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Vision

To be the leading provider of high standard Shari'ah Compliant Innovative financial products, quality service and superior value for our customers, shareholders, employees and the community.



Mission

Islamic financial solutions for the global community, admired for their innovative nature and Shari'ah compliance.



Values

Our Values:

- We are Shari'ah inspired
- We work for mutual benefit
- We innovate
- We keep it simple and sensible
- We are transparent and focus on honesty in all aspects of our dealings.



Corporate Strategy

The Bank's strategy has three pillars, which will though be pursued concurrently and focused in chronological order:

A. Build market leadership within Pakistan

- Grow network
- Financial Inclusion
- Product Development

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

- Create a model that offers customers access to a diversified Sharia compliant financial services model

C. Pursue international growth opportunities

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

Corporate Information

Board of Directors	Mr. Muhtashim Ahmad Ashai <i>Chairman</i>	Non-Executive Director
	Mr. Ahmed Ebrahim Hasham	Independent Director
	Mr. Khalid Mahmood Bhaimia	Independent Director
	Mr. Muhammad Nauman Chughtai	Non-Executive Director
	Mr. M.U.A. Usmani	Non-Executive Director
	Mr. Omair Safdar	Non-Executive Director
	Mr. Usman Hassan	Non-Executive Director
	Mr. Ali Muhammad Mahoon <i>President & CEO</i>	Executive Director
Audit Committee	Mr. Khalid Mahmood Bhaimia	Chairman
	Mr. Muhammad Nauman Chughtai	Member
	Mr. Omair Safdar	Member
	Mr. Usman Hassan	Member
Human Resource and Remuneration Committee	Mr. Usman Hassan	Chairman
	Mr. Ahmed Ebrahim Hasham	Member
	Mr. M.U.A. Usmani	Member
	Mr. Omair Safdar	Member
Risk Management and Portfolio Review Committee	Mr. Muhammad Nauman Chughtai	Chairman
	Mr. Ahmed Ebrahim Hasham	Member
	Mr. Omair Safdar	Member
	Mr. Usman Hassan	Member
Board Evaluation Committee	Mr. Ahmed Ebrahim Hasham	Member
	Mr. Omair Safdar	Member
Shari'ah Board	Prof. Mufti Munib-ur-Rehman	Chairman
	Mufti Syed Sabir Hussain	Resident Shari'ah Board Member
	Mufti Muhammad Imran	Shari'ah Board Member
Chief Financial Officer	Mr. Syed Itikhar Hussain Rizvi	
Company Secretary	Ms. Maimona Cheema	
Head of Internal Audit	Mr. Muhammad Tariq Gondal	
Legal Advisor	Cornelius, Lane & Mufti Advocates and Solicitors.	
Auditors	M/s A.F. Ferguson & Co., Chartered Accountants.	
Registered Office	7th Floor, MCB Centre, Airport Road, Opposite Askari X, Lahore.	
Website	www.mcbislamicbank.com	

Directors' Profile

Mr. Muhtashim Ashai - Chairman

Muhtashim Ashai has over twenty years of professional experience in the banking sector. At present he holds the position of Senior Executive Vice President and Group Head of Wholesale Banking Group at MCB Bank Limited. He graduated with a BS degree from UET and completed his MBA from LUMS, followed by the International Management Program at MC Gill University in Montreal.

Mr. Ali Muhammad Mahoon – President & CEO

Ali Muhammad Mahoon has over twenty years of experience with leading international banking and finance institutions including Citibank, ABN AMRO, Samba Financial Group and MCB Bank Ltd. He joined MCB Bank in 2005 where he served as SEVP and Group Head of Risk Management for three years. After working for a leading bank in Saudi Arabia, he returned to MCB after a gap of 6 years to head the Islamic Banking Group, starting January 1, 2015. During his twenty year tenure in banking, he has held senior level roles in corporate and investment banking as well as the risk management space. He holds a Master's degree in Business Administration from LUMS and is an Associate Member of the Chartered Institute of Management Accountants, England.

Mr. Ahmed Ebrahim Hasham

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

Mr. Khalid Mahmood Bhaimia

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

Mr. Muhammad Nauman Chughtai

Muhammad Nauman Chughtai has over 20 years of professional banking experience in local and foreign banks in risk management and corporate banking. His responsibilities at MCB Bank encompass the Bank's Credit Review, Credit Risk Control, Credit Policy, Market and Operational Risk functions for all business areas of the Bank, including overseas operations. He also serves on the Board of MCB Bank Leasing Azerbaijan (a subsidiary of MCB Bank Limited).

Mr. MUA Usmani

MUA Usmani has over 50 years of diverse national and international experience in Corporate, Treasury & FX, Capital Markets, Compliance, Trade Finance, Loan Administration (CAD), and Financial Institutions. Having started his career with American Express Bank, Pakistan in 1963, he worked in various capacities before moving to Dubai as Vice President and Manager Correspondent Banking, Gulf and Pakistan. He also served as Acting Country Head of American Express Bank, Pakistan. Later, he joined Deutsche Bank, Pakistan in 1993 as Chief Manager and later was promoted to Director Global Markets & General Manager Treasury. During his career with these two foreign banks, Mr. Usmani was deputed on special assignments in New York, London and Frankfurt. He joined MCB Bank in 1999 as Group Head Treasury & FX and Capital Markets. Subsequently, he was assigned the responsibility of Compliance, FI and International & Overseas Branches and retired on December 21, 2006. He rejoined MCB in January 2009 as Group Head, Treasury & FX and was recently appointed as President / CEO of MCB Bank Limited in June 2010. He also enjoyed the privilege of being a member of SBP's DRAFT Committee on Foreign Exchange and was also member of Process Improvement Team (LC) at American Express, New York.

Mr. Omair Safdar

Omair Safdar has more than 12 years of experience in the banking industry. He has been associated with MCB Bank for the past decade, and currently heads the Capital Markets Division of the Bank. Omair holds a Bachelor's Degree in Economics from LUMS and is also a CFA Charter holder. He has thorough understanding of business, risk and investment dynamics, having been involved in Retail, Corporate, Investment Banking and Capital Markets transactions across industrial sectors and national boundaries. He currently serves on a number of Management Committees in MCB Bank including Credit, Investment and Write-Off. On behalf of MCB Bank, Omair also serves, as a Director, on the Board of MCB Islamic Bank and MCB Leasing Azerbaijan.

Mr. Usman Hassan

Usman Hassan has been with MCB Bank Limited since 2005 and has worked in the Risk Management Group before joining Human Resource Management as Group Head in July 2012. Prior to MCB Bank, he has worked as General Manager Finance of a large IPP (Independent Power Plant) and as senior financial analyst in PACRA (Pakistan Credit Rating Agency). Overall he has over 20 years of diversified experience.

Shari'ah Board Profile

Prof. Mufti Munib-ur-Rehman – Chairman

Prof. Mufti Munib-ur-Rehman, working with MCB Bank Limited since September 2015, is a world renowned Shari'ah scholar. He has a vast 45 years teaching and 30 years Fatawa issuance experience. He has written numerous books on Islamic Ideology and concepts. He is the Chairman of Central Moonsighting Committee, Member Shari'ah board of State Bank of Pakistan and Member Steering Committee constituted by Government of Pakistan for promotion of Islamic banking. He is also the ex-member of Islamic Ideology Council, Pakistan and ex-Director of Islamic Studies, Hong Kong.

Mufti Syed Sabir Hussain – Resident Shari'ah Board Member/Head of Shari'ah Compliance

Mufti Syed Sabir Hussain, working with MCB Bank Limited since September 2015, is a prominent Shari'ah Scholar and experienced Islamic Banker. He has 15 years teaching, 10 years Fatawa and banking experience. He holds Shahadat-Al-Alimiyah, M.A Islamic Studies and M.S (I.T) degrees. He is ex-member of Shar'iah Advisory Board of SECP and invitee participant of Shari'ah board of State Bank of Pakistan and Member of several committees constituted by SBP on AAOIFI Shari'ah standards.

Mufti Muhammad Imran – Member Shari'ah Board

Mufti Muhammad Imran, working with MCB Bank Limited since September 2015, is a young qualified Shariah Scholar and experienced Islamic banker with knowledge of Islamic banking & finance. His educational qualification include Takhas-us-fil-Fiqh, MIBF & PGD (Islamic Banking & Finance) and M.A (Islamic Studies) and has been associated with different Research, Fatwa and Educational Institutions since 2003 and has over 6 years of banking, Islamic Banking Trainings, Shar'iah Compliance, review & product development experience.

Management Committee

The Management Committee of MCB Islamic Bank Limited comprises of a proficient team of senior banking professionals.

Ali Muhammad Mahoon
President & CEO

Syed Salman Ali
Group Head - Treasury

Syed Iftikhar Hussain Rizvi
Chief Financial Officer

Khawaja Khalil Shah
Chief Risk Officer

Shahid Mehmood
Group Head - Information Technology

Salman Qutab
Group Head - Human Resources and General Services

Muhammad Saeed Raja
Group Head - Operations

Kashif Ahmed
Group Head - Compliance & Controls

Mujeeb Beig
Head of Product Research & Development

CREDIT RATING

Long Term

A

Short Term

A - 1

President's Review

In recent years, Pakistan's economy is growing noticeably and heading towards stability. The revival of growth that started in FY14 has accelerated in FY15. The factors contributing this momentum mainly include decline in commodity prices, rise in foreign exchange buffers, growth in remittances and proceeds from privatization. Challenges that are being faced, include a potential decline in worker remittances due to the situation in the Middle East, continuing power crisis, as well as the recession that is affecting emerging markets globally.

Alhamdulillah, MCB Islamic Bank Limited ('the Bank') has become the first window operation of a conventional bank to be spun off into a separate legal entity. Our customers can now take comfort in the fact that they are dealing with an institution which is managed according to the principles of Shari'ah, at its very core.

MCB Islamic Bank Limited is offering numerous asset and liability side products. Our aim is to quickly ramp up our product line to ensure that we offer the most comprehensive product suite on both the deposits and assets sides. In this regard, our product development team is aggressively engaged with other stakeholders. Our objective is to ensure a comprehensive product line for all target market segments including consumer financing and agriculture by 2017.

As a President, I understand that leading a newly established organization on a successful path requires clear understanding of the objectives, well-enunciated targets, sound ideas, passion and effective contribution at all levels. We have developed a comprehensive strategic plan addressing short and long term Bank's growth plan. We believe that quality service delivery is the key success factor in ensuring the success of our strategy, and the realization of our Mission and Vision statements.

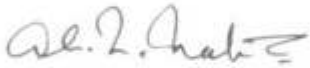
Islamic Banking is a specialized segment which demands trained and quality staff for the accomplishment of its strategic objectives. Our Human Resource Group in conjunction with our Shari'ah Board, has designed extensive training programs to educate all employees about Shari'ah compliance. At the same time, we are striving hard in bringing external talent to create an excellent portfolio of skilled people.

We understand the critical role of technology towards the delivery of world class Islamic financial services to the customers. Investing in Core Banking System and Alternate Delivery Channels had been our top priority since incorporation. We have selected the world's best technologies and believe that with the deployment of Oracle FLEXCUBE platform we will not only be able to provide our customers' desired services but will also fulfil regulatory and management reporting requirements.

In 2016, we plan to open 26 branches across Pakistan in addition to the 34 branches which will become part of the Bank after the conclusion of Scheme of Compromise, Arrangement and Reconstruction with MCB Bank Limited. We are also investing on building human and physical infrastructure in order to meet all necessary requirements to serve our customers in a most effective and efficient manner.

2016 will be the year that we consolidate our operations post demerger; and address challenges on the technology front, while managing almost a one hundred percent growth in our network. All of this would not be possible without the continued support of the State Bank of Pakistan, our Board of Directors, our employees, and most of all our customers.

Sincerely,



Ali Muhammad Mahoon
President & CEO

Directors' Report to the Members

On behalf of the Board of Directors, I am pleased to present the Second Annual Report of MCB Islamic Bank Limited ('the Bank'), containing the Audited Financial Statements for the period ended July 01, 2015 to December 31, 2015. During this period, the State Bank of Pakistan (SBP) granted "Commencement of Business" to the Bank effective September 14, 2015. Accordingly, the Bank started its commercial operation effective November 16, 2015 by opening its first branch at Lahore. As at December 31, 2015, the Bank was operating with six branches across Pakistan. The Bank has embarked on a journey with a view of setting standards and achieving milestones in the field of Islamic Banking.

Economic Review

In 2015, the global economy experienced a number of significant events; beginning with high volatility of oil prices that witnessed during the year. According to WTI spot prices, Crude Oil price of 2015 opened at \$52.72 a barrel, increased to \$61.36 and then declined while closing at \$37.13. As a result, several oil-producing economies weakened during 2015, while inflation globally continued to be suppressed.

The world's second largest economy, China grew at 6.9%, its slowest annual pace in last 25 years. China's foreign exchange reserves fell by \$512.66 billion, the biggest annual drop on record while the Chinese Yuan devalued by about 5% during the last year. Nonetheless, the increasing influence of Chinese economy was recognized as towards the end of 2015, the IMF agreed to include the Yuan in its reserve currency basket.

United States Federal Reserve's raised its benchmark interest rate by 0.25% since 2006, suggesting that the world's largest economy is finally on a path of monetary tightening. The move is likely to cause ripples around the globe, and could increase pressure on other economies of the world, mostly developing countries.

Pakistan's economy on the other side showed promising sign with GDP growth of 4.2% during the Fiscal Year 2015 (FY15), compared to growth of 4.0% in FY14, with economic activity projected to increase to 4.5% in FY16. The manufacturing sector appears to be growing at a solid pace with Large-Scale Manufacturing (LSM) increasing on a year-on-year basis by 3.89% during 1st half of FY16. Moreover, credit to private sector increased by Rs. 339.8 billion during 1st half of FY16 due to the benefits of monetary easing, improving financial conditions of the corporate sector and a general uplift in business environment in the country.

Inflation sharply declined in FY15. Inflation for both food and other items declined significantly, reflecting adequate food supplies and the transmission into domestic prices on the back of lower global prices for oil and other commodities. Stability in prices continued as a high priority agenda item of the government due to socio-economic cost of inflation. Year-on-year CPI inflation dropped to 1.32%, a 12-year low in September 2015 before reversing the trend to reach 3.19% by December 2015.

The country's foreign exchanges reserves reached \$20.81 billion, while the forex reserves with the State Bank of Pakistan grew from \$10.51 billion at the start of the year to \$15.88 billion by December 2015. This was the result of timely materialization of the Coalition Support Fund, uninterrupted payments of IMF tranches and the successful issue of Euro Bond. Rupee started the year at 100.80 against US Dollar, depreciating during the year in line with global trends to touch a height of 105.53 at the start of December 2015. However, the currency then gained strength to close the year at 104.71, showing a net depreciation of close to 4%.

