



Dubai Islamic Bank
Pakistan Ltd.



بنك دبي الإسلامي
البنك الإسلامي المحدود

CREDIT RATING	
Long Term	'A'
Short Term	A-1
Outlook	Stable
By: JCR - VIS	

DUBAI ISLAMIC BANK PAKISTAN LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2010

	Note	2010 ----- Rupees in '000 -----	2009
ASSETS			
Cash and balances with treasury banks	8	3,197,884	2,932,264
Balances with other banks	9	3,455,665	2,430,437
Due from financial institutions	10	1,020,725	2,591,905
Investments	11	5,945,370	2,822,723
Financing	12	22,764,954	20,589,613
Operating fixed assets	13	1,703,588	1,727,298
Deferred tax assets	14	447,788	413,066
Other assets	15	1,352,762	1,861,588
		39,888,736	35,368,894
LIABILITIES			
Bills payable	16	411,944	279,493
Due to financial institutions	17	950,000	125,000
Deposits and other accounts	18	31,414,908	27,980,906
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	19	1,063,545	943,230
		33,840,397	29,328,629
NET ASSETS		6,048,339	6,040,265
REPRESENTED BY			
Share capital	20	6,776,030	6,776,030
Reserves	21	46,961	45,347
Accumulated loss		(774,670)	(781,130)
		6,048,321	6,040,247
Advance against future issue of share capital		18	18
Surplus on revaluation of assets – net of tax		-	-
		6,048,339	6,040,265
CONTINGENCIES AND COMMITMENTS	22		

The annexed notes from 1 to 42 form an integral part of these financial statements.

President / Chief Executive

Director

Director

Director

DUBAI ISLAMIC BANK PAKISTAN LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	2010 ----- Rupees in '000 -----	2009
Profit / return on financing, investments and placements earned	23	4,071,552	3,647,145
Return on deposits and other dues expensed	24	2,129,570	1,805,943
Net spread earned		1,941,982	1,841,202
Provision against non-performing financing	12.4	(181,224)	(115,136)
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		(181,224)	(115,136)
Net spread after provisions		1,760,758	1,726,066
OTHER INCOME			
Fee, commission and brokerage income		236,015	232,619
Dividend Income		-	-
Income from dealing in foreign currencies		127,376	129,177
Gain on sale of securities	25	2,661	-
Unrealized gain / (loss) on revaluation of investments classified as held for trading		-	-
Other income	26	283	3,557
Total other income		366,335	365,353
		2,127,093	2,091,419
OTHER EXPENSES			
Administrative expenses	27	2,095,563	1,724,467
Other provisions / write offs		769	2,251
Other charges	28	13,030	12,651
Total other expenses		2,109,362	1,739,369
		17,731	352,050
Extra ordinary / unusual items		-	-
PROFIT BEFORE TAXATION		17,731	352,050
Taxation – Current		(44,379)	(20,062)
– Prior years		-	-
– Deferred		34,722	(105,251)
	29	(9,657)	(125,313)
PROFIT AFTER TAXATION		8,074	226,737
Accumulated loss brought forward		(781,130)	(962,520)
Accumulated loss carried forward		(773,056)	(735,783)
Basic earnings per share – Rupees	30	0.01	0.38
Diluted earnings per share – Rupees	30	0.01	0.38

The annexed notes from 1 to 42 form an integral part of these financial statements.

President / Chief Executive

Director

Director

Director

DUBAI ISLAMIC BANK PAKISTAN LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
	----- Rupees in '000 -----	
Profit for the year	8,074	226,737
Other comprehensive income	-	-
Total comprehensive income for the year	<u>8,074</u>	<u>226,737</u>

The annexed notes from 1 to 42 form an integral part of these financial statements.

President / Chief Executive	Director	Director	Director
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DUBAI ISLAMIC BANK PAKISTAN LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010

	Share capital	Statutory Reserves	Accumulated loss	Total
	Rupees in '000			
Balance as at January 01, 2009	6,017,780	-	(962,520)	5,055,260
Net Profit for the year	-	-	226,737	226,737
Other comprehensive income	-	-	-	-
Total comprehensive Income for the year	-	-	226,737	226,737
Issue of right shares during the year	758,250	-	-	758,250
Transfer to Statutory Reserves	-	45,347	(45,347)	-
Balance as at December 31, 2009	6,776,030	45,347	(781,130)	6,040,247
Net profit for the year	-	-	8,074	8,074
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	8,074	8,074
Transfer to Statutory reserves	-	1,614	(1,614)	-
Balance as at December 31, 2010	6,776,030	46,961	(774,670)	6,048,321

The annexed notes from 1 to 42 form an integral part of these financial statements.

President / Chief Executive

Director

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Director

DUBAI ISLAMIC BANK PAKISTAN LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	2010	2009
----- Rupees in '000 -----			
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		17,731	352,050
Adjustments:			
Depreciation	13.2	210,252	198,209
Amortization	27.3	116,470	111,574
Provision against non-performing financing	12.4	181,224	115,136
Other provision / write offs		769	2,251
Gain on sale of Securities		(2,661)	-
Gain on sale of fixed assets		(258)	(63)
		<u>505,796</u>	<u>427,107</u>
		523,527	779,157
(Increase) / decrease in operating assets			
Due from financial institutions		1,571,180	(1,262,073)
Financing		(2,356,565)	(2,631,248)
Other assets		464,749	(507,967)
		<u>(320,636)</u>	<u>(4,401,288)</u>
Increase / (decrease) in operating liabilities			
Bills payable		132,451	(3,695)
Due to financial institutions		825,000	125,000
Deposits and other accounts		3,434,002	2,521,996
Other liabilities		120,315	(298,618)
		<u>4,511,768</u>	<u>2,344,683</u>
		4,714,659	(1,277,448)
Income tax paid		(38,383)	(8,319)
Net cash generated from / (used in) operating activities		<u>4,676,276</u>	<u>(1,285,767)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		(3,119,987)	179,852
Investments in operating fixed assets		(272,694)	(259,826)
Sale proceeds of property and equipment disposed-off		7,253	4,742
Net cash used in investing activities		<u>(3,385,428)</u>	<u>(75,232)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Amount received against issue of right shares		-	758,250
Increase /(decrease) in cash and cash equivalents		<u>1,290,848</u>	<u>(602,749)</u>
Cash and cash equivalents at beginning of the year		5,362,701	5,965,450
Cash and cash equivalents at end of the year	31	<u>6,653,549</u>	<u>5,362,701</u>

The annexed notes from 1 to 42 form an integral part of these financial statements.

President / Chief Executive

Director

Director

Director

DUBAI ISLAMIC BANK PAKISTAN LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. STATUS AND NATURE OF BUSINESS

- 1.1** Dubai Islamic Bank Pakistan Limited (the Bank) was incorporated in Pakistan as an unlisted public limited company on May 27, 2005 under the Companies Ordinance, 1984 to carry out the business of an Islamic Commercial Bank in accordance with the principles of Sharia.
- 1.2** The State Bank of Pakistan (the SBP) granted a "Scheduled Islamic Commercial Bank" license to the Bank on November 26, 2005 and subsequently the Bank received the Certificate of Commencement of Business from the Securities and Exchange Commission of Pakistan (the SECP) on January 26, 2006 and commenced operations as a scheduled Islamic Commercial Bank with effect from March 28, 2006 on receiving certificate for commencement of business from the SBP.
- 1.3** The Bank is operating through 51 branches as at December 31, 2010 (2009: 35 branches and 1 sub-branch). The registered office of the Bank is situated at Hasan Chambers, DC-7, Block-7 Kehkashan, Clifton, Karachi. The Bank is a wholly owned subsidiary of Dubai Islamic Bank PJSC, UAE (the Holding company).
- 1.4** The State Bank of Pakistan (SBP) vide circular no.7 dated April 15, 2009 has set the Minimum Capital Requirement (MCR) for banks upto Rs. 10 billion to be achieved in phased manner by 31 December 2013. As per the said circular MCR (free of losses) and Capital Adequacy Ratio (CAR) requirements as of 31 December 2010 is Rs. 7 billion and 10% respectively. However, the paid-up capital of the Bank (free of losses) as of 31 December 2010 amounts to Rs.6.001 billion while its CAR stands at 20.87%. Subsequent to the year end, the Bank has been granted exemption from the MCR by the SBP vide its letter number BSD/BA1-3/608/1329/2011 dated February 02, 2011. The letter states that the Bank has been given exemption from meeting MCR requirements for a period of two years i.e. 31 December 2010 and 31 December 2011, subject to the compliance of the following conditions during the exemption period:
- a. The Bank shall maintain paid-up capital (free of losses) of at least Rs 6 billion at all times;
 - b. The Bank shall maintain CAR of 15% or above;
 - c. There would be moratorium on dividend payments until the Bank meets the existing regulatory capital requirements; and
 - d. The Bank shall not undertake related party transactions (as defined in BSD Circular No.4, dated 17 February 2006).

The Bank will be subject to MCR as of 31 December 2012 and onwards as per BSD. Circular No.7 dated 15 April 2010.

Further, the Bank is also required to formulate and submit a capital enhancement plan to the SBP by 30 June 2011 so that the Bank eventually meets the capital requirements as of 31 December 2012 and onwards.

2. BASIS OF PRESENTATION

- 2.1** These financial statements have been prepared in conformity with the format of financial statements prescribed by the State Bank of Pakistan (SBP) vide BSD Circular No. 04, dated 17 February 2006. Further, with effect from the current year, "balance sheet" has been renamed as "statement of financial position" keeping in view the requirement of BSD Circular letter No. 7 of 2010 dated April 20, 2010 issued by the SBP.
- 2.2** The Bank provides financing through Sharia compliant financial products. The transactions of purchases, sales and leases executed arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of rental / profit thereon. However, Murabaha transactions are accounted for under the Islamic Financial Accounting Standard – 1. Income, if any, received which does not comply with the principles of Sharia is recognized as charity payable if so directed by the Sharia Advisor / Sharia Supervisory Board.

3. STATEMENT OF COMPLIANCE

- 3.1** These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFASs) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the SECP and the SBP. Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the SECP and the SBP differ with the requirements of IFRSs or IFASs, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives prevail.
- 3.2** The SBP vide BSD Circular No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement and International Accounting Standard 40, Investment Property for Banking companies till further instructions. Further, according to the notification of SECP dated April 28, 2008, the IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirement of various circulars issued by SBP.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention.

5. SIGNIFICANT ACCOUNTING POLICIES

- 5.1** The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as follows:

The Bank has adopted the following new and amended IFRS and related interpretations and improvements which became effective during the year:

IFRS 2 - Share based Payments: Amendments relating to Group Cash-settled Share based Payment Transactions

IFRS 3 - Business Combinations (Revised)

IAS 27 - Consolidated and Separate Financial Statements (Amendment)

IFRIC 17 - Distributions of Non-cash Assets to owners

Issued in May 2008

IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations

Issued in April 2009

IFRS 2 – Share-based Payments

IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations

IFRS 8 – Operating Segments

IAS 1 – Presentation of Financial Statements

IAS 7 – Statement of Cash Flows

IAS 17 – Leases

IAS 36 – Impairment of Assets

IAS 38 – Intangible Assets

IFRIC 9 – Reassessment of Embedded Derivatives

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

The adoption of the above standards, amendments / improvements and interpretations did not have any effect on these financial statements.

