637	69,637	-	69,637	
Share of Remeasurement of defined benefit plans of associate						(752)	(752)	-	(752)	
Transfer to statutory reserve			1,504,562			7,365,879	7,576,380	18,135	7,594,515	
Transfer from surplus on revaluation of operating fixed assets - net of tax						(1,504,562)	-	-	-	
Transactions with owners recorded directly in equity						34,784	34,784	-	34,784	
Shares issued during the year	25,635	16,201	-	-	-	-	41,836	-	41,836	
Final cash dividend for the year ended December 31, 2014 @ 20%										
Recognition of fair value of share based payments on grant date (note 35.2)						(3,174,485)	(3,174,485)	-	(3,174,485)	
Unamortised portion of deferred employee compensation expense					119,250	-	119,250	-	119,250	
Transfer to Share Premium on issuance of shares under Stock Option Scheme		27,891			(24,420)	-	(24,420)	-	(24,420)	
Balance as at December 31, 2015	15,898,062	4,329,648	8,140,904	1,572,966	120,602	12,813,488	42,875,670	274,134	43,149,804	
Changes in equity for 2016										
Total comprehensive income										
Profit after taxation						7,889,794	7,889,794	49,332	7,939,126	
Effect of change in minority interest										
Other comprehensive income										
Exchange difference on translation of net investment in foreign branches				11,054			11,054	-	11,054	
Remeasurement of defined benefit plans (note 35.1.4)						309,314	309,314	-	309,314	
Related tax charge						(108,260)	(108,260)	-	(108,260)	
Share of Remeasurement of defined benefit plans of associate						(499)	(499)	-	(499)	
Transfer to statutory reserve			1,579,982			8,090,349	8,101,403	49,332	8,150,735	
Transfer from surplus on revaluation of operating fixed assets - net of tax						(1,579,982)	-	-	-	
Transactions with owners, recorded directly in equity						43,688	43,688	-	43,688	
Final cash dividend for the year ended December 31, 2015 @ 10%										
Shares issued during the year	54,014	30,881	-	-	-	(1,589,806)	(1,589,806)	-	(1,589,806)	
Recognition of fair value of share based payments on grant date (note 35.2)							84,895	-	84,895	
Unamortised portion of deferred employee compensation expense					132,026	-	132,026	-	132,026	
Transfer to Share Premium on issuance of shares under Stock Option Scheme		58,597			(22,411)	-	(22,411)	-	(22,411)	
Balance as at December 31, 2016	15,952,076	4,417,128	9,720,886	1,584,020	173,620	17,777,737	49,625,465	323,466	49,948,931	

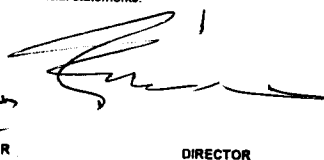
* This represents reserve created under section 216(c) of the Companies Act, 2013.

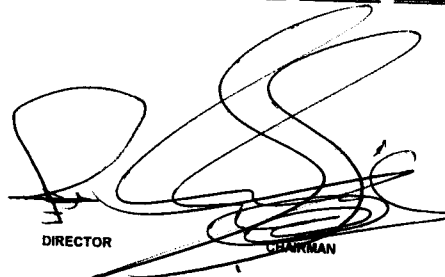
* This represents reserve created under section 21(f)(a) of the Banking Companies Ordinance, 1962.

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

RPM


CHIEF EXECUTIVE OFFICER


DIRECTOR


DIRECTOR


CHAIRMAN

BANK ALFALAH LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	2016	2015
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation			
Dividend income		13,354,055	12,657,172
Share of profit from associates - net of tax	9.23	(479,251)	(349,963)
		<u>(531,852)</u>	<u>(309,017)</u>
		12,342,952	11,998,192
Adjustments			
Depreciation	28	1,701,175	1,816,229
Amortisation	28	361,118	275,439
Provision against non-performing loans and advances - net	10.5	1,082,506	2,150,209
Provision for diminution in value of investments - net	9.25	100,766	136,691
(Reversal) / provision against off-balance sheet obligations	18.1	(7,508)	1,066
(Reversal) / provision against other assets	13.3	(106,138)	322,391
Unrealised gain on revaluation of investments classified as held for trading - net	9.27	(109)	(229,063)
Bad debts written-off directly	10.6.1	-	-
Gain on sale of operating fixed assets - net	27	(55,294)	(13,975)
Charge for defined benefit plan	35.1.4	260,795	290,282
		<u>3,337,311</u>	<u>4,749,269</u>
		15,680,263	16,747,461
(Increase) / decrease in operating assets			
Lendings to financial institutions		(11,944,621)	(23,711,516)
Held for trading securities		3,891,325	2,363,062
Advances		(45,646,328)	(38,881,390)
Other assets (excluding advance taxation)		<u>3,527,232</u>	<u>(56,111)</u>
		(50,172,392)	(60,285,955)
Increase / (decrease) in operating liabilities			
Bills payable		3,153,061	(2,024,226)
Borrowings		6,371,239	117,197,929
Deposits and other accounts		717,064	34,180,257
Other liabilities		<u>(146,734)</u>	<u>565,200</u>
		10,094,630	149,919,160
Gratuity paid		(24,397,499)	106,380,666
Income tax paid	35.1.4	(260,795)	(290,282)
		<u>(4,738,347)</u>	<u>(3,066,039)</u>
		(29,396,641)	103,024,345
Net cash (used in) / generated from operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		(28,968,156)	(71,390,574)
Net investments in held to maturity securities		57,927,823	984,355
Investment in associated companies		(8,481)	(1,960,874)
Disposal of investment in associated companies		1,052,685	1,434,580
Proceed from disposal of investment in associated companies		106,249	168,887
Dividend income received		443,356	355,131
Investments in operating fixed assets		(2,865,184)	(1,981,066)
Sale proceeds of property and equipment disposed-off	11.4	113,393	25,424
		27,801,685	(72,364,137)
Net cash generated from / (used in) investing activities			
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of share capital		84,895	41,836
Redemption of sub-ordinated loans		(1,665,330)	(4,000)
Dividend paid		(1,585,581)	(3,165,079)
		(3,166,016)	(3,127,243)
Net cash used in financing activities		11,054	210,501
Exchange difference on translation of the net investments in foreign branches			
		<u>(4,749,918)</u>	<u>27,743,466</u>
(Decrease) / increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		93,382,609	65,539,265
Effects of exchange rate changes on cash and cash equivalents		244,080	343,958
		<u>93,626,689</u>	<u>65,883,223</u>
Cash and cash equivalents at end of the year	32	88,876,771	93,626,689

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

K.M.C.

CHIEF EXECUTIVE OFFICER

DIRECTOR

DIRECTOR

CHAIRMAN

1

BANK ALFALAH LIMITED
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

1 STATUS AND NATURE OF BUSINESS

1.1 The "Group" consists of:

Holding Company
Bank Alfalah Limited, Pakistan

Bank Alfalah Limited (the Bank) is a banking company incorporated in Pakistan on June 21, 1992 as a public limited company under the Companies Ordinance, 1984. It commenced its banking operations on November 1, 1992. The Bank's registered office is located at B. A. Building, I. I. Chundrigar Road, Karachi and is listed on the Pakistan Stock Exchange (formerly Karachi, Lahore and Islamabad Stock Exchanges). The Bank is engaged in banking services as described in the Banking Companies Ordinance, 1962 and is operating through 475 conventional banking branches including 18 sub branches (2015: 484 branches including 12 sub branches), 10 overseas branches (2015: 10 branches), 153 Islamic banking branches (2015: 158 branches) and 1 offshore banking unit (2015: 1 unit). The credit rating of the Bank is disclosed in note 33 of the consolidated financial statements.

	Percentage of Holding	
	2016	2015
Subsidiaries		
Alfalah Securities (Private) Limited, Pakistan	97.91 percent	97.91 percent
Alfalah GHP Investment Management Limited, Pakistan	40.22 percent	40.22 percent

1.2 In addition the Group maintains investments in the following:

Investment in mutual funds established under trust structure not consolidated as subsidiaries - Note 1.2.1

Alfalah GHP Value Fund	Nil	27 percent
Alfalah GHP Cash Fund	38.85 percent	70.09 percent
Alfalah GHP Islamic Income Fund	0.14 percent	84.1 percent

Associates

Alfalah Insurance Limited	30 percent	30 percent
Sapphire Wind Power Company Limited	30 percent	30 percent
Alfalah GHP Money Market Fund	4.16 percent	2.71 percent
Alfalah GHP Income Multiplier Fund	13.17 percent	10.68 percent
Alfalah GHP Sovereign Fund	9.01 percent	5.22 percent
Alfalah GHP Income Fund	Nil	0.43 percent
Alfalah GHP Islamic Stock Fund	6.45 percent	52.92 percent
Appollo Pharma Limited	Nil	7.4 percent

- 1.2.1** These represent the Bank's investment in mutual funds established under Trust structure, which are subsidiaries of the Group under IFRS 10, but have not been considered for the purposes of consolidation in accordance with the directives issued by the Securities and Exchange Commission of Pakistan (SECP) through S.R.O 56(I) /2016 dated January 28, 2016. The said SRO states that the requirements of consolidation under section 237 of the Companies Ordinance 1984 and IFRS 10 'Consolidated Financial Statements' is not applicable in case of investment by companies in mutual funds established under Trust structure. Accordingly, for the purposes of Consolidated Financial Statements of the Group, the investments in these funds have been accounted for as associates as explained in note 2.4 to these consolidated financial statements.

2 BASIS OF PRESENTATION

- 2.1** These consolidated financial statements represent financial statements of holding company - Bank Alfalah Limited and its subsidiaries. The assets and liabilities of subsidiaries have been consolidated on a line-by-line basis and the investment held by the holding company is eliminated against the corresponding share capital of subsidiaries in these consolidated financial statements.
- 2.2** In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible form of trade-related modes of financing includes purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these consolidated financial statements as such, but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon. The Islamic Banking branches of the Bank have complied with the requirements set out under the Islamic Financial Accounting Standards issued by the Institute of Chartered Accountants of Pakistan and notified under the provisions of the Companies Ordinance, 1984.
- 2.3** Key financial figures of the Islamic Banking branches are disclosed in Annexure II to the unconsolidated financial statements.
- 2.4 Basis of consolidation**

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with investee and has the ability to affect those returns through its power over the investee.

Alfalah

These consolidated financial statements incorporate the financial statements of subsidiaries from the date that control commences until the date that control ceases.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates as well as investment in mutual funds established under trust structure (not consolidated as subsidiaries) are accounted for using the equity method.

Non-controlling interests are that part of the net results of operations and of net assets of subsidiaries attributable to interest which are not owned by the holding company. Material intra-group balances and transactions are eliminated.

3 STATEMENT OF COMPLIANCE

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

3.2 The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for banking companies through BSD Circular Letter No. 10 dated August 26, 2002 till further instructions. Further, the Securities and Exchange Commission of Pakistan has deferred the applicability of International Financial Reporting Standard (IFRS) 7, 'Financial Instruments: Disclosures' on banks through its notification S.R.O 411(I)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these consolidated financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

3.3 The State Bank of Pakistan through BPRD Circular No. 04 of 2015 dated February 25, 2015 has deferred applicability of Islamic Financial Accounting Standard-3 for Profit & Loss Sharing on Deposits (IFAS-3) issued by the Institute of Chartered Accountants of Pakistan and notified by the Securities & Exchange Commission of Pakistan (SECP), vide their SRO No. 571 of 2013 dated June 12, 2013 for Institutions offering Islamic Financial Services (IIFS). The standard will result in certain new disclosures in these consolidated financial statements of the Group.

3.4 New and revised approved accounting standards not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2017:

- Amendments to IAS 12 'Income Taxes' are effective for annual periods beginning on or after January 01, 2017. The amendments 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 Group's financial statements.
- 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 January 01, 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 of arrangements and are effective for annual periods beginning on or after January 01, 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 recognized for new and outstanding awards. The amendments are not likely to have an impact on Group's financial statements.
- Annual improvements to IFRS standards 2014-2016 cycle. The new cycle of improvements addresses improvements to following approved accounting standards:
 - Amendments to IFRS 12 'Disclosure of Interests in Other Entities' (effective for annual periods beginning on or after January 01, 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'. The amendments are not likely to have an impact on Group's financial statements.

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- Amendments to IAS 28 'Investments in Associates and Joint Ventures' (effective for annual periods beginning on or after January 01, 2018) clarifies that a venture capital organization 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. The amendments are not likely to have an impact on Group's financial statements.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after January 01, 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 recognized. 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 recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The amendments are not likely to have an impact on Bank's financial statements.

4 BASIS OF MEASUREMENT

4.1 Accounting convention

These consolidated financial statements have been prepared under the historical cost convention except that certain fixed assets and other assets are stated at revalued amounts, and held for trading and available for sale investments and derivative financial instruments are measured at fair value.

4.2 Functional and Presentation Currency

These consolidated financial statements are presented in Pakistani Rupees, which is the Group's functional and presentation currency. The amounts are rounded off to the nearest thousand rupees except as stated otherwise.

4.3 Critical accounting estimates and judgements

The preparation of these consolidated financial statements is in conformity with approved accounting standards as applicable in Pakistan requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgement in application of its accounting policies. The estimates and associated 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 in future periods if the revision affects both current and future periods.

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

- i) classification and provisioning against investments (notes 5.4 and 9)
- ii) classification and provisioning against non-performing loans and advances (notes 5.5 and 10)
- iii) income taxes (notes 5.11 and 30)
- iv) accounting for defined benefit plan and compensated absences (notes 5.12 and 35)
- v) depreciation / amortisation of operating fixed assets (notes 5.6 and 11)
- vi) impairment of assets (notes 5.9 and 5.10)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These have been consistently applied to all years presented, unless otherwise specified except for changes mentioned in note 5.1 to these consolidated financial statements. In addition certain reclassification have been made as required by SBP Circular No. 05 of 2016 (refer note 44.1).

- 5.1 On January 01, 2016, the State Bank of Pakistan (SBP) wide BPRD Circular No. 01 of 2016 issued 'Regulations for Debt Property Swaps'. In line with these regulations, the Bank, effective January 01, 2016 has changed its accounting policy for recording of non-banking assets acquired in satisfaction of claims. Prior to this change in accounting policy, 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. 36.94 million, surplus on revaluation of assets and deferred tax liabilities would have been lower by Rs. 23.95 million and Rs. 12.99 million respectively, and profit after tax would have been higher by Rs. 1.34 million.

5.2 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, balances with treasury banks, balances with other banks in current and deposit accounts, national prize bonds, any overdrawn nostro accounts and call lendings having maturity of three months or less.

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5.3 Lendings to / borrowings from financial institutions

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

Sale of securities under repurchase agreements

Securities sold subject to a repurchase agreement (repo) are retained in these consolidated financial statements as investments and the counter party liability is included in borrowings. The difference between the sale and contracted repurchase price is accrued on a time proportion basis over the period of the contract and recorded as an expense.

Purchase of securities under resale agreements

Securities purchased under agreement to resell (reverse repo) are not recognised in these consolidated financial statements as investments and the amount extended to the counter party is included in lendings. The difference between the purchase and contracted resale price is accrued on a time proportion basis over the period of the contract and recorded as income.

5.4 Investments

5.4.1 Classification

The Group classifies its investments as follows:

Held for trading

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

Held to maturity

These are investments with fixed or determinable payments and fixed maturities and the Bank has the positive intent and ability to hold them till maturity.

Available for sale

These are investments, other than those in subsidiaries and associates, which do not fall under the 'held for trading' and 'held to maturity' categories.

Associates

Associates are all entities over which the Group has significant influence but not control. These are accounted for using the equity method of accounting. The investment in associates are initially recognised at cost and the carrying amount of investment is increased or decreased to recognise the investor's share of the post acquisition profits or losses in income and its share of the post acquisition movement in reserves.

Investments in mutual funds established under trust structure not consolidated as subsidiaries - Note 1.2.1

For the purposes of presentation, such investments have been disclosed as part of associates, and accounted for at par with associates using the equity method of accounting.

5.4.2 Regular way contracts

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognised at trade date, which is the date at which the Bank commits to purchase or sell the investments except for money market and foreign exchange contracts which are recognised at settlement date.

5.4.3 Initial recognition and measurement

Investments other than those categorised as 'held for trading' are initially recognised at cost. Transaction costs associated with the investment are included in cost of investments. Investments classified as 'held for trading' are initially recognised at fair value and transaction costs are expensed in the profit and loss account.

5.4.4 Subsequent measurement

In accordance with the requirements of State Bank of Pakistan, quoted securities other than those classified as 'held to maturity', investment in associates are subsequently remeasured to market value. Surplus / (deficit) arising on revaluation of securities classified as 'available for sale' is included in the statement of comprehensive income but is taken to a separate account shown in the statement of financial position below equity. Surplus / (deficit) arising on revaluation of quoted securities which are 'held for trading' is taken to the profit and loss account. Investments classified as 'held to maturity' are carried at amortised cost.

Unquoted equity securities, excluding investment in associates are valued at lower of cost and the break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

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5.4.5 Impairment

Impairment loss in respect of equity securities classified as available for sale, associates and held to maturity is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in fair value of an equity investment below its cost is also considered an objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the Prudential Regulations issued by the State Bank of Pakistan. In case of impairment of available for sale securities, the cumulative loss that has been recognised directly in surplus / (deficit) on revaluation of securities on the statement of financial position below equity is removed there from and recognised in the profit and loss account. For investments classified as held to maturity and investment in associates, the impairment loss is recognised in the profit and loss account.

Gains or losses on disposal of investments during the year are taken to the profit and loss account.

5.5 Advances

Loans and advances

Loans and advances including net investment in finance lease are stated net of provision against non-performing advances. Specific and general provisions against Pakistan operations are made in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan from time to time. The net provision made / reversed during the year is charged to profit and loss account and accumulated provision is netted-off against advances. Provisions pertaining to overseas advances are made in accordance with the requirements of regulatory authorities of the respective countries. Advances are written off when there are no realistic prospects of recovery.

Islamic Financing and Related Assets

The Group provides Islamic financing and related assets mainly through Murabaha, Ijarah, Diminishing Musharakah, Musharakah, Running Musharakah, Salam, Istisna, and Export Refinance under SBP Islamic Export Refinance Scheme. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of profit thereon. The income on such financings is recognised in accordance with the principles of Islamic Shariah. The Group determines specific and general provisions against Islamic financing and related assets on a prudent basis in accordance with the requirements of the Prudential Regulations issued by the SBP. The net provision made / reversed during the year is charged to profit and loss account and accumulated provision is netted off against Islamic financing and related assets. Islamic financing and related assets are written off when there are no realistic prospects of recovery.

Net investment in Finance Lease

Leases where the Group transfers substantially all the risks and rewards incidental to the ownership of an asset are classified as finance leases. A receivable is recognised on commencement of lease term at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any. Unearned finance income is recognised over the term of the lease, so as to produce a constant periodic return on the outstanding net investment in lease.

5.6 Operating Fixed assets

Tangible assets

Operating fixed assets except office premises are shown at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Office premises (which includes land and buildings) are stated at revalued amount less accumulated depreciation.

Depreciation is charged to income by applying the straight-line method using the rates specified in note 11.2 to these consolidated financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each reporting date. Depreciation on additions is charged from the date on which the assets are available for use and ceases on the date on which they are disposed off.

Maintenance and normal repairs are charged to income as and when incurred. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

Office premises are revalued by professionally qualified valuers with sufficient regularity to ensure that the net carrying amount does not differ materially from their fair value.

Surplus arising on revaluation is credited to the surplus on revaluation of operating fixed assets account. Deficit arising on subsequent revaluation of operating fixed assets is adjusted against the balance in the above mentioned surplus account as allowed under the provisions of the Companies Ordinance, 1984. The surplus on revaluation of operating fixed assets to the extent of incremental depreciation charged on the related assets is transferred to unappropriated profit.

Gains and losses on disposal of operating fixed assets are taken to the profit and loss account except that the related surplus / deficit on revaluation of operating fixed assets (net of deferred taxation) is transferred directly to unappropriated profit.

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Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Such intangible assets are amortised using the straight-line method over their estimated useful lives. The useful lives and amortisation method are reviewed and adjusted, if appropriate at each reporting date. Intangible assets having an indefinite useful life are stated at acquisition cost, less impairment loss, if any.

Goodwill

Goodwill arising on the acquisition represents the excess of the consideration transferred over interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGU, that is expected to benefit from the synergies of the combination. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

5.7 Capital work in progress

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. All expenditure connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to specific assets as and when assets become available for use.

5.8 Non-current assets held for sale

The Group classifies a non-current asset (or disposal group) 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 (or disposal group) 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 (or disposal group) 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 or while part of a disposal group classified as held for sale.

5.9 Impairment

The carrying amount of assets is reviewed at each reporting date to determine whether there is any indication of impairment of any asset or group of assets. If any such indication exists, the recoverable amount of such assets is estimated and impairment losses are recognised immediately in the consolidated financial statements. The resulting impairment loss is taken to the profit and loss account except for impairment loss on revalued assets, which is adjusted against related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

5.10 Ijarah Assets (IFAS 2)

Ijarah assets are stated at cost less depreciation and are disclosed as part of 'Islamic financing and related assets'. The rental received / receivable on Ijarah under IFAS 2 are recorded as income / revenue.

Depreciation

The group charges depreciation from the date of recognition of Ijarah of respective assets to Mustajir. Ijarah assets are depreciated over the period of Ijarah using the straight line method.

Ijarah Rentals

Ijarah rentals outstanding are disclosed in 'Islamic financing and related assets' on the Statement of Financial Position at amortized cost.

Impairment

Impairment of Ijarah assets is determined on the same basis as that of operating fixed assets. Impairment of Ijarah rentals are determined in accordance with the Prudential Regulations of SBP. The provision for impairment of Ijarah Rentals is shown as part of 'Islamic financing and related assets'.

5.11 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 items recognised directly in other comprehensive income in which case it is recognised in statement of comprehensive income.

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Current

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

Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits can be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Deferred tax liability is not recognised in respect of taxable temporary differences associated with exchange translation reserves of foreign branches, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

5.12 Employee benefits

a) Defined benefit plan

The holding company operates an approved funded gratuity scheme covering eligible employees whose period of employment with the holding company is five years or more. Contributions to the fund are made on the basis of actuarial recommendations. Projected Unit Credit Method is used for the actuarial valuation. Actuarial gains and losses are recognised immediately in other comprehensive income. Gratuity is payable to staff on completion of the prescribed qualifying period of service under the scheme.

The subsidiary - Alfalah Securities operates an unfunded gratuity scheme for all its employees who have completed the qualifying period as defined in the scheme. The cost of providing benefits under the defined benefit scheme is determined using the "Projected Unit Credit Method". Actuarial (remeasurement) gains and losses are recognised as income or expense in full in the year in which they occur in other comprehensive income.

b) Defined contribution plan

The Holding Company operates an approved provident fund scheme for all its regular permanent employees, administered by the Trustees. Equal monthly contributions are made both by the holding company and its employees to the fund at the rate of 8.33% of the basic salary in accordance with the terms of the scheme.

The subsidiary - Alfalah GHP Investment Management Limited operates an approved funded contributory provident fund for all its permanent employees to which equal monthly contributions are made both by the Company and the employees at the rate of 10% of basic salary.

c) Compensated absences

The Holding Company recognises the liability for compensated absences in respect of employees in the period in which these are earned up to the balance sheet date. The provision has been recognised on the basis of actuarial recommendations.

d) Employees Stock Option Scheme

The grant date fair value of equity settled share based payments to employees, determined as option discount as allowed by Public Companies (Employee Stock Option Scheme) Rules 2001, is recognized as employee compensation expense on a straight line basis over the vesting period with a consequent credit to equity as employee stock option compensation reserve. The deferred employee stock option cost is shown as a deduction from employee stock option compensation reserve. Option discount means the excess of market price of the share at the date of grant of an option under a Scheme over exercise price of the option.

When an unvested option lapses by virtue of an employee not conforming to the vesting conditions after recognition of an employee compensation expense in the profit and loss account, such employee compensation expense is reversed in the profit and loss account equal to the amortized portion with a corresponding effect to employee stock option compensation reserve equal to the un amortized portion.

When a vested option lapses on expiry of the exercise period, employee compensation expense already recognized in the profit or loss is reversed with a corresponding reduction to employee stock option compensation reserve.

When the options are exercised, employee stock option compensation reserve relating to these options is transferred to share capital and share premium. An amount equivalent to the face value of related shares is transferred to share capital. Any amount over and above the share capital is transferred to share premium.

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5.13 Non-banking assets acquired in satisfaction of claim

Non-banking assets acquired in satisfaction of claims are stated at revalued amounts less accumulated depreciation thereon. The valuation of properties acquired under this head is conducted regularly, so as to ensure that their net carrying value does not materially differ from their fair value. Any surplus arising on revaluation of such properties is transferred to the 'surplus on revaluation of fixed assets' account, while any deficit arising on revaluation is charged to profit and loss account directly. In addition, all direct costs, including legal fees and transfer costs linked with transferring the title of the property to bank is accounted as an expense in the profit and loss account. Furthermore, revaluation surplus on such assets shall not be admissible for calculating bank's Capital Adequacy Ratio (CAR) and exposure limits under the Prudential Regulations. However, the surplus can be adjusted upon realization of sale proceeds.

5.14 Borrowings / deposits and their cost

- a) Borrowings / deposits are recorded at the proceeds received.
- b) Borrowing costs are recognised as an expense in the period in which these are incurred using effective mark-up / interest rate method to the extent that they are not directly attributable to the acquisition of or construction of qualifying assets. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) are capitalised as part of the cost of that asset.

5.15 Deposits - Islamic Banking

Deposits are generated on the basis of two modes i.e. Qard and Modaraba.

Deposits taken on Qard basis are classified as 'Current Account' and Deposits generated on Modaraba basis are classified as 'Savings Account' and 'Fixed Deposit Accounts'.

No profit or loss is passed on to current account depositors.

Profits realised in investment pools are distributed in pre-agreed profit sharing ratio.

Rab-ul-Maal (Usually Customer) share is distributed among depositors according to weightages assigned at the inception of profit calculation period.

Mudarib (Bank) can distribute its share of profit to Rab-ul-Maal upto a specified percentage of its profit.

Profits are distributed from the pool so the depositors (remunerative) only bear the risk of assets in the pool during the profit calculation period.

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

In case of loss in a pool during the profit calculation period, the loss is distributed among the depositors (remunerative) according to their ratio of Investments.

5.16 Provisions

Provision for guarantee claims and other off balance sheet obligations is recognised when intimated and reasonable certainty exists for the Bank to settle the obligation. Expected recoveries are recognised by debiting the customer's account. Charge to the profit and loss account is stated net-of expected recoveries.

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

5.17 Acceptances

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

5.18 Revenue recognition

Advances and investments

Mark-up income on loans and advances, debt securities investments and profit on murabaha and musharika financing are recognised on a time proportion basis. Where debt securities are purchased at a premium or discount, those premiums / discounts are amortised through the profit and loss account over the remaining maturity, using the effective yield method.

Dividend income is recognised at the time when the Group's right to receive the dividend has been established.

Lease financing

Financing method is used in accounting for income from lease financing. Under this method, the unrealised 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 the lease. Gains / losses on termination of leased contracts, documentation charges, front end fee and other lease income are recognised as income when they are realised.

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Unrealised lease income and mark-up / return on non-performing advances are suspended, where necessary, in accordance with the requirements of the Prudential Regulations of the State Bank of Pakistan and recognised on receipt basis.

Ijarah income is recognised on an accrual basis as and when the rental becomes due.

Morabaha income is recognised on deferred income basis.

Fee, commission and brokerage

Fee, commission and brokerage income except income from guarantees and bancaassurance business are accounted for on receipt basis.

Other income is recognised on accrual basis.

5.19 Foreign currency translation

Functional and presentation currency

Items included in these consolidated financial statements are measured using the currency of the primary economic environment in which the Bank operates.

Transactions and balances

Transactions in foreign currencies are translated into Pakistani rupees at the exchange rates prevailing on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Forward contracts other than contracts with the State Bank of Pakistan relating to foreign currency deposits are valued at forward rates applicable to the respective maturities of the relevant foreign exchange contract.

Forward purchase contracts with the State Bank of Pakistan relating to foreign currency deposits are valued at the spot rate prevailing on the reporting date. The forward cover fee payable on such contracts is amortised over the term of the contracts.

Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed 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 exchange rates ruling on the reporting date.

Foreign operations

Assets and liabilities of foreign operations are translated into rupees at the exchange rate prevailing at the reporting date. The results of foreign operations are translated at average rate of exchange for the year. Translation gains and losses arising on revaluations of net investment in foreign operations are taken to Exchange Translation Reserve in the statement of comprehensive income. These are recognised in the profit and loss account on disposal.

5.20 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date at which the derivative contract is entered into and subsequently remeasured at fair value using appropriate valuation techniques. All derivative financial instruments are carried as assets where fair value is positive and as liabilities where fair value is negative. Any changes in the fair value of derivative financial instruments are taken to the profit and loss account.

5.21 Off-setting

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

5.22 Dividend and appropriation to reserves

Dividend and appropriation to reserves, except appropriations which are required under the law, after the reporting date, are recognised in the Bank's unconsolidated financial statements in the year in which these are approved.

5.23 Earnings per share

The Group presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

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5.24 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting structure of the Bank. Segmented performance is reported to the senior management of the Bank on monthly basis for the purpose of strategic decision making and performance management.

a) Business segments

Retail banking

This includes loans, deposits, trading activity, wealth management and other banking transactions with retail and middle market customers of the Bank.

Corporate banking

This comprises of loans, deposits, project financing, trade financing, investment banking and other banking activities with Bank's corporate and public sector customers.

Treasury

This segment includes liquidity management activities carried out through borrowing, lending and money market operations. The investments of the Bank primarily towards government securities and risk management activities via use of forward contracts & derivatives are reported here.

Consumer banking

This segment primarily constitutes consumer financing activities with individual customers of the Bank. Product suite offered to these customers include credit cards, auto loans, housing finance and personal loans.

Islamic banking

This segment pertains to full scale Islamic Banking operations of the Bank.

International operations

This segment includes amounts related to Bank's overseas operations, namely, commercial banking activities in Bangladesh and Afghanistan, and wholesale banking activities in the Kingdom of Bahrain.

Retail Brokerage

It includes asset management activities mainly through the subsidiary Alfalah Securities (Private) Limited.

Asset Management

It includes asset management activities mainly through the subsidiary Alfalah GHP Investment Management Limited.