The State Bank of Pakistan kept an accommodative monetary policy stance during the year. SBP Policy Rate was introduced in May 2015 to enhance the effectiveness of monetary policy and better manage liquidity in the interbank market. Through this mechanism, the SBP aims at better managing the money market weighted average overnight rate around the new policy rate. Meanwhile, benchmark rate was slashed by 300 bps during the year, while the SBP's Policy Rate stood at 6.0% at the end of 2015.

Islamic finance has come of age and is being recognized as a capable alternative for addressing the structural flaws of conventional finance that are responsible for recurring financial crises globally. Owing to the strengths of being based on real economic activity and being devoid of excessive leveraging, imprudent risk taking while encouraging investment disclosure and setting higher standards of corporate governance, Islamic finance is increasingly winning the confidence of consumers across the globe. Given this increasing interest, assets of global Islamic finance industry have reached to US \$ 2,000 billion (World Bank Report on Islamic Finance March 2015) and are expected to grow to US \$ 5,000 billion by end 2020.

In Pakistan, the Islamic banking industry (IBI) witnessed growth of 20.02% as its assets reached to Rs. 1,511 billion (September 2015) as compared to Rs 1,259 (December 2014). Deposits of IBI stood at Rs 1,271 billion (September 2015) revealed 18.79% growth from Rs. 1,070 billion (December 2014). Encouraging growth of 13.28% in branch network was also observed as branch network increases from 1,574 (December 2014) to 1,783 (September 2015). Market share of Islamic banking assets and deposits in overall banking industry stood at 11.2% and 13.1% (September 2015) respectively from 10.4% and 11.6% (December 2014) respectively. The stated promising highlights of the industry encourage and demand visionary participation from the key players of financial sector to step forward in materializing the sayings of the founder of Pakistan that *"we must work our destiny in our own way and present to the world an economic system based on true Islamic concept of equality of manhood and social justice"*.

Financial Review

These financial statements have been prepared from July 01, 2015 to December 31, 2015 as the bank has changed its financial year from June 30 to December 31. The Bank started its commercial operations effective November 16, 2015 by opening its first branch and by the end of year 2015 Bank operates six branches across Pakistan.

The Board of Directors in their meeting held on October 19, 2015 approved a Scheme of Compromise, Arrangement and Reconstruction (the Scheme) with MCB Bank Limited (MCB). The Scheme envisages transfer of the MCB's domestic Islamic Banking operations subject to approval by the Bank's shareholders and sanction by the Honourable Lahore High Court.

MCB's shareholders approved the Scheme in the Extra Ordinary General Meeting (EOGM) held on January 8, 2016 where under, the Bank and MCB has filed a joint petition in the Honourable Lahore High Court for sanction of, and for other orders facilitating implementation of the Scheme under section 284 to 288 of the Companies Ordinance, 1984. After requisite approvals, the assets, rights, liabilities and obligations of the MCB relating to domestic Islamic Banking operations will be transferred to and vested in the Bank.

Meanwhile, the Bank showed a promising start during this limited period operations of less than a quarter and posted an after tax profit of Rs. 47.58 million during the reporting period. The Bank prudently materialized the best available venues and generates major revenue from placements and capital market to strengthen its financial position.

Summary of financial performance is as follows:

	December 31, 2015	June 30, 2015	Growth (%)
----- Rs. in million -----			
Balances with other banks	8,151	10,000	-18%
Investments	624	-	100%
Islamic financing and related assets	973	-	100%
Deposits	38	-	100%
Profit / (loss) before tax	53	(38)	240%
Profit / (loss) after tax	48	(38)	226%
Share holders' equity	10,010	9,962	0.5%
Basic and diluted earnings / (loss) per share – <i>Rupees per share</i>	0.05	(0.04)	225%
Capital adequacy ratio	182.41%	498.12%	-63%

Statement under Code of Corporate Governance

1. The financial statements prepared by the management of the Bank present its state of affairs fairly, the result of its operations, cash flows and changes in equity.
2. Proper books of account of the Bank have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgement.
4. Approved Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there-from has been adequately disclosed and explained.
5. There is no doubt upon the Bank's ability to continue as going concern.
6. Key operating and financial data since incorporation is presented in the report.
7. The system of internal control is in place and has been effectively implemented and monitored.
8. There has been no material departure from best practices of corporate governance.
9. The value of investments of the Bank's Provident Fund based on unaudited accounts at December 31, 2015 amounted to Rs. 1.53 million.
10. There is no overdue statutory payment on account of taxes, duties, levies and charges.

Compliance with Corporate Governance

The Bank has complied with the requirements of the Code of Corporate Governance relevant for the year ended December 31, 2015. A prescribed statement together with the Auditors Review Report thereon is annexed.

Statement of Internal Controls

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

Credit Rating

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

Risk Management

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

Independence and empowerment in risk management is the pivot that is applied as fundamental part of BOD's vision. We have in place a mechanism which ensures independence to Risk Management Group in measuring, analyzing, controlling and monitoring risk from the frontline risk takers i.e. business soliciting groups. This separation of functions between the risk takers and the risk managers provides sufficient independence and yet joint responsibility to business & risk approving authorities for all related risks.

The Bank aims to align its Risk Management Framework with the international best practices and the guidelines of State Bank of Pakistan. During the outgoing year, various policies were approved by the BOD including Financing Policy, Risk Management Policy, Investment Policy, Country Risk Limit Policy, and Market Risk Limit Policy.

Management Finance Committee for risk is an additional platform to ascertain, discuss and deliberate key risk issues in the portfolio at the management level. Regular meetings were convened to oversee the risk exposures.

Capital Assessment and Adequacy

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

Asset Liability Management Committee

The Asset Liability Management Committee of the bank has the responsibility for the formulation of overall strategy and oversight of the asset-liability management function. Based upon RMGs recommendations, ALCO has approved a framework for regular assessment and monitoring of contractual / non-contractual assets and liabilities for better liquidity and yield/ profit rate sensitivity Gap reporting. This is a regulatory requirement and the Bank is compliant on this front.

Business Continuity Plan

The Board of Directors has approved Business Continuity Framework along with the Business Continuity Plan and Health Safety Environment Policy. A separate unit has been formed to perform this function under the umbrella of RMG.

Core Banking System

As a part of our strategy to be the leading Shari'ah compliant financial institution in the country, the Bank has invested in the best technologies across the world. Oracle Corporation which is well known as the largest enterprise software company has provided us their world leading Islamic Banking Solution FLEXCUBE and the underlying best of class technology platform. The Oracle FLEXCUBE platform is being used by over 500 leading financial institutions across over 150 countries. With this implementation, the bank will be able to setup a platform which ensures provision of best-in-class services to its customers. Islamic core banking solution will facilitates our needs in the areas of corporate and retail financing, trade finance operations, branch automation, investment banking, risk management & alternate delivery channels. This Project will be initiated with a formal project management structure with a pool of best talent from the Bank's cross functional departments and experts from Techlogix Pakistan Private Limited (Vendor).

Trading of shares of the Bank

Bank is currently non-listed; hence no trades in the shares of the Bank were carried out by the Directors, executives and their spouses and minor children during the year 2015.

Board of Directors Meetings

Three Board of Directors meetings were held during the financial year. Information about the attendance is as under:

Name of Director	No. of Meetings attended
Muhtashim Ahmad Ashai	3
Usman Hassan	1
Mohammad Nauman Chughtai	3
Omair Safdar	3
M U A Usmani	1
Khalid Mahmood Bhaimia	1
Ahmed Ebrahim Hasham	3
Ali Muhammad Mahoon	3

Attendance of Sub-committees Meetings

Board Audit Committee (BAC):

One BAC meeting was held during the financial year. Information about the attendance is as under:

Name of Director	No. of Meetings attended
Khalid Mahmood Bhaimia	1
Usman Hassan	1
Mohammad Nauman Chughtai	1
Omair Safdar	1

Pattern of Shareholding:

The aggregate shares held by Directors and other shareholders as of December 31, 2015 are as follows:

Name of Shareholders	No. of Shares held
Mr. Muhtashim Ahmad Ashai	1
Mr. Muhammad Nauman Chughtai	1
Mr. Usman Hassan	1
Mr. Omair Safdar	1
Mr. M.U.A. Usmani	1
Mr. Khalid Mahmood Bhaimia	1
Mr. Ahmed Ebrahim Hasham	1
MCB Bank Limited	999,999,993

Auditors

The retiring auditor M/s A. F. Ferguson & Co. Chartered Accountants, being eligible for the next term have offered themselves for reappointment. Upon recommendation of the Audit Committee, the Board of Directors recommends M/s A. F. Ferguson & Co., Chartered Accountants, as the statutory auditors for the year ending December 31, 2016 in forthcoming Annual General Meeting.

Future Outlook

As Islamic finance continues to reach new heights, its expansion is complemented by trends that suggest that the industry is evolving into a more mature and sustainable economic system. Against

the backdrop of impressive growth globally, Islamic banking is increasing in its breadth and depth across the country in an impressive manner.

We are optimistic about the outlook for the local economy, given that inflation is expected to remain largely contained, robust growth in workers' remittances, growth in foreign exchange reserves and the realization of benefits of the China Pakistan Economic Corridor (CPEC). On the other hand, energy crisis, lower exports and volatile law and order situation of the country are the major challenges of our economy.

With encouraging performance for 2015, the enthusiasm aimed at entering into 2016 builds up that can reflect Bank's well-conceived business strategy. Through dedicated team of professionals we are committed to take every possible opportunity to serve our esteemed customers and the use of technology which will set standards in practicing true Islamic Banking for years to come. We are confident to meet the expectations of our valuable customers and shareholders with upcoming Branch network, trend setting services and customer focused Shariah compliant products.

Acknowledgement

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

For & on behalf Board of Directors



Muhtashim Ahmad Ashai

Chairman

February 18, 2016

Report of Shari'ah Board

While the Board of Directors and Executive Management are solely responsible to ensure that the operations of MCB Islamic Bank Ltd (MCB-IBL) are conducted in a manner that comply with Shari'ah principles at all times, we are required to submit a report on the overall Shari'ah compliance environment of MCB-IBL.

To form our opinion as expressed in this report, the Shari'ah Compliance Department of MCB-IBL carried out reviews, of each class of transactions, products, process flows/modus operandi and concepts. In order to enhance the Islamic banking knowledge and expertise, Islamic banking trainings, in general as well as product wise, were made mandatory for all staff of the Bank with the coordination of HR department. The Shari'ah Board of the MCB-IBL has issued Four (4) Instructions & Guidelines & Two (2) Fatawas during the period. We are of the view that:

- i. MCB-IBL has complied with Shari'ah rules and principles in the light of Fatawa, Instructions and Guidelines issued by Shari'ah Board.
- ii. MCB-IBL has complied with directives, regulations, instructions and guidelines related to Shari'ah compliance issued by SBP in accordance with the rulings of SBP's Shari'ah Board.
- iii. MCB-IBL has a comprehensive mechanism in place to ensure Shari'ah compliance in their overall operations.
- iv. During the course of Shari'ah Compliance of the transactions, it was realized that MCB-IBL did not earn any Non Shari'ah compliant income and not collected the Charity on account of late payment and thus no income was credited to Charity account
- v. MCB-IBL has complied with the SBP instructions on profit and loss distribution and pool management.
- vi. The level of awareness, capacity and sensitization of the staff, management and the BOD was found upto mark Shari'ah compliance for the products and processes of MCB-IBL.
- vii. The Shari'ah Board has been provided adequate resources enabling it to discharge its duties effectively.

Further, the following are the significant Shari'ah related issues of the bank which have been taken up with its management; however, these are still outstanding.

- i. Medical Facilities through Non Shari'ah Compliant resources / Insurance Companies
- ii. Proper implementation of Dress code

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



Mufti Syed Sabir Hussain
Resident Shari'ah Board Member



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



Mufti Muhammad Imran
Member Shari'ah Board

Notice of 2nd Annual General Meeting of MCB Islamic Bank Limited

Notice is hereby given that the 2nd Annual General Meeting of MCB Islamic Bank Limited will be held on Monday, March 14, 2016 at 10:00a.m. at MCB House, 15-Main Gulberg, Lahore to transact the following businesses:

Ordinary Business:

1. To confirm the minutes of the 1st Annual General Meeting held on October 09, 2015.
2. To receive, consider and adopt the Audited Financial Statements of MCB Islamic Bank Limited for the period July 01, 2015 to December 31, 2015 together with Directors' and Auditors' Reports thereon.
3. To appoint Auditors for the year ended December 31, 2016 and fix their remuneration. The retiring Auditors, M/s A.F. Ferguson & Company, Chartered Accountants, being eligible, have offered themselves for re-appointment.

Special Business:


4. To consider and approve change in registered office from 7th Floor, MCB Center, Airport Road, Opp. Askari X, Lahore to T-59, Phase II, DHA, Lahore

Other Business:

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

By Order of the Board

February 19, 2016
Lahore.



Ms. Maimoona Cheema
Company Secretary

NOTES:

1. Member whose name appears in the register of members on March 14, 2016 will be entitled to attend the proceedings of the meeting.
2. A member entitled to attend and vote at the 2nd Annual General Meeting is entitled to appoint another member as his/her proxy to attend, speak and vote instead of him/her at the meeting. No person shall act as a proxy, who is not a member, except corporate entity which can appoint a person who is not a member.

3. The instrument appointing a proxy should be signed by the member or his/her attorney duly authorized in writing. If the member is a corporate entity, its common seal should be affixed on the instrument.
4. The instrument appointing a proxy, together with Power of Attorney, if any, under which it is signed or a notarially certified copy thereof, should be deposited, with the Company Secretary, MCB Islamic Bank Limited, 339, Z Block, DHA Phase III, Lahore not less than 48 hours before the time of holding the meeting.
5. If a member appoints more than one proxy, and more than one instrument of proxy is deposited by a member, all such instruments of proxy shall be rendered invalid.

Statement of Internal Controls

The system of internal control is based on an on-going process designed to identify the principal risks to the achievement of the Bank's objectives, policies and to evaluate their nature and extent to manage them efficiently, effectively and economically. The system of internal control is designed to minimize the risk of failure to achieve the organisation's policies, aims and objectives; it can therefore, only provide reasonable and not absolute assurance against material misstatements or loss.

Management assumes the responsibility of establishing and maintaining an adequate system of internal controls for implementing policies as approved by the Board. As this was the first year of commercial operations, keeping in view the size of the Bank and scale of business operations, the Bank has formulated all key policies and procedures that confirm to the regulatory requirements, Shari'ah Standards, Risk Management Framework and practicable best practices for its different lines of business.

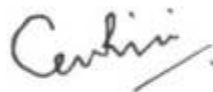
Internal Audit has been entrusted as the supervising function with respect to review of internal controls and reporting significant findings directly to the Audit Committee of the Board. In addition, the Bank has put in place Compliance and Risk Management Function which contributes in continuous improvement of the Bank's Risk Management and Control Process. Moreover, the Management Committee comprising Senior Executives of the Bank has been formulated for enhanced governance and monitoring.