5.2 Cash and cash equivalents

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

5.3 Investments

In accordance with BSD Circular No.10 and 14 dated July 13, 2004 and September 24, 2004 respectively, issued by the SBP, the Bank classifies its investment portfolio into "Held-for-trading", "Held-to-maturity" and "Available-for-sale" securities as follows:

Held-for-trading

These represent securities, which are either acquired for the purpose of generating profit from short-term fluctuations in prices or dealer's margin or are securities included in the portfolio in which a pattern of short-term profit making exists.

Held- to-maturity

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

Available-for-sale

These represent securities, which do not fall under the held-for-trading or held-to-maturity categories.

In accordance with the requirements of the SBP, quoted securities other than those classified as held-to-maturity are carried at market value. Investments classified as held-to-maturity are carried at amortised cost. Unquoted securities are valued at cost less impairment, if any.

Further, in accordance with the requirements of the SBP, surplus / (deficit) on revaluation of the Bank's held for trading investments is taken to the profit and loss account. The surplus / (deficit) on investments classified as available for sale is kept in a separate account shown in the statement of financial position below equity.

Provision for diminution in the value of securities is made after considering impairment, if any, in their value and charged to profit and loss account.

Cost of investment is determined on moving average basis.

Premium or discount on acquisition of investment is amortized through profit and loss account over the remaining period till maturity.

5.4 Trade date accounting

All 'regular way' purchases and sales of financial assets are recognized on the trade date i.e. the date on which commitment to purchase / sale is made by the Bank. Regular way purchases or sales of financial assets are those, the contract for which requires delivery of assets within the time frame generally established by the regulation or convention in the market place.

5.5 Financing

Financing are financial products launched by the Bank and principally comprise Murabaha, Musharaka, Musharaka cum Ijara, Wakala, Wakala Istithmar, Istisna cum Wakala, Ijara Muntahiya Bil Tamleek and Shirkatulmilk. These are stated at amortised cost (except for Murabaha which is accounted for at gross receivable) net of general and specific provisions.

Provision against non-performing financing is made in accordance with the requirements of the Prudential Regulations issued by the SBP and charged to profit and loss account. Specific provisions are made for identified doubtful financing in addition to general provisioning requirements.

Murabaha to the purchase orderer is a sale transaction wherein the first party (the Bank) sells to the client/customer a Sharia compliant asset/good for cost plus a pre-agreed profit after getting title and possession of the same. In principle on the basis of an undertaking (Promise-to-Purchase) from the client (the purchase orderer), the bank purchases the goods/assets subject of the Murabaha from a third party and takes the possession thereof, however the bank can appoint the client as its agent to purchase the goods/assets on its behalf. Thereafter, it sells it to the client at cost plus the profit agreed upon in the Promise.

Import Murabaha is a product, used to finance a commercial transaction which consists of purchase by the bank (generally through an undisclosed agent) the goods from the foreign supplier and selling them to the customer after getting the title to and possession of the goods. Murabaha financing is extended to all types of trade transactions i.e. under Documentary Credits (LCs) and Documentary Collections.

Musharaka is a form of partnership in business with distribution of profit in agreed ratio and distribution of loss in the ratio of capital invested.

In Shirkat ul-Milk / Musharaka cum Ijara, the bank and the customer become co-owners in certain identified assets by acquiring the same from a third party or by purchase of any asset from the customer by the bank of an undivided share of an identified asset. Thereafter, the customer/co-owner leases the share of the bank from the bank in a manner that the Bank would recover its cost plus the desired profit till the maturity of the facility and at the end of the facility term the Bank sells its share to the customer at a nominal price.

Wakala Istithmar has been developed to facilitate exporters through investment agency where the customer acts as the investment agent of the bank. This medium is used to cater to the export based customer's financial needs i.e. help the customer to bridge the gap between the commencement of the manufacturing process and the dispatch of goods to the ultimate buyer/buyers.

Istisna cum Wakala product has two legs: first the bank acquires the described goods by way of Istisna to be manufactured by the Customer from raw material of its own and once the goods are delivered to the bank, the customer through an independent agency contract, will sell the same to various end-users as the agent of the Bank.

Ijara Muntahiya Bil Tamleek is a lease contract in which the lease asset's title is transferred at the end of the lease term to the lessee through an independent sale agreement.

5.6 Operating fixed assets and depreciation

5.6.1 Tangible

These are stated at cost less accumulated depreciation and impairment, if any. Such costs include the cost of replacing parts of fixed assets when that cost is incurred. Maintenance and normal repairs are charged to income as and when incurred. Depreciation is charged to income over the useful life of the asset on a systematic basis applying the straight line method at the rates specified in note 13.2 to the financial statements.

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

The carrying amounts are reviewed annually to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed estimated recoverable amount, assets are written down to their estimated recoverable amount.

An item of fixed asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

The assets residual values, useful lives and methods are reviewed and adjusted, if appropriate, at each financial year end.

Gains and losses on disposals, if any, of assets are included in income currently.

5.6.2 Intangible

These are stated at cost less accumulated amortisation and impairment, if any. Amortisation is charged over the useful life of the asset on a systematic basis to income applying the straight line method at the rate specified in note 13.3 to the financial statements.

Amortisation on additions is charged from the month in which the assets are put to use while no amortisation is charged in the month in which the assets are disposed.

Software and other development costs are only capitalised to the extent that future economic benefits are expected to be derived by the Bank.

The carrying amounts are reviewed annually to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed estimated recoverable amount, assets are written down to their estimated recoverable amount.

5.6.3 Capital-work-in-progress

Capital work-in-progress is stated at cost.

5.7 Taxation**5.7.1 Current**

Provision for current taxation is based on the expected taxable income for the year determined in accordance with the prevailing laws for taxation on income. The charge for tax also includes adjustments, where considered necessary relating to prior years.

5.7.2 Deferred

Deferred tax is recognized using the liability method on all temporary differences arising between tax bases of assets and liabilities and their carrying amounts appearing in the financial statements. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred tax is calculated at the rates that are expected to apply to the year when the differences reverse, based on tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is charged or credited to the profit and loss account. Deferred tax, if any, on revaluation of investments is recognized as an adjustment to surplus / (deficit) arising on revaluation.

5.8 Staff retirement benefits**5.8.1 Defined benefit plan**

The Bank operates an approved funded gratuity scheme for its permanent employees. The liability recognized in the statement of financial position in respect of defined benefit gratuity scheme, is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated periodically by an independent actuary using the projected unit credit method. Last valuation was conducted as on December 31, 2010.

5.8.2 Defined contribution plan

The Bank operates an approved funded contributory provident fund for all its permanent employees to which equal monthly contributions are made both by the Bank and the employees at the rate of 10% per annum of basic salary. The Bank has no further payment obligations once the contributions have been paid. The contributions made by the Bank are recognized as employee benefit expense when they are due.

5.9 Revenue recognition

Profit on Murabaha and Istisna cum wakala transactions for the period from the date of disbursement to the date of maturity of Murabaha is recognized immediately upon the later date and thereafter profit on murabaha and Istisna is recognized on time apportioned basis.

Provisional Profit on Musharaka cum Ijara, Ijara Muntahiya Bil Tamleek and Shirkatulmilk is recognized on the basis of the reducing balance on a time apportioned basis that reflects the effective return / profit on the asset.

Profit on Wakala is accounted for on a time apportioned basis that reflects the effective yield on the asset.

Provisional profit of Musharaka financing is recognized on accrual basis. Actual profit / (loss) on Musharaka and Modaraba financing is adjusted for declaration of profit / (loss) by Musharaka partner / modarib or at liquidation of Musharaka / Modaraba.

Gain and losses on sale of investments are included in income currently and profit on investment is accounted for on a time apportioned basis over the terms of the underlying investments.

Commission on letter of credit, acceptances and guarantees is recognized on accrual basis.

Fee, commission and brokerage are recognized when earned.

5.10 Financial Instruments

5.10.1 Financial assets and financial liabilities

Financial instruments carried on the statement of financial position mainly include cash and bank balances, balances with other banks, investments, financing, bills payable, deposits and other payables. The particular recognition methods adopted for significant financial assets and liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

5.10.2 Offsetting of financial instruments

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

5.10.3 Derivatives

Derivative financial instruments are recognized at fair value. Derivatives with positive market values (unrealised gains) are included in other receivables and derivatives with negative market values (unrealised losses) are included in other liabilities in the statement of financial position. The resultant gains and losses are taken to income currently. However, the Bank is not holding any derivatives.

5.11 Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Bank in these financial statements.

5.12 Foreign currencies

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in Pakistani Rupees, which is the Bank's functional and presentation currency.

Foreign currency transactions

Transactions in foreign currencies are translated into rupees at the foreign exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the statement of financial position date. Forward foreign exchange promise / options are valued at forward rates applicable to their respective maturities.

Translation gains and losses

Translation gains and losses are included in the profit and loss account.

Commitments

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

5.13 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 statement of financial position date and are adjusted to reflect the current best estimate.

Provisions for guarantee claims and other off statement of financial position obligations are recognized when intimated and reasonable certainty exists for the Bank to settle the obligation. Charge to profit and loss account is stated net off expected recoveries.

5.14 Allocation of profit

Allocation of profits between depositors and shareholders is calculated according to the Bank's profit distribution policy and is approved by the Shari'a Advisor / Shari'a Supervisory Board.

5.15 Impairment

The carrying amount of assets is reviewed at each statement of financial position date for impairment whenever events of changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such indication exists, and where the carrying amount exceeds the estimated recoverable amount, assets are written down to their recoverable amounts. The resulting impairment is taken to the profit and loss account.

5.16 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing product 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 segment reporting format has been determined and prepared in conformity with the format of financial statements and guidelines, prescribed by the SBP vide BSD Circular No.04, dated, 17 February 2006. The Bank's primary format of reporting is based on business segments.

5.16.1 Business segments

Corporate banking

Corporate banking includes services provided in connection with mergers and acquisition, underwriting, privatization, securitization, research, Sukuk (government, high yield), equity, syndication, IPO and secondary private placements, provided they are Shari'a compliant.

Trading and sales

It includes fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities and financing.

Retail banking

It includes retail financing and deposits, banking services, trust and estates investment advice, merchant / commercial / corporate cards and private labels and retail.

Commercial banking

Commercial banking includes project finance, real estate, export finance, trade finance, leasing, financing and issuing guarantees.

5.16.2 Geographical segment

The Bank has 51 branches as at December 31, 2010 (2009: 35 branches and 1 sub-branch) and operates only in Pakistan.

6. ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with approved Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The estimates/judgments and associated assumptions used in the preparation of the financial statements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates/judgments and associated assumptions are reviewed on an ongoing basis. Revision to the accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The estimates, judgments and assumptions that have significant effect on the financial statements are as follows:

	<u>Note</u>
Classification of investments	5.3 & 11
Provision against non-performing financing (also see note 12.4.1)	5.5 & 12.4
Residual Values, useful lives of assets and methods of depreciation	5.6 & 13
Current and deferred taxation	5.7 & 14
Defined benefit plan	5.8.1 & 33.1.1

7. ACCOUNTING STANDARDS NOT YET EFFECTIVE

The following revised standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standard or interpretation		Effective date (accounting periods beginning on or after)
IAS 24	Related Party Disclosures (Revised)	01 January 2011
IAS 32	Financial Instruments: Presentation – Classification of Rights Issues (Amendment)	01 February 2010
IAS 12	Income Taxes: Deferred tax amendment- Recognition of underlying assets	01 January 2012
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	01 July 2010

The Bank expects that the adoption of the above revisions, amendments and interpretations of the standards will not materially affect the Bank's financial statements in the period of initial application.