Others

This includes the Bank's merchant banking and head office related activities, and all other activities not readily tagged to the segments above.

b) Geographical segments

The group operates in three geographical regions being:

- Pakistan
- Asia Pacific (including South Asia)
- Middle East

	Note	2016	2015
		(Rupees in '000)	
6 CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency			
(including in transit 2016: Rs. 12.122 million, 2015: Rs. 6 million)		10,187,403	8,972,003
Foreign currencies			
(including in transit 2016: Rs. 4.189 million, 2015: Rs. 7 million)		2,579,051	2,377,778
With State Bank of Pakistan in			
Local currency current accounts	6.1	28,662,461	20,593,524
Foreign currency current accounts	6.2	2,553,016	3,232,623
Foreign currency deposit accounts	6.3	5,972,553	7,224,768
With other central banks in			
Foreign currency current accounts	6.4	4,117,412	5,933,513
Foreign currency deposit accounts	6.4	678,906	656,196
With National Bank of Pakistan in			
Local currency current account		19,292,758	13,305,048
National Prize Bonds		27,834	73,374
		<u>74,071,394</u>	<u>62,368,827</u>

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- 6.1 This includes statutory liquidity reserves maintained with the SBP under Section 22 of the Banking Companies Ordinance, 1962.
- 6.2 As per BSD Circular No. 9 dated December 3, 2007, cash reserve of 5% is required to be maintained with the State Bank of Pakistan on deposits held under the New Foreign Currency Accounts Scheme (FE-25 deposits).
- 6.3 Special cash reserve of 15% is required to be maintained with the State Bank of Pakistan on FE-25 deposits as specified in BSD Circular No. 14 dated June 21, 2008. Profit rates on these deposits are fixed by SBP on a monthly basis. The State Bank of Pakistan has not remunerated these deposit accounts during the year.
- 6.4 Deposits with other central banks are maintained to meet their minimum cash reserves and capital requirements pertaining to the foreign branches of the Holding Company.

	Note	2016	2015
		(Rupees in '000)	
7 BALANCES WITH OTHER BANKS			
In Pakistan			
On current accounts		352,952	618,033
On deposit accounts	7.1	1,079,717	29,625
Outside Pakistan			
On current accounts	7.2	4,375,099	10,956,696
On deposit accounts	7.3	3,691,019	4,978,784
		<u>9,498,787</u>	<u>16,583,138</u>

- 7.1 This represents funds deposited with various banks at profit rates ranging from 3.00% to 6.00% per annum (2015: 3.00% to 5.75% per annum).
- 7.2 This includes amount held in Automated Investment Plans. The balance is current in nature and on increase in the balance above a specified amount, the Bank is entitled to earn interest from the correspondent banks at agreed upon rates.
- 7.3 This includes placement of funds generated through foreign currency deposits scheme (FE-25), at interest rates ranging from 1.00% to 5.50% per annum (2015: 1.00% to 6.00% per annum) having maturities upto March 2017 (2015: March 2016).

	Note	2016	2015
		(Rupees in '000)	
8 LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings	8.1	5,306,590	15,265,899
Bai Muajjal	8.2	24,497,227	12,360,451
Repurchase agreement lendings	8.3	345,212	-
		<u>30,149,029</u>	<u>27,626,350</u>

- 8.1 These represent lendings to financial institutions at interest rates ranging from 0.25% to 9.00% per annum (2015: 0.40% to 12.00% per annum) having maturities upto March 2017 (2015: November 2016).
- 8.2 This represents Bai Muajjal agreements entered into with State Bank of Pakistan (SBP) / other commercial banks, whereby the Bank sold Sukuks having carrying value of Rs. 24,497 million on deferred payment basis. The rates of return range from 5.62% to 5.97% per annum (December 2015: 6.94% to 8.26%), and these are due to mature by June 2017 (2015: March 2016).
- 8.3 These represent short term lending to financial institutions against investment securities. These carry markup rates upto 6.15% per annum (2015: Nil) with maturities upto January 2017 (2015: Nil).

8.3.1 Securities held as collateral against lending to financial institutions

	2016			2015		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	(Rupees in '000)					
Market Treasury Bills	345,212	-	345,212	-	-	-

	2016	2015
	(Rupees in '000)	
8.4 Particulars of lendings to financial institutions		
In local currency	28,842,439	12,610,451
In foreign currencies	1,306,590	15,015,899
	<u>30,149,029</u>	<u>27,626,350</u>

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9 INVESTMENTS - NET

9.1 Investments by types

Note	2016			2015 (Restated)		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
(Rupees in '000)						
Held for trading securities						
Market Treasury Bills	14,120,130	-	14,120,130	13,480,197	-	13,480,197
Pakistan Investment Bonds	20,207	-	20,207	2,423,862	-	2,423,862
Overseas Bonds	549,615	-	549,615	2,990,933	-	2,990,933
Sukuk Bonds	-	-	-	-	-	-
Fully paid up ordinary shares / units - Listed	740,776	-	740,776	197,998	-	197,998
	15,430,728	-	15,430,728	19,092,990	-	19,092,990
Available for sale securities						
Market Treasury Bills	38,584,821	-	38,584,821	78,391,879	494,563	78,886,442
Pakistan Investment Bonds	78,936,759	128,150,711	207,087,470	28,914,704	128,577,363	157,492,067
Fully paid up ordinary shares / units - Listed	6,223,937	-	6,223,937	5,000,753	-	5,000,753
Fully paid up ordinary shares / units - Unlisted	109,662	-	109,662	4,454,223	-	4,454,223
Term Finance Certificates	514,483	-	514,483	829,594	-	829,594
Preference Shares - Listed	108,835	-	108,835	108,835	-	108,835
Preference Shares - Unlisted	25,000	-	25,000	325,000	-	325,000
Redeemable Participating Certificates	501,938	-	501,938	-	-	-
Pakistan Euro Bonds	2,688,770	-	2,688,770	2,409,043	-	2,409,043
Overseas Bonds	7,819,677	4,839,993	12,659,670	4,804,159	-	4,804,159
Sukuk Bonds	38,663,395	5,023,937	43,687,332	33,280,442	-	33,280,442
	174,177,277	138,014,641	312,191,918	158,518,632	129,071,926	287,590,558
Held to maturity securities						
Market Treasury Bills	1,995,857	-	1,995,857	-	-	-
Pakistan Investment Bonds	31,793,773	-	31,793,773	66,180,991	-	66,180,991
Other Federal Government Securities - Bai Muajjal	-	-	-	26,002,520	-	26,002,520
Term Finance Certificates	524,266	-	524,266	524,266	-	524,266
Pakistan Euro Bonds	706,255	-	706,255	3,347,785	-	3,347,785
Commercial Papers	661,557	-	661,557	266,822	-	266,822
Overseas Bonds	9,714,052	1,036,079	10,750,131	7,653,735	-	7,653,735
Sukuk Bonds	3,847,273	-	3,847,273	4,230,816	-	4,230,816
	49,243,033	1,036,079	50,279,112	108,206,935	-	108,206,935
Investments in Associates and Mutual Funds established under Trust Structure not considered for consolidation						
Alfalsh Insurance Limited	282,909	-	282,909	241,560	-	241,560
Sapphire Wind Power Company Limited	1,221,237	-	1,221,237	1,006,054	-	1,006,054
Alfalsh GHP Money Market Fund	57,287	-	57,287	54,415	-	54,415
Alfalsh GHP Income Multiplier Fund	298,473	-	298,473	283,699	-	283,699
Alfalsh GHP Sovereign Fund	253,490	-	253,490	423,475	-	423,475
Appollo Pharma Limited	-	-	-	802,130	-	802,130
Alfalsh GHP Income Fund	169,745	-	169,745	113,036	-	113,036
Alfalsh GHP Islamic Income Fund	6,683	-	6,683	6,384	-	6,384
Alfalsh GHP Value Fund	-	-	-	187,684	-	187,684
Alfalsh GHP Islamic Stock Fund	439,502	-	439,502	359,958	-	359,958
Alfalsh GHP Cash Fund	534,264	-	534,264	540,918	-	540,918
	3,263,590	-	3,263,590	4,019,313	-	4,019,313
Investments	242,114,628	139,050,720	381,165,348	289,837,870	129,071,926	418,909,796
Provision for diminution in the value of investments	9.25	(1,253,781)	(1,253,781)	(5,519,811)	-	(5,519,811)
Investments (net of provisions)						
	240,860,847	139,050,720	379,911,567	284,318,059	129,071,926	413,389,985
Surplus on revaluation of held for trading securities - net	9.27	109	109	229,063	-	229,063
Surplus on revaluation of available for sale securities - net	20.2	7,677,435	2,077,811	9,377,825	522,095	9,899,920
Total investments						
	248,538,391	141,128,531	389,666,922	293,924,947	129,594,021	423,518,968

9.1.1 Market value of held to maturity securities is Rs. 48,528 million (2015: Rs. 83,866 million) excluding non-government overseas bonds.

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9.2 Strategic Investments

Strategic investments are those which the Bank makes with the intention of holding them for a long term duration and are marked as such at the time of investment. Disposals of such investments can only be made subject to the fulfilment of the requirements prescribed by the SBP. Further, as per the SBP instructions in BPD Circular Letter No. 16 of 2006 dated August 01, 2006, investments marked as strategic have a minimum retention period of 5 years from the original purchase date. However, these can be sold before the stipulated period with the prior permission of the SBP.

Strategic Investments are restricted to and the same as those reflected in the Bank's separate financial statements and do not include investments resulting by way of consolidation of holding through subsidiaries.

	Note	2016	2015 (Restated)
		(Rupees in '000)	
9.3 Investments by segments			
Federal Government Securities			
- Market Treasury Bills	9.5	54,700,808	92,366,639
- Pakistan Investment Bonds	9.6	238,901,450	226,096,920
- Overseas Government Bonds	9.7	18,042,785	11,799,149
- Sukuk Bonds	9.8	41,567,768	31,096,239
- Pakistan Euro Bonds	9.9	3,395,025	5,756,828
- Commercial Papers	9.10	132,277	-
- Other Federal Government Securities - Bai Muajjal	9.11	-	26,002,520
		356,740,113	393,118,295
Fully Paid up Ordinary Shares / Preference Shares / Units / Certificates			
- Listed companies / mutual funds	9.12	6,964,713	5,198,751
- Un-listed companies	9.13	109,662	4,454,223
- Preference Shares - Listed	9.14	108,835	108,835
- Preference Shares - Unlisted	9.15	25,000	325,000
		7,208,210	10,086,809
Term Finance Certificates, Debentures, Bonds, Notes and Participation Term Certificates			
- Listed TFCs	9.16	99,900	99,940
- Un-listed TFCs	9.17	938,849	1,253,920
- Sukuk Bonds	9.18	5,966,837	6,415,019
- Commercial Papers	9.19	529,280	266,822
- Overseas Bonds	9.20	5,916,631	3,649,678
- Redeemable Participating Certificates	9.21	501,938	-
		13,953,435	11,685,379
Investments in Associates and Mutual Funds established under trust structure not considered for consolidation	9.22	3,263,590	4,019,313
Total investments		381,165,348	418,909,796
Provision for diminution in the value of investments	9.25	(1,253,781)	(5,519,811)
Investments (net of provisions)		379,911,567	413,389,985
Surplus on revaluation of held for trading securities - net	9.27	109	229,063
Surplus on revaluation of available for sale securities - net	20.2	9,755,246	9,899,920
Total investments		389,666,922	423,518,968

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

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- 9.5 Market Treasury Bills are for the periods of three months, six months and one year. The effective rates of profit on Market Treasury Bills range between 5.85% to 6.21% per annum (2015: 6.26% to 7.99% per annum) with maturities upto September 2017 (2015: October 2016).
- 9.6 Pakistan Investment Bonds (PIBs) are for the periods of three, five, seven, ten years and fifteen years. The rates of profit range from 6.21% to 12.73% per annum (2015: 8.75% to 12% per annum) with maturities from July 2017 to July 2022 (2015: May 2016 to July 2022). These also include PIBs having face value of Nil (2015: Rs. 35 million) pledged with the National Bank of Pakistan as security to facilitate Telegraphic Transfer discounting facility.
- 9.7 These represent Overseas Government Bonds issued by the Government of Bahrain, the Government of Kazakhstan, the Government of Afghanistan, the Government of Bangladesh, the Government of Mexico, the Government of Indonesia, the Government of Sri Lanka, the Government of Qatar, the Government of Saudi Arabia and the Government of Oman amounting to USD 5 million (2015: USD 5 million), USD 3 million (2015: USD 3 million), AFN 2,338 million (2015: AFN 1,214 million), BDT 4,208 million (2015: BDT 6,605 million), EUR 0.5 million (2015: EUR 0.5 million), USD 2 million (2015: USD 2 million) and EUR 2.5 million (2015: Nil), USD 1.5 million (2015: Nil), USD 22 million (2015: Nil), USD 19 million (2015: Nil) and USD 22 million (2015: Nil) respectively. The rate of profit on Government of Bahrain bond is 5.50% (2015: 5.50%), Government of Kazakhstan bond is 3.88% (2015: 3.88%) and Government of Afghanistan bond ranging from 1.80% to 6.67% per annum (2015: 1.80% to 6.70% per annum), Government of Bangladesh bonds carry profit ranging from 6.62% to 12.55% per annum (2015: 8.50% to 12.48% per annum), Government of Mexico bonds is 1.63% (2015: 1.63%), Government of Indonesia bonds ranging from 2.63% to 4.35% (2015: 3.38%), Government of Sri Lanka bond is 5.75% (2015: Nil), Government of Qatar bond ranging from 2.38% to 3.28% (2015: Nil), Government of Saudi Arabia bonds ranging from 2.38% to 3.25% (2015: Nil) and Government of Oman bond is 4.75% (2015: Nil). The bonds are due to mature by March 2020 (2015: March 2020), October 2024 (2015: October 2024), December 2017 (2015: December 2016), November 2034 (2015: November 2034), March 2024 (2015: March 2024), January 2027 (2015: July 2025), January 2022 (2015: Nil), June 2026 (2015: Nil), October 2026 (2015: Nil), and June 2026 (2015: Nil) respectively.
- 9.8 These represent sukuk bonds of Rs. 1,381 million (2015: Rs. 1,790 million) issued by Water and Power Development Authority (WAPDA) for a period of eight and ten years, ijarah sukuk of Rs. 30,126 million (2015: Rs. 27,451 million) issued by the State Bank of Pakistan for a period of three years, sukuk bond issued of Rs. 2,600 million by Neelum Jhelum Power Project and ijarah sukuk of USD 71.33 million (2015: USD 17.70 million) issued by the Government of Indonesia, the Government of South Africa, the Government of Pakistan, Government of Turkey and Bahrain. The rates of profit on these bonds range between 5.81% to 7.06% per annum (2015: 6.78% to 7.59% per annum), between 5.45% to 6.10% per annum (2015: 5.89% to 6.15% per annum) and between 7.19% to 7.28% per annum (2015: Nil) and 3.90% to 6.75% per annum respectively. These sukuk bonds are due to mature by October 2021, March 2019, October 2026, and September 2024 respectively.
- 9.9 These represent Pakistan Euro Bonds of US Dollar 33.14 million (2015: US Dollar 55.05 million) issued by the Government of Pakistan. These bonds carry interest between 7.25% to 8.25% per annum (2015: 7.13% to 8.25% per annum) with maturities upto September 2025 (2015: September 2025).
- 9.10 These represent Commercial papers amounting to BDT 99.94 million (2015: Nil), Interest rate on these commercial papers is 2.97% per annum (2015: Nil) and are due for maturity on January 2017 (2015: Nil).
- 9.11 This represents Bai Muajjal agreements entered into with Ministry of Finance (MoF), whereby the Bank sold Sukuks having carrying value of Rs. 26,002 million were sold on deferred payment basis.

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9.12 Particulars of investments in listed companies / mutual funds include the following:

2016 (Number of shares / certificates / units)	2015		2016 (Rupees in '000)	2015
OIL AND GAS				
2,275,000	800,000	Oil and Gas Development Corporation Limited	324,333	110,368
475,000	655,200	Pakistan Oilfields Limited	147,629	203,635
591,800	1,125,000	Pakistan Petroleum Limited	75,012	142,597
560,100	955,000	Pakistan State Oil Company Limited	209,845	350,923
140,000	213,000	Attock Petroleum Limited	74,552	113,732
200,000	-	Hi-Tech Lubricants Limited	22,898	-
AGRIBUSINESS				
592,200	-	Agriauto Industries Limited	139,293	-
CHEMICALS AND PHARMACEUTICAL				
1,773,800	1,144,600	Engro Corporation Limited	497,166	296,555
3,745,500	-	Engro Fertilizer Limited	277,450	-
1,200,000	540,500	Fatima Fertilizer Company Limited	37,184	14,290
1,875,000	1,250,000	Fauji Fertilizer Company Limited	232,121	162,897
4,429,500	2,000,000	Fauji Bin Qasim Limited	232,669	111,594
300,000	-	Abbot Laboratories (Pakistan) Limited	255,055	-
2,273,531	1,948,333	Agritech Limited	17,909	15,100
CONSTRUCTION AND MATERIALS				
-	750,000	Attock Cement Company Limited	-	138,493
1,200,000	-	Fauji Cement Company Limited	44,363	-
2,191,400	2,250,000	D G Khan Cement Limited	322,308	285,827
997,700	828,500	Lucky Cement Limited	532,555	356,351
1,300,000	1,750,000	Amreli Steels Limited	69,969	89,250
550,000	-	Avanceon Limited	19,416	-
851,300	-	Cherat Cement Company Limited	128,283	-
128,900	-	Cherat Packaging Limited	48,034	-
124,000	-	Mughal Iron and Steel Industries Limited	11,810	-
2,722,000	-	Pioneer Cement Limited	330,591	-
200,000	-	Thal Limited	83,906	-
REAL ESTATE				
41,622,117	71,003,617	Dolmen City Real Estate Investment Trust (REIT)	457,843	781,040
PERSONAL GOODS				
-	1,090,100	Nishat Mills Limited	-	119,233
100,250	153,750	Al Shaheer Corporation Limited	5,432	9,593
624,500	-	Gul Ahmed Textile Mills Limited	34,007	-
250,000	-	Nishat (Chunian) Limited	14,434	-
250,000	-	Pak Elektron Limited	17,480	-
ELECTRICITY				
6,116,700	5,391,000	The Hub Power Company Limited	553,530	424,458
1,942,500	2,325,000	Kot Addu Power Company Limited	148,452	175,968
4,000,000	4,475,000	Nishat (Chunian) Power Company Limited	132,117	147,806
2,500,000	2,650,000	Nishat Power Company Limited	106,994	111,850
-	3,703,706	Engro Powergen Qadirpur Limited	-	126,735
5,540,000	-	K-Electric Limited	51,055	-
221,000	-	Altern Energy Limited	7,949	-
TELECOMMUNICATION				
-	250,000	Pakistan Telecommunication Company Limited	-	4,008
BANKS				
891,700	841,700	Allied Bank Limited	88,485	83,782
5,500,000	5,449,000	Bank Al Habib Limited	226,069	220,770
1,227,200	925,000	MCB Bank Limited	301,077	230,466
1,800,000	1,300,000	United Bank Limited	299,826	210,949
1,775,000	700,000	Habib Bank Limited	331,519	145,681
1,800,720	1,800,720	First Dawood Investment Bank Limited	15,000	15,000
525,000	-	National Bank of Pakistan Limited	39,093	-
FINANCIAL SERVICES				
47,460	47,460	Visa Inc.	-	-
			<u>6,964,713</u>	<u>5,198,751</u>

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9.13 Investments in unlisted companies

2016 (Number of shares)	2015		2016 (Rupees in '000)	2015
572,531	572,531	Pakistan Export Finance Guarantee Agency Limited Chief Executive: Mr. S.M. Zaeem Break-up value per share: Rs. 0.5 Date of financial statements: June 30, 2010 (Audited)	5,725	5,725
24	24	Society for Worldwide Interbank Financial Telecommunication Chief Executive: Mr. Gottfried Leibbrandt Break-up value per share: Rs. 425,866 (2012: Rs. 330,035) Date of financial statements: December 31, 2013 (Audited)	4,096	4,096
5,000,000	5,000,000	Al-Hamra Avenue (Private) Limited Chief Executive: Mr. Habib Ahmed Break-up value per share: Rs. 9.52 Date of financial statements: June 30, 2010 (Un-audited)	50,000	50,000
-	319,054,124	Warid Telecom (Private) Limited (Related party) note 9.13.1	-	4,366,796
2,223,452	-	Pakistan Mobile Communication Limited (Related party) note 9.13.1 Chief Executive: Mr. Aamir Ibrahim Break-up value per share: Rs. 15.52 (2015: Rs. 8.23) Date of financial statements: September 30, 2016 (unaudited)	22,235	-
4,007,383	4,007,383	Pakistan Stock Exchange Limited (PSX) (note 9.13.2) Managing Director: Mr. Nadeem Naqvi Break-up value per share: Rs. 9.98 (2015: Rs. 10.17) Date of financial statements: June 30, 2016 (Audited)	27,606	27,606
			<u>109,662</u>	<u>4,454,223</u>

9.13.1 During the year, the existing shareholders of Warid Telecom (Private) Limited including the Bank transferred their holding in Warid Telecom (Private) Limited to Pakistan Mobile Communications Limited (PMCL), in lieu of acquiring an overall stake of 15 percent in PMCL. This development was in furtherance of the Acquisition Agreement dated November 26, 2015.

Pursuant to the said transfer, the Bank has received 2,223,452 shares of Rs. 10 each in PMCL in lieu of its holding in Warid Telecom (Private) Limited (pre-acquisition). As a result of this share exchange, the Bank has recorded the shares acquired in PMCL while its investment in Warid Telecom (Private) Limited and the related provision held thereagainst stands de-recognised.

The merger of PMCL and Warid Telecom (Private) Limited was approved by Islamabad High Court in December 2016.

9.13.2 This represents shares of Pakistan Stock Exchange Limited (PSX) held by Alfalah Securities (Private) Limited acquired in pursuance of corporatisation and demutualization of PSX as a public company limited by shares. As per the arrangements, the authorized and paid-up capital of PSX is Rs. 10 billion and Rs. 8.015 billion respectively with a par value of Rs. 10 each. The paid-up capital of PSX is equally distributed among 200 members (termed as initial shareholders of exchange after corporatization) of PSX by issuance of 4,007,383 to each initial shareholders in the following manner:

- 40 % of the total shares allotted (i.e. 1,602,953 shares) are transferred in the House Account of Central Depository Company of Pakistan Limited (CDC) to each initial shareholder.

- 60% of the total shares (i.e. 2,404,430 shares) have been deposited in a sub-account in Company's name under PSX's participant ID with CDC which will remain blocked until they are divested to strategic investor(s), general public and financial institutions.

In the current year, the Securities and Exchange Commission of Pakistan (SECP) accorded its approval to Pakistan Stock Exchange Limited (PSX) for issuing letter of acceptance to a Chinese Consortium for the strategic sale of 40% of these blocked shares.

PSX vide their letter dated 29 December 2016 has informed Alfalah Securities (Private) Limited that 40% shares (out of 60% of total shareholding in PSX), which were held in blocked form, have been sold to Chinese Consortium by the Divestment Committee at an offer price of Rs. 28 per share. Subsequently, a formal signing ceremony was held on 20 January 2017 to mark the signing of the Share Purchase Agreement between the Chinese Consortium and the equity sale committee of PSX.

9.14 Investments in preference shares - Listed

2016 (Number of shares)	2015		2016 (Rupees in '000)	2015
10,883,486	10,883,486	Agritech Limited Chief Executive: Mr. Faisal Muzammil Redemption: Any time after the issuance of preference shares Break-up value per share: Rs. 12.51 (2014: Rs. 17.96) Date of financial statements: December 31, 2015 (Audited)	108,835	108,835
			<u>108,835</u>	<u>108,835</u>

9.15 Investments in preference shares - Unlisted

2016 (Number of shares)	2015		2016 (Rupees in '000)	2015
-	120,000,000	Silk Bank Preference Shares	-	300,000
2,500,000	2,500,000	Trust Investment Bank Limited Chief Executive: Mr. Ahsan Rafique Redemption: Any time after the issuance of preference shares Break-up value per share: Rs. (17.60) (2015: Rs. (17.96)) Date of financial statements: June 30, 2016 (Audited)	25,000	25,000
			<u>25,000</u>	<u>325,000</u>

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9.16	Particulars of Term Finance Certificates - Listed	2016	2015
		(Rupees in '000)	
	NIB Bank Limited - (2nd Issue)	99,900	99,940
	20,000 (2015: 20,000) certificates of Rs. 5,000 each		
	Mark up: Average six months KIBOR + 115 basis points per annum with no floor		
	Redemption: The TFC is structured to redeem 0.3 percent of principal semi-annually in the first ninety months followed by remaining 99.70% on maturity at the end of the ninety sixth month. The repayment obligations of the issuer pursuant to the TFCs unsecured and sub-ordinated to all other financial obligations of the issuer.		
	Maturity: June 2022		
	Rating: AA- (PACRA)		
	Chief Executive: Mr. Yameen Karai		
		<u>99,900</u>	<u>99,940</u>
9.17	Particulars of Term Finance Certificates - Unlisted		
	Askari Bank Limited	99,920	99,960
	20,000 (2015: 20,000) certificates of Rs. 5,000 each		
	Mark up: Average six months KIBOR plus 120 basis points per annum		
	Redemption: TFC is structured to redeem 0.36% of the issue amount during the tenor of the issue with 99.64% of the issue amount in year ten in 2 equal semi annual instalments of 49.82% each. The TFCs shall be sub-ordinated to the payment of the principal and profit to all other indebtedness of the issuer including deposits, and are not redeemable before maturity without the prior approval of the State Bank of Pakistan.		
	Maturity: September 2024		
	Rating: AA+ (PACRA)		
	Chief Executive: Mr. Syed Majeedullah Hussaini		
	Faysal Bank Limited	74,850	149,700
	30,000 (2015: 30,000) certificates of Rs. 5,000 each		
	Mark up: Average 6 month KIBOR plus 225 basis points per annum		
	Redemption: The instrument is structured to redeem 0.20 percent of principal semi-annually in the first 60 months and remaining amount in 4 equal semi-annual instalments of 24.95% each starting from 66th month. The TFCs are sub-ordinated to all other indebtedness of the issuer including deposits.		
	Maturity: December 2017		
	Rating: AA (PACRA)		
	Chief Executive: Mr. Nauman Ansari		
	Bank AL Habib Limited	-	299,520
	Agritech Limited	499,586	499,586
	100,000 (2015: 100,000) certificates of Rs. 5,000 each		
	Mark up: Average six months KIBOR (Ask Side) + 175 basis point per annum (no floor & no cap)		
	Redemption: Repayment will be made in stepped up instalments where 35 percent of principal amount will be paid in the years 3 to 5 and remaining 65 percent will be paid in years 6 to 8.		
	Maturity: July 2017		
	Rating: Unrated		
	Chief Executive: Mr. Muhammad Faisal Muzammil		

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	2016 (Rupees in '000)	2015 (Rupees in '000)
Zulekha Textile Mills Limited	24,680	24,680
300 (2015: 300) certificates of Rs. 100,000 each		
Mark-up: Average Six Months KIBOR + 300 basis points per annum		
Redemption: 10 equal semi-annual instalments commencing from the 24th months from first draw down.		
Maturity: October 2019		
Rating: Unrated		
Chief Executive: Shanzae Amjad		
Azgard Nine Limited - Note 9.17.1	43,350	43,350
20,000 (2015: 20,000) certificates of Rs.5,000 each		
Mark-up: Average Six months KIBOR (Ask Side) + 100 basis points per annum		
Redemption: Principal will be repaid in 12 semi annual instalments with stepped up repayment plan whereby 47 percent of principal amount will be repaid in the years 3 to 6 and remaining 53 percent will be repaid in the years 7 and 8.		
Maturity: December 2017		
Rating: Unrated		
Chief Executive: Mr. Ahmed H. Shaikh		
Azgard Nine Limited - Note 9.17.2	32,870	32,870
6,574 (2015: 6,574) certificates of Rs.5,000 each		
Mark-up: Zero Rated		
Redemption: Principal to be repaid in 7 semi annual instalments starting from March 2014		
Maturity: March 2017		
Rating: Unrated		
Chief Executive: Mr. Ahmed H. Shaikh		
New Allied Electronics - Note 9.17.3	2,185	2,185
437 (2015: 437) certificates of Rs. 5,000 each		
Mark up: Average three months KIBOR plus 275 basis points		
Redemption: 17 equal quarterly instalments		
Maturity: May 2011		
Rating: Unrated		
Chief Executive: Mr. Zeeshan Pervaiz Akhtar		
Fauji Akber Portia Marine Terminals Limited (FAP) - Note 9.17.4	161,408	102,069
6 certificates of various PKR denominations (2015: 4 certificates of various PKR denominations)		
Mark up: Zero rated		
Redemption: Repayment will commence after the repayment of entire principal of reduced STF facility of FAP and will be made in 3 un-equal semi-annual instalments commencing from 2021.		
Maturity: May 2022		
Rating: Unrated		
Chief Executive: Commodore (Retd) Pervaiz Ahmed Khan		
	<u>938,849</u>	<u>1,253,920</u>

KPMG

- 9.17.1 In the year 2012, the Bank's exposure in the TFCs of Azgard Nine Limited (ANL) amounting to Rs. 99.920 million was restructured under a Debt / Asset Swap arrangement. As per the terms of the restructuring, the Bank received 1,616,036 shares of Agritech Limited (AGL) (valued at Rs. 35 per share) as partial settlement of the ANL's TFC exposure. In addition, the Bank also injected additional equity amounting to Rs. 11.631 million for acquisition of additional 332,297 shares in AGL. Subsequent to this settlement, Bank's exposure in the TFC of ANL has reduced to Rs. 43.350 million (as reflected in note 9.17). This exposure in TFC is fully provided while investment in shares has been held at fair value.

As per the terms of agreement, AGL shares shall be held by the respective trustees for the TFC issue in their name and on behalf of the TFC Holders who shall be the beneficial owners of the subject shares in proportion to their holdings. The Trustees of the TFC issue are authorised pursuant to shareholders investors agreement to hold the said ordinary shares for and on behalf of TFC holders for a period of five years from the date of transfer. Hence, 1,616,036 shares received by the Bank are held by the trustees of the TFCs.

Further, under the terms of Investor's Buy-Back Agreement entered into by the Bank in 2012, the strategic investor issued a put option notice to the Bank in January 2016. The Bank being one of the financing investors has purchase 325,198 shares of AGL at a price of Rs. 35 per share.

- 9.17.2 This represents Zero Rated Term Finance Certificates of Azgard Nine Limited (ANL) received in settlement of overdue mark-up outstanding on the actual TFC exposure of the Bank, amounting to Rs. 99.920 million. The settlement was made as per the Investor Agreement entered into between ANL and the Bank. As at December 31, 2016, this investment is fully provided.
- 9.17.3 These represent TFCs of New Allied Electronics amounting to Rs. 2.185 million, received partially in lieu of the fully impaired unlisted TFCs of First Dawood Investment Bank previously held by the Bank. As at December 31, 2016, this investment is fully provided.
- 9.17.4 During the year 2016, the Bank received zero rated TFCs of Fauji Akbar Portia Marine Terminal Limited (FAP) amounting to Rs. 59.339 million (2015: Rs. 51.034 million). These TFCs were received in settlement of overdue mark-up instalments on reduced STF facility of FAP. The Bank will continue to receive TFCs in settlement of mark-up to be accrued on semi-annual basis till May 2021. As at December 31, 2016, the exposure in the TFCs amounts to Rs. 161.408 million which stands fully provided.