Considering the issuance of Certificate of Commencement of Banking Business by SBP on September 14, 2015 and reasonable time required to implement SBP instructions on ICFR, the Bank has been granted exemption from the regulatory requirement of submission of Long Form Report on ICFR Roadmap by Statutory Auditors for the year 2015 through SBP OSED letter /SEU-13/061(01)/003098/2016 dated February 04, 2016.

Further the Bank will prepare ICFR road map and will adopt the criteria established by the internationally accepted COSO Internal Control – Integrated Framework for overall set of Internal Controls in due course to comply with the regulatory guidelines.



Kashif Ahmed
Group Head – Compliance & Controls



Syed Iftikhar Hussain Rizvi
Chief Financial Officer



Muhammad Tariq Gondal
Group Head – Internal Audit

Statement of Compliance with the Best Practices of the Code of Corporate Governance

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

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

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

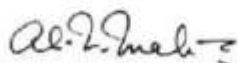
Category	Names
Independent Directors	Khalid Mahmood Bhaimia, Ahmed Ebrahim Hasham
Executive Directors	Ali Muhammad Mahoon
Non-executive Directors	Muhtashim Ahmed Ashai, Usman Hassan, Mohammad Nauman Chughtai, Omair Safdar, MUA Usmani

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

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Bank (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy arose in the year 2015.
5. The Bank has prepared a "Code of Conduct" and has ensured that appropriate steps have taken to disseminate it throughout the Bank along with its supporting policies and procedures.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and determination of terms & conditions of employment of the CEO, other executive and non-executive directors, have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Code requires that from June 30, 2012 to June 30, 2016 at least one director should acquire certification every year under any directors' training program offered by institutions (local or foreign), which meet the criteria prescribed by the Securities and Exchange Commission of Pakistan. However, the requirement has not been complied with. Further, the Board members attended one Shari'ah training program during this period.
10. The Board has approved appointment of the CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The Director's report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by the CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
14. The Bank has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. All four members of the committee are non-executive directors including the Chairman who is an independent non-executive director. The Company Secretary is the secretary to the Committee.
16. The meeting of the audit committee was held once in every quarter (post "Commencement of Business" granted by SBP) prior to approval of interim and final results of the Bank and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has formed an HR and Remuneration Committee. It comprises of four members, of whom three are non-executive directors, one is an independent non-executive director and the Chairman of the committee is also a non-executive director.
18. The Board has set up an effective Internal Audit function comprising of professionals, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Bank.
19. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. We confirm that all other material principles enshrined in the CCG have been complied with except for the following, toward which reasonable progress is being made by the company to seek compliance by the end of next accounting year.
- The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of the Bank's securities, shall be determined and intimated to directors, employees and stock exchange(s).
 - We submit that the Bank is not listed, so the said provision is irrelevant.
22. Material/price sensitive information shall be disseminated among all market participants at once through stock exchange(s).



Ali Muhammad Mahoon
President & CEO

Dated: February 18, 2016

Lahore

Audit Review Report to the Members on the Statement of Compliance with the Best Practices of the Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance ('Code') prepared by the Board of Directors of MCB Islamic Bank Limited ('the Bank'), for the year ended December 31, 2015, to comply with Regulation G-1 of the Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan.

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

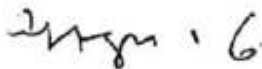
As part of our audit of the financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all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

The Code requires the Bank to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of the above requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices or not.

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

We draw attention to the following matter which is highlighted in paragraph 9 of the annexed statement:

- The Code requires that from June 30, 2012 to June 30, 2016 at least one director should acquire certification every year under any directors' training program offered by institutions (local or foreign), which meet the criteria prescribed by the Securities and Exchange Commission of Pakistan. This requirement has not been complied with.



Chartered Accountants
Dated: February 19, 2016
Lahore

*A. F. Ferguson & Co., Chartered Accountants, a member firm of the PwC network
23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O. Box 39, Lahore-54660; Pakistan.
Tel: +92 (42) 3571 5864-71; Fax: +92 (42) 3571 5872*

Auditors' Report to the Members

We have audited the annexed statement of financial position of MCB Islamic Bank Limited (the Bank) as at December 31, 2015 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with notes forming part thereof (herein-after referred to as the 'financial statements') for the period from July 01, 2015 to December 31, 2015, including six branches, and we state that we have obtained all the information and explanation which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

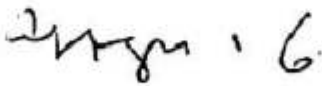
It is the responsibility of the Bank's management to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance,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

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

- (a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984)
- (b) in our opinion:
 - (i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the period was for the purpose of the Bank's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the period were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;

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23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O. Box 39, Lahore-54660; Pakistan.
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- (c) in our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII Of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of Bank's affairs as at December 31, 2015 and its true balance of profit, its comprehensive income, its cash flows and changes in equity for the period from July 01, 2015 to December 31, 2015; and
- (d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).



Chartered Accountants
Engagement Partner: Imran Farooq Mian
Dated: February 19, 2016
Lahore



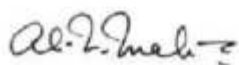
We value your Faith

Financial Statements

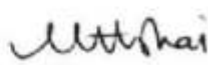
**STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015**

	Note	December 31, 2015 (Rupees in thousand)	June 30, 2015
ASSETS			
Cash and balances with treasury banks	6	56,880	-
Balances with other banks	7	8,150,590	10,000,000
Due from financial institutions		-	-
Investments - net	8	624,159	-
Islamic financing and related assets - net	9	972,634	-
Operating fixed assets	10	170,119	-
Deferred tax assets - net	11	9,388	-
Other assets - net	12	124,121	-
		<u>10,107,891</u>	<u>10,000,000</u>
LIABILITIES			
Bills payable		-	-
Due to financial institutions		-	-
Deposits and other accounts	13	37,669	-
Sub-ordinated loan		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net		-	-
Other liabilities	14	85,939	37,693
		<u>123,608</u>	<u>37,693</u>
NET ASSETS		<u><u>9,984,283</u></u>	<u><u>9,962,307</u></u>
Represented by			
Share capital	15	10,000,000	10,000,000
Reserves	16	9,517	-
Unappropriated profit		373	(37,693)
		<u>10,009,890</u>	<u>9,962,307</u>
Deficit on revaluation of assets - net of tax	17	(25,607)	-
		<u><u>9,984,283</u></u>	<u><u>9,962,307</u></u>
Contingencies and commitments	18		

The annexed notes 1 to 40 and Annexure - I form an integral part of these financial statements.



Ali Muhammad Mahoon
President & Chief Executive



Muhtashim Ahmad Ashai
Director



Muhammad Nauman Chughtai
Director

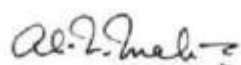


Omair Safdar
Director

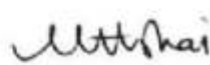
**PROFIT AND LOSS ACCOUNT
FOR THE PERIOD FROM JULY 01, 2015 TO DECEMBER 31, 2015**

	Note	July 01, 2015 to December 31, 2015 (Rupees in thousand)	May 14, 2014 to June 30, 2015
Profit / return earned on financings, investments and placements	19	154,648	-
Return on deposits and other dues expensed	20	58	-
Net spread earned		154,590	-
Provision for diminution in the value of investments - net		-	-
Provision against non-performing Islamic financing and related assets - net		-	-
Bad debts written off directly		-	-
Net spread after provisions		154,590	-
Other income			
Fee, commission and brokerage income		223	-
Dividend income		7,512	-
Income from dealing in foreign currencies		20	-
Gain on sale of investments - net	21	3,731	-
Unrealized gain / (loss) on revaluation of investments classified as held for trading		-	-
Other income		-	-
Total other income		11,486	-
		166,076	-
Other expenses			
Administrative expenses	22	112,111	37,693
Other provision / (reversal) - net		-	-
Other charges	23	1,058	-
Total Other expenses		113,169	37,693
Extra ordinary / unusual item		-	-
Profit / (Loss) before taxation		52,907	(37,693)
Taxation			
- Current year		14,117	-
- Prior years		(13,193)	-
- Deferred		4,400	-
	24	5,324	-
Profit / (Loss) after taxation		47,583	(37,693)
Accumulated (Loss) / unappropriated profit brought forward		(37,693)	-
Profit available for appropriation		9,890	(37,693)
Basic and diluted earnings - after tax Rupees per share	27	0.05	(0.04)

The annexed notes 1 to 40 and Annexure - I form an integral part of these financial statements.



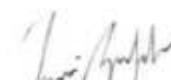
Ali Muhammad Mahoon
President & Chief Executive



Muhtashim Ahmad Ashai
Director



Muhammad Nauman Chughtai
Director

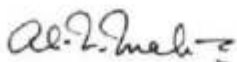


Omair Safdar
Director

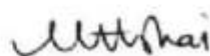
**STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD FROM JULY 01, 2015 TO DECEMBER 31, 2015**

	July 01, 2015 to December 31, 2015 (Rupees in thousand)	May 14, 2014 to June 30, 2015
Profit / (loss) after tax for the period	47,583	(37,693)
Other comprehensive income	-	-
Comprehensive income transferred to equity	<u>47,583</u>	<u>(37,693)</u>
Components of comprehensive income not reflected in equity		
Deficit on revaluation of available for sale securities	(39,395)	-
Deferred tax on revaluation of investments	13,788	-
	(25,607)	-
Total Comprehensive income	<u><u>21,976</u></u>	<u><u>(37,693)</u></u>

The annexed notes 1 to 40 and Annexure - I form an integral part of these financial statements.



Ali Muhammad Mahoon
President & Chief Executive



Muhtashim Ahmad Ashai
Director



Muhammad Nauman Chughtai
Director

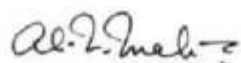


Omair Safdar
Director

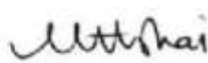
CASH FLOW STATEMENT
FOR THE PERIOD FROM JULY 01, 2015 TO DECEMBER 31, 2015

	Note	July 01, 2015 to December 31, 2015	May 14, 2014 to June 30, 2015
(Rupees in thousand)			
Cash flows from operating activities			
Profit/(Loss) before taxation		52,907	(37,693)
Less: Dividend income		(7,512)	-
		45,395	(37,693)
Adjustments for non-cash charges			
Depreciation	10.2	1,118	-
Amortization		-	-
Provision against non-performing Islamic financing and related assets - net		-	-
Provision for diminution in the value of investments - net		-	-
Loss / (gain) on sale of fixed assets		-	-
Others		-	-
		1,118	-
		46,513	(37,693)
(Increase) / decrease in operating assets			
Due from financial institutions		-	-
Held-for-trading securities		-	-
Islamic financing and related assets		(972,634)	-
Other assets excluding advance tax - net		(95,775)	-
		(1,068,409)	-
Increase / (decrease) in operating liabilities			
Bills payable		-	-
Due to financial institutions		-	-
Deposits and other accounts		37,669	-
Other liabilities		48,246	37,693
		85,915	37,693
		(935,981)	-
Payments of provision against off-balance sheet obligations		-	-
Income tax paid		(21,758)	-
		(957,739)	-
Net cash used in operating activities			
Cash flows from investing activities			
Net investments in 'available for sale' securities		(663,554)	-
Net investments in held-to-maturity securities		-	-
Dividend income		-	-
Investments in operating fixed assets		(171,237)	-
Sale proceeds of property and equipment disposed off		-	-
		(834,791)	-
Net cash used in investing activities			
Cash flows from financing activities			
Issue of share capital		-	10,000,000
Dividend paid		-	-
Receipts / payments of Sub-ordinated loan		-	-
Receipts / payments of lease obligations		-	-
Remittances made to / received from head office		-	-
		-	10,000,000
Net cash generated from financing activities			
Exchange differences on translations of foreign currencies exposures		-	-
		(1,792,530)	10,000,000
Increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		10,000,000	-
Effects of exchange rate changes on cash and cash equivalents		-	-
		10,000,000	-
Cash and cash equivalents at end of the year	28	8,207,470	10,000,000

The annexed notes 1 to 40 and Annexure - I form an integral part of these financial statements.



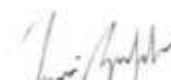
Ali Muhammad Mahoon
President & Chief Executive



Muhtashim Ahmad Ashai
Director



Muhammad Nauman Chughtai
Director

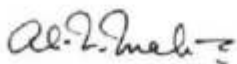


Omair Safdar
Director

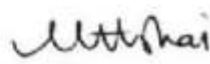
**STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM JULY 01, 2015 TO DECEMBER 31, 2015**

	Share capital	Capital Reserve	Statutory Reserves	Revenue Reserve	Unappropriated profit	Total
----- (Rupees in thousand) -----						
Balances as at May 14, 2014	-	-	-	-	-	-
Issue of share capital	10,000,000	-	-	-	-	10,000,000
Loss after taxation for the period ended June 30, 2015	-	-	-	-	(37,693)	(37,693)
Transfer to statutory reserve	-	-	-	-	-	-
Cash dividend	-	-	-	-	-	-
Exchange adjustments on revaluation of capital	-	-	-	-	-	-
Balance as at June 30, 2015	10,000,000	-	-	-	(37,693)	9,962,307
Profit after taxation for the period from July - December 2015	-	-	-	-	47,583	47,583
Transfer to statutory reserves	-	-	9,517	-	(9,517)	-
Cash dividend	-	-	-	-	-	-
Issue of share capital	-	-	-	-	-	-
Exchange adjustments on revaluation of capital	-	-	-	-	-	-
Balance as at December 31, 2015	10,000,000	-	9,517	-	373	10,009,890

The annexed notes 1 to 40 and Annexure - 1 form an integral part of these financial statements.



Ali Muhammad Mahoon
President & Chief Executive



Muhtashim Ahmad Ashai
Director



Muhammad Nauman Chughtai
Director



Omair Safdar
Director

**NOTES TO AND FORMING PART OF THESE FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 01, 2015 TO DECEMBER 31, 2015**

1. STATUS AND NATURE OF BUSINESS

MCB Islamic Bank Limited (the 'Bank') is a banking company incorporated in Pakistan and is a wholly owned subsidiary of MCB Bank Limited. The main objective of the Bank is to carry on Islamic banking business in Pakistan in accordance and in conformity with Shariah.

The Bank was granted the "Certificate of Commencement of Banking Business" under Section 27 of the Banking Companies Ordinance 1962 read with BPRD Circular No. 01 of 2015 through State Bank of Pakistan (SBP) letter no. BPRD (LD-01)/850-MCBIBL/2015-20362 dated September 14, 2015 and formally commenced operations as a Scheduled Bank on October 15, 2015, on receiving notification in this regard from the SBP under section 37 of the State Bank of Pakistan Act, 1956.