In addition to the above, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2011. The Bank expects that such improvements to the standards will not have any material impact on the Bank's financial statements in the period of initial application.

	Note	2010 ----- Rupees in '000 -----	2009
8. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
- local currency		523,477	439,806
- foreign currency		337,982	435,652
		<u>861,459</u>	<u>875,458</u>
With the State Bank of Pakistan in			
- local currency current account	8.1	1,731,920	1,517,659
- foreign currency current account	8.2	8,017	44,103
- foreign currency deposit accounts - Cash Reserves		228,907	198,979
- Special Cash Reserve		274,671	239,196
	8.1	<u>503,578</u>	<u>438,175</u>
With National Bank of Pakistan in			
- local currency current account		92,910	56,869
		<u>3,197,884</u>	<u>2,932,264</u>

8.1 These balances are maintained to comply with the requirements of the SBP issued from time to time.

8.2 This represents US Dollar clearing account maintained with the SBP.

	Note	2010 ----- Rupees in '000 -----	2009
9. BALANCES WITH OTHER BANKS			
In Pakistan			
- on current accounts		5,343	6,684
- on deposit accounts		10	50,010
		<u>5,353</u>	<u>56,694</u>
Outside Pakistan			
- on current accounts	9.1	1,309,394	1,952,535
- on deposit accounts	9.2	2,140,918	421,208
		<u>3,450,312</u>	<u>2,373,743</u>
		<u>3,455,665</u>	<u>2,430,437</u>

9.1 Includes Rs. 317.727 million (2009: Rs. 430.075 million) deposited with the Holding company.

9.2 Represents deposits with the Holding company under Wakala arrangements. Expected return on these arrangements is 1.5% per annum (2009: 1.5% per annum).

	Note	2010 ----- Rupees in '000 -----	2009
10. DUE FROM FINANCIAL INSTITUTIONS			
Mudaraba placements	10.1	1,000,000	190,000
Call deposit receipt	10.2	20,725	-
Commodity Murabaha	10.3	-	2,401,905
		<u>1,020,725</u>	<u>2,591,905</u>

- 10.1** The Bank has entered into a Mudaraba-al-Muqayyada agreement under which the Bank made placement of its funds to a specific type of business activity or project. The profit rate on such placement is 13.5% (2009: nil) and the same will be matured within one month of the statement of financial position date.
- 10.2** This represents a non-remunerative balance with a financial institution and the same is settled subsequent to the statement of financial position date.

	2010	2009
	----- Rupees in '000 -----	
10.3 Commodity Murabaha sale price	45,260,775	9,455,052
Purchase price	(44,830,000)	(9,290,000)
	430,775	165,052

Deferred Commodity Murabaha income

Opening balance	19,751	7,381
Deferred during the year	430,775	165,052
Recognized during the year	(450,526)	(152,682)
	-	19,751

Commodity Murabaha

Opening balance	2,401,905	1,129,832
Sales during the year	45,260,775	9,455,052
Received during the year	(47,662,680)	(8,182,979)
	-	2,401,905

11. INVESTMENTS

Note	2010			2009		
	Held by the Bank	Given as collateral	Total	Held by the Bank	Given as collateral	Total
	----- (Rupees in '000) -----					

11.1 Investments by types

Available-for-sale securities

WAPDA Sukuk Certificates	790,695	-	790,695	815,873	-	815,873
GoP- Ijara Sukuk Certificates	3,000,000	-	3,000,000	-	-	-
Other Sukuk Certificates	2,154,675	-	2,154,675	2,006,850	-	2,006,850
Total investments at cost	5,945,370	-	5,945,370	2,822,723	-	2,822,723

11.3

Note	2010	2009
	----- Rupees in '000 -----	

11.2 Investments by segments

WAPDA Sukuk Certificates	790,695	815,873
GoP- Ijara Sukuk Certificates	3,000,000	-
Other Sukuk Certificates	2,154,675	2,006,850
Total investments at cost	5,945,370	2,822,723

11.3

11.3 Available-for-sale securities

Name of the investee company	Note	2010	2009	2010		2009		
		Number of Certificates	Face value	Cost (Rupees in '000)	Rating	Cost (Rupees in '000)	Rating	
Sukuk Certificates								
WAPDA First Sukuk Certificates	11.3.1	67,000	67,000	5,000	335,320	Unrated	335,498	Unrated
WAPDA Second Sukuk Certificates	11.3.2	91,075	96,075	5,000	455,375	Unrated	480,375	Unrated
Sitara Chemical Industries Limited	11.3.3	7,435	14,870	5,000	37,175	Unrated	74,350	Unrated
Engro Chemicals Pakistan Limited	11.3.4	60,000	60,000	5,000	300,000	Unrated	300,000	Unrated
Engro Chemicals Pakistan Limited	11.3.5	75,000	-	5,000	375,000	Unrated	-	-
Sui Southern Gas Company Limited	11.3.6	68,757	123,762	3,333	229,167	AA	412,500	AA
Karachi Shipyard and Engineering Works	11.3.7	185,000	185,000	5,000	925,000	Unrated	925,000	Unrated
K.S. Sulemanji & Sons (Pvt) Limited	11.3.8	19,000	19,000	5,000	95,000	Unrated	95,000	Unrated
Quetta Textile Mills Limited	11.3.9	38,667	40,000	5,000	193,333	BBB+	200,000	BBB+
GoP - Ijara Sukuk Certificates (8/11/10)	11.3.10	10,000	-	100,000	1,000,000	Unrated	-	-
GoP - Ijara Sukuk Certificates(12/12/10)	11.3.11	20,000	-	100,000	2,000,000	Unrated	-	-
					5,945,370		2,822,723	

- 11.3.1** These carry profit at the rate of six months KIBOR plus 35 basis points (2009: six months KIBOR plus 35 basis points) receivable semi-annually on provisional basis with maturity in October 2012. These are backed by the Government of Pakistan's Sovereign guarantee. The Bank based on recommendation of the SBP has recorded the WAPDA Sukuk Certificates at its cost as there has been no movement in the rate available at the Reuters.
- 11.3.2** These carry profit at the rate of six months KIBOR minus 25 basis points (2009: six months KIBOR minus 25 basis points) receivable semi-annually on provisional basis with maturity in July 2017. These are backed by the Government of Pakistan's Sovereign guarantee. The Bank based on recommendation of the SBP has recorded the WAPDA Sukuk Certificates at its cost as there has been no movement in the rate available at the Reuters.
- 11.3.3** These carry profit at the rate of three months KIBOR plus 170 basis points (2009: three months KIBOR plus 170 basis points) receivable quarterly with final redemption on March 2012. These are backed by tangible assets of the investee company.
- 11.3.4** These carry profit at the rate of six months KIBOR plus 150 basis points (2009: six months KIBOR plus 150 basis points) receivable semi-annually with final redemption on March 2016. These are backed by tangible assets of the investee company.
- 11.3.5** These carry profit at the rate of six months KIBOR plus 211 basis points receivable semi-annually with final redemption on June 2017. These are backed by tangible assets of the investee company.
- 11.3.6** These carry profit at the rate of three months KIBOR plus 40 basis points (2009: three months KIBOR plus 40 basis points) receivable quarterly with final redemption on July 2012. These are backed by tangible assets of the investee company.
- 11.3.7** These carry profit at the rate of six months KIBOR plus 40 basis points (2009: six months KIBOR plus 40 basis points) receivable semi-annually. The principal will be redeemed in eight equal semi-annual installments starting from May 2012. These are backed by the Government of Pakistan's Sovereign guarantee.
- 11.3.8** These carry profit at the rate of three months KIBOR plus 140 basis points (2009: three months KIBOR plus 140 basis points) receivable quarterly. The principal will be redeemed in fifteen quarterly installments starting from December 2008. This sukuk was restructured and the final redemption has been extended from September 2012 to July 2014 and is backed by tangible assets of the investee company.
- 11.3.9** These carry profit at the rate of six months KIBOR plus 150 basis points (2009: six months KIBOR plus 150 basis points) receivable semi-annually. The principal will be redeemed in twelve equal semi-annual installments starting from March 2010. These are backed by tangible assets of the investee company.
- 11.3.10** These carry profit at the rate of six months Treasury Bills plus zero basis points receivable semi-annually on provisional basis with maturity in November 2013. These are backed by the Government of Pakistan's Sovereign guarantee.

11.3.11 These carry profit at the rate of six months Treasury Bills plus zero basis points receivable semi-annually on provisional basis with maturity in December 2013. These are backed by the Government of Pakistan's Sovereign guarantee.

	Note	2010 ----- Rupees in '000 -----	2009
12. FINANCING			
Financing in Pakistan			
- Murabaha	12.1	3,033,796	2,430,861
- Musharaka cum Ijara – Housing		5,493,212	5,514,369
- Musharaka cum Ijara – Autos		5,610,713	5,095,718
- Ijara Muntahiya Bil Tamleek– Autos		172,699	216,259
- Musharaka cum Ijara – Other		921,526	1,315,603
- Export Refinance under Islamic Scheme		950,000	-
- Wakala Istithmar- Pre manufacturing		297,574	104,359
- Wakala Istithmar- Post manufacturing		23,116	3,410
- Shirkatulmilk		1,184,212	1,241,136
- Service Ijarah		700,000	700,000
- Musharaka		369,417	1,431,250
- Istisna cum Wakala		4,561,892	2,908,627
Financing – gross		23,318,157	20,961,592
Less: Provision against non-performing financing	12.4	(553,203)	(371,979)
Financing – net of provisions		22,764,954	20,589,613
12.1 Murabaha sale price			
Purchase price		7,441,922	6,964,817
		(7,100,462)	(6,603,760)
		341,460	361,057
Deferred Murabaha income			
Opening balance		48,730	64,507
Deferred during the year		341,460	361,057
Recognized during the year		(325,961)	(376,834)
		64,229	48,730
Murabaha receivable			
Opening balance		2,430,861	2,559,791
Sales during the year		7,441,922	6,964,817
Received during the year		(6,838,987)	(7,093,747)
		3,033,796	2,430,861
12.2 Particulars of financing			
12.2.1 In local currency			
In foreign currencies		22,359,505	20,513,971
		958,652	447,621
		23,318,157	20,961,592
12.2.2 Short-term (for upto one year)			
Long-term (for over one year)		8,866,379	5,864,361
		14,451,778	15,097,231
		23,318,157	20,961,592

- 12.3** Financing include Rs. 1,858.799 million (2009: Rs. 719.088 million) which have been placed under non-performing status as detailed below:

	2010								
	Classified Financing			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
(Rupees '000)									
Category of classification									
Substandard	1,039,471	-	1,039,471	43,238	-	43,238	43,238	-	43,238
Doubtful	180,949	-	180,949	40,781	-	40,781	40,781	-	40,781
Loss	638,379	-	638,379	408,574	-	408,574	408,574	-	408,574
	1,858,799	-	1,858,799	492,593	-	492,593	492,593	-	492,593

	2009								
	Classified Financing			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
(Rupees '000)									
Category of classification									
Substandard	227,404	-	227,404	40,981	-	40,981	40,981	-	40,981
Doubtful	171,543	-	171,543	38,683	-	38,683	38,683	-	38,683
Loss	320,141	-	320,141	227,781	-	227,781	227,781	-	227,781
	719,088	-	719,088	307,445	-	307,445	307,445	-	307,445

- 12.4** Particulars of provision against non-performing financing:

	2010			2009		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	307,445	64,534	371,979	126,209	130,634	256,843
Charge for the year	292,691	667	293,358	308,371	14,982	323,353
Reversals	(107,543)	(4,591)	(112,134)	(127,135)	(81,082)	(208,217)
	185,148	(3,924)	181,224	181,236	(66,100)	115,136
Closing balance	492,593	60,610	553,203	307,445	64,534	371,979

- 12.4.1** The Prudential Regulations of the SBP allow the benefit of 40 percent of Forced Sale Value (FSV) of pledged stocks and mortgaged commercial, residential and industrial property held as collateral by the Bank in determining the amount of provision required against non-performing financings. Up until the previous year, the bank was taking the benefit of 30 percent FSV while determining the amount of provision required against non-performing financings. However, effective from the current year, the Bank has taken benefit of 40 percent of FSV while determining the amount of provision required against non-performing financings.