9.18 Investments in sukuk bonds

Investee company	Date of maturity	Profit rate per annum	Number of Certificates	2016 (Rupees in '000)	2015
Security Leasing Corporation Limited - II	September 2022	6 months KIBOR plus 1.95%	35,000	52,350	52,350
BRR Guardian Modaraba	December 2016	1 months KIBOR	20,000	36,177	58,750
Sitara Peroxide (Private) Limited	August 2016	3 months KIBOR plus 1.00%	60,000	118,052	157,813
Liberty Power Tech Limited	March 2021	3 months KIBOR plus 3.00%	100,000	297,132	356,674
Amreli Steel (Private) Limited	December 2016	3 months KIBOR plus 2.5 %	-	-	95,000
Security Leasing Corporation Limited - I	January 2022	3% Cash + 3% accrual	5,000	6,418	6,418
Quetta Textile Mills Limited	September 2019	6 months KIBOR plus 1.50%	30,000	72,619	74,483
Pakistan Mobile Communication Limited	December 2019	3 months KIBOR plus 0.88 %	340,000	1,700,000	1,700,000
Sui Southern Gas Company Limited	October 2019	3 months KIBOR plus 0.4%	300,000	1,500,000	1,500,000
TF Varlik Kiralama AS	April 2019	5.38%	317,005	317,005	318,711
Kuveyt Turk Katılım Bankasi	June 2019	5.16%	522,993	522,993	523,705
Albaraka Turk Katılım Bankasi	June 2019	6.25%	925,697	925,697	-
Sharjah International Bank	May 2021	3.08%	418,394	418,394	1,571,115
				<u>5,966,837</u>	<u>6,415,019</u>

- 9.19 These represent Commercial papers amounting to BDT 400 million (2015: BDT 200 million), Interest rates on these commercial papers ranges between 7.75% to 9.50% per annum (2015: 10.25% per annum), and are due for maturity upto April 2017 (2015: March 2016).
- 9.20 These represent overseas bonds amounting to US Dollar 52 million (2015: USD 30 million) and EUR 5 million (2015: EUR 5 million) issued by TC ZIRRAAT Bankasi A.S, Qatar National Bank, Turkey Halk Bankasi, RAK Funding Cayman Limited, Turkey IS Bankasi A.S, African Finance Corporation, Abu Dhabi Commercial Bank, Türkiye Sinai Kalkinma Bankasi AS, Burgan Senior SPC Limited, Union National Bank African Import Export, Türkiye Garanti Bankasi A.S and Deutsche Bank respectively. Interest rates on these bonds range between, 2.18% to 5.00% per annum (2015: 1.57% to 5.00% per annum) and 1.13% to 3.38% per annum (2015: 1.13% to 3.38% per annum) and are due for maturity upto, December 2021 (2015: June 2021), and March 2025 (2015: March 2025) respectively.
- 9.21 These represents redeemable participating certificates amounting to USD 4.8 million (2015: Nil) issued by Baltoro Growth Fund, registered in Mauritius. The fund has a life of ten years and distributions would be made at the end of the life.

Kfma

9.22 Particulars of investments in associates and mutual funds established under trust structure not considered for consolidation.

The paid up value of these shares / units is Rs. 10 unless otherwise stated.

2016 (Number of shares / units)	2015		2016 (Rupees in '000)	2015
14,997,825	14,997,825	Alfalsh Insurance Limited Percentage of holding: 30% (2015: 30%) Break-up value per share: Rs. 18.61 (2015: Rs. 16.07) Date of un-audited financial statements: December 31, 2016 Chief Executive: Mr. Nasar us Samad Qureshi	282,909	241,560
97,812,317	97,812,317	Sapphire Wind Power Company Limited Percentage of holding: 30% (2015: 30%) Break-up value per share: Rs. 12.19 (2015: Rs. 11.14) Date of un-audited financial statements: December 31, 2016 Chief Executive: Mr. Nadeem Abdullah	1,221,237	1,006,054
567,660	524,771	Alfalsh GHP Money Market Fund Percentage of holding: 4.16% (2015: 2.71%) NAV per unit: Rs. 100.92 (2015: 103.69) Date of reviewed financial statements: December 31, 2016 Management Company - Alfalah GHP Investment Management Limited (Paid-up value of each unit is Rs. 100)	57,287	54,415
5,481,236	5,481,236	Alfalsh GHP Income Multiplier Fund Percentage of holding: 13.17% (2015: 10.68%) NAV per unit: Rs. 54.45 (2015: Rs. 52.58) Date of reviewed financial statements: December 31, 2016 Management Company - Alfalah GHP Investment Management Limited (Paid-up value of each unit is Rs. 50)	298,473	283,699
2,340,809	3,976,926	Alfalsh GHP Sovereign Fund Percentage of holding: 10.67 % (2015: 5.22%) NAV per unit: Rs.108.29 (2015: Rs. 106.48) Date of reviewed financial statements: December 31, 2016 Management Company - Alfalah GHP Investment Management Limited (Paid-up value of each unit is Rs. 100)	253,490	423,475
-	20,800,000	Appollo Pharma Limited	-	802,130
1,496,542	1,034,037	Alfalsh GHP Income Fund Percentage of holding: 12.88% (2015: 7.18%) NAV per unit: Rs. 113.42 (2014: Rs. 109.32) Date of reviewed financial statements: December 31, 2016 Management Company - Alfalah GHP Investment Management Limited (Paid-up value of each unit is Rs. 50)	169,745	113,036
64,663	62,274	Alfalsh GHP Islamic Income Fund Percentage of holding: 0.14 % (2015: 84.1%) NAV per unit: Rs. 103.35 (2015: Rs. 104.35) Date of reviewed financial statements: December 31, 2016 Management Company - Alfalah GHP Investment Management Limited (Paid-up value of each unit is Rs. 50)	6,683	6,384
-	2,889,739	Alfalsh GHP Value Fund	-	187,684
5,590,077	5,590,077	Alfalsh GHP Islamic Stock Fund Percentage of holding: 6.45% (2015: 52.92%) NAV per unit: Rs. 78.62 (2015: Rs. 64.39) Date of reviewed financial statements: December 31, 2016 Management Company - Alfalah GHP Investment Management Limited (Paid-up value of each unit is Rs. 50)	439,502	359,958
1,050,926	1,050,926	Alfalsh GHP Cash Fund Percentage of holding: 38.85 % (2015: 70.09%) NAV per unit: Rs. 508.37 (2015: Rs. 514.71) Date of reviewed financial statements: December 31, 2016 Management Company - Alfalah GHP Investment Management Limited (Paid-up value of each unit is Rs. 500)	534,264	540,918
k.p.m.a.			<u>3,263,590</u>	<u>4,019,313</u>

2016 2015
(Rupees in '000)

9.23 Particulars of assets and liabilities of associates and mutual funds established under trust structure not considered for consolidation.

Alfalah Insurance Limited

Date of un-audited financial statements: December 31, 2016

Assets	2,781,815	2,358,908
Liabilities	1,851,276	1,553,592
Revenue	173,803	180,158
Profit for the year	126,723	115,214

Sapphire Wind Power Company Limited

Date of un-audited financial statements: December 31, 2016

Assets	13,634,295	13,041,994
Liabilities	9,658,325	9,408,801
Revenue	873,864	285,310
Profit for the year	155,593	116,553

Alfalah GHP Money Market Fund

Date of reviewed financial statements: December 31, 2016

Assets	1,399,008	2,028,461
Liabilities	20,981	18,783
Revenue	48,073	66,801
Profit for the six months period	36,852	55,933

Alfalah GHP Income Multiplier Fund

Date of reviewed financial statements: December 31, 2016

Assets	2,306,511	2,731,883
Liabilities	39,851	32,415
Revenue	83,746	120,263
Profit for the six months period	60,141	95,698

Alfalah GHP Sovereign Fund

Date of reviewed financial statements: December 31, 2016

Assets	2,440,650	8,181,233
Liabilities	64,362	63,938
Revenue	133,688	332,892
Profit for the six months period	54,916	280,920

Alfalah GHP Income Fund

Date of reviewed financial statements: December 31, 2016

Assets	1,340,145	1,623,353
Liabilities	22,087	48,363
Revenue	50,141	60,603
Profit for the six months period	31,455	57,313

Alfalah GHP Islamic Income Fund

Date of reviewed financial statements: December 31, 2016

Assets	4,850,249	127,877
Liabilities	11,356	1,837
Revenue	100,574	4,160
Profit for the six months period	128,231	2,481

Alfalah GHP Islamic Stock Fund

Date of reviewed financial statements: December 31, 2016

Assets	7,032,923	699,117
Liabilities	217,862	18,867
Revenue	1,190,543	56,222
Profit for the six months period	1,280,850	46,241

Alfalah GHP Cash Fund

Date of reviewed financial statements: December 31, 2016

Assets	1,406,671	801,763
Liabilities	31,510	30,004
Revenue	28,077	33,271
Profit for the six months period	34,543	20,604

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9.23.1 Movement in values of investments accounted for under equity method of accounting

The details of investments accounted for under equity method of accounting is as follows.

	2016	2015
	(Rupees in '000)	
Alfalsh Insurance Company Limited		
Investment as at January 1	241,560	213,069
Remeasurement of defined benefit plan	(499)	(752)
Dividend received during the year	-	(5,311)
Share of profit	41,848	34,554
Balance as at December 31	<u>282,909</u>	<u>241,560</u>
Sapphire Wind Power Company Limited		
Investment as at January 1	1,006,054	342,216
Investments made during the year	-	633,071
Dividend received during the year	-	-
Share of profit	215,183	30,767
Balance as at December 31	<u>1,221,237</u>	<u>1,006,054</u>
Alfalsh GHP Money Market Fund		
Investment as at January 1	54,415	543,985
Purchased during the year	8,480	-
Dividend received during the year	(8,480)	-
Redeemed during the year	-	(500,000)
Share of profit	2,872	10,430
Balance as at December 31	<u>57,287</u>	<u>54,415</u>
Alfalsh GHP Income Multiplier Fund		
Investment as at January 1	283,699	386,907
Investment made during the year	-	109,500
Redeemed during the year	-	(220,191)
Dividend received during the year	(10,271)	(23,284)
Share in reserves of associate	(536)	536
Share of profit	25,581	30,231
Balance as at December 31	<u>298,473</u>	<u>283,699</u>
Alfalsh GHP Sovereign Fund		
Investment as at January 1	423,475	270,828
Purchased during the year	7,012	-
Investments made during the year	-	220,529
Redeemed during the year	(181,237)	(76,228)
Dividend received during the year	(18,602)	(26,944)
Share of profit	22,842	35,290
Balance as at December 31	<u>253,490</u>	<u>423,475</u>
Appollo Pharma Limited		
Investment as at January 1	802,130	-
Investments made during the year	-	790,400
Dividend received during the year	-	-
Divestment during the year	(847,886)	-
Share of profit	45,756	11,730
Balance as at December 31	<u>-</u>	<u>802,130</u>

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2016 2015
(Rupees in '000)

Alfalah GHP Income Fund

Investment as at January 1	113,036	93,164
Investment made during the year	52,030	110,000
Redeemed during the year	-	(96,175)
Dividend received during the year	(2,706)	-
Share of profit	7,385	6,047
Balance as at December 31	<u>169,745</u>	<u>113,036</u>

Alfalah GHP Islamic Income Fund

Investment as at January 1	6,384	44,992
Investment made during the year	8,225	4,210
Redeemed during the year	(8,051)	(41,985)
Dividend received during the year	(300)	(2,966)
Share of profit	425	2,133
Balance as at December 31	<u>6,683</u>	<u>6,384</u>

Alfalah GHP Value Fund

Investment as at January 1	187,684	174,470
Dividend received during the year	-	(22,434)
Redeemed during the year	(204,799)	-
Share of profit	17,115	35,648
Balance as at December 31	<u>-</u>	<u>187,684</u>

Alfalah GHP Islamic Stock Fund

Investment as at January 1	359,958	328,011
Investment made during the year	-	-
Redeemed during the year	-	-
Dividend received during the year	(45,320)	(40,867)
Share of profit	124,864	72,814
Balance as at December 31	<u>439,502</u>	<u>359,958</u>

Alfalah GHP Cash Fund

Investment as at January 1	540,918	1,048,628
Investment made during the year	-	-
Dividend received during the year	(32,925)	(47,081)
Redeemed during the year	-	(500,001)
Share of profit	26,271	39,372
Balance as at December 31	<u>534,264</u>	<u>540,918</u>

Total	<u>3,263,590</u>	<u>4,019,313</u>
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9.24 Quality of available for sale securities

	Market value / Fair value		Cost		Long / Medium Term Credit Rating	Rated by
	2016	2015	2016	2015		
	(Rupees in '000)					
Market Treasury Bills	38,574,968	78,961,247	38,584,821	78,886,442	(Unrated - Government Securities)	
Pakistan Investment Bonds	213,763,528	166,465,955	207,087,470	157,492,067	(Unrated - Government Securities)	
Term Finance Certificates						
Askari Bank Limited	101,769	99,741	99,920	99,960	AA+	PACRA
NIB Bank Limited (2nd Issue)	101,034	98,941	99,900	99,940	AA-	PACRA
Faysal Bank Limited	75,457	153,068	74,850	149,700	AA	PACRA
Bank Al-Habib Limited	-	330,930	-	299,520	AA+	PACRA
New Allied Electronics *	Not Applicable	Not Applicable	2,185	2,185	---(Unrated)---	
Fauji Akbar Portia Marine Terminals Limited	Not Applicable	Not Applicable	161,408	102,069	---(Unrated)---	
Azgard Nine Limited *	Not Applicable	Not Applicable	43,350	43,350	---(Unrated)---	
Azgard Nine Limited (Zero rated) *	Not Applicable	Not Applicable	32,870	32,870	---(Unrated)---	
	278,260	682,680	514,483	829,594		

* These Term Finance Certificates are quoted, however due to absence of trading their market value is not available. Adequate provision has been made against these certificates.

Shares in Listed Companies / Certificates / Units

Agritech Limited	28,828	18,217	17,909	15,100	---(Unrated)---	
Allied Bank Limited	106,300	79,339	88,485	83,782	AA+	PACRA
Amreli Steels Limited	86,567	105,123	69,969	89,250	A	PACRA
Attock Cement Pakistan Limited	-	125,813	-	138,493	A+	JCR-VIS
Altern Energy Limited	9,116	-	7,949	-	---(Unrated)---	
Abbot Laboratories (Pakistan) Limited	287,127	-	255,055	-	---(Unrated)---	
Agriauto Industries Limited	212,002	-	139,293	-	---(Unrated)---	
Attock Petroleum Limited	95,847	107,591	74,552	113,732	---(Unrated)---	
Bank Al Habib Limited	324,445	226,678	226,069	220,770	AA+	PACRA
Cherat Cement Company Limited	121,828	-	103,254	-	A	PACRA
Cherat Packaging Limited	43,566	-	48,034	-	---(Unrated)---	
Dolmen City Real Estate Investment Trust (REIT)	452,432	761,869	457,843	781,040	RR1	JCR-VIS
Engro Fertilizer Limited	254,619	-	277,450	-	AA-	PACRA
Engro Corporation Limited	458,330	279,390	397,140	256,728	AA	PACRA
Engro Powergen Qadirpur Limited	-	126,593	-	126,735	---(Unrated)---	
Fatima Fertilizer Limited	44,268	22,365	37,184	12,613	AA-	PACRA
Fauji Bin Qasim Limited	226,835	86,922	232,669	93,215	---(Unrated)---	
Fauji Cement Company Limited	49,588	-	40,218	-	---(Unrated)---	
Fauji Fertilizer Company Limited	195,694	147,475	232,121	162,897	AA	PACRA
First Dawood Investment Bank Limited	6,501	2,394	15,000	15,000	---(Unrated)---	
Kot Addu Power Company Limited	153,069	188,325	148,452	175,968	AA+	JCR-VIS
Lucky Cement Limited	779,634	358,904	452,197	306,277	---(Unrated)---	
DG Khan Cement Limited	443,460	332,078	281,352	285,827	---(Unrated)---	
Habib Bank Limited	485,019	140,084	331,519	145,681	AAA	JCR-VIS
MCB Bank Limited	219,984	200,586	230,466	230,466	AAA	PACRA
Nishat (Chunian) Power Company Limited	221,920	246,349	132,117	147,806	---(Unrated)---	
Nishat Mills Limited	-	103,418	-	119,233	AA	PACRA
Nishat Power Company Limited	160,225	142,252	106,994	111,650	A+	PACRA
Oil and Gas Development Corporation Limited	330,700	93,872	279,433	110,368	AAA	PACRA
Pakistan Oilfields Limited	253,945	175,607	147,629	203,635	---(Unrated)---	
Pioneer Cement Limited	351,673	-	300,277	-	A	PACRA
Pakistan Petroleum Limited	111,365	137,036	75,012	142,597	---(Unrated)---	
Thal Limited	101,706	-	83,906	-	---(Unrated)---	
Pakistan State Oil Company Limited	217,105	311,110	185,526	350,923	AA	PACRA
The Hub Power Company Limited	648,269	478,732	449,037	350,018	AA+	PACRA
United Bank Limited	430,020	201,435	299,826	210,949	AAA	JCR-VIS
Visa Shares	387,310	385,502	-	-	---(Unrated)---	
	8,299,297	5,585,059	6,223,937	5,000,753		

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	Market value / Fair value		Cost			
	2016	2015	2016	2015	Long / Medium Term Credit Rating	Rated by
<hr/> (Rupees in '000) <hr/>						
Shares in Un-listed Companies						
Pakistan Export Finance Guarantee Agency Limited	Not Applicable		5,725	5,725	----- (Unrated) -----	
Society for Worldwide Interbank Financial Telecommunication	Not Applicable		4,096	4,096	----- (Unrated) -----	
Al-Hamra Avenue (Private) Limited	Not Applicable		50,000	50,000	----- (Unrated) -----	
Warid Telecom (Private) Limited	Not Applicable		-	4,366,796	----- (Unrated) -----	
Pakistan Stock Exchange (PSX) formerly Karachi Stock Exchange	68,927	40,073	27,606	27,606	----- (Unrated) -----	
Pakistan Mobile Communication Limited	Not Applicable		22,235	-	AA-	PACRA
			109,662	4,454,223		
Preference Shares in Listed Companies						
Agriotech Limited	Not Applicable		108,835	108,835	----- (Unrated) -----	
Preference Shares in Un-listed Companies						
Silk Bank Preference Shares	Not Applicable		-	300,000	----- (Unrated) -----	
Trust Investment Bank Limited	Not Applicable		25,000	25,000	----- (Unrated) -----	
			25,000	325,000		
Overseas Bonds						
Kingdom of Bahrain Bond	545,314	533,639	553,251	563,025	BB+	Fitch
Kazakistan Sovereign Bond	315,076	296,774	309,038	308,943	BBB	Fitch
Qatar National Bank Finance Limited	-	524,634	-	524,114	A+	S&P
State of Qatar 2026	1,010,354	-	1,035,677	-	AA	Fitch
Oman International Bond 2021	1,045,906	-	1,044,923	-	BBB-	S&P
Oman International Bond 2026	504,363	-	521,073	-	BBB-	S&P
Republic of Sri Lanka	152,043	-	156,898	-	B+	Fitch
Republic of Indonesia (2027)	156,959	-	156,261	-	BBB-	Fitch
Republic of Indonesia (2022)	52,536	-	52,179	-	BBB-	Fitch
Saudi International Bond	1,028,153	-	1,032,378	-	AA-	Fitch
Abu Dhabi Commercial Bank Cayman Limited	1,047,062	1,049,268	1,045,995	1,048,228	A+	Fitch
United Mexican State	53,781	44,572	55,069	53,922	BBB+	Fitch
Indonesia Government Bond	226,902	226,503	218,302	228,590	BBB-	Fitch
Republic of Indonesia 2023 (Euro)	55,712	-	54,825	-	BB+	S&P
Kingdom of Saudi Arabia	913,644	-	932,332	-	AA-	Fitch
Oman International Bond 2026	706,087	-	724,341	-	BBB-	S&P
Qatar 21	512,815	-	517,972	-	AA	Fitch
Qatar 26	202,221	-	207,291	-	AA	Fitch
TC Zirrat Bankasi A.S	257,677	258,114	260,908	261,087	BBB-	Fitch
Turkiye Halk Bankasi	51,493	51,865	52,281	52,346	BBB-	Fitch
Syndicate Bank	-	53,557	-	52,371	-	-
RAK Funding Cayman Limited	209,189	206,566	208,412	208,398	BBB+	Fitch
Turkiye IS Bankasi A.S	298,865	306,129	310,991	310,874	BBB-	Fitch
Turkiye Garanti Bankasi A.S	330,617	344,622	326,014	342,365	BBB	Fitch
Africa Finance Corporation	644,304	630,010	623,370	623,004	A3	Moody's
Deutsche Bank	207,408	213,449	216,011	226,892	BBB+	S&P
Turkey Sanai	48,965	-	51,945	-	BBB-	Fitch
Halk Bank 21	514,499	-	521,933	-	BBB-	Fitch
Burgan Senior SPC Limited	412,850	-	415,625	-	A+	Fitch
Qatar National Bank	497,486	-	502,176	-	A+	S&P
Union National Bank	540,718	-	552,199	-	A+	Fitch
Pakistan Euro Bonds	2,790,198	2,482,952	2,688,770	2,409,043	B	Fitch
	15,333,197	7,222,654	15,348,440	7,213,202		
Redeemable Participating Certificates						
Baltoro Growth Fund	501,938	-	501,938	-	----- (Unrated) -----	

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	Market value / Fair value		Cost		Long / Medium Term Credit Rating	Rated by
	2016	2015	2016	2015		
	(Rupees in '000)					
Sukuk Bonds						
Pakistan Sukuk Bond 19	964,535	927,157	909,084	910,044	B	Fitch
Pakistan Sukuk Bond 21	4,273,644	-	4,183,940	-	B	Fitch
Ijarah Sukuk Bonds	-	905,742	-	944,663	----- (Unrated) -----	
TF Varlik Kiralama AS	321,644	322,437	317,005	318,711	BBB	Fitch
Kuveyt Turk Katilim Bankasi	534,917	539,254	522,992	523,705	BBB	Fitch
Albaraka Turk Katilim Bankasi	923,623	1,562,521	925,697	1,571,115	BB-	S&P
Sharjah International Bank	414,984	-	418,394	-	A3	Moody's
Pakistan International Sukuk	534,173	-	535,094	-	B	Fitch
Indonesia Sovereign	524,687	-	524,754	-	BBB-	Fitch
South Africa Sovereign	424,448	-	418,394	-	BBB-	Fitch
Turkey Sukuk	355,372	-	366,095	-	BBB-	Fitch
Kingdom of Bahrain	536,643	-	522,993	-	BB+	Fitch
GoP - Ijara Sukuk XIV	-	7,462,130	-	7,432,655	----- (Unrated) -----	
GoP - Ijara Sukuk XVI	21,021,100	20,244,608	20,519,468	20,018,400	----- (Unrated) -----	
GoP - Ijara Sukuk XVII	5,782,560	-	5,606,994	-	----- (Unrated) -----	
GoP - Ijara Sukuk XVIII	4,080,400	-	4,000,000	-	----- (Unrated) -----	
Neelum Jehlum Hydel Power Company	2,600,000	-	2,600,000	-	AAA	JCR-VIS
Wapda Sukuk III	1,267,973	1,411,426	1,214,286	1,457,143	----- (Unrated) -----	
Security Leasing Corporation Limited I	Not Applicable	Not Applicable	6,418	6,418	----- (Unrated) -----	
Security Leasing Corporation Limited II	Not Applicable	Not Applicable	23,105	23,105	----- (Unrated) -----	
Quetta Textile Mills limited	Not Applicable	Not Applicable	72,619	74,483	----- (Unrated) -----	
	44,560,703	33,375,275	43,687,332	33,280,442		

KPMG

9.25 Particulars of provision for diminution in value of investments - net	2016	2015
(Rupees in '000)		
Opening balance	5,519,811	5,390,757
Charge for the year	100,766	136,691
Reversals during the year	-	-
	100,766	136,691
Provision written off during the year	(4,366,796)	(7,637)
Closing balance	1,253,781	5,519,811
9.26 Particulars of provision for diminution in value of investments by type and segment		
Available for sale securities		
Listed companies / mutual funds		
- Fully paid up ordinary shares / units		
- First Dawood Investment Bank Limited	15,000	15,000
- Preference shares		
- Agritech Limited	108,835	108,835
Unlisted companies		
- Fully paid up ordinary shares of Rs. 10 each		
- Pakistan Export Finance Guarantee Agency Limited	5,725	5,725
- Al-Hamra Avenue (Private) Limited	50,000	50,000
- Warid Telecom (Private) Limited (Related party)	-	4,366,796
- Pakistan Mobile Communications Limited (Related party)	3,936	
Unlisted securities		
- Term finance certificates / sukuk bonds		
- Azgard Nine Limited	76,220	76,220
- Security Leasing Corporation Limited I	6,418	6,418
- Security Leasing Corporation Limited II	23,105	23,105
- New Allied Electronics	2,185	2,185
- Fauji Akbar Portia Marine Terminals Limited	161,407	102,069
- Quetta Textile Mills Limited	72,619	37,242
- Preference shares		
- Trust Investment Bank Limited	25,000	25,000
Held to maturity securities		
Unlisted securities		
- Term finance certificates / sukuk bonds		
- Agritech Limited	499,586	499,586
- BRR Guardian Modaraba	36,177	34,062
- Security Leasing Corporation Limited	29,245	29,245
- Sitara Peroxide (Private) Limited	113,643	113,643
- Zulekha Textile Mills (formerly Khunja Textile Mills Limited)	24,680	24,680
KPMG	1,253,781	5,519,811

9.27 Unrealised gain / (loss) on revaluation of investments classified as held for trading - net

	Unrealised gain / (loss)		Cost	
	2016	2015 (Un-audited)	2016	2015 (Un-audited)
	(Rupees in '000)			
Market Treasury Bills	(3,790)	(6,414)	14,120,130	13,480,197
Pakistan Investment Bonds	(441)	4,060	20,207	2,423,862
Overseas Bonds	(16,137)	229,460	549,615	2,990,933
Fully paid up ordinary shares / units - Listed	20,477	1,957	740,776	197,998
	109	229,063	15,430,728	19,092,990

10 ADVANCES - NET

Loans, cash credits, running finances, etc.

In Pakistan

Outside Pakistan

Net investment in finance lease

In Pakistan

Outside Pakistan

Islamic financing and related assets (gross)

Bills discounted and purchased (excluding market treasury bills)

Payable in Pakistan

Payable outside Pakistan

Provision against advances

Specific provision against non-performing loans and advances

General provision against advances

Note

2016
2015
(Restated)
(Rupees in '000)

309,127,177 278,766,376

13,181,132 11,007,287

322,308,309 289,773,663

10.2

4,181,047

3,638,627

-

-

4,181,047

3,638,627

57,908,118 43,062,240

5,033,339 6,186,509

6,437,718 7,692,258

11,471,057 13,878,767

10.1

395,868,531 350,353,297

10.5

(16,368,263)

(15,452,915)

10.5

(775,968)

(739,904)

(17,144,231) (16,192,819)

378,724,300 334,160,478

10.1 Particulars of advances - gross of provisions

In local currency

In foreign currencies

362,264,908 307,320,918

33,603,623 43,032,379

395,868,531 350,353,297

Short term (upto one year)

Long term (over one year)

249,583,708 204,669,071

146,284,823 145,684,226

395,868,531 350,353,297

10.2 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	501,660	2,568,669	55,185	3,125,514	361,008	2,399,850	-	2,760,858
Residual value	148,820	1,237,330	-	1,384,150	63,767	1,109,316	-	1,173,083
Minimum lease payments	648,480	3,805,999	55,185	4,509,664	424,775	3,509,166	-	3,933,941
Financial charges for future periods	(48,731)	(276,485)	(3,401)	(328,617)	(90,913)	(204,401)	-	(295,314)
Present value of minimum lease payments	599,749	3,529,514	51,784	4,181,047	333,862	3,304,765	-	3,638,627

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10.3 These represents financing and related assets placed under shariah permissible modes and presented in note A-II.1 and A-II.2

10.4 Advances include Rs. 19,020 million (2015: Rs. 18,456 million) which have been placed under non-performing status as detailed below:

Category of Classification	2016								
	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Other Assets Especially									
Mentioned (Agri Financing)	149,224	-	149,224	4,318	-	4,318	4,318	-	4,318
Substandard	2,338,995	-	2,338,995	577,634	-	577,634	577,634	-	577,634
Doubtful	1,990,208	-	1,990,208	1,483,906	-	1,483,906	1,483,906	-	1,483,906
Loss	14,224,437	318,921	14,543,358	14,063,267	239,138	14,302,405	14,063,267	239,138	14,302,405
	18,700,864	318,921	19,019,785	16,129,125	239,138	16,368,263	16,129,125	239,138	16,368,263

Category of Classification	2015								
	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Other Assets Especially									
Mentioned (Agri Financing)	115,219	-	115,219	2,547	-	2,547	2,547	-	2,547
Substandard	2,052,587	54,595	2,107,182	524,432	70,795	595,227	524,432	70,795	595,227
Doubtful	2,554,443	5,506	2,559,949	1,502,617	1,587	1,504,204	1,502,617	1,587	1,504,204
Loss	13,111,084	562,325	13,673,409	12,936,545	414,392	13,350,937	12,936,545	414,392	13,350,937
	17,833,333	622,426	18,455,759	14,966,141	486,774	15,452,915	14,966,141	486,774	15,452,915

10.5 Particulars of provisions against non-performing loans and advances

Note	2016			2015		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	15,452,915	739,904	16,192,819	13,601,667	649,503	14,251,170
Exchange adjustment and other movements	1,258	(1,135)	123	31,406	3,300	34,706
Charge for the year	3,408,124	157,644	3,565,768	3,921,493	146,652	4,068,145
Reversals / recoveries during the year	(2,362,817)	(120,445)	(2,483,262)	(1,858,385)	(59,551)	(1,917,936)
	1,045,307	37,199	1,082,506	2,063,108	87,101	2,150,209
Amounts written off	(131,217)	-	(131,217)	(243,266)	-	(243,266)
Closing balance	16,368,263	775,968	17,144,231	15,452,915	739,904	16,192,819

10.5.1 The additional profit arising from availing the forced sales value (FSV) benefit - net of tax at December 31, 2016 which is not available for distribution as either cash or stock dividend to shareholders/ bonus to employees amounted to Rs. 95.817 million (2015: Rs. 110.774 million).

10.5.2 General provision against consumer loans represents provision maintained at an amount equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by the Prudential Regulations issued by the State Bank of Pakistan. General reserve of at least equivalent to 1% of the secured and performing SE portfolio and 2% of the unsecured and performing SE portfolio is also maintained as required under Prudential Regulations for Small and Medium Enterprise Financing.

10.5.3 Particulars of provisions against advances

	2016			2015		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	16,129,125	655,225	16,784,350	14,966,141	639,433	15,605,574
In foreign currencies	239,138	120,743	359,881	486,774	100,471	587,245
	16,368,263	775,968	17,144,231	15,452,915	739,904	16,192,819

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10.5.4 Although the Group has made provision against its non-performing portfolio as per the category of classification of the loan, the Group holds enforceable collateral in the event of recovery through litigation. These securities comprise of charge against various tangible assets of the borrower including land, building and machinery, stock in trade etc.

10.6 Particulars of write-offs	2016	2015
	(Rupees in '000)	
10.6.1 Against provisions	131,217	243,266
Directly charged to profit and loss account	-	-
	<u>131,217</u>	<u>243,266</u>
10.6.2 Write offs of Rs. 500,000 and above	75,143	172,501
Write offs of below Rs. 500,000	56,074	70,765
	<u>131,217</u>	<u>243,266</u>
10.7 Details of loans written-off 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 loans written-off or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2015 is given in Annexure-I to the unconsolidated financial statements.