The Bank's Registered Office is situated at 7th Floor, MCB Centre, Airport Road, Opposite Askari X, Lahore and Principal Office is at 339 Block Z, Phase III, DHA Lahore Cantt. The Bank operates 06 branches (June 2015: Nil) within Pakistan.

The Bank was incorporated as a wholly owned subsidiary of MCB Bank Limited (MCB), with an authorized share capital of Rs. 15 Billion in 2014.

The Board of Directors in their meeting held on October 19, 2015 approved a Scheme of Compromise, Arrangement and Reconstruction (the Scheme) with MCB. The Scheme envisages transfer of the MCB's domestic Islamic Banking operations subject to approval by the Bank's shareholders and sanction by the Honourable Lahore High Court whereunder, after requisite approvals, the assets, rights, liabilities and obligations of the MCB relating to domestic Islamic Banking operations will be transferred to and vested in the Bank.

MCB filed a petition in the Honourable Lahore High Court for sanction of, and for other orders facilitating implementation of the Scheme under section 284 to 288 of the Companies Ordinance, 1984. The MCB's shareholders approved the Scheme in the Extra Ordinary General Meeting (EOGM) held on January 8, 2016.

Under the Scheme, from September 30, 2015 (the effective date) and until the date on which this Scheme becomes operative pursuant to the provisions of Article 14 of this Scheme, and is the date on which the assets, liabilities and operation of Islamic Banking Group of MCB are transferred to and vested in the Bank by virtue of and Order of the Court under section 287 (1) of the Companies Ordinance, 1984 (completion date), the domestic Islamic Business will be deemed to have been carried on by MCB for and on account and for the benefit of the Bank. On this basis, all profits and losses accruing or arising to or incurred by MCB through the operation of the domestic Islamic Business from the Effective Date (i.e. September 30, 2015) shall be treated as the profits or losses, as the case may be, of the Bank.

The scheme, although operative from the effective date, shall take effect finally upon and from the date on which the last of the aforesaid sanctions or approvals or orders shall have been obtained, and such date shall be the completion date for the purpose of the scheme.

When the Scheme becomes effective, transfer to and vesting in the Bank of the Islamic Business in accordance with the Scheme, will be treated as having taken effect from the Effective Date.

2. BASIS OF PRESENTATION

- 2.1 The Bank provides Islamic financing through Shariah compliant financial products. 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. However, income, if any, received which does not comply with the principles of Islamic Shariah is recognised as charity payable if so directed by the Shariah Advisor of the Bank.
- 2.2 These financial statements have been prepared for the six months from July 01, 2015 to December 31, 2015 as the Bank has changed the Financial Year from June 30 to December 31.

3. STATEMENT OF COMPLIANCE

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

The State Bank of Pakistan has deferred the applicability of IFAS 3, 'Profit and Loss Sharing on Deposits', International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for Banking Companies through BPRD Circular No. 04 of 2015 dated February 25, 2015 and BSD Circular No. 10 dated August 26, 2002. The Securities and Exchange Commission of Pakistan (SECP) has deferred applicability of IFRS-7 "Financial Instruments: Disclosures" on banks through S.R.O 411(1) /2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

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

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

The following other standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 1, 2015:

- IAS 27 Separate financial statements (Amendments)
- IFRS 11 'Joint Arrangements
- IFRS 12 ' Disclosure of interests in other entities
- IFRS 13 - Fair value measurement

There are certain other new and amended standards, interpretations and amendments that are mandatory for the Bank's accounting periods beginning on or after January 1, 2015 but are considered not to be relevant or do not have any significant effect on the Bank's operations and therefore not detailed in these financial statements.

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

The following other standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 1, 2016:

	Effective date (accounting 'periods beginning on or after)
- IFRS 9 – Financial Instruments: Classification and Measurement	January 1, 2018
- IFRS 15, 'Revenue from contracts'	January 1, 2018
- IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception (Amendment)	January 1, 2016
- IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	January 1, 2016
- IFRS 11 Joint Arrangements-Accounting for Acquisition of Interest in Joint Operation (Amendment)	January 1, 2016
- IFRS 14 – Regulatory Deferral Accounts	January 1, 2016
- IAS 1 – Presentation of Financial Statements - Disclosure Initiative (Amendment)	January 1, 2016
- IAS 16 Property, Plant and Equipment and IAS 38 intangible assets - Clarification of Acceptable Method of Depreciation and Amortization (Amendment)	January 1, 2016
- IAS 27–Separate Financial Statements–Equity Method in Separate Financial Statements (Amendment)	January 1, 2016

- Annual improvements 2014; IFRS 5, 'Non-current assets held for sale and discontinued operations'. IFRS 7, 'Financial instruments: disclosures'. IAS 19, 'Employee benefits'. IAS 34, 'Interim financial reporting' January 1, 2016

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

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

4. BASIS OF MEASUREMENT

- 4.1 These financial statements have been prepared under the historical cost convention except that certain investments have been marked to market and are carried at fair value.
- 4.2 These financial statements are presented in Pak Rupees, which is the Bank's functional and presentation currency. The amounts are rounded off to the nearest thousand.
- 4.3 **Critical accounting estimates and judgments**

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

a) Classification of investments

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

- (a) **Held for trading**
 - Securities which are acquired with an intention to trade by taking advantage of short term market / profit rate movements and are to be sold within 90 days of acquisition.
- (b) **Held to maturity**
 - Securities with fixed or determinable payments and fixed maturity in respect of which the Bank has the positive intent and ability to hold to maturity shall be classified as held to maturity.
- (c) **Available for sale**
 - The investments which are not classified as 'held for trading' or 'held to maturity' are classified as 'available for sale'.

b) Provision against non-performing Islamic financing and related assets

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

c) Impairment of 'available for sale' equity investments

The Bank determines that 'available for sale' equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, the impairment may be appropriate when there is an evidence of deterioration in the financial health of the investee and sector performance, changes in technology and operational/financial cash flows. 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 is recognised in the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in the profit and loss account.

d) Taxation

In making the estimates for income taxes currently payable by the Bank, the management considers the current income tax laws.

e) Depreciation, amortization and revaluation of operating fixed assets

In making estimates of the depreciation / amortization method, the management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method is changed to reflect the changed pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Further, the Bank estimates the revalued amount of land and buildings on a regular basis. The estimates are based on valuations carried out by independent professional valuers under the market conditions.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**5.1 Investments**

The Bank classifies its investments as follows:

a) Held for trading

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

b) Held to maturity

These are securities with fixed or determinable payments and fixed maturity in respect of which the Bank has the positive intent and ability to hold to maturity.

c) Available for sale

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

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

5.2 Islamic financing and related assets**Diminishing Musharakah**

In Diminishing Musharakah financing, the Bank enters into Musharakah based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into period profit payment agreement for the utilization of the Bank's Musharakah share by the customer and Bank sell the units of the asset to the client gradually.

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

Funds disbursed, under financing arrangements for purchase of goods / assets are recorded as advance. On culmination, financings are recorded at the deferred sale price net of profit. Goods purchased but remaining unsold at the statement of financial position date are recorded as inventories.

5.3 Operating fixed assets and depreciation

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

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

Depreciation on all operating fixed assets is charged using the straight line method in accordance with the rates specified in note 10.2 to these financial statements and after taking into account residual value, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off.

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

5.3.1 Intangible assets

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

5.4 Impairment

The carrying amount of assets are reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amounts. Recoverable amount is the greater of net selling price and value in use. The resulting impairment loss is taken to the profit and loss account except for impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

5.5 Staff retirement benefits - defined contribution plan

The Bank also operates a recognised contributory provident fund for all permanent employees. Equal monthly contributions are made, both by the Bank and the employees, to the fund at a rate of 8.33 percent of basic salary.

5.6 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into consideration available tax credits and rebates. The charge for current tax also includes adjustments where considered necessary.

Deferred

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

5.7 Provisions

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

5.8 Acceptances

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

5.9 Revenue recognition

- a) Profit on Diminishing Musharakah financings is recognised on an accrual basis.
- b) Commission income is recognized on a time proportion basis.
- c) Dividend income is recognized when the Bank's right to receive dividend is established.
- d) Gain / loss on sale of investments is credited / charged to profit and loss account currently.

5.10 Cash and cash equivalents

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

5.11 Deposits

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

Deposits taken on Qard basis shall be classified as 'Current accounts' and Deposits generated on Mudarabah basis shall be classified as 'Savings deposits' and 'Fixed deposits'. No profit or loss will be passed on to current account depositors.

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

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

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

5.12 Pool Management

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

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

Specific pools may be operated for funds acquired / accepted from the State Bank of Pakistan and other banks for Islamic Export Refinance to Bank's customers and liquidity management respectively under the Musharakah / Mudarabah modes.

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

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

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

5.13 Segment reporting

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

5.13.1 Business segments

Corporate Finance

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

Trading and Sales

It includes equity, foreign exchanges, commodities, own securities and placements.

Retail and Consumer Banking

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

Commercial Banking

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

5.13.2 Geographical segments

The Bank operates only in Pakistan.

5.14 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously

Income and expenses are presented on a net basis only when permitted by the approved accounting standards as applicable in Pakistan.

5.15 Earnings per share

The Bank presents basic and diluted earnings per share (EPS). Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Note	December 31, 2015	June 30, 2015
	(Rupees in thousand)	

6. CASH AND BALANCES WITH TREASURY BANKS

In hand - local currency		2,928	-
With State Bank of Pakistan (SBP) in local currency current account	6.1	53,952	-
		56,880	-
		56,880	-

6.1 Deposits with SBP are maintained to comply with their requirements issued from time to time. These accounts are non remunerative in nature.

Note	December 31, 2015	June 30, 2015
	(Rupees in thousand)	

7. BALANCES WITH OTHER BANKS

In Pakistan			
- current account		18,794	10,000,000
- deposit account	7.1	8,131,796	-
		8,150,590	10,000,000
		8,150,590	10,000,000

7.1 Balances with other banks in Pakistan in deposit accounts carry profit rate ranging from 2.60% to 6.90% per annum (June 2015: Nil).

8. INVESTMENTS - NET

8.1 Investments by types	December 31, 2015			June 30, 2015		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
------(Rupees in thousand)-----						
Available-for-sale securities						
- Shares in listed companies	663,554	-	663,554	-	-	-
Investments at cost	663,554	-	663,554	-	-	-
Less: Provision for diminution in value of investments	-	-	-	-	-	-
Investments (net of provisions)	663,554	-	663,554	-	-	-
Deficit on revaluation of available for sale securities - net	(39,395)	-	(39,395)	-	-	-
Investments at revalued amounts - net of provisions	624,159	-	624,159	-	-	-
				Note	December 31, 2015	June 30, 2015
					(Rupees in thousand)	(Rupees in thousand)

8.2 Investments by segments

Fully Paid-up Ordinary Shares / Certificates / Units		
- Listed companies		663,554
Less: Provision for diminution in the value of investments		-
Investments (net of provisions)		663,554
Deficit on revaluation of available for sale securities - net	17	(39,395)
Investments at revalued amounts - net of provisions		624,159

8.3 Quality of 'available for sale' securities

Note	December 31, 2015			June 30, 2015		
	Cost	Market value	Credit rating	Cost	Market value	Credit rating
------(Rupees in thousand)-----						
Shares in Listed Companies						
Fauji Cement Company Ltd.	91,618	93,946	Un Rated	-	-	-
Fauji Fertilizer Company	224,635	211,420	Un Rated	-	-	-
Pak Electron	94,214	77,519	A/A1	-	-	-
K Electric	6,385	6,309	AA/A-1	-	-	-
Pakistan State Oil	29,295	28,179	AA/A1+	-	-	-
Engro Corporation	124,877	115,025	AA/A1+	-	-	-
ENGRO Fertilizer Ltd	80,610	80,218	AA-/A1+	-	-	-
Pak Telecom	11,920	11,543	Un Rated	-	-	-
Balance carried forward	663,554	624,159		-	-	
				Note	December 31, 2015	June 30, 2015
					(Rupees in thousand)	(Rupees in thousand)

9. ISLAMIC FINANCING & RELATED ASSETS

In Pakistan		
- Diminishing musharakah		900,000
- Staff financing		72,634
Gross islamic financing & related assets	9.1	972,634
Provision for non-performing financing - specific		-
Provision for non-performing financing - general		-
Islamic financing and related assets - net of provision		972,634

December 31, 2015
June 30, 2015
(Rupees in thousand)

9.1 Particulars of Islamic financing and related assets

In local currency
In foreign currencies

972,634	-
-	-
972,634	-

9.1.1 Short Term (for upto one year)
Long Term (for over one year)

-	-
972,634	-
972,634	-

9.2 Financings to staff advanced under the Bank's Human Resource Policies.

9.3 Write offs during the period were Nil (June 2015: Nil).

9.4 Particulars of financing to directors, executives, associated companies, etc.

Debts due by executives or officers of the Bank or any of them either severally or jointly with any other persons

Directors
December 31, 2015
June 30, 2015
Executives / Officers
December 31, 2015
June 30, 2015
(Rupees in thousand)

Balance at beginning of the period	-	-	-	-
Disbursements during the period	21,591	-	51,043	-
Repayments	-	-	-	-
Balance at end of the period	21,591		51,043	-

Note
December 31, 2015
June 30, 2015
(Rupees in thousand)

10. OPERATING FIXED ASSETS

Capital work-in-progress
Property and equipment

10.1	135,975	-
10.2	34,144	-
	170,119	-

10.1 Capital work-in-progress

Advances for computer software
Civil works
Advances to suppliers and contractors
Others

119,285	-
10,850	-
4,219	-
1,621	-
135,975	-

10.2 Property and equipment

Description	December 31, 2015							Annual rate of depreciation / estimated useful life
	Cost amount			Accumulated depreciation			Net book value at December 31, 2015	
	At July 01, 2015	Additions/ (disposals) / Exchange and other adjustments	At December 31, 2015	At July 01, 2015	Charge for the year / (depreciation on disposals) exchange and other adjustments	At December 31, 2015		
(Rupees in thousand)								
Furniture and fixture	-	650	650	-	9	9	641	10%
Electrical, Computers and office Equipment	-	26,170	26,170	-	968	968	25,202	10% to 25%
Vehicles	-	8,442	8,442	-	141	141	8,301	20%
	-	35,262	35,262	-	1,118	1,118	34,144	

Description	June 30, 2015					
	Cost amount		Accumulated depreciation			Annual rate of depreciation / estimated useful life
	At June 30, 2015	At June 30, 2015	Charge for the year / (depreciation on disposals) exchange and other adjustments	At June 30, 2015	Net book value at June 30, 2015	
	At June 30, 2015	At June 30, 2015	Charge for the year / (depreciation on disposals) exchange and other adjustments	At June 30, 2015	Net book value at June 30, 2015	
	(Rupees in thousand)					
Furniture and fixture	-	-	-	-	-	10%
Electrical, Computers and office Equipment	-	-	-	-	-	10% to 25%
Vehicles	-	-	-	-	-	20%
	-	-	-	-	-	
	-	-	-	-	-	