The above change resulted in a decrease in the provision, increase in aggregate net financing and profit before tax by Rs. 2.45 million.

- 12.4.2** Particulars of provision against non-performing financing:

	2010			2009		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	489,652	60,610	550,262	307,445	64,534	371,979
In foreign currency	2,941	-	2,941	-	-	-
	492,593	60,610	553,203	307,445	64,534	371,979

	2010	2009
	----- Rupees in '000 -----	----- Rupees in '000 -----
12.5 Particulars of financings to directors, executives or officers of the Bank or any of them either severally or jointly with any other person		
Balance at beginning of year	1,091,949	1,106,070
Financing granted during the year	216,394	255,073
Repayments	(324,792)	(269,194)
Balance at end of year	<u>983,551</u>	<u>1,091,949</u>

The maximum total amount of financing outstanding including temporary financing granted during the year was Rs. 1,112.231 million (2009: Rs. 1,106.809 million). The maximum amount has been calculated by reference to the month end balance.

	Note	2010	2009
		----- Rupees in '000 -----	----- Rupees in '000 -----
13. OPERATING FIXED ASSETS			
Capital work-in-progress	13.1	42,559	33,235
Property and equipment	13.2	1,179,864	1,186,143
Intangible assets	13.3	481,165	507,920
		<u>1,703,588</u>	<u>1,727,298</u>

	2010	2009
	----- Rupees in '000 -----	----- Rupees in '000 -----
13.1 Capital work-in-progress		
Civil works	16,232	-
Equipment	3,924	291
Advances to suppliers and contractors	22,403	32,944
	<u>42,559</u>	<u>33,235</u>

13.2 Property and equipment

	2010							
	COST				ACCUMULATED DEPRECIATION			
	As at January 01, 2010	Additions (transfers)* (write offs)** (disposals)	As at December 31, 2010	As at January 01, 2010	Charge for the year (transfers)* (write offs)** (disposals)	As at December 31, 2010	Net book value as at December 31, 2010	Rate of depreciation %
	-----Rupees in '000-----							
Leasehold Land	47,932	-	47,932	-	-	-	47,932	-
Furniture and fixture	159,983	9,213 2,608* (1,043)**	170,761	43,639	16,333 791* (415)**	60,348	110,413	10
Electrical, office and computer equipment	822,077	159,455 9,010* (2,722)** (7,628)	980,192	320,347	122,693 6,353* (331)** (2,359)	446,703	533,489	10 – 33.33
Vehicles	30,443	1,849 (8,628)	23,664	22,537	1,807 (6,902)	17,442	6,222	25
Leasehold Improvements	678,617	44,150 (12,298)*	710,469	166,386	69,419 (7,144)*	228,661	481,808	10 – 20
	<u>1,739,052</u>	<u>214,667 (680)* (3,765)** (16,256)</u>	<u>1,933,018</u>	<u>552,909</u>	<u>210,252 - (746)** (9,261)</u>	<u>753,154</u>	<u>1,179,864</u>	

2009							
COST			ACCUMULATED DEPRECIATION				
As at January 01, 2009	Additions/ (disposals)	As at December 31, 2009	As at January 01, 2009	Charge for the year / (disposals)	As at December 31, 2009	Net book value as at December 31, 2009	Rate of depreciation %
-----Rupees in '000 -----							
-	47,932	47,932	-	-	-	47,932	-
156,501	3,482	159,983	27,902	15,737	43,639	116,344	10
745,107	77,379 (409)	822,077	209,027	111,655 (335)	320,347	501,730	10 – 33.33
37,697	- (7,254)	30,443	19,016	6,178 (2,657)	22,537	7,906	25
621,761	56,866 (10)	678,617	101,749	64,639 (2)	166,386	512,231	10 – 20
1,561,066	185,659 (7,673)	1,739,052	357,694	198,209 (2,994)	552,909	1,186,143	

13.2.1 The fair value of property and equipment as per the management estimate is not materially different from the carrying amount.

13.2.2 Disposal of operating fixed assets

	Cost	Accumulated depreciation	Written down value	Sale price	Gain	Mode of disposal	Particulars of buyer
	(Rs. in '000)						
Vehicles							
BMW	7,300	5,840	1,460	1,460	-	Bank Policy	M. A. Mannan (Ex-CEO)
Honda Civic	1,328	1,062	266	266	-	Bank Policy	M. A. Mannan (Ex-CEO)
	8,628	6,902	1,726	1,726			
Electrical, office and computer equipment							
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	7,628	2,359	5,269	5,527	258		
	16,256	9,261		7,253	258		
			6,995				

13.3 Intangible asset

2010							
COST			ACCUMULATED AMORTISATION				
As at January 01, 2010	Additions	As at December 31, 2010	As at January 01, 2010	Charge for the year	As at December 31, 2010	Net book value as at December 31, 2010	Rate of amortization %
----- Rupees in '000 -----							
Computer softwares	<u>597,639</u>	<u>48,703</u>	<u>646,342</u>	<u>89,719</u>	<u>75,458</u>	<u>165,177</u>	<u>481,165</u> 11-33.33
2009							
COST			ACCUMULATED AMORTISATION				
As at January 01, 2009	Additions	As at December 31, 2009	As at January 01, 2009	Charge for the year	As at December 31, 2009	Net book value as at December 31, 2009	Rate of amortization %
----- Rupees in '000 -----							
Computer softwares	537,159	60,480	597,639	19,157	70,562	89,719	507,920 11-33.33

	Note	2010 ----- Rupees in '000 -----	2009 ----- Rupees in '000 -----
14. DEFERRED TAX ASSETS-NET			
Deferred tax debits arising in respect of:			
Taxable losses	14.1	462,758	483,279
Minimum tax		64,441	27,362
Provision against non-performing financing		15,134	8,039
Others		-	788
Deferred tax credits arising due to:			
Accelerated depreciation allowance		(90,905)	(97,199)
Preliminary expenses		(3,640)	(9,203)
		<u>447,788</u>	<u>413,066</u>

- 14.1** Based on the financial projections for future periods, the management believes that sufficient taxable profits and taxable temporary differences will be available to the Bank against which carry forward tax losses and tax credit can be adjusted in future periods. Accordingly, the deferred tax asset of Rs.462.758 million against the carry forward tax losses has been recognised in these financial statements.

	Note	2010 ----- Rupees in '000 -----	2009 ----- Rupees in '000 -----
15. OTHER ASSETS			
Profit / return accrued in local currency		433,420	382,443
Profit / return accrued in foreign currency		30,383	2,001
Advances, deposits, advance rent and other prepayments	15.1	631,426	718,634
Advance taxation (payments less provisions)		4,641	10,637
Unrealized gain on forward foreign exchange promises		3,397	956
Deferred costs	15.2	10,401	51,413
Advance for assets to be acquired for Musharaka		67,594	99,643
Advance for assets to be acquired for Murabaha		147,086	139,456
Receivables from group companies		1,364	5,993
Commission receivable		3,264	31,191
Receivable from customer		-	407,038
Others		19,786	14,434
		<u>1,352,762</u>	<u>1,863,839</u>
Provision against advance for assets to be acquired for Murabaha		-	(2,251)
		<u>1,352,762</u>	<u>1,861,588</u>

- 15.1** Includes Rs.265.929 million (2009: Rs. 303.296 million) for advance rent, Rs.166.119 million (2009: Rs. 162.415) against prepaid commission to staff and dealers in respect of auto and housing musharaka which is charged to the profit and loss account over the period of musharaka agreements and Rs.161.472 million (2009: Rs. 229.430 million) as prepaid tracker maintenance cost amortized over a period of six years.

	2010 ----- Rupees in '000 -----	2009 ----- Rupees in '000 -----
15.2 Deferred costs		
Balance at the beginning of the year	51,413	92,425
Amortisation during the year	(41,012)	(41,012)
Balance at the end of the year	<u>10,401</u>	<u>51,413</u>

	Note	2010 ----- Rupees in '000 -----	2009
16. BILLS PAYABLE			
In Pakistan		411,444	278,696
Outside Pakistan		500	797
		<u>411,944</u>	<u>279,493</u>

17. DUE TO FINANCIAL INSTITUTIONS**In Pakistan – Unsecured**

Funds from the State Bank of Pakistan under Islamic Export Refinance Scheme	17.1	950,000	-
Mudarba Placements		-	125,000
		<u>950,000</u>	<u>125,000</u>

- 17.1** These borrowings are on a profit and loss sharing basis maturing between 12 January 2011, to 11 June 2011, and are secured against demand promissory notes executed in favour of SBP. A limit of Rs. 950 million (2009: nil) has been allocated to the Bank by SBP under Islamic Export Refinance Scheme for the financial year ending 31 December 2010.