10.8 Particulars of loans and advances to directors, executives, associated companies, etc.	Note	2016	2015
		(Rupees in '000)	
Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons			
- Balance at beginning of the year		5,735,039	5,139,055
- Loans granted during the year		2,722,298	1,867,232
- Repayments during the year		(2,183,888)	(1,271,248)
- Balance at end of the year		<u>6,273,449</u>	<u>5,735,039</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 the year		1,499,410	901,426
- Loans granted during the year		5,374,930	3,099,590
- Repayments during the year		(3,565,509)	(2,501,606)
- Balance at end of the year		<u>3,308,831</u>	<u>1,499,410</u>
Debts due by other related parties			
- Balance at beginning of the year		4,840,040	2,927,096
- Loans granted during the year		16,687,444	19,048,202
- Repayments during the year		(16,796,079)	(17,135,258)
- Balance at end of the year		<u>4,731,405</u>	<u>4,840,040</u>
Total		<u>14,313,685</u>	<u>12,074,489</u>

11 OPERATING FIXED ASSETS

Capital work-in-progress	11.1	775,408	704,981
Property and equipment	11.2	16,144,219	15,532,465
Intangible assets	11.3	1,297,310	1,080,245
		<u>18,216,937</u>	<u>17,317,691</u>
11.1 Capital work-in-progress			
Civil works		292,809	286,041
Equipment / intangibles		432,288	412,113
Advances to suppliers and contractors		54,015	18,239
Others		1,496	3,913
Provision against capital work-in-progress		(5,200)	(15,325)
<i>K.P.M.</i>		<u>775,408</u>	<u>704,981</u>

11.2 Property and equipment

Description	2016											Rate of depreciation %
	Cost / revaluation as at January 1, 2016	Additions / (disposals) / *adjustments	Surplus on revaluation / (adjustment against accumulated depreciation)	Write Off Cost	Cost / Revaluation as at December 31, 2016	Accumulated depreciation as at January 1, 2016	Depreciation/ Impairment for the year / (on disposal) / *adjustments	Accumulated Depreciation Reversed on Revaluation	Write Off Accumulated Depreciation	Accumulated depreciation as at December 31, 2016	Net book value as at December 31, 2016	
(Rupees in '000)												
Office premises	4,893,362	751,091 (36,519) * 124,390	-	-	5,732,324	-	75,982 6,611	-	-	82,593	5,649,731	2.5% - 5.5%
Revaluation	5,399,467	(11,191) * 47,562	-	-	5,435,838	-	-	49,995	-	49,995	5,385,843	2.5% - 5.5%
	10,292,829	751,091 (47,710) * 171,952	-	-	11,168,162	-	75,982 6,611	49,995	-	132,588	11,035,574	
Lease hold improvements	4,777,757	160,912 (1,516) * (6,760)	-	(128,096)	4,802,297	2,909,432	336,691 (1,471) * (6,363)	-	(37,390)	3,200,899	1,601,398	10% - 20%
Furniture and fixtures	1,961,330	69,700 (32,408) * 231	-	-	1,998,653	1,292,140	160,287 (26,332) * 192	-	-	1,426,287	572,566	10% - 25%
Office equipment	9,468,732	1,169,792 (209,961) * (5,628)	-	-	10,422,935	6,870,097	1,012,334 (205,693) * (6,394)	-	-	7,670,344	2,752,591	10% - 33%
Vehicles	360,402	144,518 (81,501) * 67	-	-	423,486	256,916	65,886 (81,501) * 95	-	-	241,396	182,090	25%
	26,861,050	2,296,013 (373,096) * 159,862	-	(128,096)	28,815,733	11,328,585	1,651,180 (314,997) * (5,859)	49,995	(37,390)	12,671,514	16,144,219	

Description	2015											Rate of depreciation %
	Cost / revaluation as at January 1, 2015	Additions / (disposals) / *adjustments	Surplus on revaluation / (adjustment against accumulated depreciation)	Write Off Cost	Cost / Revaluation as at December 31, 2015	Accumulated depreciation as at January 1, 2015	Depreciation/ Impairment for the year / (on disposal) / *adjustments	Accumulated Depreciation Reversed on Revaluation	Write Off Accumulated Depreciation	Accumulated depreciation as at December 31, 2015	Net book value as at December 31, 2015	
(Rupees in '000)												
Office premises	5,158,963	11,157 - * (4,043)	- (272,715)	-	4,893,362	187,629	86,278 - * (1,192)	(272,715)	-	-	4,893,362	2.5% - 5.5%
Revaluation	3,917,799	- - *	1,643,150 (161,482)	-	5,399,467	107,968	53,516	(161,482)	-	-	5,399,467	2.5% - 5.5%
	9,076,762	11,157 - * (4,043)	1,643,150 (434,197)	-	10,292,829	295,595	139,794 - * (1,192)	(434,197)	-	-	10,292,829	
Lease hold improvements	4,214,355	591,081 - * (10,757)	-	(16,922)	4,777,757	2,573,351	360,878 - * (7,875)	-	(16,922)	2,909,432	1,868,325	10% - 20%
Furniture and fixtures	2,094,569	75,649 (14,238) * (18,505)	-	(176,145)	1,961,330	1,285,070	206,277 (13,422) * (9,640)	-	(176,145)	1,292,140	669,190	10% - 25%
Office equipment	9,368,429	1,153,764 (68,029) * 26,008	-	(1,011,440)	9,468,732	6,916,993	1,020,988 (64,033) * 7,589	-	(1,011,440)	6,870,097	2,598,635	10% - 33%
Vehicles	395,307	36,957 (39,882) * (3,041)	-	(28,939)	360,402	234,444	88,292 (33,245) * (3,636)	-	(28,939)	256,916	103,466	25%
	25,149,422	1,868,608 (122,149) * (10,338)	1,643,150 (434,197)	(1,233,446)	26,861,050	11,305,453	1,816,229 (110,700) * (14,754)	(434,197)	(1,233,446)	11,328,585	15,532,465	

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11.2.1 Include in cost of property and equipment are fully depreciated items still in use having cost of Rs. 7,648.44 million (2015: 6,094 million)

11.2.2 Office premises were last revalued on December 31, 2015 on the basis of market values determined by independent valuer M/s. Akbani & Javed Associates, M/s. Harvester Services (Private) Limited and M/s. Asif Associates (Private) Limited. Had there been no revaluation, the net book value of the office premises would have been Rs. 5,649.731 million (2015: Rs. 4,893.362 million).

11.3 Intangible assets

2016									
Cost				Accumulated Amortisation				Book value as at December 31, 2016	Rate of amortisation %
As at January 1, 2016	Additions/ (deletions)/ *adjustment	Write Off Cost	As at December 31, 2016	As at January 1, 2016	Amortisation (deletions) / *adjustment	Write Off accumulated depreciation	As at December 31, 2016		
(Rupees in '000)									
Computer software	2,366,634	579,747 - * (2,001)	2,944,380	1,320,995	361,118 - * (437)		1,681,676	1,262,704	20% - 33%
Goodwill	85,711	-	85,711	56,031	-		56,031	29,680	
Membership Card / DGCEX (Note 11.3.2)	6,011		(6,011)	-	6,011		(6,011)	-	
Membership Card PSX (TRE)	4,926		4,926	-			-	4,926	
	2,483,282	579,747 * (2,001)	(6,011)	3,035,017	1,383,037	361,118 * (437)	(6,011)	1,737,707	1,297,310

2015									
Cost				Accumulated Amortisation				Book value as at December 31, 2015	Rate of amortisation %
As at January 1, 2015	Additions/ (deletions)/ *adjustment	Write Off Cost	As at December 31, 2015	As at January 1, 2015	Amortisation (deletions) / *adjustment	Write Off accumulated depreciation	As at December 31, 2015		
(Rupees in '000)									
Computer software	1,982,322	536,650 (1,802) * 1,154	(151,690)	2,366,634	1,198,390	275,439 (1,802) * 658	(151,690)	1,320,995	1,045,639
Goodwill	85,711	-	-	85,711	56,031	-	-	56,031	29,680
Membership Card / DGCEX (Note 11.3.2)	6,011	-	-	6,011	6,011	-		6,011	-
Membership Card PSX (TRE)	4,926	-	-	4,926	-	-		-	4,926
	2,078,970	536,650 (1,802) * 1,154	(151,690)	2,463,282	1,260,432	275,439 (1,802) * 658	(151,690)	1,383,037	1,080,245

11.3.1 Included in cost of intangible assets are fully amortized items still in use having cost of Rs. 856.61 million (2015: Rs. 1,057 million)

11.3.2 The membership of Dubai Gold and Commodities Exchange has been terminated by the Board due to the non-payment of annual membership fee and therefore this has been written off in the current year.

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11.4 Details of disposals of operating fixed assets

Details of disposals of operating fixed assets having cost of more than Rs. 1,000,000 or net book value of Rs. 250,000 or above are given below:

Description	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
(Rupees in '000)						
Lease hold Land & Building						
Freehold Land	4,710	-	4,710	18,906	Negotiation	Government of Punjab
Freehold Land	43,000	-	43,000	50,000	Negotiation	Mr. Afzaal
	47,710	-	47,710	68,906		
Leasehold Improvements						
Civil & Electrical Works	1,174	1,155	19	38	Bid	M/s Shahbaz Haider
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	342	316	26	17	Various	Various
	1,516	1,471	45	55		
Furniture and fixtures						
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	32,408	26,332	6,076	4,521	Various	Various
	32,408	26,332	6,076	4,521		
Computers						
Server Machine	1,885	1,885	-	-	Insurance Claim	M/s Alfalah Insurance
Server Machine	1,482	1,482	-	121	Bid	M/s Ahsan & Brothers
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	26,187	25,280	907	2,250	Various	Various
	29,554	28,647	907	2,371		
Office equipment						
ATM	1,625	1,625	-	3	Bid	M/s Star Network
ATM	3,637	3,637	-	6	Bid	M/s Star Network
ATM	1,270	1,270	-	2	Bid	M/s Star Network
ATM	1,138	1,136	2	447	Insurance Claim	M/s Alfalah Insurance
Generator	2,050	2,050	-	659	Bid	M/s Arsalan Brothers
Generator	1,243	696	547	290	Bid	M/s Abdul Rasheed
Generator	2,455	2,455	-	740	Bid	M/s F.F Trading Company
Generator	2,150	2,150	-	440	Bid	M/s Pak Power Moves
Generator	1,192	1,192	-	153	Bid	M/s Bismillah Insaf Scrap
Generator	1,145	1,145	-	282	Bid	M/s Arsalan Brothers
Generator	1,013	1,013	-	273	Bid	M/s Arsalan Brothers
Generator	1,013	1,013	-	273	Bid	M/s Arsalan Brothers
Generator	1,200	1,200	-	631	Bid	M/s Mars Engineering
Generator	1,200	1,200	-	631	Bid	M/s Mars Engineering
Generator	1,180	1,180	-	309	Bid	M/s Mars Engineering
Generator	1,200	1,200	-	631	Bid	M/s Mars Engineering
Generator	1,070	1,070	-	309	Bid	M/s Mars Engineering
Generator	1,112	1,022	90	690	Insurance Claim	M/s Alfalah Insurance
Generator	1,195	1,195	-	257	Bid	M/s Haji Muhammad Azam & Sons
Generator	2,713	2,713	-	794	Bid	M/s MTS Garments Limited
POS Terminals	28,901	28,901	-	-	Trade In	M/s Marshal Engg. & Electronics
Card Printer	1,800	1,800	-	-	Trade In	M/s Crest Technologies
DVR	1,034	1,034	-	33	Bid	M/s Shahbaz Haider
Electrical Panel	9,902	9,902	-	321	Bid	M/s Shahbaz Haider
HVAC	63,980	63,980	-	2,037	Bid	M/s Shahbaz Haider
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	43,989	41,267	2,722	6,330	Various	Various
	180,407	177,046	3,381	16,541		
Vehicles						
Honda Civic	1,178	1,178	-	698	Bid	Mr. M. Kamran Khan
Honda Civic	1,382	1,382	-	906	Bid	Mr. Usman Shahid
Honda Civic	1,506	1,506	-	917	Bid	Mr. Muhammad Ansar Khan
Honda Civic	1,422	1,422	-	677	Bid	Mr. Muhammad Ansar Khan
Honda Civic	1,523	1,523	-	1,081	Bid	Mr. Sajid Hussain
Honda Accord	5,866	5,866	-	587	As per Policy	Mr. Yasir Rashid
Honda Accord	6,617	6,617	-	662	As per Policy	Mr. Faisal Farooq Khan
Honda Accord	7,017	7,017	-	702	As per Policy	Mr. Ali Sultan
Honda City	1,376	1,376	-	1,001	Bid	Mr. Muhammad Hanif
Honda City	1,376	1,376	-	906	Bid	Mr. Usman Shahid
Honda City	1,490	1,490	-	149	As per Policy	Mr. Riaz Hamdani
Mercedes-Benz	8,427	8,427	-	843	As per Policy	Mr. Saad Ur Rehman
Mercedes-Benz	8,427	8,427	-	843	As per Policy	Mr. Mirza Zafar Baig
Mercedes-Benz	8,462	8,462	-	846	As per Policy	Mr. Khurram Hussain
Mercedes-Benz	8,500	8,500	-	850	As per Policy	Ms. Mehreen Ahmed
Toyota Yaris	2,138	2,138	-	787	As per Policy	Mr. Zeeshan Khan
Toyota Yaris	2,138	2,138	-	808	As per Policy	Mr. Md. Nurul Islam Dewan
Toyota Corolla	1,691	1,691	-	169	As per Policy	Mr. Sharif Khawar
Toyota Corolla	1,608	1,608	-	161	As per Policy	Mr. Mian Ejaz
Honda Civic	1,506	1,506	-	962	Bid	Mr. Iqbal Ahmed Khan
Honda Civic	1,309	1,309	-	1,050	Bid	Mr. Ather H. Medina
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	6,542	6,542	-	5,394	Various	Various
	81,501	81,501	-	20,999		
Total - December 31, 2016 (Note 11.2)	373,096	314,997	58,099	113,393		
Total - December 31, 2015	122,149	110,700	11,449	25,424		

* Disposal as per Bank's policy represents vehicles sold to employees as per the terms of their employment.

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12 DEFERRED TAX LIABILITIES - NET

2016 2015
(Rupees in '000)

Deferred debits arising due to
 Provision for doubtful debts
 Provision against off-balance sheet obligations
 Impairment in the value of investments
 Provision against other assets

Deferred credits arising due to
 Accelerated tax depreciation
 Share of profit from associates
 Gain on remeasurement of held for trading investments
 Surplus on revaluation of available for sale investments
 Surplus on revaluation of operating fixed assets

392,066	1,434,609
13,078	15,706
2,264,329	2,247,184
309,218	334,501
2,978,691	4,032,000
(1,390,407)	(1,474,060)
(252,053)	-
(858)	(80,172)
(3,406,365)	(3,462,071)
(840,539)	(841,967)
(5,890,222)	(5,858,270)
(2,911,531)	(1,826,270)

12.1 Reconciliation of deferred tax assets / liabilities

	January 01, 2015	Recognized in Profit and Loss Account	Recognized in Other Comprehensive Income / Surplus on revaluation of assets	December 31, 2015	Recognized in Profit and Loss Account	Recognized in Other Comprehensive Income / Surplus on revaluation of assets	December 31, 2016
(Rupees in '000)							
Deferred debits arising due to							
Provision for doubtful debts	1,106,413	328,196	-	1,434,609	(1,042,543)	-	392,066
Provision against off-balance sheet obligations	15,333	373	-	15,706	(2,628)	-	13,078
Impairment in the value of investments	2,202,709	44,475	-	2,247,184	17,145	-	2,264,329
Provision against other assets	215,401	119,100	-	334,501	(25,283)	-	309,218
Unabsorbed tax losses	36,244	(36,244)	-	-	-	-	-
	3,576,100	455,900	-	4,032,000	(1,053,309)	-	2,978,691
Deferred credits arising due to							
Accelerated tax depreciation	1,482,713	(8,653)	-	1,474,060	(83,653)	-	1,390,407
Share of profit from associates	-	-	-	-	252,053	-	252,053
Gain on remeasurement of held for trading investments	59,386	20,786	-	80,172	(79,314)	-	858
Surplus on revaluation of available for sale investments	2,114,157	-	1,347,914	3,462,071	-	(55,706)	3,406,365
Surplus on revaluation of operating fixed assets	740,882	(18,731)	119,816	841,967	(17,500)	16,072	840,539
	4,397,138	(6,598)	1,467,730	5,858,270	71,586	(39,634)	5,890,222
Net deferred tax assets / liabilities	(821,038)	462,498	(1,467,730)	(1,826,270)	(1,124,895)	39,634	(2,911,531)

13 OTHER ASSETS

Note 2016 2015
(Rupees in '000)
(Restated)

Income / mark-up accrued in local currency		13,797,563	16,770,774
Income / mark-up accrued in foreign currencies		661,808	754,640
Advances, deposits, advance rent and other prepayments	13.5	3,593,670	3,499,927
Non-banking assets acquired in satisfaction of claims	13.1	471,365	675,325
Dividend receivable		42,303	7,103
Unrealised gain on forward foreign exchange contracts		320,749	739,757
Unrealised gain on interest rate swaps		55,336	1,888
Receivable from brokers		-	6,143
Stationery and stamps on hand		95,569	82,833
Defined benefit plan	35.1.3	349,317	40,003
Balance held with bank	13.2	413,074	413,657
Others	13.4	477,847	166,406
Provision held against other assets	13.3	20,278,601	23,158,456
		(1,163,130)	(1,318,151)
		19,115,471	21,840,305

13.1 Market value of non-banking assets acquired in satisfaction of claims

519,570 761,755

13.2 This represents an amount of USD 3.949 million held in the Bank's Nostro Account in New York, United States of America, which has been put on hold by a commercial bank pursuant to receipt of notice of seizure based on the order passed by the District Court, District of Columbia, USA.

Based on the fact that the said amount is not readily available for use of the Bank, the amount has been reclassified from Balances with Other banks to Other Assets. Although the management is confident that the matter will be decided in the Bank's favour, as at December 31, 2016, the Bank has maintained full provision against the same (December 31, 2015: USD 3.949 million).

13.3 Provision held against other assets

2016 2015
(Rupees in '000)

Opening balance	1,318,151	1,062,842
Charge for the year	(106,138)	322,391
Payment out of provisions	-	(22,097)
Amount written off	(35,304)	(22,322)
Exchange and other adjustments	(13,579)	(22,663)
Closing balance	1,163,130	1,318,151

13.4 This includes an amount of Rs. 112.350 million given as advance against issuance of shares to an associated company Sapphire Wind Power Company Limited.

13.5 This includes advance against seed capital amounting to Rs. 180 million for pension funds managed by Alfalah GHP Investment Management. The seed capital shall not be redeemable / transferable or tradable for a period of 3 years from the date of issue or as may be determined by the SECP.

	Note	2016	2015
		(Rupees in '000)	
14	BILLS PAYABLE		
In Pakistan		12,743,285	9,592,804
Outside Pakistan		143,705	141,125
		<u>12,886,990</u>	<u>9,733,929</u>
15	BORROWINGS		
In Pakistan		161,538,057	164,187,489
Outside Pakistan		17,172,572	8,205,709
		<u>178,710,629</u>	<u>172,393,198</u>
15.1	Particulars of borrowings with respect to currencies		
In local currency		161,538,057	164,187,489
In foreign currencies		17,172,572	8,205,709
		<u>178,710,629</u>	<u>172,393,198</u>
15.2	Details of borrowings secured / unsecured		
Secured			
Borrowings from State Bank of Pakistan under:			
Export refinance scheme	15.3	18,725,467	16,889,852
Long-Term Finance for Export Oriented Projects Scheme (LTF-EOP)		-	-
Long-Term Finance Facility	15.4	2,851,400	394,024
Modernisation of SMEs		-	-
Financing Facility for Storage of Agriculture produce (FFSAP)	15.5	92,049	146,235
Repurchase agreement borrowings	15.6	136,763,030	129,071,926
Borrowings from other central banks		198,418	-
Other short term borrowings		399,594	-
		<u>159,029,958</u>	<u>146,502,037</u>
Unsecured			
Call borrowings	15.7	13,461,835	17,901,900
Bai Muajjal	15.8	6,218,836	7,935,453
Overdrawn nostro accounts		-	53,808
		<u>19,680,671</u>	<u>25,891,161</u>
		<u>178,710,629</u>	<u>172,393,198</u>
15.3	This facility is secured against a demand promissory note executed in favour of the State Bank of Pakistan. The mark-up rate on this facility ranges from 1.00% to 2.00% per annum (2015: 2.50% to 4.50% per annum) payable on a quarterly basis.		
15.4	This facility is secured against a demand promissory note executed in favour of the State Bank of Pakistan. The mark-up rate on this facility ranges from 2.00% to 5.00% per annum (2015: 3.00% to 4.50% per annum) payable on a quarterly basis.		
15.5	This facility is secured against a demand promissory note executed in favour of the State Bank of Pakistan. The mark-up rate on this facility from 3.25% to 6.50% per annum (2015: 6.25% per annum) payable on a quarterly basis.		
15.6	This represents repurchase agreement borrowing from SBP and other banks at the rate of 1.10% and 5.95% per annum respectively (2015: 6.04% and 6.50% per annum) having maturities upto February 2017 (2015: January 2016).		
15.7	This represents borrowings from financial institutions at mark-up rates ranging from 0.50% to 5.80% per annum (2015: 0.50% to 6.08% per annum) having maturities upto March 2017 (2015: March 2016).		
15.8	This represents borrowings from financial institutions at mark-up rates ranging from 5.60% to 5.70% per annum (2015: 6.35% to 7.45%) having maturities upto May 2017 (2015: April 2016).		
16	DEPOSITS AND OTHER ACCOUNTS	2016	2015
		(Restated)	
		(Rupees in '000)	
Customers			
Fixed deposits		94,268,250	137,604,333
Savings deposits		229,010,684	210,368,288
Current accounts - non-remunerative		283,711,087	238,069,847
Others		4,721,828	3,522,762
		<u>611,711,849</u>	<u>589,565,230</u>
Financial institutions			
Remunerative deposits		27,347,009	48,877,152
Non-remunerative deposits		1,795,367	1,694,779
		<u>29,142,376</u>	<u>50,571,931</u>
		<u>640,854,225</u>	<u>640,137,161</u>
16.1	Particulars of deposits		
In local currency		557,734,309	539,878,360
In foreign currencies		83,119,916	100,258,801
		<u>640,854,225</u>	<u>640,137,161</u>

* Call deposits amounting to Rs. 6,205 million (2015: Rs. 3,326 million) have been reclassified from Others to Current accounts - non-remunerative for better presentation.

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	Note	2016 (Rupees in '000)	2015 (Rupees in '000)
17 SUB-ORDINATED LOANS			
Term Finance Certificates IV - Private, Unsecured		3,324,670	4,988,000
Mark up	Either of the following options with the holder: - Floating coupon of Base Rate + 2.50 percent (Base Rate is defined as the simple average of the ask rate of the six months KIBOR prevailing on the first day of the start of each half yearly period for mark up due at the end of that period) - Fixed coupon of 15 percent per annum payable semi-annually in arrears		
Subordination	The TFCs are subordinated as to the payment of principal and profit to all other indebtedness of the Bank.		
Issue date	December 2009		
Rating	AA-		
Tenor	Eight years		
Redemption	The instrument is structured to redeem 0.26% of principal, semi-annually, in the first 78 months and remaining principal of 33.247% each of the issue amount respectively, starting from the 84th month.		
Maturity	December 2017		
Term Finance Certificates V - Quoted, Unsecured		4,993,000	4,995,000
Mark up	Base Rate + 1.25 percent (Base Rate is defined as the simple average of the ask rate of the six months KIBOR prevailing on one business day prior to each redemption date for the redemption amount payable on the beginning of each semi-annual period for the markup due at the end of that period.		
Subordination	The TFCs are subordinated as to the payment of principal and profit to all other indebtedness of the bank.		
Issue date	February 2013		
Rating	AA-		
Tenor	Eight years		
Redemption	The instrument will be structured to redeem semi-annually in such a way that 0.30% of the principal will be redeemed in the first 90 months and remaining principal of 99.70% at maturity in the 96th month.		
Maturity	February 2021		
		<u>8,317,670</u>	<u>9,983,000</u>
18 OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		1,551,758	1,969,052
Mark-up / return / interest payable in foreign currencies		175,609	280,118
Unearned commission and income on bills discounted		238,539	437,666
Accrued expenses	18.3	3,955,913	3,881,060
Branch adjustment account		816,333	947,438
Payable against redemption of credit card reward points		142,453	122,804
Taxation payable		185,936	399,559
Security deposits		5,225,935	4,790,001
Unclaimed dividend		62,680	58,435
Unrealised loss on forward foreign exchange contracts		555,131	729,875
Unrealised loss on interest rate swaps		37,078	88,804
Provision against off-balance sheet obligations	18.1	69,708	77,590
Workers' Welfare Fund	29.1	595,245	475,569
Compensated Absences	18.2	401,644	313,930
Others		822,983	677,562
		<u>14,836,925</u>	<u>15,249,463</u>
18.1 Provision against off-balance sheet obligations			
Opening balance		77,590	85,953
Charge for the year		(7,508)	1,066
Exchange and other adjustments		(374)	(9,429)
Closing balance		<u>69,708</u>	<u>77,590</u>
18.2	During the year, a valuation for compensated absences has been carried out by an actuary appointed for the purpose. Major assumptions considered for the purposes of valuation are as follows:		
Mortality Rate	SLIC 2001-2005		
Withdrawal Rate	Age dependant withdrawal table; the average turnover rate over next one year is around 20.37%.		
Salary Increase rate	8.0% p.a.		
18.3	This includes defined benefit obligation of Alfalah Securities (Private) Limited amounting to Rs. 3.998 million (2015: Rs. 1.196 million).		

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19 SHARE CAPITAL**19.1 Authorised capital**

2016 (Number of shares)	2015 (Number of shares)		2016 (Rupees in '000)	2015 (Rupees in '000)
<u>2,300,000,000</u>	<u>2,300,000,000</u>	Ordinary shares of Rs. 10 each	<u>23,000,000</u>	<u>23,000,000</u>

19.2 Issued, subscribed and paid up capital

2016 (Number of shares)	2015 (Number of shares)	Ordinary shares of Rs. 10 each	2016 (Rupees in '000)	2015 (Rupees in '000)
870,801,304	865,399,937	Fully paid in cash	8,708,013	8,653,999
724,406,250	724,406,250	Issued as bonus shares	7,244,063	7,244,063
<u>1,595,207,554</u>	<u>1,589,806,187</u>		<u>15,952,076</u>	<u>15,898,062</u>

During the year the Bank has issued 5,401,367 ordinary shares having face value of Rs. 10/- each to its employees on exercise of options vested under the Employees Stock Option Scheme (ESOS) (note 35.2). The paid-up capital of the Bank before issuance of shares to employees was Rs. 15,898,061,870 (divided into 1,589,806,187 shares of Rs. 10 each) and after issuance of shares to the employees has increased to Rs. 15,952,075,540 (divided into 1,595,207,554 shares of Rs. 10 each).

19.3 Material non-controlling interests

19.3.1 Below are details of subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Proportion of ownership interests and voting rights held by the non-controlling interests		Proportion of ownership interests and voting rights held by the non-controlling interests		Accumulated non-controlling interests	
	2016	2015	2016 (Rupees in '000)	2015 (Rupees in '000)	2016 (Rupees in '000)	2015 (Rupees in '000)
Alfalsh GHP Investment Management Limited	59.78%	59.78%	50,395	12,287	319,460	269,065

Summarised financial information of material non-controlling interests before intragroup elimination is as follows:

	2016 (Rupees in '000)	2015 (Rupees in '000)
Alfalsh GHP Investment Management Limited		
Statement of financial position		
Total assets	760,053	602,972
Total liabilities	225,661	158,764
Equity	534,392	444,208
Statement of comprehensive income		
Total income	395,410	278,278
Total expenses	266,533	203,544
Net profit after tax	90,184	14,669
Other comprehensive income	-	-
Statement of cash flows		
Net cash flows generated from / (used in) operating activities	93,511	25,381
Net cash flows generated from investing activities	(70,799)	(32,134)
Net cash flows during the year	22,712	(6,753)

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	Note	2016	2015
		(Rupees in '000)	
20 SURPLUS ON REVALUATION OF ASSETS - NET OF TAX			
Surplus arising on revaluation of:			
- Operating fixed assets	20.1	4,559,251	4,557,499
- Non-banking assets acquired in satisfaction of claims	20.1	36,942	-
		<u>4,596,193</u>	<u>4,557,499</u>
- Pakistan Stock Exchange Membership Card		1,532	1,532
- Available for sale securities	20.2	6,378,214	6,383,901
		<u>10,975,939</u>	<u>10,942,932</u>
20.1 Surplus on revaluation of fixed assets			
Surplus on revaluation of operating fixed assets at January 01,	11.2	5,399,467	3,809,833
Transferred to retained earnings in respect of incremental depreciation charged during the year - net of tax		(32,497)	(34,784)
Revaluation of fixed assets / non-banking assets during the year		50,890	-
Surplus on revaluation of fixed assets recognized during the year		47,562	1,643,150
Related deferred tax liability in respect of incremental depreciation charged during the year		(17,498)	(18,732)
Reversal of surplus on account of disposal of property	11.2	(11,191)	-
		<u>37,266</u>	<u>1,589,634</u>
		<u>5,436,733</u>	<u>5,399,467</u>
Related deferred tax liability on surplus as at January 01,		841,968	740,884
Deferred tax liability charge / (reversal)		16,070	119,816
Deferred tax liability in respect of incremental depreciation charged during the year		(17,498)	(18,732)
		<u>(1,428)</u>	<u>101,084</u>
		<u>840,540</u>	<u>841,968</u>
		<u>4,596,193</u>	<u>4,557,499</u>
20.2 Surplus on revaluation of available for sale securities and derivative financial instruments			
Government securities		7,642,123	9,257,769
Shares / units / certificates / sukuks / bonds		2,109,533	608,591
Term finance certificates		3,590	33,560
Interest rate swaps		29,332	(55,946)
		<u>9,784,578</u>	<u>9,843,974</u>
Related deferred tax liability		(3,406,364)	(3,460,609)
Share of surplus on revaluation on associates' available for sale securities		-	536
		<u>6,378,214</u>	<u>6,383,901</u>

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	2016	2015
	(Rupees in '000)	
21 CONTINGENCIES AND COMMITMENTS		
21.1 Direct credit substitutes		
i) Government	1,632,063	743,580
ii) Banking companies & other financial institutions	-	311,835
iii) Others	53,167	2,094,645
	<u>1,685,230</u>	<u>3,150,060</u>
21.2 Transaction-related contingent liabilities		
i) Government	32,243,564	27,412,625
ii) Banking companies & other financial institutions	544,762	163,826
iii) Others	11,725,088	12,719,286
	<u>44,513,414</u>	<u>40,295,737</u>
21.3 Trade-related contingent liabilities		
Letters of credit	73,061,529	52,107,916
Acceptances	<u>12,188,691</u>	<u>15,797,161</u>
21.4 Other contingencies		
21.4.1 Claims against the Bank not acknowledged as debts	<u>13,847,649</u>	<u>14,861,738</u>
These mainly represents counter claims filed by the borrowers for restricting the Bank from disposal of assets (such as hypothecated / mortgaged / pledged assets kept as security), damage to reputation and cases filed by Ex. employees of the Bank for damages sustained by them consequent to the termination from the Bank's employment. Based on legal advice and / or internal assessment, management is confident that the matters will be decided in Bank's favour and the possibility of any outcome against the Bank is remote and accordingly no		
	2016	2015
	(Rupees in '000)	
21.5 Commitments in respect of forward lendings		
Commitments to extend credit	28,450,269	5,222,555
Commitments in respect of investments	<u>3,596,186</u>	<u>-</u>
21.6 Commitments in respect of forward exchange contracts		
Purchase	53,992,848	98,261,212
Sale	<u>41,084,440</u>	<u>106,520,120</u>
21.7 Commitments for the acquisition of fixed assets	<u>336,774</u>	<u>291,237</u>
21.8 Commitments in respect of repo transactions		
Repurchase	136,912,078	129,226,010
Resale	<u>349,222</u>	<u>-</u>
21.9 Other commitments		
Interest rate swaps	7,622,307	6,962,920
Donations	<u>22,000</u>	<u>22,000</u>
21.10 Contingency for tax payable (note 30.1)		

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22 DERIVATIVE INSTRUMENTS

Derivatives are a type of financial contract, the value of which is determined by reference to one or more underlying assets or indices. The major categories of such contracts include forwards, futures, swaps and options. Derivatives also include structured financial products that have one or more characteristics of forwards, futures, swaps and options.