10.3 The gross carrying amount (cost) of fully depreciated assets that are still in use is Nil (June 2015: Nil)

10.4 The information relating to disposal of operating fixed assets is Nil (June 2015: Nil)

11. DEFERRED TAX ASSETS

The details of the tax effect of taxable and deductible temporary differences are as follows:

	December 31, 2015	June 30, 2015
	(Rupees in thousand)	
Deferred credits arising due to:		
Accelerated tax depreciation	(4,400)	-
	(4,400)	-
Equity		
Deficit on revaluation of available for sale investments	13,788	-
	9,388	-

12. OTHER ASSETS

Income / profit accrued on financing and investments - local currency	48,709	-
Accrued income, advances, deposits and other prepayments	54,361	-
Advance taxation (payments less provisions)	20,834	-
Stationery and stamps on hand	217	-
	124,121	-
Less: Provision held against other assets	-	-
	124,121	-

13. DEPOSITS AND OTHER ACCOUNTS

Customers

Fixed deposits	-	-
Saving deposits	33,917	-
Current accounts - Non Remunerative	3,752	-
Margin accounts	-	-
	37,669	-

Financial institutions

Remunerative deposits	-	-
Non-remunerative deposits	-	-
	37,669	-

December 31, June 30,
2015 2015
(Rupees in thousand)

13.1 Particulars of deposits

In local currency	37,669	-
In foreign currencies	-	-
	37,669	-

13.2 Deposits include deposits from related parties amounting to Rs. 3.107 Million (June 2015: Rs. Nil).

Note December 31, June 30,
2015 2015
(Rupees in thousand)

14. OTHER LIABILITIES

Profit payable in local currency		56	-
Profit payable in foreign currencies		-	-
Accrued expenses		55,825	269
Purchase - Shares settlement due		25,178	-
Charity payable	14.1	-	-
Duties and taxes payable		861	-
Others		4,019	37,424
		85,939	37,693

14.1 Reconciliation of charity payable

Opening balance		-	-
Additions during the year		-	-
Less: Transferred to charity savings account (included in deposits and other accounts)		-	-
Closing balance		-	-

15. SHARE CAPITAL

15.1 Authorised Capital

December 31, 2015	June 30, 2015		December 31, 2015	June 30, 2015
(Number of shares)			(Rupees in thousand)	
1,500,000,000	1,500,000,000	Ordinary shares of Rs 10 each	15,000,000	15,000,000

15.2 Issued, subscribed and paid-up capital

December 31, 2015	June 30, 2015		December 31, 2015	June 30, 2015
(Number of shares)			(Rupees in thousand)	
1,000,000,000	1,000,000,000	Opening balance	10,000,000	10,000,000
-	-	Shares issued during the year	-	-
1,000,000,000	1,000,000,000	Closing balance	10,000,000	10,000,000

15.3 Shareholders having more than 10% share holding

	December 31, 2015	June 30, 2015
	(Number of shares)	
MCB Bank Limited	999,999,993	999,999,993
MCB through Nominees	7	7
	1,000,000,000	1,000,000,000

16. RESERVES

It represents the statutory reserve set aside as per the requirements of section 21 of the Banking Companies Ordinance, 1962.

	December 31, 2015	June 30, 2015
	(Rupees in thousand)	
17. (DEFICIT) / SURPLUS ON REVALUATION OF ASSETS - NET OF TAX		
Deficit on revaluation of available for sale securities	(39,395)	-
Add: Related deferred tax asset	13,788	-
	<u>(25,607)</u>	<u>-</u>

18. CONTINGENCIES AND COMMITMENTS**18.1 Direct credit substitutes**

Contingent liabilities in respect of guarantees given favouring

Government	120,127	-
Banks and financial institutions	-	-
Others	-	-
	<u>120,127</u>	<u>-</u>

18.2 Transaction-related contingent liabilities

Guarantees in favour of

Banks and financial institutions	-	-
Others	-	-
Suppliers' credit / payee guarantee	-	-
	<u>-</u>	<u>-</u>

18.3 Trade-related contingent liabilities

	<u>709,631</u>	<u>-</u>
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18.4 Other contingencies

	<u>-</u>	<u>-</u>
--	----------	----------

18.5 Commitments to extend credit

The Bank makes commitments to extend financing in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

	July 01, 2015 to December 31, 2015	May 14, 2014 to June 30, 2015
	(Rupees in thousand)	
19. PROFIT / RETURN EARNED ON FINANCINGS INVESTMENTS AND PLACEMENTS		
On financings to:		
Customers	4,514	-
On investments in:		
Held for trading securities	-	-
Available for sale securities	-	-
Held to maturity securities	-	-
	<u>-</u>	<u>-</u>
On deposits with financial institutions	150,134	-
	<u>154,648</u>	<u>-</u>

	Note	July 01, 2015 to December 31, 2015 (Rupees in thousand)	May 14, 2014 to June 30, 2015
20. RETURN ON DEPOSITS AND OTHER DUES EXPENSED			
Deposits		58	-
21. CAPITAL GAIN ON SALE OF INVESTMENTS - NET			
Shares and units - Listed		3,731	-
22. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other employee benefit		71,230	559
Contributions to defined contribution plan - provident fund		764	-
Non-executive directors' fees		150	260
Rent, taxes, insurance and electricity		1,984	-
Legal and professional charges	22.1	8,031	4,000
Communications		11,320	669
Repairs and maintenance		2,219	-
Stationery and printing		2,938	110
Advertisement and publicity		377	290
Instrument clearing charges		2,700	-
Auditors' remuneration	22.2	2,965	269
Depreciation	10.2	1,118	-
Travelling, conveyance and fuel		1,705	-
Subscription		1,768	31,536
Entertainment		291	-
Petty Capital items		1,271	-
Outsourced security guards, tea services and janitorial expenses etc		587	-
CNIC verification charges		200	-
Others		493	-
		<u>112,111</u>	<u>37,693</u>

22.1 This includes remuneration to Shariah Board amounting to Rs. 1.678 million (June 2015: Nil).

	July 01, 2015 to December 31, 2015 (Rupees in thousand)	May 14, 2014 to June 30, 2015
22.2 Auditors' remuneration		
Annual Audit fee	1,300	250
Tax and other sundry services	1,500	-
Sales tax on services	140	-
Out-of-pocket expenses	25	19
	<u>2,965</u>	<u>269</u>

23. Other Charges

Other charges represents provision of Worker Welfare Fund.

**July 01, 2015
to December
31, 2015** **May 14, 2014
to June 30,
2015**
(Rupees in thousand)

24. TAXATION**For the year**

Current

14,117

-

Deferred

4,400

-

18,517

-

Prior years

Current

(13,193)

-

Deferred

-

-

(13,193)

-

5,324

-

24.1 Relationship between tax expense and accounting profit

Accounting profit for the year

52,907(37,693)

Tax rate

35%35%

Tax on income

18,517

-

Others

(13,193)

-

Tax charge for the year

5,324

-

25. CREDIT RATING

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

**July 01, 2015
to December
31, 2015** **May 14, 2014
to June 30,
2015**
(Rupees in thousand)

26. BASIC AND DILUTED EARNINGS PER SHARE - PRE TAX

Profit / (loss) before taxation

52,907(37,693)**(Number of shares)**

Weighted average number of shares outstanding
during the year

1,000,000,0001,000,000,000

July 01, 2015 **May 14, 2014**
to December **to June 30,**
31, 2015 **2015**
(Rupees)

Basic and diluted earnings / (loss) per share - pre tax 0.05 (0.04)

(Rupees in thousand)

27. BASIC AND DILUTED EARNINGS PER SHARE - AFTER TAX

Profit / (loss) after taxation 47,583 (37,693)

(Number of shares)

Weighted average number of shares outstanding
during the year

1,000,000,000 1,000,000,000

(Rupees)

Basic and diluted earnings per share - after tax 0.05 (0.04)

There were no convertible dilutive potential ordinary shares outstanding on December 31, 2015 and June 30, 2015.

Note **December 31,** **June 30,**
2015 **2015**
(Rupees in thousand)

28. CASH AND CASH EQUIVALENTS

Cash and balances with treasury banks	6	56,880	-
Balances with other banks	7	<u>8,150,590</u>	<u>10,000,000</u>
		<u>8,207,470</u>	<u>10,000,000</u>

(Numbers)

29. STAFF STRENGTH

Permanent		119	3
Temporary/contractual basis		<u>1</u>	<u>-</u>
Bank's own staff strength at the end of the year		120	3
Outsourced		<u>-</u>	<u>-</u>
Total staff strength		<u>120</u>	<u>3</u>

30. DEFINED CONTRIBUTION PLAN

The Bank operates an approved contributory provident fund for 119 (June 2015: 3) employees where contributions are made by the Bank and employees at 8.33% per annum (June 2015: 8.33% per annum) of the basic salary. During the year, the Bank contributed Rs. 0.8 million (June 2015: Nil) in respect of this fund.

31 IFRS - 13

The table below analyses financial and non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the assets or liabilities that are not based on observable market data (i.e. unobservable inputs e.g. estimated future cash flows) (Level 3).

31-Dec-15			
Level 1	Level 2	Level 3	Total
------(Rupees in '000)-----			

RECURRING FAIR VALUE MEASUREMENTS**INVESTMENTS - NET*****Financial Assets*****Available for sale securities**

Ordinary shares - listed	624,159	-	-	-
--------------------------	---------	---	---	---

30-Jun-15			
Level 1	Level 2	Level 3	Total
------(Rupees in '000)-----			

RECURRING FAIR VALUE MEASUREMENTS**INVESTMENTS - NET*****Financial Assets*****Available for sale securities**

Ordinary shares - listed	-	-	-	-
--------------------------	---	---	---	---

The Bank's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred.

There were no transfers between levels 1 and 2 during the year.

(a) Financial instruments in level 1

Financial instruments included in level 1 comprise of investments in listed ordinary shares and units of open end mutual fund classified as available for sale.

32 COMPENSATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for compensation, including all benefits, to the President, Directors and Executives of the Bank is as follows:

	President / Chief Executive		Directors		Executives	
	Dec 2015	Jun 2015	Dec 2015	Jun 2015	Dec 2015	Jun 2015
	----- (Rupees in thousand) -----					
Fees	-	-	150	260	-	-
Managerial remuneration	5,619	-	-	-	32,706	228
Retirement benefits	212	-	-	-	553	-
Rent and house maintenance	1,347	-	-	-	5,514	228
Utilities	299	-	-	-	1,756	51
Medical	-	-	-	-	201	-
Conveyance	-	-	-	-	4,479	52
Others	-	-	-	-	157	-
	<u>7,477</u>	<u>-</u>	<u>150</u>	<u>260</u>	<u>45,366</u>	<u>559</u>
Number of persons	<u>1</u>	<u>1</u>	<u>7</u>	<u>7</u>	<u>39</u>	<u>2</u>

32.1 Chief Executive is provided with free use of the Bank's maintained car in accordance with the terms of employment.

33 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for tradable securities classified by the Bank as 'held to maturity'. Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available audited financial statements.

Fair value of Islamic financing & related assets, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of Islamic financing and related assets has been calculated in accordance with the Bank's accounting policy as stated in 5.2.

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

34 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate Finance	Trading and Sales	Retail & Consumer Banking	Commercial Banking	Total
	----- (Rupees in thousand) -----				
December 2015					
Total income	150,134	11,243	398	4,359	166,134
Total expenses	(94,764)	(7,222)	(906)	(10,334)	(113,226)
Income tax expense	-	-	-	-	(5,324)
Net income	<u>55,370</u>	<u>4,021</u>	<u>(508)</u>	<u>(5,975)</u>	<u>47,584</u>
Segment assets - (Gross of NPF's provision)	8,431,095	649,831	76,333	929,798	10,087,057
Advance taxation (payments less provisions)	-	-	-	-	20,834
Total assets	<u>8,431,095</u>	<u>649,831</u>	<u>76,333</u>	<u>929,798</u>	<u>10,107,891</u>
Segment non performing financing	-	-	-	-	-
Segment specific provision required	-	-	-	-	-
Segment liabilities	71,831	5,536	38,319	7,922	123,608
Provision for taxation	-	-	-	-	-
Total liabilities - net	<u>71,831</u>	<u>5,536</u>	<u>38,319</u>	<u>7,922</u>	<u>123,608</u>
Segment return on assets (ROA) (%)	4.83%	11.40%	5.12%	7.03%	
Segment cost of fund (%)	-	-	2.02%	-	

	Corporate Finance	Trading and Sales	Retail & Consumer Banking	Commercial Banking	Total
June 2015	------(Rupees in thousand)-----				
Total income	-	-	-	-	-
Total expenses	-	-	-	-	-
Income tax expense	-	-	-	-	-
Net income	-	-	-	-	-
Segment assets - (Gross of NPF's provision)	10,000,000	-	-	-	10,000,000
Advance taxation (payments less provisions)	-	-	-	-	-
Deferred tax assets	-	-	-	-	-
Total assets	10,000,000	-	-	-	10,000,000
Segment non performing financing	-	-	-	-	-
Segment specific provision required	-	-	-	-	-
Segment liabilities	37,693	-	-	-	37,693
Deferred tax liability	-	-	-	-	-
Total liabilities - net	37,693	-	-	-	37,693
Segment return on assets (ROA) (%)	-	-	-	-	-
Segment cost of fund (%)	-	-	-	-	-

35. RELATED PARTY TRANSACTIONS AND BALANCES

The Bank has related party relationship with its key management personnel (including their associates).

The Bank enters into transactions with related parties in the normal course of business. Remuneration to the executives / officers is determined in accordance with the terms of their appointment. Remuneration to President / Chief Executive, Directors and Executives is disclosed in note 32 to these financial statements.

Directors		Parent Company		Other Related Parties	
Dec 2015	Jun 2015	Dec 2015	Jun 2015	Dec 2015	Jun 2015
------(Rupees in '000)-----					

A. Balances

Deposits

Opening balance	-	-	-	-	-
Received during the year	10	-	-	3,334	-
Withdrawn during the year	-	-	-	(237)	-
Closing balance	10	-	-	3,097	-

Balances with Banks

Opening balance	-	-	10,000,000	-	-
Deposits during the year	-	-	7,057,445	10,000,000	-
Withdrawn during the year	-	-	(15,183,606)	-	-
Closing balance	-	-	1,873,839	10,000,000	-

Islamic financing and related assets

Opening balance	-	-	-	-	-
Additions / adjustments during the year	21,591	-	-	46,199	-
Repaid during the year	-	-	-	-	-
Closing balance	21,591	-	-	46,199	-

B. Other transactions (including profit and loss related transactions)

	Directors		Parent Company		Key management		Others	
	Dec 2015	Jun 2015	Dec 2015	Jun 2015	Dec 2015	Jun 2015	Dec 2015	Jun 2015
------(Rupees in '000)-----								
Profit receivable	-	-	9,819	-	-	-	-	-
Payment made for expenses	-	-	40,754	-	-	-	2151	-
Equity injected by Parent Company	-	-	-	10,000,000	-	-	-	-
Income on balances with banks	-	-	55,636	-	-	-	-	-
Income on financing	-	-	-	-	125	-	-	-
Other payable	-	-	700	37,424	-	-	90	-
Other receivable	-	-	-	-	-	-	-	-
Remuneration and non-executive directors fee	7,627	260	-	-	26,016	559	-	-

The details of director's compensations are also given in note 32 to these financial statements.