2010 2009
----- Rupees in '000 -----

17.2 Particulars of due to financial institutions with respect to currencies

In local currency	<u>950,000</u>	<u>125,000</u>
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18. DEPOSITS AND OTHER ACCOUNTS**Customers**

Fixed deposits	15,555,400	15,566,897
Savings deposits	10,081,322	7,338,714
Current accounts - non-remunerative	5,707,385	4,694,637
Margin accounts - non-remunerative	680	256
	<u>31,344,787</u>	<u>27,600,504</u>

Financial Institutions

Remunerative deposits	34,783	367,189
Non-remunerative deposits	35,338	13,213
	<u>70,121</u>	<u>380,402</u>

<u>31,414,908</u>	<u>27,980,906</u>
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18.1 Particulars of deposits

In local currency	27,087,434	24,412,035
In foreign currencies	4,327,474	3,568,871
	<u>31,414,908</u>	<u>27,980,906</u>

		Note	2010 ----- Rupees in '000 -----	2009 ----- Rupees in '000 -----
19. OTHER LIABILITIES				
			505,517	435,601
Profit / return payable in local currency			716	687
Profit / return payable in foreign currency			64,229	48,730
Deferred income - Murabaha Financing	12.1		-	19,751
Deferred income - Commodity Murabaha			71,983	6,663
Accrued expenses			213,688	180,107
Advance from customers			2,530	5,389
Security deposits against musharaka cum ijara			4,092	5,842
Retention money			933	62,030
Withholding tax payable			95,730	-
Withholding tax payable			22,371	13,808
Charity fund	19.1		81,756	164,622
Others			<u>1,063,545</u>	<u>943,230</u>
19.1 Opening balance			13,808	11,816
Additions during the year			21,004	21,092
Payments during the year	19.1.1		(12,441)	(19,100)
Closing balance			<u>22,371</u>	<u>13,808</u>

19.1.1 During the year, charity from the Charity Fund of the Bank (late payment charges and Shari'a repugnant income of the Bank are credited) was paid to the following individuals / organizations:

	2010 ----- Rupees in '000 -----	2009 ----- Rupees in '000 -----
Shaukat Khanum Memorial Cancer Hospital	750	4,000
Indus Hospital – TB	1,000	2,800
Internally displaced people (IDP)	-	1,500
Sindh Institute of Urology and Transplantation	750	2,900
Chippa Welfare Association	400	1,900
Government of Punjab – IDP	-	800
Government of Sindh – IDP	-	2,300
Liaqat Tarkai Trust	-	2,000
Layton Rahmatulla Benevolent Trust	500	900
Staff Flood Relief South Activity of the Bank	9,041	-
	<u>12,441</u>	<u>19,100</u>

19.1.2 Charity was not paid to any staff of the Bank or to any individual / organization in which a director or his spouse had any interest at any time during the year.

20. SHARE CAPITAL

20.1 Authorised capital

2010 Number of shares	2009 Number of shares		2010 ----- Rupees in '000 -----	2009 ----- Rupees in '000 -----
<u>1,200,000,000</u>	<u>800,000,000</u>	Ordinary shares of Rs.10/- each	<u>12,000,000</u>	<u>8,000,000</u>

20.2 Issued, subscribed and paid up capital

2010 Number of shares	2009 Number of shares		2010 ----- Rupees in '000 -----	2009 ----- Rupees in '000 -----
Ordinary shares of Rs. 10/- each				
Fully paid in cash				
<u>677,603,000</u>	601,778,000	Balance as at January 01	<u>6,776,030</u>	6,017,780
-	75,825,000	Right shares issued during the year	-	758,250
<u>677,603,000</u>	<u>677,603,000</u>	Balance as at December 31	<u>6,776,030</u>	<u>6,776,030</u>

- 20.3** The Bank's shares are held 100 percent by Dubai Islamic Bank PJSC, UAE – the Holding company and its nominee directors.
- 20.4** During the year, The Board of Directors of the Bank in their meeting held on March 28, 2010 resolved to increase their authorised capital from Rs.8 billion to Rs.12 billion.

		2010	2009
	Note	----- Rupees in '000 -----	----- Rupees in '000 -----
21. RESERVES			
Statutory reserves	21.1	<u>46,961</u>	<u>45,347</u>

- 21.1** Under Section 21 of the Banking Companies Ordinance, 1962, an amount not less than 20% of the profit is to be transferred to create a reserve fund till the reserve fund and the share premium account equal the amount of paid up capital.

		2010	2009
		----- Rupees in '000 -----	----- Rupees in '000 -----
22. CONTINGENCIES AND COMMITMENTS			
22.1 Transaction-related contingent liabilities			
Contingent liabilities in respect of performance bonds, bid bonds, warranties given favoring			
- Government		403,147	108,661
- Banking companies and other financial institutions		34,617	40,682
- Others		1,390,418	1,705,974
		<u>1,828,182</u>	<u>1,855,317</u>
22.2 Trade-related contingent liabilities			
Import Letters of Credit		<u>962,405</u>	<u>4,660,390</u>
22.3 Commitments in respect of forward exchange promises to Purchase		<u>1,434,666</u>	<u>664,504</u>
Sale		<u>1,430,733</u>	<u>663,522</u>
22.4 Commitments for the acquisition of operating fixed assets		<u>48,902</u>	<u>6,184</u>
22.5 Commitments in respect of financing facilities			
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.			

		2010	2009
	Note	----- Rupees in '000 -----	
23. PROFIT / RETURN ON FINANCING, INVESTMENTS AND PLACEMENTS EARNED			
On financing to Customers		3,155,317	3,054,597
On investments in available for sale securities		419,186	415,967
On deposits / placements with financial institutions		497,049	176,581
		<u>4,071,552</u>	<u>3,647,145</u>
24. RETURN ON DEPOSITS AND OTHER DUES EXPENSED			
Deposits and other accounts		2,078,422	1,736,938
Other short term fund generation		51,148	69,005
		<u>2,129,570</u>	<u>1,805,943</u>
25. GAIN ON SALE OF SECURITIES			
Sukuk certificates		<u>2,661</u>	<u>-</u>
26. OTHER INCOME			
Gain on sale of property and equipment	13.2.2	258	63
Reversal of penalty imposed by State Bank of Pakistan		-	3,494
Others		25	-
		<u>283</u>	<u>3,557</u>
27. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other staff expenses		851,516	673,635
Sharia Remuneration	27.1	5,054	-
Charge for defined benefit plan		21,059	22,284
Contribution to defined contribution plan		31,805	30,747
Brokerage and commission		8,457	3,943
Rent, taxes, insurance, electricity, etc.		487,789	396,077
Legal and professional charges		23,821	7,598
Communications		111,912	89,717
Repairs and maintenance		106,948	100,260
Traveling		33,396	26,182
Stationery and printing		28,032	16,393
Subscription fees		3,775	3,403
Advertisement and publicity		14,955	16,864
Auditors' remuneration	27.2	3,986	3,069
Depreciation	13.2	210,252	198,209
Amortization	27.3	116,470	111,574
Others		36,336	24,512
		<u>2,095,563</u>	<u>1,724,467</u>
27.1	This represents remuneration paid for the years from 2006 to 2010.		
27.2 Auditors' remuneration			
Audit fee		575	575
Review of half yearly financial statements		275	275
Special certifications and sundry advisory services		2,092	1,120
Tax services		790	855
Out-of-pocket expenses		254	244
		<u>3,986</u>	<u>3,069</u>

Dubai Islamic Bank Pakistan Limited

	Note	2010	2009
		----- Rupees in '000 -----	
27.3 Amortization			
Intangible assets	13.3	75,458	70,562
Deferred costs	15.2	41,012	41,012
		116,470	111,574

28. OTHER CHARGES

Worker's Welfare Fund		363	7,186
Penalties imposed by the State Bank of Pakistan		12,667	5,465
		13,030	12,651

29. TAXATION

For the year

- Current		44,379	20,062
- Deferred		(34,722)	105,251
		9,657	125,313

29.1 The numerical reconciliation between the average tax rate and the applicable tax rate has not been presented as provision for current year income tax has been made under section 113 of the Income Tax Ordinance, 2001.

29.2 Under Section 114 of the Income Tax Ordinance, 2001 (Ordinance), the Bank has filed the returns of income for the tax year 2006, 2007, 2008, 2009 and 2010 on due dates. The said returns were deemed completed under the provisions of the prevailing income tax law as applicable in Pakistan during the relevant accounting years.

	Note	2010	2009
		----- Rupees in '000 -----	
30. BASIC AND DILUTED EARNINGS PER SHARE			
Profit after taxation for the year		8,074	226,737
Weighted average number of ordinary shares – Numbers		677,603,000	603,232,178
Earnings per share – Rupee	30.1	0.01	0.38

30.1 There were no convertible dilutive potential ordinary shares outstanding on December 31, 2009 and 2010.

	Note	2010	2009
		----- Rupees in '000 -----	
31. CASH AND CASH EQUIVALENTS			
Cash and balance with treasury banks	8	3,197,884	2,932,264
Balances with other banks	9	3,455,665	2,430,437
		6,653,549	5,362,701

		2010	2009
		----- Number -----	
32. STAFF STRENGTH			
Permanent – including probationary staff		581	549
Outsourced	32.1	409	435
Total staff strength		990	984

32.1 Outsourced include employees hired by an outside contractor / agency and posted in the Bank to perform various tasks / activities of the Bank.

33. DEFINED BENEFIT PLAN (GRATUITY SCHEME)

33.1 Staff retirement benefits

33.1.1 Defined benefit plan

As mentioned in note 5.8.1, the Bank operates an approved funded gratuity scheme for all its permanent employees. Actuarial valuation of the scheme is carried out every year and the latest actuarial valuation was carried out as at December 31, 2010.

The fair value of scheme's assets and the present value of obligation under the scheme at the statement of financial position date were as follows:

	2010	2009
	----- Rupees '000 -----	
Present value of defined benefit obligation	67,299	58,422
Fair value of plan assets	(76,319)	(63,822)
Net Actuarial losses not recognized	9,020	5,400
Liability recognized in the statement of financial position	-	-

Amounts charged to profit and loss account:

Current service cost	20,485	19,583
Cost of fund	7,595	6,888
Return on plan assets	(7,020)	(4,187)
	21,060	22,284

Movement in the liability recognized in the statement of financial position:

Opening balance	-	-
Expense for the year	21,059	22,284
Contribution to the fund	(21,059)	(22,284)
Closing balance	-	-

Movement in the present value of defined benefit obligation:

Opening balance	58,422	45,921
Current service cost	20,485	19,583
Cost of fund	7,595	6,888
Benefit paid	(13,202)	(4,241)
Actuarial loss	(6,001)	(9,729)
Closing balance	67,299	58,422

Movement in the fair value of plan assets:

Opening balance	63,822	41,867
Contributions	21,059	22,284
Return on plan assets	7,020	4,187
Benefit paid	(13,202)	(4,241)
Actuarial loss	(2,380)	(275)
Closing balance	76,319	63,822

2010 2009
----- Rupees '000 -----

Actuarial loss to be recognized

Corridor limit		
The limits of the corridor at the beginning of the year / period		
10% of obligations	5,842	4,592
10% of plan assets	6,382	4,187
Which works out to	5,842	4,592
Unrecognized actuarial losses as at the beginning of the year	5,400	(4,054)
Excess	-	-

Average expected remaining working lives in years	10	11
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Unrecognized actuarial losses

Unrecognized actuarial losses at the beginning of the year	5,400	(4,054)
Actuarial gain on obligation	6,001	9,729
Actuarial loss on plan assets	(2,380)	(275)
Unrecognized actuarial losses at the end of the year	9,021	5,400

Principal actuarial assumptions used are as follows:

	Percentage per annum	
	2010	2009
Expected rate of increase in salary level	11%	10%
Valuation discount rate	14%	13%
Rate of return on plan assets	12%	11%

Historical information:

	2010	2009	2008	2007	2006
	----- Rupees '000 -----				
As at December 31					
Present value of defined benefit obligation	67,299	58,422	45,921	28,342	11,133
Fair value of plan assets	(76,319)	(63,822)	(41,867)	(25,244)	-
Deficit	(9,020)	(5,400)	4,054	3,098	11,133
Experience adjustment on plan liabilities	(6,001)	(9,729)	(815)	(1,278)	(2,595)
Experience adjustment on plan assets	(2,380)	(275)	(233)	737	-

2010 2009
----- Rupees '000 -----

Major categories / composition of plan assets are as follows:

Balance with Bank in deposit account	76,319	63,822
--------------------------------------	--------	--------

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on investments are based on gross redemption yields as at the statement of financial position date.