At present the Group deals in the following instruments:

- Forward Exchange Contracts
- Interest Rate Swaps
- Share Options (note 9.17.1)

22.1 Product analysis

Counter Parties	Interest Rate Swaps				Forward Rate Agreements			
	2016		2015		2016		2015	
	No. of Contracts	Notional Principal * (Rupees in '000)	No. of Contracts	Notional Principal *	No. of Contracts	Notional Principal * (Rupees in '000)	No. of Contracts	Notional Principal *
With Banks for								
Hedging	20	7,622,307	18	6,962,920	-	-	-	-
Market Making	-	-	-	-	179	80,299,452	215	191,003,452
With FIs other than banks								
Hedging	-	-	-	-	-	-	-	-
Market Making	-	-	-	-	-	-	-	-
With other entities for								
Hedging	-	-	-	-	-	-	-	-
Market Making	-	-	-	-	620	14,777,835	730	13,777,880
Total								
Hedging	20	7,622,307	18	6,962,920	-	-	-	-
Market Making	-	-	-	-	799	95,077,288	945	204,781,332

* At the exchange rate prevailing at the year end

22.2 Unrealised (loss) on derivatives financial instruments.

	Contractual / notional amount		Unrealised gain / (loss)	
	2016	2015	2016	2015
	(Rupees in '000)			
Interest Rate Swaps	7,622,307	6,962,920	18,258	(17,668)
Forward Exchange Contract Purchase	53,992,848	98,261,212	(513,325)	(523,544)
Forward Exchange Contract Sale	41,084,440	106,520,120	278,942	533,426

22.3 Maturity Analysis - Forward Exchange Contract Purchase Forward Exchange Contract Sale and Interest Rate Swap (Fixed Rate)

Remaining Maturity	Number of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
Upto 1 month	226	47,296,545	(195,790)	143,932	(51,858)
1 to 3 months	225	30,873,282	(169,046)	82,595	(86,451)
3 to 6 months	219	12,695,144	(153,658)	65,939	(87,719)
6 months to 1 year	129	4,212,317	(36,637)	28,282	(8,355)
1 to 2 years	-	-	-	-	-
2 to 3 years	11	4,222,856	(15,058)	942	(14,116)
3 to 5 years	5	2,039,671	(9,118)	9,715	597
5 to 10 years	4	1,359,780	(12,902)	44,679	31,777
Above 10 years	-	-	-	-	-
	819	102,699,595	(592,209)	376,084	(216,125)

23 MARK-UP / RETURN / INTEREST EARNED

	2016 (Rupees in '000)	2015 (Rupees in '000)
a) On loans and advances to:		
i) customers	23,827,434	25,438,492
ii) financial institutions	106,941	272,510
b) On investments in:		
i) held for trading securities	969,854	1,140,627
ii) available for sale securities	22,420,671	22,521,676
iii) held to maturity securities	6,962,638	9,105,351
c) On deposits with financial institutions	2,704,680	2,636,634
d) On securities purchased under resale agreements	253,041	288,888
	57,245,259	61,404,178

24 MARK-UP / RETURN / INTEREST EXPENSED

	2016	2015
Deposits	18,552,709	22,651,179
Securities sold under repurchase agreements	7,189,657	6,755,279
Other short term borrowings	1,558,522	2,042,429
Term finance certificates	953,301	1,102,752
Brokerage and commission	220,394	258,830
	28,474,583	32,810,469

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25 INCOME FROM DEALING IN FOREIGN CURRENCIES

This includes Rs. 405.4 million (2015: Rs. 783.6 million) being income on account of interest on cross currency swap transactions, which corresponds to the cost included under 'Mark-up / return / interest expensed' in this regard.

26 GAIN ON SALE OF SECURITIES - NET

Note	2016	2015
	(Rupees in '000)	
Federal Government Securities		
- Market Treasury Bills	41,607	350,718
- Pakistan Investment Bonds	748,725	774,197
Overseas Government Bonds	65,553	170,371
Shares / Mutual Funds	610,404	185,356
Sukuk Bonds	53,046	54,352
	<u>1,519,335</u>	<u>1,534,994</u>

27 OTHER INCOME

Gain on sale of operating fixed assets	11.4	55,294	13,975
Gain on exchange of assets		22,235	-
Postage, telex service charges etc.		<u>629,151</u>	<u>736,858</u>
		<u>706,680</u>	<u>750,833</u>

28 ADMINISTRATIVE EXPENSES

Non executive directors fee & allowances		110,609	91,967
Salaries, allowances, etc.	28.1	8,905,981	8,330,547
Charge for defined benefit plan	28.2 & 35.1.4	260,795	290,282
Contribution to defined contribution plan	36	326,341	302,691
Charge for employee stock option scheme	35.2	109,615	94,830
Charge for staff compensated absences		87,714	88,210
Staff training expenses		226,702	172,315
Rent, taxes, insurance, electricity, etc.		3,552,107	3,392,584
Legal and professional charges		669,844	431,737
Communications		898,551	744,093
Repairs and maintenance		1,571,879	1,530,904
Stationery and printing		422,326	406,288
Advertisement and publicity		910,097	842,370
Donations	28.3	31,960	57,638
Auditors' remuneration	28.4	32,264	23,449
Depreciation	11.2	1,701,175	1,816,229
Amortisation of intangible assets	11.3	361,118	275,439
Travelling, conveyance and fuel expenses		473,354	496,615
Entertainment		207,405	200,281
Subscription		32,499	37,178
Charge for outsourced services		1,198,399	1,164,174
Security service charges		984,093	838,223
Others		633,616	491,696
		<u>23,708,444</u>	<u>22,119,740</u>

28.1 The Bank operates a short term employee benefit scheme which includes cash awards/ performance bonus for all eligible employees. Under this scheme, the bonus for all executives, including the CEO is determined on the basis of employees' evaluation and Bank's performance during the year. The aggregate amount determined for the eligible employees in respect of the above scheme relating to the Key Management Personnel of the Bank and for Other Executives amounted to Rs. 423.464 million (2015: Rs. 396.718 million) and Rs. 549.710 million (2015: Rs. 476.717 million) respectively.

28.2 This includes an amount of Rs. 2,999 thousand (2015: Rs. 171 thousand) being charge considered by the subsidiary against its unfunded gratuity scheme.

28.3 Donations

	2016	2015
	(Rupees in '000)	
Alif Noon Parents Foundation	20,000	-
Network of Organizations Working for People with Disabilities - Pakistan	3,000	-
Karachi Vocational Training Centre	2,460	-
Family Education Services Foundation	6,500	-
Institute of Business Administration	-	22,000
Jaipur Foot	-	5,638
Karachi Education Initiative (KEI)	-	25,000
The Aga Khan University	-	5,000
KPMC	<u>31,960</u>	<u>57,638</u>

The CEO of the Bank is one of the directors of the KEI. Other than this none of the directors or their spouses had any interest in the donees.

28.4 Auditors' remuneration	2016	2015
	(Rupees in '000)	
Audit fee	9,660	8,836
Half yearly review	2,368	2,000
Special certifications and sundry advisory services	10,858	5,358
Tax Services	222	372
Out-of-pocket expenses	2,037	1,188
	25,145	17,754
Fee for audit of foreign branches	7,119	5,695
	32,264	23,449

29 OTHER CHARGES	2016	2015
	(Rupees in '000)	
Penalties imposed by the State Bank of Pakistan	5,690	42,892
Workers' Welfare Fund	112,709	286,897
	118,399	329,789

29.1 Through Finance Act 2008, the Federal Government introduced amendments to the Workers' Welfare Fund (WWF) Ordinance, 1971 whereby the definition of industrial establishment was extended. The amendments were challenged and conflicting judgments were rendered by various courts. Appeals against these orders were filed in the Supreme Court.

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 Workers Welfare Fund were not lawful. The Federal Board of Revenue has filed review petitions against the above judgment. These petitions are currently pending with the Supreme Court of Pakistan.

A legal advice has been obtained by the Pakistan Banks Association which highlights that consequent to filing of these review petitions, a risk has arisen and the judgment is not conclusive until the review petition is decided. Accordingly, the amount charged for Workers Welfare Fund since 2008 has not been reversed.

30 TAXATION	2016	2015
	(Rupees in '000)	
For the year		
Current	4,729,131	5,036,065
Deferred	95,333	(461,035)
For prior years		
Current	(437,633)	567,813
Deferred	1,028,098	-
	590,465	567,813
	5,414,929	5,142,843

30.1 The income tax assessments of the Bank have been finalized upto and including tax year 2016. Matters of disagreement exist between the Bank and tax authorities for various assessment years and are pending with the Commissioner of Inland Revenue (Appeals), Appellate Tribunal Inland Revenue (ATIR), High Court of Sindh and Supreme Court of Pakistan. These issues mainly relate to addition of mark up in suspense to income, taxability of profit on government securities, bad debts written off and disallowances relating to profit and loss expenses.

In respect of tax years 2008, 2011, 2012, 2013, 2015 and 2016, the tax authorities have raised certain issues including disallowance of expenditure on account of non-deduction of withholding tax, default in payment of WWF, allocation of expenses to dividend and capital gains and dividend income from mutual funds not being taken under income from business, resulting in additional demand of Rs.1,467.175 million. As a result of appeal filed before Commissioner Appeals against these issues, relief has been provided for tax amount of Rs.1,023.719 million whereas appeal effect orders are pending. The management's appeals on certain issues are pending before Commissioner Appeals. The management is confident that these matters will be decided in favour of the Bank and consequently has not made any provision in respect of these amounts.

The Bank has received amended assessment orders for Tax Years from 2010 to 2013 wherein Tax Authorities have disallowed depreciation on Ijara Assets considering it Finance Lease and raised a tax demand of Rs. 990.423 million. As a result of appeal filed before Commissioner Appeal, relief is provided to the Bank. Accordingly tax amount is reduced to Rs. 96.160 million. The Bank has filed appeal before Appellate Tribunal. The Bank has not made any provision against these orders and the management is of the view that the matter will be settled in Bank's favour through appellate process.

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In respect of monitoring of withholding taxes, the Bank has received various orders from tax authorities. The Bank has not made provision amounting to Rs. 433.377 million against tax demand for tax years 2009, 2011, 2015 and 2016. The Bank intends to obtain relief through rectification orders. The management is of the view that the matter will be settled in Bank's favour.

The Bank has received an order from a provincial tax authority wherein tax authority has disallowed certain exemptions of sales tax on banking services and demanded sales tax and penalty amounting to Rs. 97.560 million (excluding default surcharge) for the period from July 2011 to June 2014. Bank's appeal against this order is currently pending before Commissioner Appeals. The Bank has not made any provision against this order and the management is of the view that the matter will be settled in Bank's favour through appellate process.

	Note	2016	2015
		(Rupees in '000)	
30.2 Relationship between tax expense and accounting profit			
Profit before taxation		<u>13,354,055</u>	<u>12,657,172</u>
Tax at the applicable rate of 35% (2015: 35%)		4,673,919	4,430,010
Effect of:			
- income chargeable to tax at reduced rates		(1,955)	(6,631)
- permanent differences		2,775	15,525
- tax charge pertaining to overseas branches		60,628	88,715
- tax for prior years		590,786	567,813
- others		(163,277)	47,411
Tax expense for the year		<u>5,162,876</u>	<u>5,142,843</u>
31 EARNINGS PER SHARE			
31.1 BASIC EARNINGS PER SHARE			
Profit after taxation for the year attributable to equity holders of the Bank		<u>7,889,794</u>	<u>7,502,660</u>
		(Number of shares in thousand)	
Weighted average number of ordinary shares		<u>1,593,898</u>	<u>1,590,888</u>
		(Rupees)	
Basic earnings per share		<u>4.95</u>	<u>4.72</u>
31.2 DILUTED EARNINGS PER SHARE			
		(Rupees in '000)	
Profit after taxation for the year attributable to equity holders of the Bank		<u>7,889,794</u>	<u>7,502,660</u>
		(Number of shares in thousand)	
Weighted average number of ordinary shares		<u>1,602,937</u>	<u>1,590,888</u>
		(Rupees)	
Diluted earnings per share		<u>4.92</u>	<u>4.72</u>
31.3 Reconciliation of basic and diluted earning per share			
		(Number of shares in thousand)	
Weighted average number of ordinary shares		1,593,898	1,590,888
Plus: Employee stock option scheme		9,039	-
Shares under agreement with International Finance Corporation		-	-
Dilutive potential ordinary shares		<u>1,602,937</u>	<u>1,590,888</u>
32 CASH AND CASH EQUIVALENTS			
		2016	2015
		(Rupees in '000)	
Cash and balances with treasury banks	6	74,071,394	62,368,827
Balances with other banks	7	9,498,787	16,583,138
Call money lendings	8.1	5,306,590	14,728,532
Overdrawn nostro accounts	15.2	-	(53,808)
K.P.M.		<u>88,876,771</u>	<u>93,626,689</u>

33 CREDIT RATING

PACRA has assigned a long term credit rating of AA [Double A] and a short term credit rating of A1+ (A one plus) to the holding company as at June 2016 with a positive outlook (2015: AA [Double A] for long term and A1+ [A one plus] for short term with a stable outlook).

Subsequent to the year end JCR-VIS has assigned a long term credit rating of AA+ [Double A plus] and a short term credit rating of A1+ (A one plus) with a stable outlook to the holding company.

34 STAFF STRENGTH	Note	2016 (Number of employees)	2015
Permanent		7,709	7,642
Temporary / on contractual basis		193	233
Total staff strength		<u>7,902</u>	<u>7,875</u>

35 EMPLOYEE BENEFITS

35.1 DEFINED BENEFIT PLAN

35.1.1 Principal actuarial assumptions

The projected unit credit method, as required by the International Accounting Standard 19 - 'Employee Benefits', was used for actuarial valuation based on the following significant assumptions:

	2016	2015
Valuation discount rate (p.a)	9.50%	10.00%
Salary increase rate (p.a) - Short term (3 years)	7.50%	10.00%
Salary increase rate (p.a) - Long term	9.50%	10.00%
Expected rate of return on plan assets	0.095	10.00%
Normal retirement age	60 Years	60 Years
Duration	10.46 Years	13.63 Years

The disclosures made in notes 35.1 to 35.1.13 are based on the information included in the actuarial valuation report of the Bank as of December 31, 2016.

35.1.2 Reconciliation of receivable from defined benefit plan	Note	2016 (Rupees in '000)	2015
Present value of defined benefit obligations	35.1.6	1,920,065	1,743,133
Fair value of plan assets	35.1.7	<u>(2,269,382)</u>	<u>(1,783,136)</u>
		<u>(349,317)</u>	<u>(40,003)</u>
35.1.3 Movement in (receivable) / payable from defined benefit plan			
Opening balance		(40,003)	(238,523)
Charge for the year - in profit and loss account	35.1.4	260,795	290,111
Other comprehensive Income		(309,314)	198,962
Adjustments		-	(442)
Bank's contribution to fund made during the year		<u>(260,795)</u>	<u>(290,111)</u>
Closing balance		<u>(349,317)</u>	<u>(40,003)</u>
35.1.4 Charge for defined benefit plan			
Recognised in profit and loss account			
Current service cost		277,835	332,822
Net interest		<u>(17,040)</u>	<u>(42,711)</u>
		260,795	290,111
Recognised in other comprehensive income			
Actuarial gain on obligations		55,216	252,372
Actuarial (loss) / gain on Assets		<u>254,098</u>	<u>(451,334)</u>
		309,314	(198,962)
Total		<u>(48,519)</u>	<u>489,073</u>
35.1.5 Actual return on plan assets		<u>434,975</u>	<u>225,357</u>
35.1.6 Reconciliation of present value of obligation			
Present value of obligation as at January 1		1,743,133	1,770,352
Current service cost		277,835	332,822
Interest cost		163,837	182,824
Benefits paid		(209,524)	(290,493)
Remeasurement gain on obligation		<u>(55,216)</u>	<u>(252,372)</u>
Present value of obligation as at December 31		<u>1,920,065</u>	<u>1,743,133</u>

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	Note	2016 (Rupees in '000)	2015 (Rupees in '000)
35.1.7 Changes in the fair value of plan assets are as follows:			
Opening fair value of plan assets		1,783,136	2,008,875
Expected return		180,877	225,977
Contributions by the Bank		260,795	290,111
Benefits paid		(209,524)	(290,493)
Remeasurement (loss) / gain		254,098	(451,334)
Fair value at end of the year	35.1.8	<u>2,269,382</u>	<u>1,783,136</u>

35.1.8 Plan assets consist of the following:

	2016 (Rupees in '000)		2015 (Rupees in '000)	
		%		%
Ordinary shares	1,047,132	46%	366,896	21%
Term Finance Certificates	-	0%	27,572	2%
Pakistan Investment Bonds	536,864	24%	562,446	32%
Units of mutual funds	283,810	13%	301,916	17%
Cash and bank balances	401,576	18%	524,306	29%
	<u>2,269,382</u>	<u>100%</u>	<u>1,783,136</u>	<u>100%</u>

35.1.9 Amount for the current year and the previous four years of the present value of the defined benefit obligation, the fair value of plan assets, surplus / deficit and experience adjustments arising thereon are as follows:

	2015	2015	2014	2013	2012
	(Rupees in '000)				
Defined benefit obligation	1,920,065	1,743,133	1,770,352	1,547,856	1,372,290
Fair value of plan assets	2,269,382	1,783,136	2,008,875	1,429,334	1,182,931
Surplus / (deficit)	<u>349,317</u>	<u>40,003</u>	<u>238,523</u>	<u>(118,522)</u>	<u>(189,359)</u>
Experience adjustments on plan liabilities	55,216	252,372	267	(56,337)	56,038
Experience adjustments on plan assets	254,098	(451,334)	356,778	127,174	(16,931)

35.1.10 Expected gratuity expense for the next year

Expected gratuity expense for the year ending December 31, 2017, works out to Rs. 250.153 million.

35.1.11 Sensitivity Analysis

Particulars	Present Value of Defined Benefit Obligation (Rs. in '000)	Percentage Change
Current Liability	1,864,585	
+1% Discount Rate	1,683,534	-9.71%
-1% Discount Rate	2,077,893	11.44%
+1% Salary Increase Rate	2,086,284	11.89%
-1% Salary Increase Rate	1,673,465	-10.25%
+10% Withdrawal Rates	1,864,585	0.00%
-10% Withdrawal Rates	1,864,585	0.00%
1 Year Mortality age set back	1,864,585	0.00%
1 Year Mortality age set forward	1,864,585	0.00%

35.1.12 Maturity Profile

Particulars	Undiscounted Payments (Rs. in '000)
Year 1	137,138
Year 2	156,103
Year 3	119,610
Year 4	132,377
Year 5	124,023
Year 6 to Year 10	687,012
Year 11 and above	5,484,788

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35.1.13 Risks Associated with Defined Benefit Plans

(a) **Investment Risks:**

The risk arises when the actual performance of the investments is lower than expectation and thus creating a shortfall in the funding objectives.

(b) **Longevity Risks:**

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

(c) **Salary Increase Risk:**

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than expectation and impacts the liability accordingly.

(d) **Withdrawal Risk:**

The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

35.2 EMPLOYEES STOCK OPTION SCHEME

The holding company grants share options to its employees under the Bank's Employee Stock Options Scheme (ESOS), as approved by the shareholders and SECP vide its letter No. SMD/CIW/ESOS/02/2013 dated 27 December 2013.

Under the Scheme, the holding company has granted options to certain critical employees selected by the Board Compensation Committee to subscribe to new ordinary shares over a period from 2014 to 2016 as detailed below. As per the Scheme, the entitlement and exercise price are subject to adjustments because of issue of right shares and bonus shares. The options carry neither right to dividends nor voting rights till shares are issued to employees on exercise of options.

The grant dates and the vesting period for the options are laid down under the scheme. The options vest over a three year period with one third of the options vesting on completion of each year of service from the date of grant. The options not exercised on completion of first and second year of vesting may be carried forward to be exercised on completion of three year period. After the expiry of the third exercise period, the option holder will lose all the rights of exercise for any remaining options not exercised.

The details of the options under the scheme as at December 31, 2016 were as follows:

	Granted in the year 2016	Granted in the year 2015	Granted in the year 2014
	(Rs. in '000)		
Options issued	13,737	12,614	11,331
Options no longer in issue	492	1,010	1,594
Options vested	N/A	4,063	6,837
Options exercised	N/A	2,782	5,183
Vested Options cumulatively carried forward	N/A	1,191	1,470
Shares issued under ESOS grants	N/A	2,782	5,183
Exercise price per share	Rs. 14.95	Rs. 15.15	Rs. 16.32
Option discount per share	Rs. 9.96	Rs. 10.10	Rs. 10.88

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36 DEFINED CONTRIBUTION PLAN

The Bank operates an approved provident fund scheme for all its permanent employees to which both the Bank and employees contribute @ 8.33% of basic salary in equal monthly contributions. The subsidiary - Alfalah GHP Investment Management Limited operates an approved funded contributory provident fund for all its permanent employees to which equal monthly contributions are made both by the Company and the employees at the rate of 10% of basic salary.

Contribution made during the year by the Bank amounted to Rs. 326.341 million (2015: Rs. 295.929 million), whereas the contribution made by the subsidiary - Alfalah GHP Investment Management Limited amounted to Rs. 2.582 million (2015: Rs. 3.381 million) in their respective funds.

37 COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2016	2015	2016	2015	2016	2015 (Restated)
----- (Rupees in '000) -----						
Fee	-	-	110,609	91,967	345	720
Managerial remuneration - note 37.2	82,669	77,707	-	-	3,384,648	2,951,089
Post employment benefits	9,481	8,989	-	-	387,415	329,255
Rent and house maintenance	3,840	5,024	-	-	990,893	850,205
Utilities	5,691	5,394	-	-	254,404	221,135
	<u>101,681</u>	<u>97,114</u>	<u>110,609</u>	<u>91,967</u>	<u>5,017,705</u>	<u>4,352,404</u>
Number of persons*	<u>1</u>	<u>1</u>	<u>6</u>	<u>8</u>	<u>2,166</u>	<u>1,871</u>

*As a result of Election of Directors held during the year, three new non executive directors were appointed on the Board who replaced two of the outgoing non executive directors.

- 37.1 The Chief Executive and certain Executives have been provided with the free use of cars and household equipment as per Bank's policy.
- 37.2 All executives, including the CEO are entitled to certain short term employee benefits which are disclosed in note 28.1 to these financial statements. In addition, the Bank has also granted share options to certain key employees - refer note 35.2.

38 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of quoted securities other than those classified as held to maturity, is based on quoted market price. Quoted securities classified as held to maturity are carried at cost. The fair value of unquoted equity securities, other than investments in associates and subsidiaries, is determined on the basis of the break-up value of these investments as per their latest available audited financial statements.

The fair value of unquoted debt securities, fixed term loans, other assets, other liabilities, fixed term deposits and borrowings cannot be calculated with sufficient reliability due to the absence of a current and active market for these assets and liabilities and reliable data regarding market rates for similar instruments.

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 these are either short-term in nature or, in the case of customer loans and deposits, are frequently repriced.

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

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

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

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

The table below analyses 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:

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2016

	HFT	Carrying Amount					Total	Fair value			Total	
		AFS	HTM	Loans and Receivables	Associates	Derivative Instrument Held for Risk Management		Other financial liabilities	Level 1	Level 2		Level 3
(Rupees in '000)												
On balance sheet financial instruments												
Financial assets measured at fair value												
- Other assets	320,749	-	-	-	-	-	-	-	320,749	-	320,749	
Forward foreign exchange contracts	55,336	-	-	-	-	-	-	-	55,336	-	55,336	
Interest rate swaps												
- Investments												
Government Securities (Tbills, PIBs, GoP Sukuks,	14,371,242	304,976,096	-	-	-	-	-	-	319,347,338	-	319,347,338	
Overseas Govt. Sukuk, Overseas and Euro bonds)	298,341	5,061,134	-	-	-	-	-	-	5,359,475	-	5,359,475	
Overseas Bonds - others	761,255	8,292,796	-	-	-	-	-	-	9,054,051	9,054,051	9,054,051	
Ordinary shares of listed companies	-	68,927	-	-	-	-	-	-	68,927	-	68,927	
Ordinary shares of unlisted companies	-	278,260	-	-	-	-	-	-	278,260	-	278,260	
Debt securities (TFCs)	-	2,195,167	-	-	-	-	-	-	2,195,167	-	2,195,167	
Sukuk-Other than Govt												
Financial assets not measured at fair value												
- Cash and bank balances with treasury banks	-	-	-	74,071,394	-	-	-	-	74,071,394	-	74,071,394	
- Balances with other banks	-	-	-	9,498,787	-	-	-	-	9,498,787	-	9,498,787	
- Lending to financial institutions	-	-	-	30,149,029	-	-	-	-	30,149,029	-	30,149,029	
- Advances	-	-	-	378,724,300	-	-	-	-	378,724,300	-	378,724,300	
- Other assets	-	-	-	18,172,457	-	-	-	-	18,172,457	-	18,172,457	
- Investments												
Government Securities (PIBs, WAPDA Sukuks,	-	-	45,026,708	-	-	-	-	-	45,026,708	-	45,937,908	
Overseas and Euro bonds)	-	-	518,251	-	-	-	-	-	518,251	-	518,251	
Overseas Bonds - Others	-	22,396	-	-	-	-	-	-	22,396	-	22,396	
Unlisted Shares (Ordinary & Preference)	-	501,938	-	-	-	-	-	-	501,938	-	501,938	
Redeemable Participating Certificate	-	-	-	-	-	-	-	-	529,280	-	529,280	
Commercial Paper	-	-	529,280	-	-	-	-	-	529,280	-	529,280	
Sukuk-Other than Govt	-	-	3,501,541	-	-	-	-	-	3,501,541	-	3,501,541	
Associates												
- Mutual Funds	-	-	-	-	1,759,443	-	-	-	1,759,443	-	1,759,443	
- Ordinary shares of unlisted companies	-	-	-	-	1,504,147	-	-	-	1,504,147	-	1,504,147	
Financial liabilities measured at fair value	15,806,923	321,396,714	49,575,780	510,615,967	3,263,590	-	-	-	900,858,974	-	900,858,974	
- Other liabilities												
Forward foreign exchange contracts	555,131	-	-	-	-	-	-	-	555,131	-	555,131	
Interest rate swaps	37,078	-	-	-	-	-	-	-	37,078	-	37,078	
Financial liabilities not measured at fair value												
- Bills Payable	-	-	-	-	-	-	-	-	12,886,990	-	12,886,990	
- Borrowings	-	-	-	-	-	-	-	-	178,710,629	-	178,710,629	
- Deposits and other accounts	-	-	-	-	-	-	-	-	640,854,225	-	640,854,225	
- Subordinated Loans	-	-	-	-	-	-	-	-	8,317,670	-	8,317,670	
- Other liabilities	-	-	-	-	-	-	-	-	13,155,288	-	13,155,288	
Off balance sheet financial instruments	592,209	-	-	-	-	-	-	-	853,924,802	-	854,517,011	
Forward Exchange Contracts Purchase	-	-	-	-	-	-	-	-	53,992,848	-	53,992,848	
Forward Exchange Contracts Sale	-	-	-	-	-	-	-	-	41,084,440	-	40,805,498	
Interest Rate Swaps	-	-	-	-	-	-	-	-	7,622,307	-	7,640,565	
							</					

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2015

2015											
	HFT	Carrying Amount				Total	Other financial liabilities	Fair value			Total
		AFS	HTM	Loans and Receivables	Associates			Level 1	Level 2	Level 3	
(Rupees in '000)											
On balance sheet financial instruments											
Financial assets measured at fair value											
- Other assets	739,757	-	-	-	-	-	-	739,757	-	739,757	
Forward foreign exchange contracts	1,888	-	-	-	-	-	-	1,888	-	1,888	
Interest rate swaps											
- Investments											
Government Securities (Tbills, PIBs, GoP Sukuks, Overseas Govt. Sukuk, Overseas and Euro bonds)	19,122,097	279,962,706	-	-	-	-	-	299,084,803	299,084,803	299,084,803	
Overseas Bonds - others	-	3,638,213	-	-	-	-	-	3,638,213	3,638,216	3,638,216	
Ordinary shares of listed companies	199,954	5,582,663	-	-	-	-	-	5,782,617	5,782,612	5,782,612	
Ordinary shares of unlisted company	-	40,073	-	-	-	-	-	40,073	40,073	40,073	
Debt securities (TFCs)	-	682,680	-	-	-	-	-	682,680	682,680	682,680	
Sukuk-Other than Govt	-	2,424,212	-	-	-	-	-	2,424,212	2,424,212	2,424,212	
Financial assets not measured at fair value											
- Cash and bank balances with treasury banks	-	-	-	62,368,827	-	-	-	62,368,827	-	62,368,827	
- Balances with other banks	-	-	-	16,583,138	-	-	-	16,583,138	-	16,583,138	
- Lending to financial institutions	-	-	-	27,626,350	-	-	-	27,626,350	-	27,626,350	
- Advances	-	-	-	334,160,478	-	-	-	334,160,478	-	334,160,478	
- Other assets	-	-	-	20,340,513	-	-	-	20,340,513	-	20,340,513	
- Investments											
Government Securities (PIBs, WAPDA Sukuks, Overseas and Euro bonds)	-	-	77,515,845	-	-	-	-	77,515,845	80,144,714	80,144,714	
Other Federal Government Securities - Bai Muajjal	-	-	26,002,520	-	-	-	-	26,002,520	26,002,520	26,002,520	
Commercial Papers	-	-	266,822	-	-	-	-	266,822	-	266,822	
Unlisted Shares (Ordinary & Preference)	-	304,096	-	-	-	-	-	304,096	-	304,096	
Sukuk-Other than Govt	-	37,242	3,720,532	-	-	-	-	3,757,774	-	3,757,774	
Debt securities (TFCs)	-	-	-	-	-	-	-	-	-	-	
Ordinary and preference shares	-	-	-	-	-	-	-	-	-	-	
Associates											
- Mutual Funds	-	-	-	-	1,969,571	-	-	1,969,571	1,969,571	1,969,571	
- Ordinary shares of unlisted companies	-	-	-	-	2,049,742	-	-	2,049,742	-	2,049,742	
	20,063,696	292,671,865	107,505,719	461,079,306	4,019,313	-	-	865,339,919	-	865,339,919	
Financial liabilities measured at fair value											
- Other liabilities											
Forward foreign exchange contracts	729,875	-	-	-	-	-	-	729,875	729,875	729,875	
Interest rate swaps	88,804	-	-	-	-	-	-	88,804	88,804	88,804	
Financial liabilities not measured at fair value											
- Bills Payable	-	-	-	-	-	-	-	-	-	-	
- Borrowings	-	-	-	-	-	-	9,733,929	9,733,929	-	9,733,929	
- Deposits and other accounts	-	-	-	-	-	-	172,393,198	172,393,198	-	172,393,198	
- Subordinated Loans	-	-	-	-	-	-	640,137,161	640,137,161	-	640,137,161	
- Other liabilities	-	-	-	-	-	-	9,983,000	9,983,000	-	9,983,000	
	-	-	-	-	-	-	13,515,970	13,515,970	-	13,515,970	
	818,679	-	-	-	-	-	845,763,258	845,763,258	-	845,763,258	

38.2 Fixed assets have been carried at revalued amounts determined by professional valuers (level 3 measurement) based on their assessment of the market values as disclosed in note 11. The valuations are conducted by the valuation experts appointed by the Bank which are also on the panel of State Bank of Pakistan. The valuation experts used a market based approach to arrive at the fair value of the Bank's properties. The market approach used prices and other relevant information generated by market transactions involving identical or comparable or similar properties. These values are adjusted to reflect the current condition of the properties. The effect of changes in the unobservable inputs used in the valuations cannot be determined with certainty, accordingly a qualitative disclosure of sensitivity has not been presented in these financial statements.