36. CAPITAL ASSESSMENT AND ADEQUACY

36.1 Scope of Applications

The Basel-III Framework is applicable to the bank. Standardized Approach is used for calculating the Capital Adequacy for Credit and Market risk, whereas, Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purposes. The Bank started its operations in year 2015 with paid up capital of Rs. 10 billion.

36.2 Capital Management

Objectives and goals of managing capital

The Bank 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;
- retain flexibility to harness future investment opportunities; build and expand even in stressed times.

Statutory minimum capital requirement and Capital Adequacy Ratio

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

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

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

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

Sr. No	Ratio	Year End						As of Dec 31
		2013	2014	2015	2016	2017	2018	31-12-2019
1	CET1	5.00%	5.50%	6.00%	6.00%	6.00%	6.00%	6.00%
2	ADT-1	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
3	Tier 1	6.50%	7.00%	7.50%	7.50%	7.50%	7.50%	7.50%
4	Total Capital	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
5	*CCB	-	-	0.25%	0.65%	1.275%	1.90%	2.50%
6	Total Capital plus CCB	10.00%	10.00%	10.25%	10.65%	11.275%	11.90%	12.50%

*(Consisting of CET1 only)

Bank'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
- 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

The deduction from Tier 1 Capital include mainly:

- i) Book value of goodwill / intangibles;
 - ii) Deficit on revaluation of available for sale investments
 - ii) Defined-benefit pension fund net assets
 - iv) Reciprocal cross holdings in equity capital instruments of other banks, financial institutions and insurance companies;
 - v) Investment in mutual funds above a prescribed ceiling;
 - vi) Threshold deductions applicable from 2014 on deferred tax assets and certain investments;
 - vii) 50% of investments in majority owned securities or other financial subsidiaries not consolidated in the statement of financial position,
- Tier 2 capital, which includes Subordinated debt/ Instruments, share premium of issuance of Subordinated debt/ Instruments, general provisions for loan losses (up to a maximum of 1.25 % of credit risk weighted assets), Net of tax reserves on revaluation of fixed assets and investments up to a maximum of 45 % of the balance and 20% of remaining 55% for 2014 and foreign exchange translation reserves after all regulatory adjustments applicable on Tier-2

The deductions from Tier 2 include mainly:

- i) Reciprocal cross holdings in other capital instruments of other banks, financial institution and insurance companies;
- ii) 50% of investments in majority owned securities or other financial subsidiaries not consolidated in the statement of financial position, during transition phase.

The Bank is in compliance with the required capital adequacy ratio (10% of the risk-weighted assets). Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise of the credit risk, market risk and operational risk.

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

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

December 31, 2015
June 30, 2015
(Rupees in thousand)

36.3 Capital Adequacy Ratio

	December 31, 2015	June 30, 2015
Common Equity Tier 1 capital (CET1): Instruments and reserves		
1 Fully Paid-up Capital	10,000,000	10,000,000
2 Balance in Share Premium Account	-	-
3 Reserve for issue of Bonus Shares	-	-
4 Discount on issue of shares	-	-
5 General/ Statutory Reserves	9,517	-
6 Gain/(Losses) on derivatives held as Cash Flow Hedge	-	-
7 Unappropriated/unremitted profits/ (losses)	373	(37,693)
8 Minority Interests arising from CET1 capital instruments issued to third parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	-
9 CET 1 before Regulatory Adjustments	10,009,890	9,962,307
10 Total regulatory adjustments applied to CET1 (Note 36.3.1)	144,892	-
11 Common Equity Tier 1	9,864,998	9,962,307
Additional Tier 1 (AT 1) Capital		
12 Qualifying Additional Tier-1 capital instruments plus any related share premium	-	-
13 of which: Classified as equity	-	-
14 of which: Classified as liabilities	-	-
15 Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)	-	-
16 of which: instrument issued by subsidiaries subject to phase out	-	-
17 AT1 before regulatory adjustments	-	-
18 Total regulatory adjustment applied to AT1 capital (Note 36.3.2)	-	-
19 Additional Tier 1 capital after regulatory adjustments	-	-
20 Additional Tier 1 capital recognized for capital adequacy	-	-
21 Tier 1 Capital (CET1 + admissible AT1) (11+20)	9,864,998	9,962,307
Tier 2 Capital		
22 Qualifying Tier 2 capital instruments under Basel III plus any related share premium	-	-
23 Tier 2 capital instruments subject to phaseout arrangement issued under pre-Basel 3 rules	-	-
24 Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group tier 2)	-	-
25 of which: instruments issued by subsidiaries subject to phase out	-	-
26 General provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	-	-
27 Revaluation Reserves (net of taxes)	-	-
28 of which: Revaluation reserves on fixed assets	-	-
29 of which: Unrealized gains/losses on AFS	-	-
30 Foreign Exchange Translation Reserves	-	-
31 Undisclosed/Other Reserves (if any)	-	-
32 T2 before regulatory adjustments	-	-
33 Total regulatory adjustment applied to T2 capital (Note 36.3.3)	-	-
34 Tier 2 capital (T2) after regulatory adjustments	-	-
35 Tier 2 capital recognized for capital adequacy	-	-
36 Portion of Additional Tier 1 capital recognized in Tier 2 capital	-	-
37 Total Tier 2 capital admissible for capital adequacy	-	-
38 TOTAL CAPITAL (T1 + admissible T2) (21+37)	9,864,998	9,962,307
39 Total Risk Weighted Assets (RWA) (for details refer Note 36.6)	5,408,129	2,000,000
Capital Ratios and buffers (in percentage of risk weighted assets)		
40 CET1 to total RWA	182.41%	498.12%
41 Tier-1 capital to total RWA	182.41%	498.12%
42 Total capital to total RWA	182.41%	498.12%
43 Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)	-	-
44 of which: capital conservation buffer requirement	-	-
45 of which: countercyclical buffer requirement	-	-
46 of which: D-SIB or G-SIB buffer requirement	-	-
47 CET1 available to meet buffers (as a percentage of risk weighted assets)	182.41%	498.12%
National minimum capital requirements prescribed by SBP		
48 CET1 minimum ratio	6.00%	6.00%
49 Tier 1 minimum ratio	7.50%	7.50%
50 Total capital minimum ratio	10.00%	10.00%
50 Total capital minimum ratio plus CCB	10.25%	10.25%

December 31, 2015

June 30, 2015

Regulatory Adjustments and Additional Information

Amount	Amounts subject to Pre - Basel III treatment
--------	--

(-----Rupees in thousand-----)

36.3.1 Common Equity Tier 1 capital: Regulatory adjustments

1	Goodwill (net of related deferred tax liability)	-	-
2	All other intangibles (net of any associated deferred tax liability)	119,285	-
3	Shortfall in provisions against classified assets	-	-
4	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
5	Defined-benefit pension fund net assets	-	-
6	Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities	-	-
7	Cash flow hedge reserve	-	-
8	Investment in own shares/ CET1 instruments	-	-
9	Securitization gain on sale	-	-
10	Capital shortfall of regulated subsidiaries	-	-
11	Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	25,607	-
12	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
13	Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
14	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
15	Amount exceeding 15% threshold	-	-
16	of which: significant investments in the common stocks of financial entities	-	-
17	of which: deferred tax assets arising from temporary differences	-	-
18	National specific regulatory adjustments applied to CET1 capital	-	-
19	Investments in TFCs of other banks exceeding the prescribed limit	-	-
20	Any other deduction specified by SBP (mention details)	-	-
21	Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions*	-	-
22	Total regulatory adjustments applied to CET1	144,892	-

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

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

*As the Bank has not Tier 1 capital, deduction was made from CET1.

December 31, 2015 June 30, 2015

(-----Rupees in thousand-----)

Amount	Amounts subject to Pre - Basel III treatment
--------	--

36.3.3 Tier 2 Capital: regulatory adjustments

	December 31, 2015	June 30, 2015
31 Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	-	-
32 Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities	-	-
33 Investment in own Tier 2 capital instrument	-	-
34 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
35 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
36 Total regulatory adjustment applied to T2 capital	-	-

December 31, 2015 June 30, 2015

(-----Rupees in thousand-----)

36.3.4 Additional Information

Risk Weighted Assets subject to pre-Basel III treatment

	December 31, 2015	June 30, 2015
37 Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment)	-	-
(i) of which; deferred tax assets	-	-
(ii) of which; Defined-benefit pension fund net assets	-	-
(iii) of which; Recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity	-	-
(iv) of which; Recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity	-	-

Amounts below the thresholds for deduction (before risk weighting)

	December 31, 2015	June 30, 2015
38 Non-significant investments in the capital of other financial entities	-	-
39 Significant investments in the common stock of financial entities	-	-
40 Deferred tax assets arising from temporary differences (net of related tax liability)	-	-

Applicable caps on the inclusion of provisions in Tier 2

	December 31, 2015	June 30, 2015
41 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	-	-
42 Cap on inclusion of provisions in Tier 2 under standardized approach	-	-
43 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
44 Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-

36.4 Capital Structure Reconciliation

Step 1	Balance sheet as per published financial statements	Under regulatory scope of consolidation
	December 31, 2015	December 31, 2015
(Rupees in thousand)		
Assets		
Cash and balances with treasury banks	56,880	56,880
Balanced with other banks	8,150,590	8,150,590
Due from financial institutions	-	-
Investments - net	624,159	624,159
Islamic financing and related assets - net	972,634	972,634
Operating fixed assets	170,119	170,119
Deferred tax assets	9,388	9,388
Other assets	124,121	124,121
Total assets	10,107,891	10,107,891
Liabilities & Equity		
Bills payable	-	-
Borrowings	-	-
Deposits and other accounts	37,669	37,669
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	-	-
Other liabilities	85,939	85,939
Total liabilities	123,608	123,608
Share capital	10,000,000	10,000,000
Reserves	9,517	9,517
Unappropriated profit	373	373
Minority Interest	-	-
Total Equity	10,009,890	10,009,890
Surplus on revaluation of assets - net of tax	(25,607)	(25,607)
Total liabilities & equity	10,107,891	10,107,891

Step 2	Balance sheet as per published financial statements	Under regulatory scope of consolidation	Ref
	December 31, 2015	December 31, 2015	
	(Rupees in thousand)		
Assets			
Cash and balances with treasury banks	56,880	56,880	
Balanced with other banks	8,150,590	8,150,590	
Due from financial institutions	-	-	
Investments	624,159	624,159	
<i>of which: Non-significant capital investments in capital of other</i>	-	-	a
<i>of which: significant investments in the capital instruments issued by</i>	-	-	b
<i>of which: Mutual Funds exceeding regulatory threshold</i>	-	-	c
<i>of which: reciprocal crossholding of capital instrument (separate for</i>	-	-	d
<i>of which: others</i>	-	-	e
Islamic financing and related assets - net	972,634	972,634	
<i>shortfall in provisions/ excess of total EL amount over eligible</i>	-	-	f
<i>general provisions reflected in Tier 2 capital</i>	-	-	g
Fixed Assets	170,119	170,119	
<i>of which: Intangibles</i>	119,285	119,285	k
Deferred Tax Assets	9,388	9,388	
<i>of which: DTAs that rely on future profitability excluding those arising</i>	-	-	h
<i>of which: DTAs arising from temporary differences exceeding</i>	-	-	i
Other assets	124,121	124,121	
<i>of which: Goodwill</i>	-	-	j
<i>of which: Defined-benefit pension fund net assets</i>	-	-	l
Total assets	10,107,891	10,107,891	
Liabilities & Equity			
Bills payable	-	-	
Borrowings	-	-	
Deposits and other accounts	37,669	37,669	
Sub-ordinated loans	-	-	
<i>of which: eligible for inclusion in AT1</i>	-	-	m
<i>of which: eligible for inclusion in Tier 2</i>	-	-	n
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	-	-	
<i>of which: DTLs related to goodwill</i>	-	-	o
<i>of which: DTLs related to intangible assets</i>	-	-	p
<i>of which: DTLs related to defined pension fund net assets</i>	-	-	q
<i>of which: other deferred tax liabilities</i>	-	-	r
Other liabilities	85,939	85,939	
Total liabilities	123,608	123,608	
Share capital	10,000,000	10,000,000	
<i>of which: amount eligible for CET1</i>	10,000,000	10,000,000	s
<i>of which: amount eligible for AT1</i>	-	-	t
Reserves	9,517	9,517	
<i>of which: portion eligible for inclusion in CET1 (general reserve &</i>	9,517	9,517	u
<i>of which: portion eligible for inclusion in Tier 2</i>	-	-	v
Unappropriated profit	373	373	w
Minority Interest	-	-	
<i>of which: portion eligible for inclusion in CET1</i>	-	-	x
<i>of which: portion eligible for inclusion in AT1</i>	-	-	y
<i>of which: portion eligible for inclusion in Tier 2</i>	-	-	z
Surplus on revaluation of assets	(25,607)	(25,607)	
<i>of which: Revaluation reserves on fixed assets</i>	-	-	aa
<i>of which: Unrealized Gains/Losses on AFS</i>	-	-	
<i>In case of Deficit on revaluation (deduction from CET1)</i>	(25,607)	(25,607)	ab
Total Equity	9,984,283	9,984,283	
Total liabilities & Equity	10,107,891	10,107,891	

Step 3	Component of regulatory capital reported by bank	Source based on reference number from step 2
December 31, 2015		
(Rupees in thousand)		
Common Equity Tier 1 capital (CET1): Instruments and reserves		
1 Fully Paid-up Capital	10,000,000	
2 Balance in Share Premium Account	-	(s)
3 Reserve for issue of Bonus Shares	-	
4 General/ Statutory Reserves	9,517	(u)
5 Gain/(Losses) on derivatives held as Cash Flow Hedge	-	
6 Unappropriated/unremitted profits/(losses)	373	(w)
7 Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	(x)
8 CET 1 before Regulatory Adjustments	10,009,890	
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)	119,285	(k) - (p)
11 Shortfall of provisions against classified assets	-	(f)
12 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	{{(h) - (r)} * 20%
13 Defined-benefit pension fund net assets	-	{{(l) - (q)} * 20%
14 Reciprocal cross holdings in CET1 capital instruments	-	(d)
15 Cash flow hedge reserve	-	
16 Investment in own shares/ CET1 instruments	-	
17 Securitization gain on sale	-	
18 Capital shortfall of regulated subsidiaries	-	
19 Deficit on account of revaluation from bank's holdings of property/ AFS	25,607	(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 Investment in TFCs of other banks exceeding the prescribed limit	-	
28 Any other deduction specified by SBP	-	
29 Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-	
30 Total regulatory adjustments applied to CET1	144,892	
31 Common Equity Tier 1	9,864,998	
Additional Tier 1 (AT 1) Capital		
32 Qualifying Additional Tier-1 instruments plus any related share premium	-	
33 of which: Classified as equity	-	(t)
34 of which: Classified as liabilities	-	(m)
35 Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-	(y)
36 of which: instrument issued by subsidiaries subject to phase out	-	
37 AT1 before regulatory adjustments	-	