The return on plan assets was assumed to equal the discount rate. Actual return on plan assets during 2010 was Rs. 4.850 million (2009: Rs. 3.541 million).

Expected gratuity expense for the next year

The expected gratuity expense for the year ending December 31, 2011 works out to Rs. 16.548 million.

34. DEFINED CONTRIBUTION PLAN (PROVIDENT FUND)

The Bank operates a contributory provident fund scheme for permanent employees. The employer and employee both contribute 10% of the basic salaries to the funded scheme every month. Equal monthly contribution by employer and employees during the year is amounting to Rs. 31.805 million (2009: Rs. 30.747 million) each.

35. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2010	2009	2010	2009	2010	2009
	-----Rupees in '000 -----					
Fees	-	-	750	750	-	-
Managerial remuneration	28,073	21,492	-	-	243,738	227,035
Charge for defined benefit plan	721	1,166	-	-	17,039	15,879
Contribution to defined contribution plan	865	1,399	-	-	20,447	18,972
Rent and house maintenance	14,916	8,729	-	-	89,606	84,454
Utilities	2,993	1,399	-	-	20,747	19,355
Medical	40	340	-	-	5,350	5,083
Leave fare assistance	1,166	1,272	-	-	17,407	17,061
Car Allowance		-	-	-	48,491	45,507
Others	1,626	120	-	-	930	303
	50,400	35,917	750	750	463,755	433,649
Number of persons	2	1	3	3	172	163

The Chief Executive and certain Executives are provided with club memberships and mobile telephone facilities and the Chief Executive is also provided with Bank maintained car in accordance with the Bank's service rules.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of the investments is based on quoted market prices except for unquoted investments which are carried at cost.

Fair value of fixed-term financing, other assets, other liabilities and fixed-term deposits can not be calculated with sufficient reliability due to absence of current and active market for assets and liabilities and reliable data regarding market rates for similar instruments. The provisions for impairment of financing have been calculated in accordance with the Bank's accounting policy as stated in note 5.4 to the financial statements.

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 the nature or in the case of customer financing (for mid or long term financing based on Ijara or Shirkat ul Melk) and deposits are frequently repriced.

The repricing and maturity profile and effective rates are stated in note 40.2.4 and 40.3.1.

37. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate Banking	Trading & Sales	Retail Banking	Commercial Banking	Others	Total
	-----Rupees in '000 -----					
December 31, 2010						
Internal income	-	(702,988)	1,848,875	(1,148,338)	2,451	-
Total income	50,443	795,360	1,905,670	1,663,565	22,849	4,437,887
Total expenses	(5,873)	(110,845)	(3,815,960)	(462,179)	(25,299)	(4,420,156)
Net income / (loss)	44,570	(18,473)	(61,415)	53,048	1	17,731
Segment assets (gross)	-	11,104,292	11,611,757	13,765,853	3,960,037	40,441,939
Segment non performing Financing	-	-	887,405	943,444	27,950	1,858,799
Segment provision required	-	-	395,171	82,040	15,382	492,593
Segment liabilities	-	-	31,150,450	1,626,402	1,063,545	33,840,397
Segment return on net assets (ROA) (%)	-	8.04%	17.76%	13.01%	4.74%	-
Segment cost of funds (%)	-	11.21%	6.72%	6.30%	-	-

	Corporate Banking	Trading & Sales	Retail Banking	Commercial Banking	Others	Total
	-----Rupees in '000 -----					
December 31, 2009						
Internal income	-	(88,600)	1,174,339	(952,428)	(133,311)	-
Total income	88,231	458,066	1,842,695	1,581,977	41,529	4,012,498
Total expenses	(8,327)	(142,923)	(2,988,701)	(518,245)	(2,252)	(3,660,448)
Net income / (loss)	79,904	226,543	28,333	111,304	(94,034)	352,050
Segment assets (gross)	-	8,385,021	10,620,164	11,652,094	5,085,845	35,743,124
Segment non performing Financing	-	-	574,566	144,522	-	719,088
Segment provision required	-	-	247,733	59,712	-	307,445
Segment liabilities	-	125,000	26,130,799	2,129,600	943,230	29,328,629
Segment return on net assets (ROA) (%)	-	11.15%	19.47%	14.26%	3.83%	-
Segment cost of funds (%)	-	10.93%	6.84%	9.69%	-	-

38. RELATED PARTY TRANSACTIONS

Related parties comprise Dubai Islamic Bank PJSC, UAE (the Holding company), related group companies, directors and key management personnel including Chief Executive Officer and staff retirement funds.

Transactions with related parties other than remuneration and benefits to key management personnel including Chief Executive Officer under the terms of the employment as disclosed in note 35 are as follows:

	2010	2009
	----- (Rupees '000) -----	
<u>Key management personnel</u>		
Financing		
At beginning of the year	10,309	10,487
Disbursements	5,000	-
Repayments	(301)	(178)
At the end of the year	15,008	10,309
Profit earned on financing	2,805	1,793

	2010 ----- (Rupees '000) -----	2009 ----- (Rupees '000) -----
Deposits		
At beginning of the year	24,076	19,286
Deposits	192,355	133,668
Withdrawals	(194,999)	(128,878)
At the end of the year	21,431	24,076
Return on deposits	281	393
<u>Directors</u>		
Financing		
At beginning of the year	13,682	13,829
Repayments	(257)	(147)
At the end of the year	13,425	13,682
Profit earned on financing	1,871	1,854
Deposits		
At beginning of the year	313	624
Deposits	11,903	13,900
Withdrawals	(12,034)	(14,211)
At the end of the year	182	313
Return on deposits	3	1
<u>Holding company</u>		
Placements		
At beginning of the year	421,208	-
Placements	6,442,397	18,336,041
Repayments	(4,722,687)	(17,914,833)
At the end of the year	2,140,918	421,208
Profit earned on placements	33,426	2,798
Deposits		
At beginning of the year	13,213	26,735
Deposits	502,455	341,693
Withdrawals	(480,330)	(355,215)
At the end of the year	35,338	13,213
Balance held abroad		
At beginning of the year	430,075	495,609
Deposits	44,954,769	39,694,889
Withdrawals	(45,067,117)	(39,760,423)
At the end of the year	317,727	430,075
Other receivables	31,070	1,206
Issue of right shares	-	758,250
<u>Employee benefit plans</u>		
Contribution to Employees Gratuity Fund	21,059	22,284
Contribution to Employees Provident Fund	31,805	30,747
<u>Group Companies</u>		
Other receivables	-	21,499
Income earned during the year	-	832

39. CAPITAL-ASSESSMENT AND ADEQUACY**39.1 Scope Of Applications**

Basel II applies to the Bank's accounts on a standalone basis. The Bank does not currently have a subsidiary(s) or a significant minority interest on which Basel II can be applied to.

39.2 Capital Structure

Banks regulatory capital is divided into three tiers as follows:

Tier I Capital

Tier I capital includes fully paid up capital, general reserves as per the financial statements and accumulated loss.

Tier II Capital

Tier II capital, includes general provisions for financing losses (up to a maximum of 1.25 % of risk weighted assets), reserves on the revaluation of fixed assets and equity investments (up to a maximum of 45% of the balance in the related revaluation reserves).

Tier III Capital

Tier III Capital has also been prescribed by the SBP for managing market risk; however the Bank does not have any Tier III capital.

	2010	2009
	----- Rupees in '000 -----	
Tier I Capital		
Shareholders equity	6,776,030	6,776,030
Reserves	46,749	45,365
Accumulated loss	(774,670)	(781,130)
Less: Book value of Intangibles	(481,165)	(540,325)
	5,567,174	5,499,940
Total Tier I Capital		
Tier II Capital		
General Provisions subject to 1.25% of Total Risk Weighted Assets	60,610	64,534
Eligible Tier III Capital	-	-
Total Regulatory Capital Base	5,627,784	5,564,474

39.3 Capital Adequacy

The capital requirements for the Bank as per the major risk categories is indicated in the manner given below:

	Capital Requirements		Risk Weighted Assets	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
	----- Rupees in '000 -----			
Credit Risk				
Portfolios subject to standardized approach (Simple)				
Corporate Portfolio	957,099	1,222,151	9,570,993	12,221,509
Retail Portfolio	441,455	401,897	4,414,551	4,018,970
Mortgage Portfolio	152,745	187,020	1,527,449	1,870,202
Claims on Banks	221,139	212,668	2,211,385	2,126,675
Operating Fixed Assets	122,242	118,697	1,222,424	1,186,973
Others	304,543	249,589	3,045,432	2,495,890

Capital Requirements		Risk Weighted Assets	
December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
----- Rupees in '000 -----			

Market Risk**Capital Requirement for portfolios subject to Standardized Approach**

Profit rate risk	74,466	61,117	744,662	611,175
Foreign exchange risk	35,870	16,978	358,700	169,775

Operational Risk**Capital Requirement for operational risks**

Operational Risk	387,126	304,699	3,871,260	3,046,988
TOTAL	2,696,685	2,774,816	26,966,856	27,748,157

Note	2010	2009
	----- Rupees in '000 -----	

Capital Adequacy Ratio

Total eligible regulatory capital held	39.2	5,627,784	5,564,474
Total Risk Weighted Assets	39.3	26,966,856	27,748,157

Capital Adequacy Ratio	20.87%	20.05%
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39.4 Capital Management

The objectives of the Bank's capital management are to ensure that the Bank complies with the regulatory capital requirement and maintain strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Bank is required to maintain the minimum paid up capital (free of losses) of Rs. 7 billion as of December 31, 2010 as prescribed by the SBP. The paid-up capital (free of losses) of the Bank as at 31 December 2010 is Rs.6.001 billion. However, the Bank has obtained an exemption from the SBP for meeting the said requirements for a period of two years till 31 December 2011.

In addition the Bank is also required to maintain regulatory capital structure based on risk weighted exposures as per the requirements laid down by the SBP. The minimum requirement of CAR for the Bank is 15% for the year ended December 31, 2010 and the Bank is well above the said requirement (also see note 1.4).

40. RISK MANAGEMENT

The Bank was granted a certificate to commence business in March 2006. The Bank is progressively implementing the guidelines issued by the SBP on risk management while keeping in sight the current and future scale and scope of its activities. Today, for the Bank, Risk Management is a structured approach to managing uncertainty related to an outcome. It is a sequence of activities including: risk assessment, policies, procedures & strategies development which are put in place to identify, measure, monitor and control the risk faced and mitigation of risk using adequate and relevant resources.

In the currently competitive banking market the Bank's rate of return is greatly influenced by its risk management capabilities as "Banking is about managing risk and return". Success in the banking business is thus dependent on how well an institution manages its risks. It is not to eliminate or avoid risk altogether but to proactively assess and manage risks for organization's strategic advantage.

RISK FRAMEWORK

The Bank's Risk management framework is based on three pillars; (a) Risk Principles & strategies, (b) Organizational Structures & Procedures and (c) Prudent Risk Measurement & Monitoring Processes which are closely aligned with the activities of the bank so as to give maximum value to the share holders while ensuring that risks are kept within an acceptable level/ Risk Appetite.