38.2

39 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	2016									Total
	Retail Banking	Corporate Banking	Treasury	Consumer Banking	Islamic Banking	International Operations	Retail Brokerage	Asset Management	Others*	
	(Rupees in '000)									
Segment income	7,184,495	13,531,759	28,838,451	4,112,573	8,341,049	3,574,977	106,472	375,860	859,471	66,725,107
Inter-segment income	16,118,158	(5,651,265)	(10,352,823)	(953,836)	-	-	-	-	839,766	-
Segment expenses	19,221,682	6,209,065	8,041,695	1,847,509	6,682,172	1,919,015	124,309	158,852	9,166,753	53,371,052
Profit before tax	4,080,971	1,671,429	10,243,933	1,311,228	1,658,877	1,655,962	(17,837)	217,008	(7,467,516)	13,354,055
Segment assets	140,225,720	205,760,792	312,980,625	21,723,442	138,753,216	68,423,352	1,114,783	627,471	29,833,439	919,442,840
Segment non-performing loans	8,620,184	7,771,668	-	435,243	1,785,331	318,921	1,270	-	87,188	19,019,785
Segment provision required against loans and advances	7,959,803	6,703,930	-	909,939	1,187,405	361,707	1,270	-	20,377	17,144,231
Segment liabilities	428,263,389	80,262,575	143,261,894	1,490,927	127,051,522	59,363,853	906,963	116,691	17,800,156	858,517,970
Segment return on assets (ROA) (%)*	0.87%	0.80%	1.57%	6.17%	1.24%	2.78%	-	-	-7.51%	0.79%
Segment cost of funds (%)*	3.25%	5.07%	5.56%	5.46%	2.98%	2.10%	-	-	3.44%	6.12%

	2015									Total
	Retail Banking	Corporate Banking	Treasury	Consumer Banking	Islamic Banking	International Operations	Retail Brokerage	Asset Management	Others*	
	(Rupees in '000)									
Segment income	7,280,467	15,410,965	30,913,732	3,808,283	8,447,458	4,031,911	10,662	279,532	346,517	70,527,527
Inter-segment income	19,346,496	(6,412,101)	(12,799,878)	(998,213)	-	-	-	-	863,696	-
Segment expenses	22,719,223	6,760,000	8,079,909	1,829,767	6,632,459	2,396,077	41,344	128,921	9,282,655	57,870,355
Profit before tax	3,907,740	2,238,864	10,033,945	978,303	1,814,999	1,635,834	(30,682)	150,611	(8,072,442)	12,657,172
Segment assets - net	106,129,202	205,820,951	358,426,849	17,482,403	129,872,172	59,007,149	229,125	529,985	25,917,921	903,415,757
Segment non-performing loans	8,977,326	7,204,259	-	463,094	1,089,699	622,426	360	-	98,595	18,455,759
Segment provision required against loans and advances	8,414,604	5,245,658	-	829,809	1,008,092	587,245	360	-	109,051	16,192,819
Segment liabilities	407,407,312	115,775,732	144,255,333	1,356,670	120,561,328	49,349,369	27,467	91,188	9,498,622	849,323,021
Segment return on assets (ROA) (%)*	0.87%	0.82%	1.62%	5.30%	0.87%	3.26%	-	-	-8.92%	1.60%
Segment cost of funds (%)*	4.22%	6.49%	6.89%	6.62%	3.76%	2.60%	-	-	4.46%	4.63%

* Profit before tax of this segment includes head office related expenses

40 TRUST ACTIVITIES

The Group is not engaged in any significant trust activities. However, it acts as security agent for various Term Finance Certificates it arranges and distributes on behalf of its customers. In addition, the holding company is also holding investments of other entities in its IPS account maintained with the State Bank of Pakistan.

41 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include major shareholders, subsidiary company, associated companies with or without common directors, retirement benefit funds and directors and key management personnel and their close family members.

Banking transactions with the related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk.

Contributions to and accruals in respect of staff retirements and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan. Remuneration to executives is determined in accordance with the terms of their appointment.

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Details of transactions with related parties and balances with them as at the year-end are as follows:

2016					
	Directors	Key management personnel	Group companies / Others	Associates	Total
(Rupees in '000)					
41.1 Deposits					
Balance at beginning of the year	14,825	120,281	6,095,252	350,316	6,580,674
Placements during the year	306,363	1,257,912	117,678,110	44,962,231	164,204,616
Withdrawals / adjustments* during the year	(310,987)	(1,213,687)	(115,084,595)	(44,280,890)	(160,890,159)
Balance at end of the year	10,201	164,506	8,688,767	1,031,657	9,895,131
2015					
(Rupees in '000)					
Balance at beginning of the year	38,398	71,170	5,054,223	453,398	5,617,189
Placements during the year	168,409	1,271,256	81,661,921	29,668,778	112,770,364
Withdrawals / adjustments* during the year	(191,982)	(1,222,145)	(80,620,892)	(29,771,860)	(111,806,879)
Balance at end of the year	14,825	120,281	6,095,252	350,316	6,580,674
2016					
(Rupees in '000)					
41.2 Advances					
Balance at beginning of the year	89,000	328,280	6,339,450	-	6,756,730
Disbursements during the year	-	287,570	22,062,374	-	22,349,944
Repayments / adjustments* during the year	(9,870)	(264,515)	(20,361,588)	-	(20,635,973)
Balance at end of the year	79,130	351,335	8,040,236	-	8,470,701
Provisions held against advances	-	-	1,543,054	-	1,543,054
2015 (Restated)					
(Rupees in '000)					
Balance at beginning of the year	-	280,630	3,828,522	-	4,109,152
Disbursements during the year	90,000	324,922	22,147,792	-	22,562,714
Repayments / adjustments* during the year	(1,000)	(277,272)	(19,636,864)	-	(19,915,136)
Balance at end of the year	89,000	328,280	6,339,450	-	6,756,730
Provisions held against advances	-	-	185,627	-	185,627
2016					
(Rupees in '000)					
41.3 Investments					
Balance at beginning of the year	-	-	4,716,796	4,019,314	8,736,110
Investments during the year	-	-	1,977,290	67,267	2,044,557
(Redemptions) / adjustments* during the year	-	-	(4,666,796)	(822,991)	(5,489,787)
Balance at end of the year	-	-	2,027,290	3,263,590	5,290,880
Provisions held against investments	-	-	53,936	-	53,936
2015					
(Rupees in '000)					
Balance at beginning of the year	-	-	4,416,796	3,446,271	7,863,067
Investments during the year	-	-	-	1,867,710	1,867,710
(Redemptions) / adjustments* during the year	-	-	300,000	(1,294,667)	(994,667)
Balance at end of the year	-	-	4,716,796	4,019,314	8,736,110
Provisions held against investments	-	-	4,416,796	-	4,416,796

* Adjustments include changes on account of retirement / appointment of Directors, changes in Key Management Personnel and Sponsor shareholders.

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	2016				
	Directors	Key management personnel	Group companies / Others	Associates	Total
(Rupees in '000)					
41.4 Call borrowings / Repo					
Balance at beginning of the year	-	-	-	-	-
Borrowings during the year	-	-	2,200,000	-	2,200,000
Repayments during the year	-	-	(2,200,000)	-	(2,200,000)
Balance at end of the year	-	-	-	-	-
2015					
(Rupees in '000)					
Balance at beginning of the year	-	-	-	-	-
Borrowings during the year	-	-	1,300,000	-	1,300,000
Repayments during the year	-	-	(1,300,000)	-	(1,300,000)
Balance at end of the year	-	-	-	-	-
2016					
(Rupees in '000)					
41.5 Call lendings / Reverse Repo					
Balance at beginning of the year	-	-	-	-	-
Placements during the year	-	-	17,250,000	-	17,250,000
Withdrawals during the year	-	-	(17,250,000)	-	(17,250,000)
Balance at end of the year	-	-	-	-	-
2015					
(Rupees in '000)					
Balance at beginning of the year	-	-	-	-	-
Placements during the year	-	-	17,825,000	-	17,825,000
Withdrawals during the year	-	-	(17,825,000)	-	(17,825,000)
Balance at end of the year	-	-	-	-	-
					2016
					2015
					(Rupees in '000)
41.6 Advances					
Running finance					753,858
Long term loans					7,716,843
					5,995,772
41.7 Contingencies and commitments					
Letters of credit, acceptance & Guarantees outstanding					1,724,344
					3,134,931
41.8 Customer accounts					
PLS accounts					5,869,154
Current accounts					1,211,423
Fixed deposit accounts					2,814,554
					2,268,145
41.9 Transactions with Associates and Others					
					</

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2016
(Rupees in '000)

2015

Others

Mark-up income	624,937	421,942
Mark-up expense on deposits	269,117	362,903
Dividend income from Pakistan Mobile Communication Limited	2,454	-
Rent income from Wateen Telecom Limited	-	1,766
Rent income from Warid Telecom (Private) Limited / Pakistan Mobile Communication Limited	17,096	16,937
Rent expense paid pertaining to Wateen Telecom Limited	3,304	11,200
Interest received on placements with Silk Bank	3,350	5,061
Interest paid on Borrowings from Silk Bank	362	372
Mark-up paid to Taavun (Private) Limited on TFCs Issued	74,813	74,845
Mark-up paid to Key Management Personnel on TFCs Issued	29,407	26,108
Mark-up received on Sukuk from Pakistan Mobile Communication Limited	29,249	-
Amount received on Redemption of Silk Bank Preference Shares	439,200	-
Interest paid on Borrowings from Silk Bank	362	372
Payment to Institute of Bankers of Pakistan for calendars and diaries etc.	2,900	464
Payment to Wateen Telecom Limited and Wateen Solutions (Private) Limited for purchase of equipment and maintenance charges	142,723	143,993
Provision against advances on Wateen Telecom (Private) Limited	1,357,594	-
Provision against advances on Wateen Wimax (Private) Limited	185,460	185,627
Provision against investment in Warid Telecom (Private) Limited	-	4,366,796
Provision against investment in Pakistan Mobile Communication Limited	3,936	-
Gain on exchange of shares of Warid Telecom (Private) Limited	22,235	-
Commission received from Warid Telecom (Private) Limited	1,828	9,656
Payment to Monet (Private) Limited for Branchless banking services	166,452	197,588
Payment to Al-Qudees & Co	10,263	27,505
Payment to Intelligens Financials	-	3,407
Payment to Locker Smiths (Private) Limited	10,675	-
Payment to Sundar Interiors & Architects	4,525	57,412
Payment to Timber Links	2,850	10,428
Payment to Expressive Safety & Security Solutions	10,201	7,540
Payment to Olive International (Private) Limited	1,652	6,590
Payment to Computer Marketing Co. (Private) Limited.	23,407	11,396
Payment to K-Tabs	16,112	19,345
Payment to MEC Engineer	10,885	2,894
Payment to Printeria	-	40,321
Payment to Tahiri Printers	8,671	-
Payment to Bawany Traders	4,102	-
Payment to MEK STEEL FURNITURE	100	-
Payment to S-TECH	4,215	-
Payment to The Pakistan Business Council	1,500	1,500
Charges for Security Services to Wackenhut Pakistan (Private) Limited	-	136,393
Contribution to employees provident fund	326,341	302,691
Contribution to gratuity fund	260,795	290,282

41.10 Balances with Associates and Others

Associates and Funds not considered for consolidation

Advance against issuance of Shares - Sapphire Wind Power Company Limited	112,350	112,350
Advance Rent from Alfalah Insurance Company Limited	-	1,955
Rent receivable from Alfalah Insurance Company Limited	416	-
TFCs held by Alfalah GHP Income Multiplier Fund	6,116	6,119
TFCs held by Alfalah GHP Income Fund	72,887	87,899
Management fee receivable from fund	137,853	102,998
Sales load receivable from fund	14,982	8,477
Receivable against formation for fund	2,647	7,901
Insurance payable for general and health	480	183
Receivable against allocation of expenses from fund	13,127	-
Seed Capital in fund	180,000	-
Advisory income receivable from fund	976	-

Others

Mark-up suspended on advances to Warid Telecom (Private) Limited	61,267	42,582
Mark-up suspended on advances to Wateen Telecom (Private) Limited	808,508	644,122
Mark-up suspended on advances to Wateen Wimax	16,808	5,587
Mark-up receivable on Sukuk from Pakistan Mobile Communication Limited	3,247	-
Advance Rent from Warid Telecom Limited	9,164	8,206
Rent payable to Wateen Telecom Limited	-	750
TFCs held by Taavun (Private) Limited	332,467	498,800
TFCs held by Key Management Personnel	132,348	186,591

41.11 The key management personnel / directors compensation are as follows:

Salaries and Allowances	1,297,506	1,170,228
Fair value charge against employee stock option scheme	109,615	94,830

In addition, the Chief Executive and certain Executives are provided with Bank maintained cars and other benefits.

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42 CAPITAL ASSESSMENT AND ADEQUACY

42.1 Scope of Applications

Amounts subject to Pre - Basel III treatment

The Basel-III Framework is applicable to the Group at the consolidated level (comprising of wholly/partially owned subsidiaries & associates). Subsidiaries are included while calculating Consolidated Capital Adequacy for the Group using full consolidation method whereas associates in which the Group has significant influence on equity method. Standardized Approach is used for calculating the Capital Adequacy for Credit and Market risks, whereas, higher of Alternate Standardized Approach (ASA) or 70% of Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purpose.

42.2 Capital Management

42.2.1 Objectives and goals of managing capital

The Group manages its capital to attain following objectives and goals:

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

42.2.2 Statutory Minimum Capital Requirement and Capital Adequacy Ratio

The State Bank of Pakistan through its BSD Circular No.07 of 2009 dated April 15, 2009 requires the minimum paid up capital (net of losses) for all locally incorporated Banks to be raised to Rs. 10 billion in a phased manner from the financial year December 2013. The paid up capital of the Bank for the year ended December 31, 2016 stands at Rs. 15.952 billion and is in compliance with the SBP requirement for the said year.

The capital adequacy ratio of the Group is subject to the Basel III capital adequacy guidelines stipulated by the State Bank of Pakistan through its BPRD Circular No. 06 of 2013 dated August 15, 2013. These instructions are effective from December 31, 2013 in a phased manner with full implementation intended by December 31, 2019. Under Basel III guidelines Banks are required to maintain the following ratios on an ongoing basis:

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

Sr. No	Ratio	2015	2016	2017	2018	As of December 31, 2019
1	CET 1	6.0%	6.0%	6.0%	6.0%	6.0%
2	ADT 1	1.5%	1.5%	1.5%	1.5%	1.5%
3	Tier 1	7.5%	7.5%	7.5%	7.5%	7.5%
4	Total Capital	10.0%	10.0%	10.0%	10.0%	10.0%
5	*CCB	0.25%	0.65%	1.28%	1.90%	2.50%
6	Total Capital Plus CCB	10.25%	10.65%	11.28%	11.90%	12.50%

* Capital conservation buffer

42.2.3 Group's regulatory capital is analysed into three tiers

Common Equity Tier 1 capital (CET1), which includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves, statutory reserves as per the financial statements and net unappropriated profits after all regulatory adjustments applicable on CET1 (refer note 42.4).

Additional Tier 1 Capital (AT1), which includes perpetual non-cumulative preference shares and share premium resulting from the issuance of preference shares balance in share premium account after all regulatory adjustments applicable on AT1 (refer to note 42.4).

Tier 2 capital, which includes Subordinated debt/ Instruments, share premium on issuance of Subordinated debt/ Instruments, general provisions for loan losses (up to a maximum of 1.25% of credit risk weighted assets), net reserves on revaluation of fixed assets and equity investments up to a maximum of 45% of the balance, further in the current year additional benefit of revaluation reserves (net of tax effect) is availed at the rate of 60% per annum for the remaining portion of 55% of revaluation reserve and foreign exchange translation reserves after all regulatory adjustments applicable on Tier-2 (refer to note 42.4).

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

Basel-III Framework enables a more risk-sensitive regulatory capital calculation to promote long term viability of the Group. As the Group carry on the business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across entire organization and aggregate the risks so as to take an integrated approach/view. Maximization of the return on risk-adjusted capital is the principal basis to be used in determining how capital is allocated within the Group to particular operations. The Group remained compliant with all externally imposed capital requirements through out the year. Further, there has been no material change in the Group's management of capital during the year.

42.2.4 Leverage Ratio

The leverage ratio of the Group as at December 31, 2016 is 3.51 % (2015: 3.47%). The ratio has been computed as prescribed by State Bank of Pakistan through Instructions for Basel-III Implementation in Pakistan.

As on December 31, 2016; Total Tier 1 capital of the Group amounts to Rs. 43,167,583 thousand (2015: Rs. 37,445,383 thousand) whereas the total exposure measure amounts to Rs. 1,230,215,639 thousand (2015: Rs. 1,080,351,619 thousand).

Favourable shift in leverage ratio is mainly due to an increase in Bank's Tier 1 capital and a decrease in unconditionally cancellable commitment.

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42.3 Capital Adequacy

Group's approach for assessing the adequacy of the capital to support current and future business operations based on the following:

- a. Capital Adequacy plays key consideration for not only arriving at the business projections / plans but is religiously monitored while undertaking transactions.
- b. The Group has demonstrated the capability to comfortably meet new & enhanced capital adequacy standards, therefore it is now following controlled growth strategy. The TFC was issued by the Bank to support the growth but gradually the Bank is enriching the Tier 1 capital while ensuring regular dividend to share holders.
- c. The capital base forms the very basic foundation of business plans. The capital base is sufficient to support the envisaged business growth and this would be monitored regularly.
- d. Current and potential risk exposures across all the major risk types are:

Risk Type	Materiality Level for Bank– High/Medium/Low	Adequacy of controls (Adequate / Partially adequate/ Not adequate)
Credit	High	Adequate
Market	High	Adequate
Operational	High	Adequate
Model	Low	Adequate
Concentration	Medium	Adequate
Interest rate risk in Banking Book	High	Adequate
Liquidity	High	Adequate
Country	Medium	Adequate
Reputation	Medium	Adequate
Strategic / Business	Medium	Adequate
Legal Risk	Medium	Adequate

- e. The Group enjoys strong sponsor support from Abu Dhabi Group, and more recently, IFC has acquired a 15% stake in the Bank. This alliance has further solidified the Group's position and indicates increased investor confidence. The Bank has successfully managed five TFCs issues in the past, two of which are currently in issue. These are indicative of the Group's capacity to raise capital where required.
- f. The Group follows Standardised Approach for Credit and Market Risk, and Alternative Standardized Approach for Operational Risk. The assessment of capital adequacy is based on regulatory requirements.

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42.4 Capital Adequacy Ratio as at December 31, 2016

	2016	2015 (Restated)
	(Rupees in '000)	
Common Equity Tier 1 capital (CET1): Instruments and reserves		
1 Fully Paid-up Capital/ Capital deposited with SBP	15,952,076	15,898,062
2 Balance in Share Premium Account	4,417,126	4,329,648
3 Reserve for issue of Bonus Shares	-	-
4 Discount on Issue of shares	-	-
5 General/ Statutory Reserves	9,894,506	8,261,506
6 Gain/(Losses) on derivatives held as Cash Flow Hedge	-	-
7 Unappropriated/unremitted profits/ (losses)	17,777,737	12,813,488
8 subsidiaries (amount allowed in CET1 capital of the consolidation group)	168,183	170,969
9 CET 1 before Regulatory Adjustments	48,209,628	41,473,673
10 Total regulatory adjustments applied to CET1 (Note 42.4.1)	5,042,045	4,028,290
11 Common Equity Tier 1	43,167,583	37,445,383
Additional Tier 1 (AT 1) Capital		
12 Qualifying Additional Tier-1 capital instruments plus any related share premium	-	-
13 of which: Classified as equity	-	-
14 of which: Classified as liabilities	-	-
15 Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount	6,795	1,521
16 of which: instrument issued by subsidiaries subject to phase out	-	-
17 AT1 before regulatory adjustments	6,795	1,521
18 Total regulatory adjustment applied to AT1 capital (Note 42.4.2)	163,435	399,036
19 Additional Tier 1 capital after regulatory adjustments	-	-
20 Additional Tier 1 capital recognized for capital adequacy	-	-
21 Tier 1 Capital (CET1 + admissible AT1) (11+20)	43,167,583	37,445,383
Tier 2 Capital		
22 Qualifying Tier 2 capital instruments under Basel III plus any related share premium	3,990,400	4,989,000
23 Tier 2 capital instruments subject to phaseout arrangement issued under pre-Basel 3 rules	-	465,454
24 Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group	11,337	2,554
25 of which: instruments issued by subsidiaries subject to phase out	-	-
26 General provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk	820,776	780,744
27 Revaluation Reserves (net of taxes)	c=a+b 8,532,418	7,331,765
28 of which: Revaluation reserves on fixed assets	a 3,556,216	3,054,551
29 of which: Unrealized gains/losses on AFS	b 4,976,202	4,277,214
30 Foreign Exchange Translation Reserves	1,584,020	1,572,966
31 Undisclosed/Other Reserves (if any)	-	-
32 T2 before regulatory adjustments	14,938,951	15,142,483
33 Total regulatory adjustment applied to T2 capital (Note 42.4.3)	506,382	1,011,621
34 Tier 2 capital (T2) after regulatory adjustments	14,432,569	14,130,862
35 Tier 2 capital recognized for capital adequacy	14,432,569	14,130,862
36 Portion of Additional Tier 1 capital recognized in Tier 2 capital	-	-
37 Total Tier 2 capital admissible for capital adequacy	14,432,569	14,130,862
38 TOTAL CAPITAL (T1 + admissible T2) (21+37)	57,600,152	51,576,245
39 Total Risk Weighted Assets (RWA) (for details refer Note 42.7)	433,975,024	384,907,258
Capital Ratios and buffers (in percentage of risk weighted assets)		
40 CET1 to total RWA	9.95%	9.73%
41 Tier-1 capital to total RWA	9.95%	9.73%
42 Total capital to total RWA	13.27%	13.40%
43 Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any	6.65%	6.25%
44 of which: capital conservation buffer requirement	0.65%	0.25%
45 of which: countercyclical buffer requirement	-	-
46 of which: D-SIB or G-SIB buffer requirement	-	-
47 CET1 available to meet buffers (as a percentage of risk weighted assets)	3.95%	4.23%
National minimum capital requirements prescribed by SBP		
48 CET1 minimum ratio	6.00%	6.00%
49 Tier 1 minimum ratio	7.50%	7.50%
50 Total capital minimum ratio (Inclusive of 0.65% CCB for 2016 (2015: 0.25%))	10.65%	10.25%

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Regulatory Adjustments and Additional Information

2016		2015 (Restated)	
Amount	Amounts subject to Pre- Basel III treatment*	Amount	Amounts subject to Pre- Basel III treatment*
Rupees in '000			

42.4.1 Common Equity Tier 1 capital: Regulatory adjustments

1	Goodwill (net of related deferred tax liability)	-	-	-	-
2	All other intangibles (net of any associated deferred tax liability)	1,761,370	-	1,372,124	-
3	Shortfall in provisions against classified assets	-	-	-	-
4	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	1,787,215	1,191,476	1,612,215	2,418,323
5	Defined-benefit pension fund net assets	209,590	-	16,001	-
6	Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities	1,026,250	-	630,434	-
7	Cash flow hedge reserve	-	-	-	-
8	Investment in own shares/ CET1 instruments	100,980	-	-	-
9	Securitization gain on sale	-	-	-	-
10	Capital shortfall of regulated subsidiaries	-	-	-	-
11	Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	-	-	-	-
12	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	-
13	Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	-	-
14	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-	-	-
15	Amount exceeding 15% threshold	-	-	-	-
16	of which: significant investments in the common stocks of financial entities	-	-	-	-
17	of which: deferred tax assets arising from temporary differences	-	-	-	-
18	National specific regulatory adjustments applied to CET1 capital	-	-	-	-
19	Investments in TFCs of other banks exceeding the prescribed limit	-	-	-	-
20	Any other deduction specified by SBP (mention details)	-	-	-	-
21	Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions	156,640	-	397,516	-
22	Total regulatory adjustments applied to CET1 (sum of 1 to 21)	5,042,045		4,028,290	

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

23	Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment]	-	-	-	-
24	Investment in own AT1 capital instruments	-	-	-	-
25	Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial and insurance entities	-	-	-	-
26	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	-
27	Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-	-
28	Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from additional tier-1 capital	163,435	(163,435)	399,036	(399,036)
29	Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-	-	-
30	Total regulatory adjustment applied to AT1 capital (sum of 23 to 29)	163,435		399,036	

42.4.3 Tier 2 Capital: regulatory adjustments

31	Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	163,435	(163,435)	399,036	(399,036)
32	Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities	342,120	-	611,920	-
33	Investment in own Tier 2 capital instrument	827	-	665	-
34	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	-
35	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-	-
36	Total regulatory adjustment applied to T2 capital (sum of 31 to 35)	506,382		1,011,621	

*The amount represents regulatory deductions that are still subject to pre-Basel-III treatment during the transitional period.

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	2016	2015 (Restated)
	Rupees in '000	
42.4.4 Additional Information		
Risk Weighted Assets subject to pre-Basel III treatment		
37 Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment)	370,547,972	317,366,911
(i) of which: deferred tax assets	1,191,476	2,418,323
(ii) of which: Defined-benefit pension fund net assets	139,727	24,002
(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	105,041	222,688
(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	326,869	798,072
Amounts below the thresholds for deduction (before risk weighting)		
38 Non-significant investments in the capital of other financial entities	105,041	222,688
39 Significant investments in the common stock of financial entities	490,304	532,048
40 Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
Applicable caps on the inclusion of provisions in Tier 2		
41 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	820,776	780,744
42 Cap on inclusion of provisions in Tier 2 under standardized approach	4,653,889	4,010,375
43 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
44 Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-

42.5 Capital Structure Reconciliation

Table: 42.5.1

	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	2016 (Rupees in '000)	
Assets		
Cash and balances with treasury banks	74,071,394	74,071,394
Balances with other banks	9,498,787	9,498,787
Lending to financial institutions	30,149,029	30,149,029
Investments	389,666,922	389,666,922
Advances	378,724,300	378,724,300
Operating fixed assets	18,216,937	18,216,937
Deferred tax assets	-	-
Other assets	19,115,471	19,115,471
Total assets	919,442,840	919,442,840
Liabilities & Equity		
Bills payable	12,886,990	12,886,990
Borrowings	178,710,629	178,710,629
Deposits and other accounts	640,854,225	640,854,225
Sub-ordinated loans	8,317,670	8,317,670
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	2,911,531	2,911,531
Other liabilities	14,836,925	14,836,925
Total liabilities	858,517,970	858,517,970
Share capital/ Head office capital account	15,952,076	15,952,076
Reserves	15,895,652	15,895,652
Unappropriated/ Unremitted profit/ (losses)	17,777,737	17,777,737
Minority Interest	323,466	323,466
Surplus on revaluation of assets	10,975,939	10,975,939
Total equity	60,924,870	60,924,870
Total liabilities & equity	919,442,840	919,442,840

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Table: 42.5.2

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	
	2016 (Rupees in '000)		Reference
Assets			
Cash and balances with treasury banks	74,071,394	74,071,394	
Balances with other banks	9,498,787	9,498,787	
Lending to financial institutions	30,149,029	30,149,029	
Investments	389,666,922	389,666,922	
- of which: Non-significant investments in the capital instruments of banking, financial and insurance entities exceeding 10% threshold	-	-	a
- of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold	-	-	b
- of which: Mutual Funds exceeding regulatory threshold	-	-	c
- of which: reciprocal crossholding of capital instrument	-	-	
CET1	1,026,250	1,026,250	d
AT1	-	-	
T2	276,726	276,726	
- of which: others (mention details)	-	-	e
Advances	378,724,300	378,724,300	
- shortfall in provisions/ excess of total EL amount over eligible provisions under IRB	-	-	f
- general provisions reflected in Tier 2 capital	775,968	775,968	g
Fixed Assets	18,216,937	18,216,937	
of which: Intangibles	1,761,370	1,761,370	k
Deferred Tax Assets	-	-	
- of which: DTAs that rely on future profitability excluding those arising from temporary differences	2,978,691	2,978,691	h
- of which: DTAs arising from temporary differences exceeding regulatory threshold	-	-	i
Other assets	19,115,471	19,115,471	
- of which: Goodwill	-	-	j
- of which: Defined-benefit pension fund net assets	349,317	349,317	l
Total assets	919,442,840	919,442,840	
Liabilities & Equity			
Bills payable	12,886,990	12,886,990	
Borrowings	178,710,629	178,710,629	
Deposits and other accounts	640,854,225	640,854,225	
Sub-ordinated loans	8,317,670	8,317,670	
- of which: eligible for inclusion in AT1	-	-	m
- of which: eligible for inclusion in Tier 2	3,990,400	3,990,400	n
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	2,911,531	2,911,531	
- of which: DTLs related to goodwill	-	-	o
- of which: DTLs related to intangible assets	-	-	p
- of which: DTLs related to defined pension fund net assets	-	-	q
- of which: other deferred tax liabilities	-	-	r
Other liabilities	14,836,925	14,836,925	
Total liabilities	858,517,970	858,517,970	
Share capital	15,952,076	15,952,076	
- of which: amount eligible for CET1	15,952,076	15,952,076	s
- of which: amount eligible for AT1	-	-	t
Reserves	15,895,652	15,895,652	
- of which: portion eligible for inclusion in CET1	14,311,632	14,311,632	u
General Reserve	9,894,506	9,894,506	
Share Premium	4,417,126	4,417,126	
- of which: portion eligible for inclusion in Tier 2	1,584,020	1,584,020	v
Unappropriated profit/ (losses)	17,777,737	17,777,737	w
Minority Interest	323,466	323,466	
- of which: portion eligible for inclusion in CET1	168,183	168,183	x
- of which: portion eligible for inclusion in AT1	6,795	6,795	y
- of which: portion eligible for inclusion in Tier 2	11,337	11,337	z
Surplus on revaluation of assets	10,975,939	10,975,939	
- of which: Revaluation reserves on Fixed Assets	4,559,251	4,559,251	
- of which: Non-banking assets acquired in satisfaction of claims	36,942	36,942	aa
- of which: Unrealized Gains/Losses on AFS	6,379,746	6,379,746	
- In case of Deficit on revaluation (deduction from CET1)	-	-	ab
Total equity	60,924,870	60,924,870	
Total liabilities & equity	919,442,840	919,442,840	