	Component of regulatory capital reported by bank December 31, 2015 (Rupees in thousand)	Source based on reference number from step 2
Additional Tier 1 Capital: regulatory adjustments		
38 Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	
39 Investment in own AT1 capital instruments	-	
40 Reciprocal cross holdings in Additional Tier 1 capital instruments	-	
41 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ac)
42 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(ad)
43 Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital	-	
44 Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
45 Total of Regulatory Adjustment applied to AT1 capital	-	
46 Additional Tier 1 capital	-	
47 Additional Tier 1 capital recognized for capital adequacy	-	
48 Tier 1 Capital (CET1 + admissible AT1)	9,864,998	
Tier 2 Capital		
49 Qualifying Tier 2 capital instruments under Basel III	-	
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)	-	(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	-	(g)
54 Revaluation Reserves eligible for Tier 2	-	
55 of which: Revaluation reserves on fixed assets	-	
56 of which: Unrealized Gains/Losses on AFS	-	portion of (aa)
57 Foreign Exchange Translation Reserves	-	(v)
58 Undisclosed/Other Reserves (if any)	-	
59 T2 before regulatory adjustments	-	
Tier 2 Capital: regulatory adjustments		
60 Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	-	
61 Reciprocal cross holdings in Tier 2 instruments	-	
62 Investment in own Tier 2 capital instrument	-	
63 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ae)
64 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(af)
65 Amount of Regulatory Adjustment applied to T2 capital	-	
66 Tier 2 capital (T2)	-	
67 Tier 2 capital recognized for capital adequacy	-	
68 Excess Additional Tier 1 capital recognized in Tier 2 capital	-	
69 Total Tier 2 capital admissible for capital adequacy	-	
70 TOTAL CAPITAL (T1 + admissible T2)	9,864,998	

36.5 Main Features Template of Regulatory Capital Instruments

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

36.6 Risk Weighted Assets

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

	Capital Requirements		Risk Weighted Assets	
	December 31, 2015	June 30, 2015	December 31, 2015	June 30, 2015
------(Rupees in thousand)-----				
Credit Risk				
Portfolios subject to standardized approach (simple or comprehensive)				
On-Balance Sheet				
Corporate portfolio	112,977	-	1,129,767	-
Banks / DFIs	163,907	200,000	1,639,072	2,000,000
Public sector entities	-	-	-	-
Sovereigns / cash & cash equivalents	-	-	-	-
Loans secured against residential property	1,973	-	19,733	-
Retail	1,638	-	16,384	-
Past due loans	-	-	-	-
Operating fixed assets	-	-	-	-
Other assets	24,454	-	244,536	-
	304,949	200,000	3,049,492	2,000,000
Off-Balance Sheet				
Non-market related	90,755		907,545	
Market related	-		-	
	90,755	-	907,545	-
Equity Exposure Risk in the Banking Book				
Listed	-		-	
Unlisted	-		-	
	-	-	-	-
Total Credit Risk	395,704	200,000	3,957,037	2,000,000
Market Risk				
Capital requirement for portfolios subject to standardized approach				
Interest rate risk	-	-	-	-
Equity position risk	124,832	-	1,248,318	-
Foreign exchange risk	-	-	-	-
Total Market Risk	124,832	-	1,248,318	-
Operational Risk				
Capital requirement for operational risks	20,277	-	202,774	-
Total	540,813	200,000	5,408,129	2,000,000
Capital Adequacy Ratios				
	December 31, 2015		June 30, 2015	
	Required	Actual	Required	Actual
	%	%	%	%
CET1 to total RWA	6.00%	182.41%	6.00%	498.12%
Tier-1 capital to total RWA	7.50%	182.41%	7.50%	498.12%
Total capital to total RWA	10.00%	182.41%	10.00%	498.12%
Total capital plus CCB to total RWA	10.25%	182.41%	10.25%	498.12%

37 PROFIT/ LOSS DISTRIBUTION TO DEPOSITORS' POOL & SPECIFIC POOLS

Rupees in 000

December 31, 2015

General remunerative Depositor's Pool	Profit rate and weightage announcement period	Profit rate return earned	Profit sharing ratio of Mudarib (Average)	Mudarib fee	Profit rate return distributed to remunerative deposits	percentage of mudarib share transferred through Hiba	Amount of mudarib share transferred through Hiba
General Pool	monthly	4.84%	30%	25	3.66%	-	-
Equity Market Pool	monthly	11.40%	100%	-	-	-	-
Staff Financing Pool	monthly	5.12%	100%	-	-	-	-

June 30, 2015

General remunerative Depositor's Pool	Profit rate and weightage announcement period	Profit rate return earned	Profit sharing ratio of Mudarib (Average)	Mudarib fee	Profit rate return distributed to remunerative deposits	percentage of mudarib share transferred through Hiba	Amount of mudarib share transferred through Hiba
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-

38 RISK MANAGEMENT

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

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

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

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

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

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

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

38.1 Credit Risk

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

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

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

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

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

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

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

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

The Bank creates specific provision against Non- Performing Financing and Related Assets in accordance with the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses include general provision against consumer financing made in accordance with the requirements of the Prudential Regulations issued by SBP and provision based on historical loss experience on islamic financing and related assets.

Management of Non Performing Financing and Related Assets

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

Stress Testing

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

38.1.1 Segmental information

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

	December 31, 2015					
	Islamic Financing and Related Assets (Gross)		Deposits		Contingencies and commitments	
	(Rupees in thousand)	Percent (%)	(Rupees in thousand)	Percent (%)	(Rupees in thousand)	Percent (%)
38.1.1.1 Segments by class of business						
Textile	-	-	221	1	417,836	50
Chemical and pharmaceuticals	900,000	93	-	-	-	-
Sugar	-	-	5	-	-	-
Electronics and electrical appliances	-	-	408	1	120,127	15
Wholesale and retail trade	-	-	21,052	56	-	-
Financial	-	-	2	-	-	-
Individuals	72,634	7	15,981	42	-	-
Others	-	-	-	-	291,795	35
	972,634	100	37,669	100	829,758	100

June 30, 2015

	December 31, 2015					
	Islamic Financing and Related Assets (Gross)		Deposits		Contingencies and commitments	
	(Rupees in thousand)	Percent (%)	(Rupees in thousand)	Percent (%)	(Rupees in thousand)	Percent (%)
Textile	-	-	-	-	-	-
Chemical and pharmaceuticals	-	-	-	-	-	-
Sugar	-	-	-	-	-	-
Electronics and electrical appliances	-	-	-	-	-	-
Wholesale and retail trade	-	-	-	-	-	-
Services	-	-	-	-	-	-
Individuals	-	-	-	-	-	-
Others	-	-	-	-	-	-
	-	-	-	-	-	-

December 31, 2015

	December 31, 2015					
	Islamic Financing and Related Assets (Gross)		Deposits		Contingencies and commitments	
	(Rupees in thousand)	Percent (%)	(Rupees in thousand)	Percent (%)	(Rupees in thousand)	Percent (%)
38.1.1.2 Segment by sector						
Public / Government	-	-	-	-	-	-
Private	972,634	100	37,669	100	829,758	100.00
	972,634	100	37,669	100	829,758	100

June 30, 2015

	December 31, 2015					
	Islamic Financing and Related Assets (Gross)		Deposits		Contingencies and commitments	
	(Rupees in thousand)	Percent (%)	(Rupees in thousand)	Percent (%)	(Rupees in thousand)	Percent (%)
Public / Government	-	-	-	-	-	-
Private	-	-	-	-	-	-
	-	-	-	-	-	-

38.1.1.3 Details of non-performing Islamic financing and specific provisions by class of business segment

Non-performing Islamic financing and related assets are Nil (June 2015: Nil)

38.1.1.4 Geographical segment analysis

	December 31, 2015			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	------(Rupees in thousand)-----			
Pakistan	52,907	10,107,891	9,984,283	829,758
	June 30, 2015			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	------(Rupees in thousand)-----			
Pakistan	(37,693)	10,000,000	9,962,307	-

38.1.2 Credit Risk - General Disclosures

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

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

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

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

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

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

Long - Term Ratings Grades Mapping

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

Short - Term Ratings Grades Mapping

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

Credit Exposures subject to Standardized approach

Exposures	Rating	December 2015			June 2015		
		Amount Outstanding	Deduction CRM	Net amount	Amount Outstanding	Deduction CRM	Net amount
----- (Rupees in thousand)-----							
Corporate	1	-	-	-	-	-	-
	2	-	-	-	-	-	-
	3,4	-	-	-	-	-	-
	5,6	-	-	-	-	-	-
	Unrated	903,814	-	903,814	-	-	-
Bank	1	6,850,590	-	6,850,590	-	-	-
	2,3	1,300,000	-	1,300,000	-	-	-
	4,5	-	-	-	-	-	-
	6	-	-	-	-	-	-
	Unrated	-	-	-	-	-	-
Public Sector Entities in Pakistan	1	-	-	-	-	-	-
	2,3	-	-	-	-	-	-
	4,5	-	-	-	-	-	-
	6	-	-	-	-	-	-
	Unrated	-	-	-	-	-	-
Sovereigns and on Government of Pakistan or provincial governments or SBP or Cash		56,880	-	56,880	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
	1	-	-	-	-	-	-
	2	-	-	-	-	-	-
	3	-	-	-	-	-	-
	4,5	-	-	-	-	-	-
	6	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	
Mortgage		56,381	-	56,381	-	-	-
Retail		16,384	-	16,384	-	-	-

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

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

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

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

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

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

Concentration of risk

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

38.1.3.2 Equity position risk in the banking book

The Bank takes proprietary equity positions for both trading and strategic purposes. As of December 31, 2015 the composition of equity investments is as follows:

Composition of equity investments

Exposures

Equity investments – publicly traded
Equity investments - others
Total value

Held for trading	Available for Sale
----(Rs in thousand)----	
-	663,554
-	-
-	663,554

Classification of equity investments

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

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

Policies, valuation and accounting of equity investments

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

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

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

Unrealized loss (net of deferred tax) of Rs. 25.607 million was recognized in the balance sheet in respect of "AFS" equity securities.

38.2 Market Risk Management

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

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

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

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

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

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

38.2.1 Foreign Exchange Risk Management

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

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

December 31, 2015			
Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
------(Rupees in thousand)-----			
Pakistan Rupee	10,107,891	123,608	9,984,283
Sri Lankan Rupee	-	-	-
United States Dollar	-	-	-
Pound Sterling	-	-	-
Japanese Yen	-	-	-
Euro	-	-	-
Other currencies	-	-	-
	<u>10,107,891</u>	<u>123,608</u>	<u>9,984,283</u>
June 30, 2015			
Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
------(Rupees in thousand)-----			
Pakistan Rupee	10,000,000	37,693	9,962,307
Sri Lankan Rupee	-	-	-
United States Dollar	-	-	-
Pound Sterling	-	-	-
Japanese Yen	-	-	-
Euro	-	-	-
Other currencies	-	-	-
	<u>10,000,000</u>	<u>37,693</u>	<u>9,962,307</u>

38.2.2 Equity Price Risk

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

38.2.3 Country Risk

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

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

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

38.3 Mismatch of Yield Rate Sensitive Assets and Liabilities

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

Effective Yield rate	Total	December 31, 2015									Not exposed to Yield Risk
		Exposed to Yield risk									
		Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
(Rupees in '000)											
On-balance sheet financial instruments											
Assets											
Cash and balances with treasury banks	-	56,880	-	-	-	-	-	-	-	-	56,880
Balances with other banks	2.60% to 6.90%	8,150,590	5,831,796	2,300,000	-	-	-	-	-	-	18,794
Due from financial institutions	-	-	-	-	-	-	-	-	-	-	-
Investments - net	-	624,159	-	-	-	-	-	-	-	-	624,159
Islamic financing and related assets- net	7.03%	972,634	-	-	900,000	72,634	-	-	-	-	-
Other assets - net	-	103,070	-	-	3,814	-	-	-	-	-	99,256
		9,907,333	5,831,796	2,300,000	903,814	72,634	-	-	-	-	799,089
Liabilities											
Bills payable	-	-	-	-	-	-	-	-	-	-	-
Due to financial institution	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	3.50%-3.60%	37,699	33,917	-	-	-	-	-	-	-	3,752
Other liabilities	-	84,766	-	-	-	-	-	-	-	-	84,766
		122,435	33,917	-	-	-	-	-	-	-	88,518
On-balance sheet gap		9,784,898	5,797,879	2,300,000	903,814	72,634	-	-	-	-	710,571
Off-balance sheet financial instruments											
FX options purchase	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange contracts Purchase	-	-	-	-	-	-	-	-	-	-	-
FX options sale	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange contracts Sale	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-
Total yield risk sensitivity gap			5,797,879	2,300,000	903,814	72,634	-	-	-	-	-
Cumulative yield risk sensitivity gap			5,797,879	8,097,879	8,097,879	9,001,693	9,074,327	9,074,327	9,074,327	9,074,327	9,074,327

38.3 Mismatch of Yield Rate Sensitive Assets and Liabilities

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

Effective Yield rate	Total	June 30, 2015									Not exposed to Yield Risk
		Exposed to Yield risk									
		Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
(Rupees in '000)											
On-balance sheet financial instruments											
Assets											
Cash and balances with treasury banks	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	-	10,000,000	-	-	-	-	-	-	-	-	10,000,000
Due from financial institutions	-	-	-	-	-	-	-	-	-	-	-
Investments - net	-	-	-	-	-	-	-	-	-	-	-
Islamic financing and related assets- net	-	-	-	-	-	-	-	-	-	-	-
Other assets - net	-	-	-	-	-	-	-	-	-	-	-
		10,000,000	-	-	-	-	-	-	-	-	10,000,000
Liabilities											
Bills payable	-	-	-	-	-	-	-	-	-	-	-
Due to financial institution	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	-	37,693	-	-	-	-	-	-	-	-	37,693
Other liabilities	-	-	-	-	-	-	-	-	-	-	-
		37,693	-	-	-	-	-	-	-	-	37,693
On-balance sheet gap		9,962,307	-	-	-	-	-	-	-	-	9,962,307
Off-balance sheet financial instruments											
Foreign exchange contracts Purchase	-	-	-	-	-	-	-	-	-	-	-
Cross currency swaps - long position	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange contracts Sale	-	-	-	-	-	-	-	-	-	-	-
Cross currency swaps - short position	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-
Total yield risk sensitivity gap			-	-	-	-	-	-	-	-	-
Cumulative yield risk sensitivity gap			-	-	-	-	-	-	-	-	-

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Yield rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market rates.