The Board sets the overall risk appetite and philosophy for the Bank. The overall risk is monitored by the Risk Monitoring Committee of the Board (RMC). The terms of reference of the said committee have been approved by the Board. Various Management Committees such as Management Committee, Asset and Liability Management Committee and Credit Committee support these goals.

Chief Executive Officer (CEO) and Head Risk Management Group (Head RMG) in close coordination with all business / support functions ensure that the Risk Management Framework approved by the Board is implemented in true spirit and risk limits are communicated & adhered for quantifiable risks by those who accept risks on behalf of organization. Further, they also ensure that the non-quantifiable risks are communicated as guidelines and adhered to in management business decisions.

RISK APPETITE

Risk management across the Bank is based on the risk appetite and philosophy set by the Board and the associated risk committees. The Board establishes the parameters for risk appetite for the Bank through:

- Setting strategic direction;
- Contributing to, and ultimately approving plans for each division; and
- Regularly reviewing and monitoring the Bank's performance in relation to risk through related reports.

It is to be ensured that the risk remains within the acceptable level and sufficient capital is available as a buffer to absorb all the risks. It forms the basis of strategies and policies for managing risks and establishing adequate systems & controls to ensure that overall risk remain within acceptable level.

RISK ORGANISATION

The nature of the Bank's businesses requires it to identify, measure and manage risks effectively. The Bank manages these risks through a framework of risk vision, mission, strategy, policies, principles, organizational structures, infrastructures and risk measurement & monitoring processes that are closely aligned with the activities of the Bank. The Bank Risk Management function is independent of the business areas.

In line with best practices, the Bank exercises adequate oversight through the Risk Monitoring Committee and the Bank's Risk Management Group and has developed an elaborate risk identification measurement and management framework.

Along with the above, business heads are also specifically responsible for the management of risk within their respective businesses. As such, they are responsible for ensuring that they are in compliance with appropriate risk management frameworks in line with the standards set by the Bank.

Business heads are supported by the Risk Management Group and the Finance Department. An important element that underpins the Bank's approach to the management of all risk is independence, where the risk monitoring function is independent of the risk taking function.

The Bank also has credit risk, market risk, liquidity risk, operational risk, and investment policies in place.

40.1 Credit Risk

Credit risk arises from the potential that an obligor is either unwilling to perform on an obligation or its ability to perform such obligation is impaired resulting in economic loss to the bank.

The objective of credit risk management framework / policies for the Bank is to achieve sustainable and superior risk versus reward performance whilst maintaining credit risk exposure in line with the approved risk appetite.

The Bank has its own credit rating system in place which takes into account both quantitative and qualitative aspects. In addition, pro-active credit risk management is undertaken through identifying target markets, defining minimum risk acceptance criteria for each industry, annual industry reports on key industries etc. Periodic review process and risk asset review coupled with policies on internal watch listing are capable of identifying problem financings at an early stage. In addition a full fledged collection unit has been set up for recovery of problem consumer financing.

The Bank also uses various Management Information System generated on regular basis to monitor and control past dues, irregularities, shortfalls etc, and also to view the composition of the portfolio and address any concentration issues in terms of segment, risk ratings, tenor, geography etc.

40.1.1 Segments by class of business

	2010					
	Financing (Gross)		Deposits		Contingencies and Commitments	
	Rupees	Percent	Rupees	Percent	Rupees	Percent
	in '000	%	In '000	%	in '000	%
Agriculture	-	-	616,133	2	-	-
Textile	3,767,855	16	62,172	-	116,196	2
Chemical and pharmaceuticals	2,624,209	11	531,692	2	164,031	3
Cement	400,000	2	8,637	-	-	-
Sugar	-	-	140	-	-	-
Food	1,341,072	6	142,792	1	207,167	4
Footwear and leather garments	59,847	-	10,870	-	-	-
Automobile and transportation equipment	75,000	-	16,939	-	-	-
Electronics and electrical appliances	-	-	5,767	-	-	-
Construction	778,340	3	965,946	3	92,791	2
Power (electricity), gas, water, sanitary	-	-	192,245	1	421,758	7
Wholesale and retail trade	476,356	2	239,124	1	-	-
Exports / imports	334,055	1	155,755	1	-	-
Transport, storage and communication	1,177,000	5	328,863	1	250,472	4
Financial	-	-	34,784	-	2,901,016	51
Insurance	-	-	17,382	-	-	-
Services	162,883	1	3,374,955	11	349,205	6
Individuals	11,276,624	48	22,239,380	70	-	-
Others	844,916	5	2,471,332	7	1,202,252	21
	23,318,157	100	31,414,908	100	5,704,888	100

	2009					
	Financing (Gross)		Deposits		Contingencies and Commitments	
	Rupees	Percent	Rupees	Percent	Rupees	Percent
	in '000	%	In '000	%	in '000	%
Agriculture	-	-	2,530	-	-	-
Textile	1,976,915	9	267,052	1	166,573	2
Chemical and pharmaceuticals	1,900,273	9	1,036,532	4	617,477	8
Cement	167,000	1	995	-	344,717	4
Sugar	-	-	140	-	-	-
Food	1,444,826	7	629,129	2	195,979	2
Footwear and leather garments	88,371	-	2,536	-	5,374	-
Automobile and transportation equipment	60,000	-	10,724	-	5,710	-
Electronics and electrical appliances	-	-	32,048	-	-	-
Construction	776,748	4	766,522	3	10,981	-
Power (electricity), gas, water, sanitary	11,942	-	317,865	1	176,433	2
Wholesale and retail trade	462,473	2	233,641	1	8,728	-
Exports / imports	140,699	1	177,645	1	578	-
Transport, storage and communication	2,346,486	11	980,265	4	3,821,749	49
Financial	-	-	15,633	-	2,330,636	30
Insurance	-	-	260,784	1	-	-
Services	335,301	2	3,795,042	14	76,751	1
Individuals	10,826,347	52	17,193,823	60	-	-
Others	424,211	2	2,258,000	8	88,233	1
	20,961,592	100	27,980,906	100	7,849,917	100

40.1.2 Segment by sector

	2010					
	Financing (Gross)		Deposits		Contingencies and Commitments	
	Rupees	Percent	Rupees	Percent	Rupees	Percent
	in '000		in '000		in '000	
Public / Government	400,000	2%	3,595,004	11%	823,336	15%
Private	22,918,157	98%	27,819,904	89%	4,881,552	85%
	23,318,157	100%	31,414,908	100%	5,704,888	100%

2009

	Financing (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	-	-	4,646,727	17%	166,610	2%
Private	20,961,592	100%	23,334,179	83%	7,683,307	98%
	20,961,592	100%	27,980,906	100	7,849,917	100%

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

	2010		2009	
	Classified financing	Specific provisions held	Classified financing	Specific provisions held
	----- Rs. In '000 -----	----- Rs. In '000 -----	----- Rs. In '000 -----	----- Rs. In '000 -----
Textile	129,022	60,759	119,322	58,620
Chemical	765,000	-	20,830	-
Wholesale and retail trade	47,430	19,289	-	-
Transportation, storage & communication	-	-	4,369	1,092
Services	1,992	1,992	-	-
Individuals	915,355	410,553	574,567	247,733
	1,858,799	492,593	719,088	307,445

40.1.4 Details of non-performing financing and specific provisions by sector:

	2010		2009	
	Classified financing	Specific provisions held	Classified financing	Specific provisions held
	----- Rs. In '000 -----	----- Rs. In '000 -----	----- Rs. In '000 -----	----- Rs. In '000 -----
Public / Government	-	-	-	-
Private	1,858,799	492,593	719,088	307,445
	1,858,799	492,593	719,088	307,445

40.1.5 Geographical segment analysis

	2010			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- Rupees in '000-----			
Pakistan	17,731	39,888,736	6,048,339	5,704,888
	2009			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- Rupees in '000-----			
Pakistan	352,050	35,368,894	6,040,265	7,849,917

Total assets employed include intra group items of Rs. 2,454.375 million (2009: Rs. 862.687 million).

40.1.6 Credit risk - General disclosures

The Bank uses the 'Standardised Approach' in calculation of credit risk and capital requirements throughout its statement of financial position.

Credit Risk: Disclosures for portfolio subject to the Standardised Approach & supervisory risk weights in the IRB Approach

The Bank uses reputable and SBP approved rating agencies for deriving risk weight to specific credit exposures. These are applied consistently across the Bank credit portfolio for both on - balance sheet and off - balance sheet exposures. Details of rating agencies used for different types of bank's exposures are given below:

Types of Exposures and ECAI's used

Exposures	2010		
	JCR - VIS	PACRA	S & P
Corporate	✓	✓	N/A
Banks	✓	✓	✓
Sovereigns	N/A	N/A	N/A
SME's	✓	✓	N/A

Credit Exposures subject to Standardised approach

Exposures	Rating Category	2010			2009		
		Amount Outstanding	Deduction CRM	Net amount	Amount Outstanding	Deduction CRM	Net amount
Funded							
Corporate	1	1,510,500	-	1,510,500	1,400,000	-	1,400,000
	2	1,634,758	-	1,634,758	1,146,667	-	1,146,667
	3,4	-	-	-	-	-	-
		3,145,258	-	3,145,258	2,546,667	-	2,546,667
Banks	1	1,157,097	-	1,157,097	2,706,091	-	2,706,091
	2,3	3,412,230	-	3,412,230	2,373,120	-	2,373,120
		4,569,327	-	4,569,327	5,079,211	-	5,079,211
Mortgages		4,827,287	-	4,827,287	5,224,636	-	5,224,636
PSEs		400,000	-	400,000	-	-	-
Retail		5,919,388	4,109	5,915,279	5,342,990	-	5,342,990
Unrated		8,533,631	931,494	7,602,137	7,539,859	1,090,618	6,449,241
		27,394,891	935,603	26,459,288	25,733,363	1,090,618	24,642,745
Non Funded							
Corporate	1	457,432	-	457,432	-	-	-
	2	10,327	-	10,327	650,669	31,215	619,454
		467,759	-	467,759	650,669	31,215	619,454
Banks	1	-	-	-	-	-	-
	2,3	1,004,652	-	1,004,652	1,000,930	-	1,000,930
		1,004,652	-	1,004,652	1,000,930	-	1,000,930
PSEs	1	-	-	-	166,611	-	166,611
Retail		55,538	21,096	34,442	62,277	34,250	28,027
Unrated		1,311,540	38,542	1,272,998	4,641,405	137,621	4,497,600
		2,839,489	59,638	2,779,851	6,521,892	203,086	6,312,622

CRM= Credit Risk Mitigation

Credit Risk: Disclosures with respect to Credit Risk Mitigation - Standardized Approach

For Credit Risk Mitigation purposes the Bank uses only the eligible collaterals under Simple Approach of Credit Risk Mitigation under Standardized Approach as prescribed by SBP under BSD Circular No. 8 of 2007.

40.2 Market Risk

Market risk is the risk that the value of the on and off balance sheet positions of the Bank will be adversely affected by movements in market rates or other underlying risk factors.

The Bank manages the market risk in its portfolios through its market risk management framework and methodologies set out in its board-approved market risk policy as per the SBP guidelines. A separate market risk monitoring function has also been set up.