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Table: 42.5.3

Table: 42.5.3	Component of regulatory capital reported by bank 2016 (Rupees in '000)	Source based on reference number from step 2
Common Equity Tier 1 capital (CET1): Instruments and reserves		
1 Fully Paid-up Capital/ Capital deposited with SBP	15,952,076	
2 Balance in Share Premium Account	4,417,126	(s)
3 Reserve for issue of Bonus Shares	-	
4 General/ Statutory Reserves	9,894,506	(u)
5 Gain/(Losses) on derivatives held as Cash Flow Hedge	-	(w)
6 Unappropriated/unremitted profits/ (losses)	17,777,737	(x)
7 Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	168,183	
8 CET 1 before Regulatory Adjustments	48,209,628	
Common Equity Tier 1 capital: Regulatory adjustments		
9 Goodwill (net of related deferred tax liability)	-	(j) - (o)
10 All other intangibles (net of any associated deferred tax liability)	1,761,370	(k) - (p)
11 Shortfall of provisions against classified assets	-	(f)
12 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	1,787,215	((h) - (r) * 60%
13 Defined-benefit pension fund net assets	209,590	((l) - (q)) * 60%
14 Reciprocal cross holdings in CET1 capital instruments	1,026,250	(d)
15 Cash flow hedge reserve	-	
16 Investment in own shares/ CET1 instruments	100,980	
17 Securitization gain on sale	-	
18 Capital shortfall of regulated subsidiaries	-	
19 Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	-	(ab)
20 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(a) - (ac) - (ae)
21 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	(b) - (ad) - (af)
22 Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	(i)
23 Amount exceeding 15% threshold	-	
24 of which: significant investments in the common stocks of financial entities	-	
25 of which: deferred tax assets arising from temporary differences	-	
26 National specific regulatory adjustments applied to CET1 capital	-	
27 of which: Investment in TFCs of other banks exceeding the prescribed limit	-	
28 of which: Any other deduction specified by SBP (mention details)	-	
29 Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	156,640	
30 Total regulatory adjustments applied to CET1 (sum of 9 to 29)	5,042,045	
31 Common Equity Tier 1	43,167,583	
Additional Tier 1 (AT 1) Capital		
32 Qualifying Additional Tier-1 instruments plus any related share premium	-	
33 of which: Classified as equity	-	(t)
34 of which: Classified as liabilities	-	(m)
35 Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	6,795	(y)
36 of which: instrument issued by subsidiaries subject to phase out	-	
37 AT1 before regulatory adjustments	6,795.00	
Additional Tier 1 Capital: regulatory adjustments		
38 Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	
39 Investment in own AT1 capital instruments	-	
40 Reciprocal cross holdings in Additional Tier 1 capital instruments	-	
41 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ac)
42 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(ad)
43 Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-BaseI III treatment which, during transitional period, remain subject to deduction from tier-1 capital	163,435	
44 Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
45 Total of Regulatory Adjustment applied to AT1 capital (sum of 38 to 43)	163,435	
46 Additional Tier 1 capital	-	
47 Additional Tier 1 capital recognized for capital adequacy	-	
48 Tier 1 Capital (CET1 + admissible AT1) (31+47)	43,167,583	

Table: 42.5.3

Component of
regulatory capital
reported by bank

Source based on
reference number
from step 2

2016
(Rupees in '000)

Tier 2 Capital

49	Qualifying Tier 2 capital instruments under Basel III plus any related share premium	3,990,400	
50	Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-	(n)
51	Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	11,337	(z)
52	of which: instruments issued by subsidiaries subject to phase out	-	
53	General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	820,776	(g)
54	Revaluation Reserves	8,532,418	
55	of which: Revaluation reserves on fixed assets	3,556,216	
56	of which: Unrealized Gains/Losses on AFS	4,976,202	portion of (aa)
57	Foreign Exchange Translation Reserves	1,584,020	(v)
58	Undisclosed/Other Reserves (if any)	-	
59	T2 before regulatory adjustments	14,938,951	
Tier 2 Capital: regulatory adjustments			
60	Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	163,435	
61	Reciprocal cross holdings in Tier 2 instruments	342,120	
62	Investment in own Tier 2 capital instrument	827	
63	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ae)
64	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(af)
65	Amount of Regulatory Adjustment applied to T2 capital (sum of 60 to 64)	506,382	
66	Tier 2 capital (T2)	14,432,569	
67	Tier 2 capital recognized for capital adequacy	14,432,569	
68	Excess Additional Tier 1 capital recognized in Tier 2 capital	-	
69	Total Tier 2 capital admissible for capital adequacy	14,432,569	
70	TOTAL CAPITAL (T1 + admissible T2) (48+69)	57,600,152	

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42.6 Main Features Template of Regulatory Capital Instruments

Disclosure template for main features of regulatory capital instruments				
S. No	Main Features	Common Shares	Instrument - 2	Instrument - 3
1	Issuer	Bank Alfalah Limited	Bank Alfalah Limited	Bank Alfalah Limited
2	Unique identifier (e.g. KSE Symbol or Bloomberg identifier etc.)	BAFL	BAFL	BAFL TFC 5
3	Governing law(s) of the instrument	Laws of Islamic Republic of Pakistan	Laws of Islamic Republic of Pakistan	Laws of Islamic Republic of Pakistan
	Regulatory treatment			
4	Transitional Basel III rules	Common Equity Tier 1	Tier 2	Tier 2
5	Post-transitional Basel III rules	Common Equity Tier 1	Ineligible	Ineligible
6	Eligible at solo/ group/ group & solo	Solo and Group	Solo and Group	Solo and Group
7	Instrument type	Ordinary shares	Subordinated debt	Subordinated debt
8	Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting date)	Rs. 15,952,076	Nil	Rs. 3,990,400
9	Par value of instrument	Rs. 10	Rs. 5,000	Rs. 5,000
10	Accounting classification	Share holders' equity	Liability	Liability
11	Original date of issuance	21-Jun-92	Dec 2009	Feb 19 & 20, 2013
12	Perpetual or dated	NA	Dated	Dated
13	Original maturity date	NA	Dec 2017	Feb 2021
14	Issuer call subject to prior supervisory approval	NA	NA	No
15	Optional call date, contingent call dates and redemption amount	NA	NA	NA
16	Subsequent call dates, if applicable	NA	NA	NA
	Coupons / dividends			
17	Fixed or floating dividend/ coupon	NA	Fixed to floating	Floating
18	Coupon rate and any related index/ benchmark	NA	Option 1: Fixed at 15.50% per annum Option 2: 6 Months KIBOR plus 250 basis points per annum	Floating at 6 Months KIBOR*(Base Rate) plus 125 basis points per annum without any floor or CAP
19	Existence of a dividend stopper	No	No	No
20	Fully discretionary, partially discretionary or mandatory	NA	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	No	No
22	Noncumulative or cumulative	NA	Cumulative	Cumulative
23	Convertible or non-convertible	NA	Non convertible	Convertible
24	If convertible, conversion trigger (s)	NA	NA	At the option of supervisor it can be converted into common equity upon occurrence of certain trigger events, called point of non viability(PONV). The PONV is the earlier of; 1. A decision made by SBP that a conversion or temporary/ permanent write off is necessary without which the bank would become non viable. 2. the decision to make a public sector injection of capital, or equivalent support, without which the bank would have become non viable, as determined by SBP.
25	If convertible, fully or partially	NA	NA	May convert fully or partially
26	If convertible, conversion rate	NA	NA	To be determined in the case of trigger event
27	If convertible, mandatory or optional conversion	NA	NA	Optional
28	If convertible, specify instrument type convertible into	NA	NA	Common Equity Tier 1
29	If convertible, specify issuer of instrument it converts into	NA	NA	Bank Alfalah Limited
30	Write-down feature	No	NA	Yes
31	If write-down, write-down trigger(s)	NA	NA	At the option of supervisor it can be either written off upon occurrence of a certain trigger event, called point of non viability(PONV). The PONV is the earlier of; 1. A decision made by SBP that a conversion or temporary/ permanent write off is necessary without which the bank would become non viable. 2. The decision to make a public sector injection of capital, or equivalent support, without which the bank would have become non viable, as determined by SBP.
32	If write-down, full or partial	NA	NA	Either may be written-down fully or may be written down partially;
33	If write-down, permanent or temporary	NA	NA	Temporary
34	If temporary write-down, description of write-up mechanism	NA	NA	As may be determined by reversal of trigger event and subject to regulator's approval
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA	Deposits	Deposits
36	Non-compliant transitioned features	NA	NA	No
37	If yes, specify non-compliant features	NA	NA	N/A

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42.7 Risk Weighted Assets

The capital requirements for the banking group as per the major risk categories should be indicated in the manner given below:-

	Capital Requirements		Risk Weighted Assets	
	2016	2015 (Restated)	2016	2015 (Restated)
(Rupees in '000)				
Credit Risk				
On-Balance sheet				
<u>Portfolios subject to standardized approach (Simple or Comprehensive)</u>				
Cash & cash equivalents	-	-	-	-
Sovereign	3,038,749	2,969,181	28,532,859	28,967,616
Public Sector entities	485,776	986,853	4,561,275	9,627,832
Banks	1,534,305	1,125,068	14,406,619	10,976,271
Corporate	20,651,590	15,731,681	193,911,644	153,479,814
Retail	4,050,033	3,220,951	38,028,482	31,423,916
Residential Mortgages	348,457	313,969	3,271,896	3,063,114
Past Due loans	271,911	266,037	2,553,152	2,595,479
Operating Fixed Assets	1,752,518	1,634,421	16,455,568	15,945,566
Other assets	603,813	1,432,032	5,669,603	13,971,041
	32,737,152	27,680,193	307,391,098	270,050,649
<u>Portfolios subject to Internal Rating Based (IRB) Approach</u>				
e.g. Corporate, Sovereign, Corporate, Retail, Securitization etc.				
Off-Balance sheet				
Non-market related				
Financial guarantees	2,767,404	936,061	25,985,017	9,132,300
Acceptances	120,141	1,143,764	1,128,089	11,158,670
Performance Related Contingencies	1,235,126	825,039	11,597,424	8,049,163
Trade Related Contingencies	1,197,543	830,617	11,244,536	8,103,584
	5,320,214	3,735,481	49,955,066	36,443,717
Market related				
Foreign Exchange contracts	52,978	57,548	497,446	561,441
Derivatives	5,225	2,770	49,064	27,026
	58,203	60,318	546,510	588,467
Equity Exposure Risk in the Banking Book				
Under simple risk weight method				
Listed Equity Investment	774,420	516,131	7,271,546	5,035,426
Unlisted Equity Investment	761,141	892,953	7,146,865	8,711,737
	1,535,561	1,409,084	14,418,411	13,747,163
Under Internal models approach				
	39,651,130	32,885,076	372,311,085	320,829,996
Market Risk				
<u>Capital Requirement for portfolios subject to Standardized Approach</u>				
Interest rate risk	207,250	307,488	2,590,625	3,843,600
Equity position risk	161,175	31,993	2,014,688	399,913
Foreign Exchange risk	10,455	886,466	130,688	11,080,825
	378,880	1,225,947	4,736,001	15,324,338
<u>Capital Requirement for portfolios subject to Internal Models Approach</u>				
<i>Operational Risk [70% of BIA or ASA whichever is higher is taken as capital charge (2015-80%)]*</i>				
<u>Capital Requirement for operational risks</u>	4,554,235	3,900,234	56,927,938	48,752,924
Total Risk Weighted Exposures	44,584,245	38,011,257	433,975,024	384,907,258

* SBP has accorded approval to the bank vide SBP letter No. BPRD/ BA&CP/ 614/ 17838/2013 dated December 03, 2013 for adoption of ASA based on the following capital floor i.e. operational risk charge under ASA should not fall below a certain percentage of operational risk capital charge calculated under Basic Indicator Approach (BIA)

Capital Floor (for operational risk capital charge only)		
December 2013 - December 2014	Year 2015	Year 2016
90%	80%	70%

Capital Adequacy Ratios	2016		2015	
	Required	Actual	Required	Actual
CET1 to total RWA	6.00%	9.95%	6.00%	9.73%
Tier-1 capital to total RWA	7.50%	9.95%	7.50%	9.73%
Total capital to total RWA	10.65%	13.27%	10.25%	13.40%

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43 RISK MANAGEMENT

The variety of business activities undertaken by the Group requires effective identification, measurement, monitoring, integration and management of different financial and non-financial risks that are constantly evolving as business activities change in response to concurrent internal and external developments. The Board Risk Management Committee (BRMC) is appointed and authorized by the Board of Directors (BOD) to assist in design, regular evaluation and timely updating of the risk management framework of the Bank. The Board has further authorized management committees i.e. Central Management Committee (CMC) and Central Credit Committee (CCC). To complement CMC and to supervise risk management activities within their respective scopes, CMC has further established sub-committees such as Assets & Liabilities Committee (ALCO), Investment Committee, Principal Investment Committee, Information Technology Steering Committee (ITSC), Internal Control & Compliance Committee (ICCC) and Process Improvement Committee.

The risk management framework endeavours to be a comprehensive and evolving guideline to cater to changing business dynamics. The framework includes:

- Clearly defined risk management policies and procedures.
- Well constituted organizational structure, in the form of a separate risk management department, which ensures that individuals responsible for risk approval are independent from risk taking units i.e. Business Units.
- Mechanism for ongoing review of policies and procedures and risk exposures.

The primary objective of this architecture is to inculcate risk management into the organization flows to ensure that risks are accurately identified & assessed, properly documented, approved, and adequately monitored & managed in order to enhance long term earnings and to protect the interests of the Bank's depositors and shareholders.

The Group's risk management framework has a well-defined organizational structure for effective management of credit risk, market risk, liquidity risk, operational risk, IT security risk and environment and social risk.

43.1 Credit risk

Credit risk is the identification of probability that counterparty will cause a financial loss to the Group due to its inability or unwillingness to meet its contractual obligation. This credit risk arises mainly from both direct lending activities as well as contingent liabilities. Credit risk management processes encompass identification, assessment, measurement, monitoring and control of Group's exposure to credit risk. The Group's credit risk management philosophy is based on Group's overall business strategy / direction as established by the Board. The Group is committed to the appropriate level of due diligence to ensure that credit risks have been properly analysed, fully disclosed to the approving authorities and appropriately rated, also ensuring that the credit commitment is appropriately structured, priced (in line with market practices) and documented.

The Group has built and maintained a sound loan portfolio in terms of well-defined credit policy approved by BOD. Its credit evaluation system comprises of well-designed credit appraisal, sanctioning and review procedures for the purpose of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio. In order to have an effective and efficient risk assessment, and to closely align its functions with Business, Credit Division has separate units for corporate banking, Islamic banking, commercial & SME banking, agricultural financing, and overseas operations.

The Group manages its portfolio of loan assets with a view to limit concentrations in terms of risk quality, industry, maturity and large exposure. Internal rating based portfolio analysis is also conducted on regular basis. This portfolio level oversight is maintained by Risk Management Division.

A sophisticated internal credit rating system is in place, which is capable of quantifying counter-party & transaction risk in accordance with the best practices. The risk rating system takes into consideration qualitative and quantitative factors of the counter-party, transaction structure & security and generates internal ratings at Obligor and Facility levels. The facility rating system, developed in line with SBP's guidelines, also provides estimated LGD (Loss Given Default). This has been implemented in Corporate Banking and Retail & Middle Market segments with other business units to follow. Furthermore, this system has an integrated loan origination module, which is currently being used in Corporate Banking, Islamic Banking and Retail & Middle Market segments. The system is regularly reviewed for improvements as per SBP's guidelines for Internal Credit Rating and Risk Management. Furthermore, Group has also automated Internal Rating validation process based on statistical tests for Corporate, Commercial, ME, SE & Agri rating models. It covers both discrimination & calibration statistical tests as per best international practices. The system is backed by secured database with backup support and is capable of generating MIS reports providing snapshot of the entire portfolio for strategizing and decision making. The system has been enhanced to generate the risk weighted assets required for supporting the credit facilities at the time of credit origination and computation of Risk Weighted Assets for the quarterly credit risk related Basel submissions.

A centralized Credit Administration Division (CAD) under Operations Group is working towards ensuring that terms of approval of credit sanctions and regulatory stipulations are complied, all documentation including security documentation is regular & fully enforceable and all disbursements of approved facilities are made only after necessary authorization by CAD. Credit Monitoring, under CAD, keeps a watch on the quality of the credit portfolio in terms of borrowers' behaviour, identifies weakening accounts relationships and reports it to the appropriate authority with a view to arrest deterioration.

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To handle the specialized requirements of managing delinquent and problem accounts, the Bank has a separate client facing unit to negotiate repayment/ settlement of the Group's non-performing exposure and protect the interests of the Bank's depositors and stakeholders. Unlike other banking groups, where the priority is the maximization of Bank's revenue, the priority of the Special Asset Management Group (SAMG) is recovery of funds and/or to structure an arrangement (such as rescheduling, restructuring, settlement or a combination of these) by which the interests of the Bank are protected. Where no other recourse is possible, SAMG may proceed with legal recourse so as to maximize the recovery of the Bank's assets. The Risk Management Division also monitors the NPL portfolio of the Bank and reports the same to CCC/ BRMC.

43.1.1 Credit Risk - General Disclosures Basel Specific

Bank Alfalah Limited is using Standardized Approach (SA) of SBP Basel accord for the purpose of estimating Credit Risk Weighted Assets. Under SA, banks are allowed to take into consideration external rating(s) of counter-party(s) for the purpose of calculating Risk Weighted Assets. A detailed procedural manual specifying return-based formats, methodologies and processes for deriving Credit Risk Weighted Assets in accordance with the SBP Basel Standardized Approach is in place and firmly adhered to.

43.1.2 Disclosures for portfolio subject to the Standardised Approach & Supervisory risk weights

43.1.2.1 External ratings

SBP Basel III guidelines require banks to use ratings assigned by specified External Credit Assessment Agencies (ECAIs) namely PACRA, JCR-VIS, Moodys, Fitch and Standard & Poors.

The State Bank of Pakistan through its letter number BSD/BAI-2/201/1200/2009 dated December 21, 2009 has accorded approval to the Bank for use of ratings assigned by CRAB and CRISL. The Bank uses these ECAIs to rate its exposures denominated in Bangladeshi currency on certain corporate and banks incorporated in Bangladesh.

The Bank uses external ratings for the purposes of computing the risk weights as per the Basel III framework. For exposures with a contractual maturity of less than or equal to one year, short-term rating given by approved Rating Agencies is used, whereas for long-term exposure with maturity of greater than one year, long-term rating is used.

Where there are two ratings available, the lower rating is considered and where there are three or more ratings the second - lowest rating is considered.

43.1.3 Disclosures with respect to Credit Risk Mitigation for Standardised Approach

43.1.3.1 Credit risk mitigation policy

The Bank defines collateral as the assets or rights provided to the Bank by the borrower or a third party in order to secure a credit facility. The Bank would have the rights of secured creditor in respect of the assets / contracts offered as security for the obligations of the borrower / obligor.

43.1.3.2 Collateral valuation and management

As stipulated in the SBP Basel II / III guidelines, the Bank uses the comprehensive approach for collateral valuation. Under this approach, the Bank reduces its credit exposure to a counterparty when calculating its capital requirements to the extent of risk mitigation provided by the eligible financial collateral as specified in the Basel III guidelines. In line with Basel II / III guidelines, the Bank makes adjustments in eligible collaterals received for possible future fluctuations in the value of the collateral in line with the requirements specified by SBP guidelines. These adjustments, also referred to as 'haircuts', to produce volatility-adjusted amounts for collateral, are reduced from the exposure to compute the capital charge based on the applicable risk weights.

43.1.3.3 Types of collateral taken by the Bank

Bank Alfalah Limited determines the appropriate collateral for each facility based on the type of product and counterparty. In case of corporate and SME financing, fixed assets are generally taken as security for long tenor loans and current assets for working capital finance usually backed by mortgage or hypothecation. For project finance, security of the assets of the borrower and assignment of the underlying project contracts is generally obtained. Additional security such as pledge of shares, cash collateral, TDRs, SSC/DSCs, charge on receivables may also be taken. Moreover, in order to cover the entire exposure Personal Guarantees of Directors / Borrowers are also obtained generally by the Bank. For retail products, the security to be taken is defined in the product policy for the respective products. Housing loans and automobile loans are secured by the security of the property/automobile being financed respectively. The valuation of the properties is carried out by an approved valuation agency.

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The Bank also offers products which are primarily based on collateral such as shares, specified securities and pledged commodities. These products are offered in line with the SBP prudential regulations and approved product policies which also deal with types of collateral, valuation and margining.

The decision on the type and quantum of collateral for each transaction is taken by the credit approving authority as per the credit approval authorization approved by the Central Credit Committee (CCC) under its delegation powers. For facilities provided as per approved product policies (retail products, loan against shares etc.), collateral is taken in line with the policy.

43.1.3.4 Types of eligible financial collateral

For credit risk mitigation purposes (capital adequacy purposes), the Group considers all types of financial collaterals that are eligible under SBP Basel III accord. This includes Cash / TDRs, Gold, securities issued by Government of Pakistan such as T-Bills and PIBs, National Savings Certificates, certain debt securities rated by a recognised credit rating agency, mutual fund units where daily Net Asset Value (NAV) is available in public domain and guarantees from certain specified entities (Government of Pakistan, Banks etc.) under substitution effect of Basel in general, for capital calculation purposes, in line with the SBP Basel III requirements, the Bank recognises only eligible collaterals as mentioned in the SBP Basel III accord.

43.1.3.5 Credit concentration risk

Credit concentration risk arises mainly due to concentration of exposures under various categories viz. industry, geography, and single/group borrower exposures. Within credit portfolio, as a prudential measure aimed at better risk management and avoidance of concentration of risks, the SBP has prescribed regulatory limits on banks' maximum exposure to single borrower and group borrowers. Moreover, in order to restrict the industry concentration risk, Bank's annual credit plan spells out the maximum allowable exposure that it can take on specific industries. Additionally, the Internal Rating System allows the Bank to monitor risk rating concentration of borrowers against different grades / scores ranging from 1 - 12 (1 being the best and 12 being loss category).

43.1.4 Segmental information

43.1.4.1 Segments by class of business

	2016					
	Advances (Gross)		Deposits		Contingent liabilities*	
	(Note 10)		(Note 16)			
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Agriculture	25,146,203	6.35%	4,512,814	0.70%	676,226	0.51%
Automobile & Transportation Equipment	6,716,530	1.70%	6,896,102	1.08%	4,942,532	3.76%
Chemical and Pharmaceuticals	4,074,952	1.03%	4,367,174	0.68%	4,036,635	3.07%
Cement	6,310,583	1.59%	998,229	0.16%	4,105,149	3.12%
Communication	6,316,495	1.60%	5,688,168	0.89%	2,894,449	2.20%
Electronics and Electrical Appliances	4,299,732	1.09%	2,686,895	0.42%	4,467,410	3.40%
Educational Institutes	1,915,871	0.48%	7,980,970	1.25%	267,878	0.20%
Financial	8,621,617	2.18%	26,229,211	4.09%	16,187,989	12.32%
Fertilizers	10,855,791	2.74%	418,538	0.07%	130,998	0.10%
Food & Allied Products	16,426,146	4.15%	8,758,225	1.37%	2,755,962	2.10%
Glass & Ceramics	361,281	0.09%	401,428	0.06%	349,719	0.27%
Ghee & Edible Oil	9,421,674	2.38%	3,419,859	0.53%	5,259,148	4.00%
Housing Societies / Trusts	2,535,735	0.64%	23,360,992	3.65%	54,801	0.04%
Insurance	-	0.00%	3,497,192	0.55%	-	0.00%
Import & Export	6,645,776	1.68%	3,618,472	0.56%	8,483	0.01%
Iron / Steel	9,725,608	2.46%	4,467,572	0.70%	6,357,746	4.84%
Oil & Gas	18,578,938	4.69%	20,598,300	3.21%	17,873,323	13.60%
Paper & Board	3,652,792	0.92%	495,440	0.08%	1,361,049	1.04%
Production and Transmission of Energy	58,281,948	14.72%	19,430,454	3.03%	5,256,974	4.00%
Real Estate / Construction	10,281,339	2.60%	31,372,965	4.90%	5,653,556	4.30%
Retail / Wholesale Trade	14,605,147	3.69%	28,724,702	4.48%	12,486,802	9.50%
Rice Processing and Trading/ Wheat	9,470,043	2.39%	2,189,755	0.34%	67,897	0.05%
Sugar	8,501,559	2.15%	1,635,158	0.26%	733,111	0.56%
Shoes and Leather garments	2,373,883	0.60%	2,173,422	0.34%	342,355	0.26%
Sports Goods	402,310	0.10%	443,678	0.07%	126,329	0.10%
Surgical Goods	490,108	0.12%	521,150	0.08%	25,256	0.02%
Textile Spinning	31,099,133	7.86%	2,747,373	0.43%	6,469,700	4.92%
Textile Weaving	14,184,418	3.58%	3,147,400	0.49%	2,783,776	2.12%
Textile Composite	21,445,047	5.42%	4,963,715	0.77%	5,202,455	3.96%
Welfare Institutions	1,000,000	0.25%	17,551,301	2.74%	-	0.00%
Individuals	36,642,361	9.26%	241,987,139	37.76%	684,330	0.52%
Others	45,485,511	11.49%	155,570,432	24.26%	19,886,826	15.11%
	395,868,531	100.00%	640,854,225	100.00%	131,448,864	100.00%

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	2015					
	Advances (Gross)		Deposits		Contingent liabilities*	
	(Note 10)		(Note 16)			
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Agribusiness	25,426,115	7.26%	9,268,099	1.45%	403,097	0.36%
Automobile & Transportation Equipment	3,621,759	1.03%	12,494,496	1.95%	2,310,736	2.08%
Chemical and Pharmaceuticals	6,569,859	1.88%	6,943,315	1.08%	4,826,490	4.33%
Cement	5,050,929	1.44%	3,012,779	0.47%	1,679,342	1.51%
Communication	6,795,506	1.94%	7,408,672	1.16%	2,033,797	1.83%
Electronics and Electrical Appliances	5,450,802	1.56%	3,981,446	0.62%	1,463,169	1.31%
Educational Institutes	1,579,472	0.45%	10,393,163	1.62%	166,705	0.15%
Financial	6,012,279	1.72%	43,427,905	6.78%	16,388,180	14.72%
Fertilizers	10,761,359	3.07%	13,237,190	2.07%	2,243,982	2.02%
Food & Allied Products	10,422,249	2.97%	9,009,487	1.41%	2,366,516	2.13%
Glass & Ceramics	400,958	0.11%	1,858,994	0.29%	136,529	0.12%
Ghee & Edible Oil	7,625,148	2.18%	4,018,647	0.63%	3,314,775	2.98%
Housing Societies / Trusts	1,011,819	0.29%	10,340,871	1.62%	62,421	0.06%
Insurance	1,247	0.00%	1,774,999	0.28%	-	0.00%
Import & Export	3,679,806	1.05%	14,074,053	2.20%	448,922	0.40%
Iron / Steel	10,082,093	2.88%	7,888,480	1.23%	5,970,084	5.36%
Oil & Gas	32,560,786	9.29%	41,076,943	6.42%	13,674,007	12.28%
Paper & Board	3,107,556	0.89%	2,399,688	0.37%	669,425	0.60%
Production and Transmission of Energy	55,783,228	15.92%	12,261,946	1.92%	10,895,232	9.78%
Real Estate / Construction	9,589,567	2.74%	20,256,601	3.16%	6,593,492	5.92%
Retail / Wholesale Trade	8,153,916	2.33%	28,219,596	4.41%	5,239,175	4.71%
Rice Processing and Trading/ Wheat	9,290,979	2.65%	6,134,412	0.96%	8,572	0.01%
Sugar	6,787,255	1.94%	3,522,207	0.55%	143,569	0.13%
Shoes and Leather garments	2,301,645	0.66%	5,307,073	0.83%	448,764	0.40%
Sports Goods	104,205	0.03%	964,705	0.15%	37,579	0.03%
Surgical Goods	404,717	0.12%	928,481	0.15%	71,983	0.06%
Textile Spinning	25,064,417	7.15%	2,963,234	0.46%	4,204,188	3.78%
Textile Weaving	10,375,119	2.96%	3,086,072	0.48%	876,232	0.79%
Textile Composite	16,144,130	4.61%	4,578,195	0.72%	5,493,318	4.93%
Welfare Institutions	73,341	0.02%	8,209,978	1.28%	3,050	0.00%
Individuals	32,873,698	9.38%	194,754,585	30.42%	1,547,964	1.39%
Others	33,247,338	9.48%	146,340,849	22.86%	17,629,579	15.83%
	350,353,297	100.00%	640,137,161	100.00%	111,350,874	100.00%

* Contingent liabilities for the purpose of this note are presented at cost and includes direct credit substitutes, transaction related contingent liabilities and trade related contingent liabilities.

43.1.4.2 Segment by sector

	2016					
	Advances (Gross)		Deposits		Contingent liabilities*	
	(Note 10)		(Note 16)			
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	86,223,360	22%	18,982,770	3%	22,410,079	17%
Private	309,645,171	78%	621,871,455	97%	109,038,785	83%
	395,868,531	100%	640,854,225	100%	131,448,864	100%

	2015					
	Advances (Gross)		Deposits		Contingent liabilities*	
	(Note 10)		(Note 16)			
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	94,312,609	27%	36,469,841	6%	16,132,091	14%
Private	256,040,688	73%	603,667,320	94%	95,218,783	86%
	350,353,297	100%	640,137,161	100%	111,350,874	100%

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

	2016		2015	
	Classified advances	Specific provision	Classified advances	Specific provision
	(Note 10.4)			
	(Rupees in '000)			
Agribusiness	378,541	216,924	293,088	150,383
Automobile & Transportation equipment	1,131,004	417,619	141,121	87,666
Chemical & Pharmaceuticals	225,513	225,513	110,231	98,165
Communication	1,870,813	1,870,813	519,376	519,376
Educational Institutes	52,322	45,972	-	-
Electronic & Electrical Appliances	-	-	413,838	411,590
Financial	1,302,880	1,288,470	79,330	79,330
Fertilizers	765,136	765,136	790,636	794,048
Food and allied products	257,302	175,802	273,119	202,843
Glass / Ceramics	17,133	17,133	26,559	26,559
Ghee & Edible Oil	457,638	457,638	392,526	454,547
Import & Export	885,121	829,730	626,525	603,525
Iron and steel	227,394	187,622	246,643	213,770
Oil and gas	1,701,406	1,356,224	2,271,267	1,368,285
Paper & Board	90,892	90,892	133,651	133,551
Production and transmission of energy	148,839	148,839	1,948	1,948
Real Estate / Construction	557,536	534,411	655,948	348,688
Retail Trade & Wholesale	2,002,294	1,400,352	895,584	824,676
Rice processing and trading / wheat	1,092,534	1,048,501	521,589	501,232
Sugar	7,322	6,737	-	-
Shoes & Leather garments	94,654	94,654	95,251	94,301
Sports	30,990	30,990	3,900	3,900
Surgical goods	32,153	32,153	15,047	15,047
Textile Spinning	1,398,435	1,391,135	628,397	644,892
Textile Weaving	1,104,051	1,024,229	316,201	309,064
Textile Composite	1,051,420	937,481	3,090,643	2,899,945
Individuals	983,682	791,325	1,119,034	918,437
Others	1,152,780	981,968	4,794,307	3,747,147
	<u>19,019,785</u>	<u>16,368,263</u>	<u>18,455,759</u>	<u>15,452,915</u>

43.1.4.4 Details of non-performing advances and specific provisions by sector

	2016		2015	
	Classified advances	Specific provision	Classified advances	Specific provision
	(Rupees in '000)			
Public / Government	-	-	-	-
Private	19,019,785	16,368,263	18,455,759	15,452,915
	<u>19,019,785</u>	<u>16,368,263</u>	<u>18,455,759</u>	<u>15,452,915</u>

43.1.4.5 Geographical segment analysis

	2016			
	Profit before taxation	Total assets employed	Net assets employed	Contingent liabilities*
	(Rupees in '000)			
Pakistan	11,698,093	851,019,488	51,865,371	125,163,263
Asia Pacific (including South Asia)	1,107,779	48,111,705	8,201,003	4,665,616
Middle East	548,183	20,311,647	858,496	1,619,985
	<u>13,354,055</u>	<u>919,442,840</u>	<u>60,924,870</u>	<u>131,448,864</u>
	2015			
	Profit before taxation	Total assets employed	Net assets employed	Contingent liabilities*
	(Rupees in '000)			
Pakistan	11,021,338	844,408,608	44,434,956	97,080,642
Asia Pacific (including South Asia)	1,355,228	46,078,322	8,741,448	5,081,365
Middle East	280,606	12,928,827	916,332	9,188,867
	<u>12,657,172</u>	<u>903,415,757</u>	<u>54,092,736</u>	<u>111,350,874</u>

* Contingent liabilities for the purpose of this note are presented at cost and includes direct credit substitutes, transaction related contingent liabilities and trade related contingent liabilities.