Reconciliation to total assets	December 31, 2015		June 30, 2015		Reconciliation to total liabilities	December 31, 2015		June 30, 2015	
	(Rupees in thousand)					(Rupees in thousand)			
Balance as per balance sheet	10,107,891	10,000,000			Balance as per balance sheet	123,608	37,693		
Less: Non financial assets					Less: Non financial liabilities				
Investments	-	-			Other liabilities	1,173	-		
Operating fixed assets	170,119	-			Deferred tax liability	-	-		
Other assets	30,439	-				1,173	-		
	200,558	-							
Total financial assets	9,907,333	10,000,000			Total financial liabilities	122,435	37,693		

35.4 Liquidity Risk

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

35.4.1 Maturities of Assets and Liabilities - Based on contractual maturity of the assets and liabilities of the Bank

	December 31, 2015									
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
(Rupees in thousand)										
Assets										
Cash and balances with treasury banks	56,880	56,880	-	-	-	-	-	-	-	-
Balances with other banks	8,150,590	5,850,590	2,300,000	-	-	-	-	-	-	-
Due from financial institutions	-	-	-	-	-	-	-	-	-	-
Investments - net	624,159	74,900	62,416	49,933	37,450	79,892	79,892	79,892	79,892	79,892
Islamic financing and related assets- net	872,634	-	-	-	-	225,000	225,000	459,826	23,896	38,912
Operating fixed assets	170,119	880	1,410	2,191	5,255	26,950	34,146	39,456	53,088	6,943
Deferred tax assets	9,388	-	-	-	9,388	-	-	-	-	-
Other assets - net	124,121	10,261	20,521	30,781	62,558	-	-	-	-	-
	10,107,891	5,963,311	2,384,347	82,905	114,651	331,842	339,038	579,174	156,876	120,747
Liabilities										
Bills payable	-	-	-	-	-	-	-	-	-	-
Due to financial institution	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	37,669	37,669	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	85,939	42,969	42,970	-	-	-	-	-	-	-
	123,608	80,638	42,970	-	-	-	-	-	-	-
Net assets	9,984,283	5,912,673	2,341,377	82,905	114,651	331,842	339,038	579,174	156,876	120,747
Share capital	10,000,000									
Reserves	8,517									
Unappropriated profit	373									
Surplus on revaluation of assets - net of tax	(25,607)									
	9,984,283									

37.4.1 Maturities of Assets and Liabilities - Based on contractual maturity of the assets and liabilities of the Bank

	June 30, 2015									
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
(Rupees in thousand)										
Assets										
Cash and balances with treasury banks	-	-	-	-	-	-	-	-	-	-
Due from financial institutions	10,000,000	10,000,000	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments - net	-	-	-	-	-	-	-	-	-	-
Islamic financing and related assets- net	-	-	-	-	-	-	-	-	-	-
Operating fixed assets	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets - net	-	-	-	-	-	-	-	-	-	-
	10,000,000	10,000,000	-	-	-	-	-	-	-	-
Liabilities										
Bills payable	-	-	-	-	-	-	-	-	-	-
Due to financial institution	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	37,669	37,669	-	-	-	-	-	-	-	-
	37,669	37,669	-	-	-	-	-	-	-	-
Net assets	9,962,307	9,962,307	-	-	-	-	-	-	-	-
Share capital	10,000,000									
Reserves	-									
Unappropriated profit	(37,669)									
Surplus on revaluation of assets - net of tax	-									
	9,962,307									

38.4.2 Maturities of Assets and Liabilities - Based on the working prepared by the Asset and Liabilities Management Committee (ALCO) of the Bank

	December 31, 2015									
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
(Rupees in '000)										
Assets										
Cash and balances with treasury banks	56,880	56,880	-	-	-	-	-	-	-	-
Balances with other banks	8,150,590	5,850,590	2,300,000	-	-	-	-	-	-	-
Due from financial institutions	-	-	-	-	-	-	-	-	-	-
Investments - net	624,159	74,900	62,416	49,933	37,450	79,892	79,892	79,892	79,892	79,892
Islamic financing and related assets- net	872,634	-	-	-	-	225,000	225,000	459,826	23,896	38,912
Operating fixed assets	170,119	680	1,410	2,191	5,255	26,950	34,146	39,456	53,088	6,943
Deferred tax assets	9,388	-	-	-	9,388	-	-	-	-	-
Other assets - net	124,121	10,261	20,521	30,781	62,558	-	-	-	-	-
	10,107,891	5,963,311	2,384,347	82,905	114,651	331,842	339,038	579,174	156,876	120,747
Liabilities										
Bills payable	-	-	-	-	-	-	-	-	-	-
Due to financial institution	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	37,669	12,054	-	-	-	5,123	5,123	10,246	2,562	2,561
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	85,939	42,969	42,970	-	-	-	-	-	-	-
	123,608	55,023	42,970	-	-	5,123	5,123	10,246	2,562	2,561
Net assets	9,984,283	5,938,288	2,341,377	82,905	114,651	326,719	333,915	568,928	154,314	123,186
Share capital	10,000,000									
Reserves	8,517									
Unappropriated profit	373									
Surplus on revaluation of assets - net of tax	(25,607)									
	9,984,283									

38.4.2 Maturities of Assets and Liabilities - Based on the working prepared by the Asset and Liabilities Management Committee (ALCO) of the Bank

	June 30, 2015									
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
(Rupees in thousand)										
Assets										
Cash and balances with treasury banks	-	-	-	-	-	-	-	-	-	-
Balances with other banks	10,000,000	10,000,000	-	-	-	-	-	-	-	-
Due from financial institutions	-	-	-	-	-	-	-	-	-	-
Investments - net	-	-	-	-	-	-	-	-	-	-
Islamic financing and related assets- net	-	-	-	-	-	-	-	-	-	-
Operating fixed assets	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets - net	-	-	-	-	-	-	-	-	-	-
	10,000,000	10,000,000	-	-	-	-	-	-	-	-
Liabilities										
Bills payable	-	-	-	-	-	-	-	-	-	-
Due to financial institution	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	37,693	37,693	-	-	-	-	-	-	-	-
	37,693	37,693	-	-	-	-	-	-	-	-
Net assets	9,962,307	9,962,307	-	-	-	-	-	-	-	-
Share capital	10,000,000									
Reserves	-									
Unappropriated profit	(37,693)									
Surplus on revaluation of assets - net of tax	-									
	9,962,307									

Liquidity Gap Reporting

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

38.5 Operational Risk

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

The Bank's operational risk management framework, as laid down in the operational risk policy, duly approved by BOD, is flexible enough to implement in stages and permits the overall risk management approach to evolve in the light of organizational learning and the future needs of the Bank. Operational loss events are reviewed and appropriate corrective actions taken on an ongoing basis, including measures to improve control procedures with respect to design and operative effectiveness.

Operational Risk Management helps the Bank understand risks and improve mitigating controls so as to minimize operational risks that are inherent in almost all areas of the Bank. Going forward, the Bank will further strengthen its risk function, policies and procedures to facilitate its operations and improve quality of assets to safeguard interest of depositors.

38.5.1 Operational Risk-Disclosures Basel II Specific

Currently, the bank is reporting operational risk capital charge under Basic Indicator Approach (BIA).

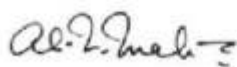
Operational loss data pertaining to key risk events is also collected on bank-wide basis. Periodic review and analysis will be prepared for senior management and Risk Management and Portfolio Review Committee (RM&PRC) of the Board. Such reports will cover the significant risk events with root cause analysis and recommendations for further improvements.

39 GENERAL

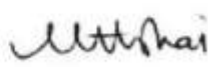
Figures have been presented in Pak Rupee and rounded off to the nearest thousand.

40. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue by the Board of Directors of the Bank in their meeting held on February 08, 2016.



Ali Muhammad Mahoon
President & Chief Executive



Muhtashim Ahmad Ashai
Director



Muhammad Nauman Chughtai
Director



Omair Safdar
Director

ANNEXURE - I

Particulars of Investments in listed companies and mutual funds-available for sale

Investee Entities	Number of shares	Paid-up value per share Rupees	Total paid- up/ nominal value (Rupees in thousand)	Cost as at December 31, 2015
Fully Paid-up Ordinary Shares				
Engro Fertilizers Limited	953,500	10	9,535	80,610
Fauji Cement Company Limited	2,551,500	10	25,515	91,618
Fauji Fertilizer Company Limited	1,792,000	10	17,920	224,635
Pak Elektron Limited	1,239,500	10	12,395	94,214
Pakistan Telecommunication Company Limited	700,000	10	7,000	11,920
Engro Corporation Ltd.	411,700	10	4,117	124,877
K-Electric Limited	848,000	10	8,480	6,385
Pakistan State Oil Corporation	86,500	10	865	29,295
Carrying value before revaluation & provision				663,554
Loss on revaluation of securities				(39,395)
Market value as at December 31, 2015				624,159

Branch Network

As at December 31, 2015

Sr. No.	Name of Branch	City	Address
1	Main Gulberg	Lahore	58, Main Gulberg, Lahore Branch.
2	Dhorajee Branch	Karachi	Shop # 5,6 & 7, Al Madina Heights, Plot # 35-C/449, Survey Sheet # 35-P/1, Berar Co-operative Housing Society, Block 7 & 8, Dhorajee, Karachi.
3	F.B Industrial Area Branch	Karachi	Plot # St – 7, Sector No. 22, KDA Scheme No. 16, F.B Industrial Area, Karachi.
4	Taj Road, Chaman Branch	Chaman	Khasra # 1831, Taj Road, Tehsil Chaman, District Qila Abdullah
5	Tehsil Road, Loralai, Branch	Loralai	Shop # 372, House # 425, Tehsil Road, District Loralai.
6	Main Balambat Road, Timargara Branch	Timargara	Zeb Plaza, Main Balambat Road, Timargara, Lower Dir.

Form of Proxy

MCB Islamic Bank Limited

I/We _____ of
_____ being member(s) of

MCB Islamic Bank Limited ("the Bank"), holding _____

Ordinary shares, do hereby appoint _____

of _____ or failing

him/her _____

of _____,

Who is also Member of the Bank, as my / our proxy to vote for me / us, and on my / our behalf at the 2nd Annual General Meeting of the Bank to be held on Monday, March 14, 2016 at 10:00 AM at MCB House, 15-D, Main Gulberg, Lahore and at any adjournment thereof.

As witness my/our hand this _____ day of _____ 2016.



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

Witness No. 1: _____

Witness No. 2 : _____

Name : _____

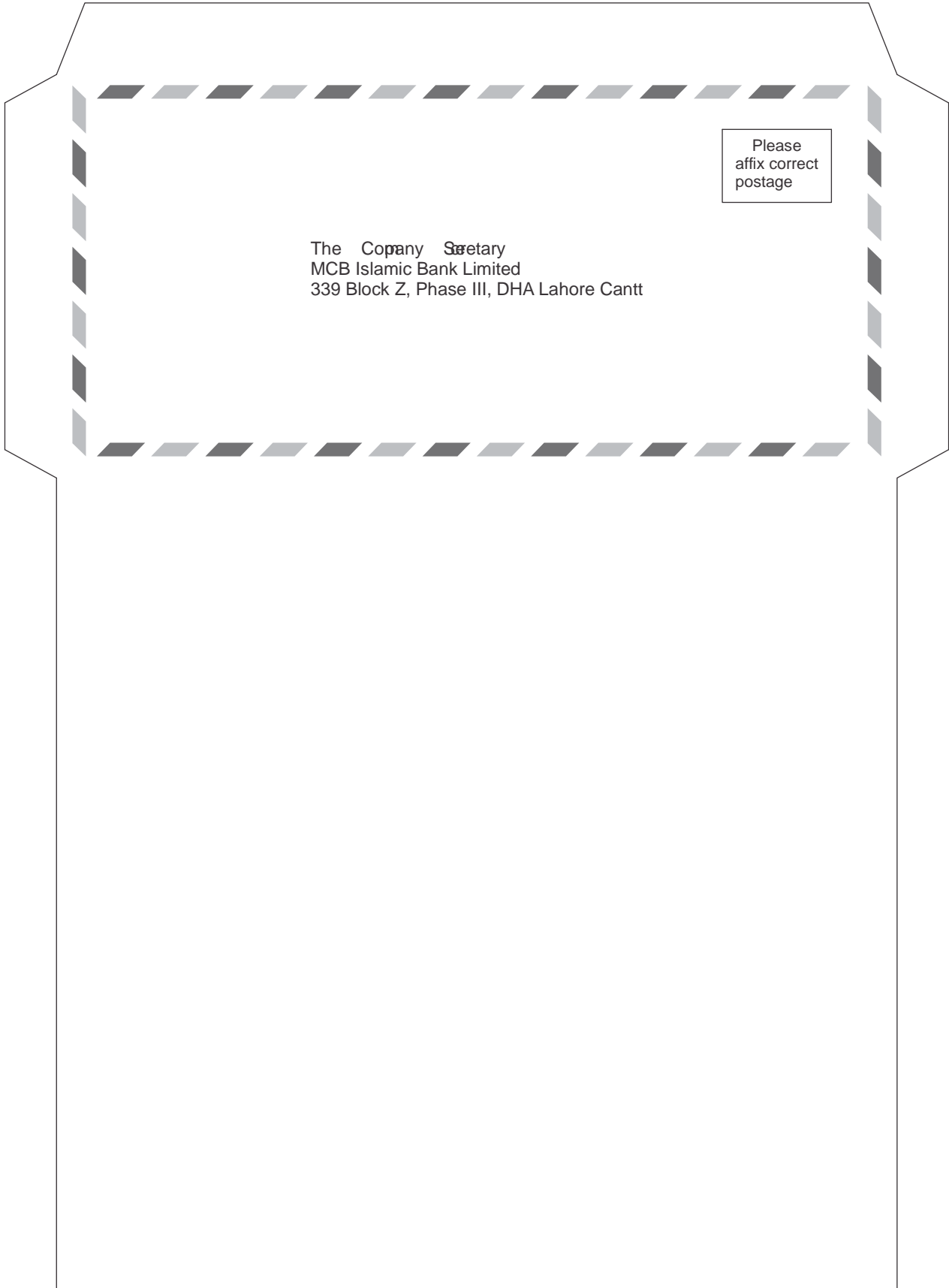
Name: _____

C.N.I.C. No./Passport No: _____

C.N.I.C. No./Passport No _____

Address: _____

Address: _____



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

Please
affix correct
postage