KIRAN

43.2 Market risk

Market risk exposes the Group to the risk of financial losses resulting from movements in market prices. It is the risk associated with changes in the interest rates, foreign exchange rates, equity prices and commodity prices. To manage and control market risk, a well-defined risk management structure, under Board approved Market & Liquidity Risk Management Policy, is in place. The policy outlines methods to measure and control market risk which are carried out at a portfolio level. Moreover, it also includes controls which are applied, where necessary, to individual risk types, to particular books and to specific exposures. These controls include limits on exposure to individual market risk variables as well as limits on concentrations of tenors and issuers. This structure is reviewed, adjusted and approved periodically.

The Bank's Asset and Liability Committee (ALCO) and Investment Committee (IC) are primarily responsible for the oversight of the market risk, supported by Market Risk Management Unit of Risk Management Division (RMD). The Bank uses the Standardized Approach to calculate capital charge for market risk as per the current regulatory framework under Basel II / III. Currently, the Bank calculates 'Value at Risk (VaR)' on a regular basis. Moreover, the Bank also carries out stress testing on regular intervals by applying shocks on fixed income, equity and foreign exchange positions.

43.2.1 Foreign exchange risk

Foreign exchange (FX) risk arises from the fluctuation in the value of financial instruments due to the changes in foreign exchange rates. The Bank manages this risk by setting and monitoring dealer and currency-wise limits.

FX risk is mainly managed through matched positions. Unmatched positions are covered substantially through derivative instruments such as forwards and swaps. VaR analysis are conducted on regular basis to measure and monitor the FX risk.

The currency risk is regulated and monitored against the regulatory/statutory limits enforced by the State Bank of Pakistan. The foreign exchange exposure limits in respective currencies are managed against the prescribed limits.

The analysis below represents the concentration of the Group's foreign currency risk for on and off balance sheet financial instruments:

	2016			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	908,243,042	834,323,223	(10,905,418)	61,014,401
United States Dollar	11,742,423	16,364,610	4,491,512	(130,675)
Great Britain Pound	1,344,791	4,904,811	3,574,955	14,935
Arab Emirates Dirham	16,408	1,343	-	15,065
Euro	72,409	2,917,512	2,850,232	5,129
Other currencies	23,767	6,471	(11,281)	6,015
Total foreign currency exposure	13,199,798	24,194,747	10,905,418	(89,531)
Total currency exposure	919,442,840	858,517,970	-	60,924,870

	2015			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	868,394,987	811,691,692	8,236,601	64,939,896
United States Dollar	33,991,224	29,601,732	(15,445,404)	(11,055,912)
Great Britain Pound	293,051	4,988,182	4,706,822	11,691
Japanese Yen	151,675	2,998	(152,303)	(3,626)
Euro	218,986	2,984,674	2,774,062	6,374
Other currencies	367,834	53,743	(119,778)	194,313
Total foreign currency exposure	35,020,770	37,631,329	(8,236,601)	(10,847,160)
Total currency exposure	903,415,757	849,323,021	-	54,092,736

43.2.2 Equity investment risk

Equity investment risk arises due to the risk of changes in the prices of individual stocks held by the bank. The Group's equity investments are classified as Available for Sale (AFS) and Held for Trading (HFT) investments. The objective of investments classified as HFT portfolio is to take advantage of short term capital gains, while the AFS portfolio is maintained with a medium term view of capital gains and dividend income. The Bank's Investment Committee is primarily responsible for the oversight of the equity investment risk. Market Risk Management Unit of RMD monitors and reports portfolio and scrip level internal and external limits.

43.3 Interest rate risk

Interest Rate Risk is the adverse impact on the Bank's shareholder's equity due to changes in the interest rates. It may be further elaborated as changes in the present value of the asset, liabilities and commitments due to changes in the term structure of the interest rates. The Bank is exposed to interest rate risk primarily as a result of mismatches in the amounts of assets and liabilities and off-balance sheet instruments within a certain range of maturity due to re-pricing (whichever is earlier). The Bank has formulated a separate Interest Rate Risk Management (IRRM) framework which establishes aggregate and tenor-wise balance sheet level PV01 (Price Value of 1bps) limits to manage interest rate risk within the Board approved risk appetite. Treasury and FI Group is primarily responsible for management of interest rate risk on a daily basis, and the Asset and Liability Committee (ALCO) oversees the interest rate risk at Bank level. Market Risk Management Unit of Risk Management Division independently monitors, analyses and reports various limits including management action point limits and re-pricing of the assets and liabilities on a regular basis.

KPMG

43.3.1 Mismatch of interest rate sensitive assets and liabilities

	Effective yield/ interest rate	2016										Non-interest bearing financial instruments
		Exposed to yield / interest rate risk										
		Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
(Rupees in '000)												
On-balance sheet financial instruments												
Financial Assets												
Cash and balances with treasury banks	-	74,071,394	6,651,460	-	-	-	-	-	-	-	-	67,419,934
Balances with other banks	0.78%	9,498,787	3,335,337	1,435,399	-	-	-	-	-	-	-	4,728,051
Lendings to financial institutions	4.90%	30,149,029	3,857,883	11,892,500	14,398,646	58,458,677	88,541,189	97,689,618	46,175,864	27,259,389	647,989	12,408,959
Investments	7.61%	389,666,922	29,919,378	27,023,435	1,542,424	186,756,558	63,943	154,176	266,903	195,322	4,232,220	-
Advances	7.27%	378,724,300	29,811,581	128,342,849	186,756,558	28,900,748	-	-	-	-	-	-
Other assets	-	18,548,542	-	-	-	-	-	-	-	-	-	18,548,542
		900,658,974	73,575,639	168,694,183	202,697,628	87,359,425	88,605,132	97,843,794	46,442,767	27,454,711	4,880,209	103,105,486
Financial Liabilities												
Bills payable	-	12,886,990	-	-	-	-	-	-	-	-	-	12,886,990
Borrowings	5.12%	178,710,629	147,956,698	8,014,324	19,796,157	-	-	-	-	2,943,450	-	-
Deposits and other accounts	3.04%	640,854,225	290,491,729	20,059,108	23,733,050	15,172,690	753,186	477,159	27,860	-	-	290,139,443
Sub-ordinated loans	9.68%	8,317,670	-	4,993,000	2,524,154	800,516	-	-	-	-	-	-
Other liabilities	-	13,747,497	-	-	-	-	-	-	-	-	-	13,747,497
		854,517,011	438,448,427	33,066,432	46,053,361	15,973,206	753,186	477,159	27,860	2,943,450	-	316,773,930
On-balance sheet gap												
		46,141,963	(364,872,788)	135,627,751	156,644,267	71,386,219	87,851,946	97,366,635	46,414,907	24,511,261	4,880,209	(213,668,444)

KIMA

2015

Effective yield/ interest rate	Total	Exposed to yield / interest rate risk										Non-interest bearing financial instruments
		Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years		
(Rupees in '000)												
On-balance sheet financial instruments												
Financial Assets												
-	62,368,827	7,880,965	-	-	-	-	-	-	-	-	-	54,487,862
0.81%	16,583,138	2,934,025	2,074,384	-	-	-	-	-	-	-	-	11,574,729
7.58%	27,626,350	13,895,000	13,193,983	533,644	3,723	-	-	-	-	-	-	-
9.19%	423,518,968	2,592,747	52,449,451	38,355,780	146,346,231	56,712,435	64,174,242	27,040,219	25,706,276	295,487	9,846,100	-
8.66%	334,160,478	46,954,707	94,165,043	139,459,234	49,457,007	95,146	123,260	287,372	434,434	3,184,275	-	-
	21,082,158	-	-	-	-	-	-	-	-	-	-	21,082,158
	885,339,919	74,257,444	161,882,861	178,348,658	195,806,961	56,807,581	64,297,502	27,327,591	26,140,710	3,479,762	-	96,990,849
Financial Liabilities												
	9,733,929	-	-	-	-	-	-	-	-	-	-	9,733,929
6.22%	172,393,198	143,210,497	4,381,324	24,580,883	-	-	-	-	166,686	-	-	53,808
4.00%	640,137,161	289,527,760	47,840,572	33,572,157	22,311,911	1,874,012	966,744	199,291	-	-	-	243,844,714
11.04%	9,983,000	-	4,995,000	2,588,455	799,847	1,599,698	-	-	-	-	-	-
	14,334,649	-	-	-	-	-	-	-	-	-	-	14,334,649
	846,581,937	432,738,257	57,216,896	60,741,495	23,111,758	3,473,710	966,744	199,291	166,686	-	-	267,967,100
On-balance sheet gap												
	38,757,982	(358,480,813)	104,665,965	117,607,163	172,695,203	53,333,871	63,330,758	27,128,300	25,974,024	3,479,762	(170,976,251)	
Off-balance sheet financial instruments												
	98,261,212	48,466,074	38,285,002	10,163,560	1,346,576	-	-	-	-	-	-	-
Forward exchange contracts - purchase	106,520,120	29,830,025	72,780,665	3,850,461	58,969	-	-	-	-	-	-	-
Forward exchange contracts - sale	129,226,010	129,226,010	-	-	-	-	-	-	-	-	-	-
Repo transactions - repurchase	6,962,920	1,600,180	5,100,887	261,853	-	-	-	-	-	-	-	-
Interest Rate Swaps - receipts	6,962,920	-	-	-	-	-	-	5,287,064	1,675,856	-	-	-
Interest Rate Swaps - payments	(137,484,918)	(108,989,781)	(29,394,776)	6,574,952	1,287,607	-	-	(5,287,064)	(1,675,856)	-	-	-
Off-balance sheet gap												
	(467,470,594)	75,271,189	124,182,115	173,982,810	53,333,871	63,330,758	21,841,236	24,298,168	3,479,762	-	-	-
Total yield / interest rate risk sensitivity gap												
	(467,470,594)	(392,199,405)	(268,017,290)	(94,034,480)	(40,700,609)	22,630,149	44,471,385	68,769,553	72,249,315	-	-	-
Cumulative yield / interest rate risk sensitivity gap												

2016

2015

(Rupees in '000)

Total financial assets as per note 43.3.1	900,658,974	885,339,919
Add: Non financial assets		
Operating fixed assets	18,216,937	17,317,691
Deferred tax assets	566,929	758,147
Other assets	919,442,840	903,415,757
Total assets as per statement of financial position	854,517,011	846,581,937
Total liabilities as per note 43.3.1		
Add: Non financial liabilities		
Deferred tax liabilities	2,911,531	1,826,270
Other liabilities	1,089,428	914,814
Total liabilities as per statement of financial position	858,517,970	849,323,021

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43.4 Country risk

Country risk, refers to the possibility that economic and political conditions in a foreign country could adversely impact the Group's exposure in that country. For the Group, country risk arises as a result of the Bank's foreign currency lending, trade and treasury business with counterparties domiciled in other countries as well as investments and capital transactions. In order to monitor and mitigate the risk, Bank has in place a comprehensive country risk management framework. Under this framework, the transfer risk is measured using financial market and economic factors. Political risk is measured using a variety of indicia indicative of relative certainty of payment of foreign obligations. Based on this framework, risk limits are assigned to countries within the Board approved limits. The limits and their utilization are monitored and controlled at head office level and country risk exposures are reported to Central Credit Committee at a defined frequency.

43.5 Liquidity risk

Liquidity risk is the potential for loss to the Group arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring an unacceptable cost.

The Bank's Asset and Liability Committee (ALCO) is primarily responsible for the formulation of the overall strategy and oversight of the asset liability function including liquidity management. The BOD has approved a comprehensive Market & Liquidity Risk Management Policy which stipulates the various parameters to monitor and control liquidity risk including maintenance of various liquidity ratios. Liquidity Risk Management Unit of RMD is responsible for independent monitoring of the overall liquidity risk in line with regulatory requirements and BoD approved Risk Framework. It also monitors & reports the maintenance of liquidity buffer in form of excess Government securities over regulatory requirement, liquidity ratios and depositors' concentration both in terms of the overall funding mix and avoidance of undue reliance on large volume deposits. As core retail deposits form a considerable part of the Bank's overall funding mix, significant importance is being given to the stability and growth of these deposits. Maturity gaps and sources of funding are also reviewed in order to ensure diversification in terms of tenor, currency and geography. Moreover, Bank also prepares a 'Contingency Funding Plan' (CFP) to address liquidity issues in times of stress / crisis situations containing early warning indicators to pre-empt unforeseen liquidity crisis. In addition to this, the Bank has designed different scenarios of cash outflows to stress test adequacy of its liquid assets.

43.5.1

Maturities of assets and liabilities - based on working prepared by the Asset and Liability Management Committee (ALCO) of the Holding Company

2016

	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
(Rupees in '000)										
Assets										
Cash and balances with treasury banks	74,071,394	36,846,833	1,772,930	2,425,381	3,867,441	6,757,184	1,307,969	2,639,200	6,211,747	12,242,709
Balances with other banks	9,498,787	8,063,388	1,435,399	-	-	-	-	-	-	-
Lendings to financial institutions	30,149,029	3,857,883	11,892,500	14,398,646	-	-	-	-	-	-
Investments	389,666,922	29,609,263	26,624,534	1,365,933	66,439,619	88,541,189	97,689,618	47,972,996	27,512,192	3,911,578
Advances	378,724,300	60,429,569	74,260,351	74,378,153	40,514,365	10,088,682	19,127,442	55,801,997	28,726,832	15,396,909
Operating fixed assets	18,216,937	124,129	248,257	372,386	744,772	1,489,544	1,489,544	2,735,072	2,519,946	8,493,287
Other assets	19,115,471	15,322,197	375,295	562,943	586,835	830,732	359,367	539,051	539,051	-
	919,442,840	154,253,262	116,609,266	93,503,442	112,153,032	107,707,331	119,973,940	109,688,316	65,509,768	40,044,483
Liabilities										
Bills payable	12,886,990	12,886,990	-	-	-	-	-	-	-	-
Borrowings	178,710,629	147,956,698	8,014,324	19,796,157	-	-	-	-	2,943,450	-
Deposits and other accounts	640,854,225	43,064,153	42,456,232	50,334,127	77,042,382	119,344,554	23,551,675	47,278,680	108,153,793	129,628,629
Sub-ordinated loans	8,317,670	-	1,000	1,662,330	1,663,340	2,000	2,000	4,987,000	-	-
Deferred tax liabilities	2,911,531	-	-	-	2,911,531	-	-	-	-	-
Other liabilities	14,836,925	7,897,252	591,454	946,816	2,579,399	705,501	705,501	1,411,002	-	-
	858,517,970	211,805,093	51,063,010	72,739,430	84,196,652	120,052,055	24,259,176	53,676,682	111,097,243	129,628,629
Net assets	60,924,870	(57,551,831)	65,546,256	20,764,012	27,956,380	(12,344,724)	95,714,764	56,011,634	(45,587,475)	(89,584,146)
Share capital	15,952,076									
Reserves	15,895,652									
Unappropriated profit	17,777,737									
Non-controlling interest	323,466									
Surplus on revaluation of assets - net of tax	10,975,939									
	60,924,870									

26/11/16

2015

		(Rupees in '000)								
Total		Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Assets										
Cash and balances with treasury banks	62,368,827	24,957,569	4,141,354	4,768,934	6,095,093	188,315	1,156,125	2,286,746	5,538,959	13,235,732
Balances with other banks	16,583,138	14,508,754	2,074,384	-	-	-	-	-	-	-
Lendings to financial institutions	27,626,350	13,895,000	13,193,983	533,644	3,723	-	-	-	-	-
Investments	423,518,968	2,520,869	48,493,577	15,046,677	152,167,038	58,248,104	84,418,850	30,240,219	28,068,833	4,314,801
Advances	334,160,478	50,087,461	95,441,110	62,922,984	27,555,564	12,149,602	18,790,119	45,449,363	10,238,566	11,525,709
Operating fixed assets	17,317,691	116,487	232,965	349,447	698,894	1,397,787	1,397,787	2,612,653	2,586,013	7,925,658
Other assets	21,840,305	17,939,116	363,798	545,697	566,406	1,025,317	349,993	524,989	524,989	-
	903,415,757	124,025,256	163,941,171	84,167,383	187,086,718	73,009,125	106,112,874	81,113,970	46,957,360	37,001,900
Liabilities										
Bills payable	9,733,929	9,733,929	-	-	-	-	-	-	-	-
Borrowings	172,393,198	143,264,305	4,381,324	24,580,883	-	-	-	-	166,686	-
Deposits and other accounts	640,137,161	92,787,084	89,129,568	95,301,606	104,349,741	3,455,351	19,119,701	36,480,821	90,692,116	108,821,173
Sub-ordinated loans	9,983,000	-	1,000	1,000	1,663,330	3,326,670	2,000	4,000	4,985,000	-
Deferred tax liabilities	1,826,270	-	-	-	1,826,270	-	-	-	-	-
Other liabilities	15,249,463	9,035,319	559,055	947,999	2,120,490	646,650	646,650	1,293,300	-	-
	849,323,021	254,820,637	94,070,947	120,831,488	109,959,831	7,428,671	19,768,351	37,778,121	95,843,802	108,821,173
Net assets										
	54,092,736	(130,795,381)	69,870,224	(36,664,105)	77,126,887	65,580,454	86,344,523	43,335,849	(48,886,442)	(71,819,273)

In line with SBP BSD Circular Letter No. 03 of 2011 on "Maturity and Interest Rate Sensitivity Gap Reporting" the Bank conducted a behavioural study of non-maturity deposits (non-contractual deposits) and performed regression analysis to determine deposit withdrawal pattern on Current and Savings Accounts (CASA). Regression analysis is used to investigate the relationship between time, the amount of deposits and deposits withdrawals in order to arrive at an estimated deposits withdrawals pattern. This methodology is in line with the industry best practices and regulatory guidance.

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43.5.2 Maturities of assets and liabilities based on contractual maturities

	2016									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	74,071,394	66,265,760	564,904	804,133	919,594	1,515,407	284,447	584,019	1,426,447	1,706,683
Balances with other banks	9,498,787	8,063,388	1,435,399	-	-	-	-	-	-	-
Lendings to financial institutions	30,149,029	3,857,883	11,892,500	14,398,646	-	-	-	-	-	-
Investments	389,666,922	37,514,748	26,624,534	1,365,933	58,534,134	88,541,189	97,689,618	47,972,996	27,512,192	3,911,578
Advances	378,724,300	60,429,569	74,280,351	74,378,153	40,514,365	10,088,882	19,127,442	55,801,997	28,726,832	15,396,909
Operating fixed assets	18,216,937	124,129	248,257	372,386	744,772	1,489,544	1,489,544	2,735,072	2,519,948	8,493,287
Other assets	19,115,471	15,322,197	375,295	562,943	586,835	830,732	359,367	539,051	-	-
	919,442,840	191,577,674	115,401,240	91,882,194	101,299,700	102,465,554	118,950,418	107,633,135	60,724,468	29,508,457
Liabilities										
Bills payable	12,886,990	12,886,990	-	-	-	-	-	-	-	-
Borrowings	178,710,829	147,956,898	8,014,324	19,796,157	-	-	-	-	2,943,450	-
Deposits and other accounts	640,854,225	565,930,998	23,078,405	21,267,387	18,908,902	3,077,594	2,121,544	4,418,418	1,003,136	1,047,841
Sub-ordinated loans	8,317,670	-	1,000	1,662,330	1,663,340	2,000	2,000	4,987,000	-	-
Deferred tax liabilities	2,911,531	-	-	-	2,911,531	-	-	-	-	-
Other liabilities	14,836,925	7,897,252	591,454	948,815	2,579,399	705,501	705,501	1,411,002	-	-
	858,517,970	734,671,938	31,685,183	43,672,690	26,063,172	3,785,095	2,829,045	10,816,420	3,946,586	1,047,841
Net assets	<u>60,924,870</u>	<u>(643,094,264)</u>	<u>83,716,057</u>	<u>48,209,804</u>	<u>75,236,528</u>	<u>98,680,459</u>	<u>116,121,373</u>	<u>96,816,716</u>	<u>56,777,882</u>	<u>28,460,616</u>
Share capital	15,952,076									
Reserves	15,895,652									
Unappropriated profit	17,777,737									
Non-controlling interest	323,466									
Surplus on revaluation of investments	10,975,939									
	<u>60,924,870</u>									

	2016									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	62,366,827	52,140,800	2,212,246	1,375,203	1,931,132	48,645	333,150	665,974	1,664,542	1,997,135
Balances with other banks	16,583,138	14,508,754	2,074,384	-	-	-	-	-	-	-
Lendings to financial institutions	27,626,350	13,895,000	13,193,983	533,644	3,723	-	-	-	-	-
Investments	423,518,968	7,718,030	48,493,577	15,046,877	146,969,878	58,248,104	84,418,850	30,240,219	28,028,759	4,354,874
Advances	334,160,478	50,088,614	95,441,110	62,922,984	27,554,695	12,149,602	18,789,835	45,449,363	10,238,566	11,525,709
Operating fixed assets	17,317,891	116,487	232,985	349,447	698,894	1,397,787	1,397,787	2,812,653	2,586,013	7,925,658
Other assets	21,840,305	17,939,116	363,798	545,697	568,406	1,025,317	349,993	524,989	524,989	-
	903,415,757	156,406,801	162,012,063	80,773,652	177,724,728	72,869,455	105,289,615	79,493,198	43,042,869	25,803,376
Liabilities										
Bills payable	9,733,929	9,733,929	-	-	-	-	-	-	-	-
Borrowings	172,393,198	143,264,305	4,381,324	24,580,883	-	-	-	-	166,686	-
Deposits and other accounts	640,137,181	538,211,260	47,840,572	28,733,371	22,311,911	1,874,012	966,744	199,291	-	-
Sub-ordinated loans	9,983,000	-	1,000	1,000	1,663,330	3,326,670	2,000	4,000	4,985,000	-
Deferred tax liabilities	1,826,270	-	-	-	1,826,270	-	-	-	-	-
Other liabilities	15,249,463	9,035,319	559,055	947,999	2,120,490	646,650	646,650	1,293,300	-	-
	849,323,021	700,244,813	52,781,951	54,263,253	27,922,001	5,847,332	1,615,394	1,496,581	5,151,686	-
Net assets	<u>54,092,736</u>	<u>(643,838,012)</u>	<u>109,230,112</u>	<u>26,510,399</u>	<u>149,802,727</u>	<u>67,022,123</u>	<u>103,674,221</u>	<u>77,996,607</u>	<u>37,891,183</u>	<u>25,803,376</u>
Share capital	15,898,062									
Reserves	14,164,120									
Unappropriated profit	12,813,488									
Non-controlling interest	274,134									
Surplus on revaluation of investments	10,942,932									
	<u>54,092,736</u>									

Current and Saving deposits have been classified under maturity upto one month as these do not have any contractual maturity. Further, the Group estimates that these deposits are a core part of its liquid resources and will not fall below the current year's level.

43.6 Operational risk

Basel II defines Operational risk as, "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events." In compliance with the Risk Management Guidelines, issued by SBP, an Operational Risk Management (ORM) Unit is

The Operational risk management policy of the Bank is duly approved by the Board and Operational Risk Management Manual covers the processes, structure and functions of Operational risk management and provides guidelines to identify, assess, monitor, control and report operational risk in a consistent and transparent manner across the Bank.

43.6.1 Operational Risk Disclosures - Basel II Specific

Bank was given approval for adoption of Alternative Standardized Approach (ASA) under Basel II for determining capital charge on Operational Risk in December 2013 and Bank started calculating its capital charge for operational risk on ASA in its financials from December 31, 2013. The SBP Approval stipulated a capital floor i.e. operational risk charge under ASA should not fall below as a certain percentage of operational risk capital charge calculated under Basic Indicator Approach for initial 3 years. These floors are 90% for 2013 and 2014, 80% for 2015 and 70% for 2016. Bank Alfalah is one of the first few banks in Pakistan to achieve this milestone. As per SBP requirements, Bank's operational risk assessment systems have also been reviewed by the external auditors during 2014.

The Bank's ORM framework and practices address all the significant areas of ORM within the Bank including Risk Control Self Assessment (RCSA), Key Risk Indicators (KRIs), Operational Loss Data 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 suggests controls on need basis. Additionally, all the policies and procedures of the Bank are reviewed from the operational risk perspective, and the recommendations of RMD are taken into consideration before their approval. A Process Improvement Committee (PIC) in this regard has been formed to evaluate and consider the recommendations of all the reviewers. Further, the unit also reviews functional specification documents (FSDs) and reviews / test the functionalities and systems prepared on premise of the FSD. The Operational Loss Database and KRIs systems introduced in 2010 have been further enhanced and the reports are submitted to Central Management Committee and Board Risk Management Committee. From April 2017 loss data base reports shall also be shared with the regulator on its prescribed format.

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As required by Basel, Bank has categorized all its operational loss/near miss incidents into following loss event categories:

- Internal Fraud
- External Fraud
- Employment Practice & Workplace Safety
- Client, Product & Business Practice
- Damage to Physical Assets
- Business Disruption & System Failure
- Execution, Delivery & Process Management

43.6.2 IT Security Risk

The Bank has in place an IT Security Risk Management Policy and an IT Management Policy, duly approved by the Board of Directors, which derive from the regulatory mandates and the ISO 27001:2013 international standards framework. A dedicated IT Security Risk Management unit, functioning within RMD manages IT and information security risks to bank's technology assets by developing IT security baselines for IT solutions that support products and services, monitoring of threats and vulnerabilities, investigation of reported information security incidents, reinforcement of IT security risk awareness to employees via periodic communications, following up on due dates with stakeholders responsible for remediation of open issues, and reporting the status of IT security risk to the management and BRMC/Board.

43.7 Environmental & Social Risk Management Unit

Initiative to integrate sustainable finance approach in credit evaluation and approval process.

Being a responsible corporate citizen wherever BAFL operates, the Bank has integrated sustainable finance approach in its lending activities. In this regard, an Environmental & Social Management System (ESMS), duly approved by the Board of Directors, has been put in place in close coordination with IFC. The ESMS Framework essentially requires that any relevant lending opportunity is to be reviewed and evaluated against;

- IFC Exclusion List
- Applicable national laws on environment, health, safety and social issues
- IFC Performance Standards.

This Framework is an integral part of the credit approval process and all relevant credit proposals require clearance of E&S Officer prior to approval of the competent authority. The Environmental & Social Risk Management Unit, part of RMD and headed by a senior risk officer with environmental and social risk management qualifications, is responsible for identifying, vetting and approving projects from an ESRM perspective. This role also entails coordination with provincial Environmental Protection Agencies (EPA) to remove ambiguities related to the EPA approval requirements and to educate the clients. BAFL is also assisting SBP to promote ESRM practices across the banking industry. The Bank firmly believes that the integration of financial, social and environmental considerations into its decision making would enable higher & sustainable gains for all stakeholders.

44 GENERAL

Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements, wherever necessary to facilitate comparison.

- 44.1 During the year, the State Bank of Pakistan (SBP), vide BPRD Circular Letter No. 05 of 2016 dated February 29, 2016 has issued instructions on revised forms of annual financial statements, which further supplements the requirements laid down earlier, vide SBP's BSD Circular No. 4 of 2006 and BSD Circular Letter No. 03 of 2013 on the matter.

In order to standardize the financial statements and to bring comparability, banks having IBBs have been advised to show Islamic Financing and Related Assets under the head "Advances" in their financial statements. In addition, banks have also been advised to show Bai Muajjal of Government of Pakistan Ijara Sukuk with State Bank of Pakistan and other Financial Institutions under the head "Lendings to Financial Institutions", whereas Bai Muajjal transactions with Government of Pakistan are required to be reported under investment category as other Federal Government securities.

The effect of re-classification on comparative information presented for the year ended December 31, 2015 as part of the Statement of Financial Position is as follows:

	As previously reported	As at 31 December 2015 (Rupees in '000)	
		Effect of Re-classification	As restated
Lending to Financial Institutions	53,628,870	(26,002,520)	27,626,350
Investments - net	397,097,214	26,002,520	423,099,734
Advances - net	327,297,821	6,860,918	334,158,739
Other assets	28,420,651	(6,860,918)	21,559,733

- 44.2 In addition to the aforementioned, no significant reclassification has been made except as follows:

Description	Rupees in '000	Reclassified	
		From	To
Insurance expenses on Ijarah assets	(294,962)	Other Income	Mark-up / return / interest earned
Registration expenses on Ijarah assets	(68,243)	Other Income	Mark-up / return / interest earned
Rental income on Ijarah assets	342,671	Other Income	Mark-up / return / interest earned

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45 **NON-ADJUSTING EVENT AFTER THE YEAR END REPORTING DATE**

The Board of Directors in its meeting held on February 23, 2017 has announced cash dividend of NIL percent (2015: 10 percent cash dividend). This appropriation will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2016 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending December 31, 2017.

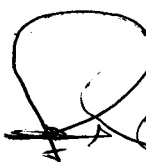
46 **DATE OF AUTHORISATION**

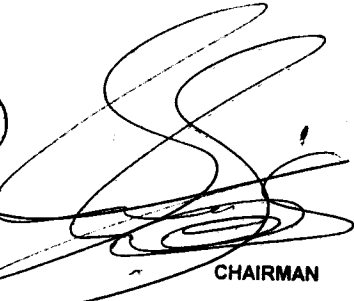
These consolidated financial statements were authorised for issue on February 23, 2017 by the Board of Directors of the Bank.

K. M. M.


CHIEF EXECUTIVE OFFICER


DIRECTOR


DIRECTOR


CHAIRMAN