Market Risk at the Bank is controlled by:

- Identifying the relevant market risk factors for a particular product, portfolio or business proposition;
- Applying an appropriate limit structure; and
- Setting and monitoring appropriate levels of limits.

These are adequately supported by stringent operational controls and standards and compliance with internal and regulatory policies.

Standard risk management techniques and tools have been adopted by the risk management group, including the SBP mandated stress testing methodology to monitor and manage market risk.

40.2.1 Foreign Exchange Risk

Currency risk is the risk of loss arising from the fluctuations of exchange rates.

In the normal course of conducting commercial banking business, which ranges from intermediation only to taking on principal risk as dealer or as counterparty, the Bank purchase or sell currencies in today / ready and gives or receives unilateral promises for sale or purchase of FX at future dates in a long or short position in different currency pairs. These positions expose the Bank to foreign exchange risk. To control this risk, the Bank primarily uses notional principal limits at various levels to control the open position, and ultimately the residual foreign exchange risk of the Bank. The Bank also strictly adheres to all associated regulatory limits.

Following is the summary of the assets of the Bank subject to foreign exchange risk.

	2010			
	Assets	Liabilities	Off-balance Sheet items	Net foreign Currency exposure
	----- Rupees in '000 -----			
Pakistan rupee	34,596,393	29,503,609	597,856	5,690,640
United States dollar	4,758,485	2,981,377	(1,433,466)	343,642
Great Britain pound	100,884	424,884	328,674	4,674
Japanese yen	38	-	-	38
Euro	163,759	668,885	506,936	1,810
Swiss franc	4,874	-	-	4,874
U.A.E Dirham	264,303	261,642	-	2,661
	39,888,736	33,840,397	-	6,048,339

	2009			
	Assets	Liabilities	Off-balance Sheet items	Net foreign Currency exposure
	----- Rupees in '000 -----			
Pakistan rupee	31,626,643	25,753,983	-	5,872,660
United States dollar	3,232,131	2,435,538	(633,686)	162,907
Great Britain pound	142,380	357,301	214,962	41
Japanese yen	287	-	-	287
Euro	130,359	548,130	418,724	953
Swiss franc	1,374	-	-	1,374
U.A.E Dirham	235,720	233,677	-	2,043
	35,368,894	29,328,629	-	6,040,265

40.2.2 Equity Position Risk

The Bank had no exposure to equities as at the statement of financial position date

40.2.3 Yield / Profit Rate Risk

All products dealt in by the Bank are duly approved by the Bank's Sharia Advisor / Shari'a Supervisory Board and the Bank does not conduct any business in interest related products.

The objective of yield / profit rate risk monitoring is to manage the resultant impact on the Bank's statement of financial position due to change in profit / return on investment and financing products. Yield / profit rate risk review of the statement of financial position is also done monthly in ALCO meetings. Various ratios as prescribed by the SBP are also monitored. The Bank also uses Gap Analysis and Notional Principal Limits to monitor the risk.

40.2.4 MISMATCH OF YIELD / PROFIT RATE SENSITIVE ASSETS AND LIABILITIES

	Effective Yield / Profit rate	Total	2010									Non-profit bearing financial instruments
			Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Exposed to Yield / Profit risk 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	-	3,197,884	-	-	-	-	-	-	-	-	-	3,197,884
Balances with other banks	1.33%	3,455,665	1,712,783	428,183	-	-	-	-	-	-	-	1,314,699
Due from financial institutions	11.74%	1,020,725	1,000,000	20,725	-	-	-	-	-	-	-	-
Investments	13.21%	5,945,370	455,375	854,675	4,635,320	-	-	-	-	-	-	-
Financing	15.13%	22,764,954	2,865,533	5,972,126	6,295,408	5,198,220	-	40,776	67,490	78,403	753,414	1,493,584
Other assets	-	716,695	-	-	-	-	-	-	-	-	-	716,695
		37,101,293	6,033,691	7,275,709	10,930,728	5,198,220		40,776	67,490	78,403	753,414	6,722,862
Liabilities												
Bills payable		411,944	-	-	-	-	-	-	-	-	-	411,944
Due to financial institutions	9.75%	950,000	-	325,000	625,000	-	-	-	-	-	-	-
Deposits and other accounts	6.69%	31,414,908	25,671,506	-	-	-	-	-	-	-	-	5,743,402
Other liabilities		1,063,545	-	-	-	-	-	-	-	-	-	1,063,545
		33,840,397	25,671,506	325,000	625,000	-	-	-	-	-	-	7,218,891
On-balance sheet gap		3,260,896	(19,637,815)	6,950,709	10,305,728	5,198,220	-	40,776	67,490	78,403	753,414	(496,029)
Total Yield / Profit Risk Sensitivity Gap			(19,637,815)	6,950,709	10,305,728	5,198,220	-	40,776	67,490	78,403	753,414	(496,029)
Cumulative Yield/Profit Risk Sensitivity Gap			(19,637,815)	(12,687,106)	(2,381,378)	2,816,842	2,816,842	2,857,618	2,925,108	3,003,511	3,756,925	3,260,896

Dubai Islamic Bank Pakistan Limited

Effective Yield / Profit rate	Total	2009										Non-profit bearing financial instruments
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Exposed to Over 6 Months to 1 Year	Yield / Profit risk 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												
<u>Assets</u>												
Cash and balances with treasury banks		2,932,264	-	-	-	-	-	-	-	-	-	2,932,264
Balances with other banks	2.66%	2,430,437	50,011	421,208	-	-	-	-	-	-	-	1,959,218
Due from financial institutions	12.19%	2,591,905	1,254,358	1,337,547	-	-	-	-	-	-	-	-
Investments	13.86%	2,822,723	480,375	1,081,850	1,260,498	-	-	-	-	-	-	-
Financing	16.25%	20,589,613	2,526,160	6,393,612	4,924,139	5,145,934	1,248	-	114,915	120,967	844,510	518,128
Other assets		1,132,317	-	-	-	-	-	-	-	-	-	1,132,317
		32,499,259	4,310,904	9,234,217	6,184,637	5,145,934	1,248	-	114,915	120,967	844,510	6,541,927
<u>Liabilities</u>												
Bills payable		279,493	-	-	-	-	-	-	-	-	-	279,493
Due to financial institutions	12.10%	125,000	125,000	-	-	-	-	-	-	-	-	-
Deposits and other accounts	7.05%	27,980,906	19,656,417	2,974,745	474,419	167,219	-	-	-	-	-	4,708,106
Other liabilities		943,230	-	-	-	-	-	-	-	-	-	943,230
		29,328,629	19,781,417	2,974,745	474,419	167,219						5,930,829
On-balance sheet gap		3,170,630	(15,470,513)	6,259,472	5,710,218	4,978,715	1,248	-	114,915	120,967	844,510	611,098
Total Yield / Profit Risk Sensitivity Gap												
			(15,470,513)	6,259,472	5,710,218	4,978,715	1,248	-	114,915	120,967	844,510	611,098
Cumulative Yield/Profit Risk Sensitivity Gap												
			(15,470,513)	(9,211,041)	(3,500,823)	1,477,892	1,479,140	1,479,140	1,594,055	1,715,022	2,559,532	3,170,630

40.3 Liquidity Risk

Liquidity risk is defined as the potential loss arising from the Bank's inability to meet in orderly way its contractual obligations when due. Liquidity risk arises in the general funding of the Bank's activities and in the management of its assets. The Bank maintains sufficient liquidity to fund its day-to-day operations, meet customer deposit withdrawals either on demand or at contractual maturity, meet customers' demand for new financings, participate in new investments when opportunities arise, and to meet any other commitment. Hence, liquidity is managed to meet known as well as unanticipated cash funding needs.

Liquidity risk is managed within a framework of Liquidity policies, controls and limits. These policies, controls and limits ensure that the Bank maintains well diversified sources of funding, as well as sufficient liquidity to meet all its contractual obligations when due. The management of liquidity is carried out using a prudent strategic approach to manage the Bank's funding requirements.

It is the policy of the Bank to maintain adequate liquidity at all times and for all currencies and hence to be in a position, in the normal course of business, to meet all its obligations, to repay depositors, to fulfill commitments, to finance and to meet any other commitments made

The management of liquidity risk within the Bank is undertaken within limits and other policy parameters set by ALCO, which meets monthly and reviews compliance with policy parameters. Day to day monitoring is done by the treasury while overall compliance is monitored and coordinated by the ALCO and includes reviewing the actual and planned strategic growth of the business and its impact on the statement of financial position from a statement of financial position integrity and sustainability perspective and monitoring the Bank's liquidity profile and associated activities.

40.3.1 MATURITIES OF ASSETS AND LIABILITIES

Total	2010								
	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Rupees in '000									
Assets									
Cash and balances with treasury banks	3,197,884	3,197,884	-	-	-	-	-	-	-
Balances with other banks	3,455,665	3,027,482	428,183	-	-	-	-	-	-
Due from financial institutions	1,020,725	1,000,000	20,725	-	-	-	-	-	-
Investments	5,945,370	14,176	63,921	57,254	125,429	691,173	1,036,182	567,875	-
Financing	22,764,954	2,502,151	3,201,931	2,341,993	1,111,143	2,685,933	1,483,632	3,983,704	2,085,064
Operating fixed assets	1,703,588	17,975	35,951	53,927	107,852	215,705	215,705	424,461	632,012
Deferred tax assets	447,788	12,439	24,878	37,317	74,634	149,268	149,252	-	-
Other assets	1,352,762	213,848	396,168	233,162	131,442	150,782	114,795	89,702	13,157
	39,888,736	9,985,955	4,171,757	2,723,653	1,550,500	3,892,861	5,352,744	5,534,049	3,298,108
									3,379,109
Liabilities									
Bills payable	411,944	411,944	-	-	-	-	-	-	-
Due to financial institutions	950,000	-	325,000	625,000	-	-	-	-	-
Deposits and other accounts	31,414,908	9,217,371	3,954,737	1,829,251	13,443,679	954,957	957,094	556,321	501,498
Other liabilities	1,063,545	544,520	505,854	12,310	861	-	-	-	-
	33,840,397	10,173,835	4,785,591	2,466,561	13,444,540	954,957	957,094	556,321	501,498
Net assets	6,048,339	(187,880)	(613,834)	257,092	(11,894,040)	2,937,904	4,395,650	4,977,728	2,796,610
									3,379,109
Share capital	6,776,030								
Reserves	46,961								
Accumulated loss	(774,670)								
Advance against future issue of share capital	18								
	6,048,339								

Total	2009								
	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Rupees in '000									
Assets									
Cash and balances with treasury banks	2,932,264	2,932,264	-	-	-	-	-	-	-
Balances with other banks	2,430,437	2,009,229	421,208	-	-	-	-	-	-
Due from financial institutions	2,591,905	1,254,358	1,337,547	-	-	-	-	-	-
Investments	2,822,723	-	58,460	65,050	117,841	246,603	653,850	615,959	1,064,960
Financing	20,589,613	1,145,830	2,311,976	1,304,811	1,039,677	910,980	3,428,498	4,455,583	2,286,435
Operating fixed assets	1,727,298	27,277	47,666	71,519	137,131	280,228	253,860	410,751	498,866
Deferred tax assets	413,066	8,606	17,212	25,818	51,636	103,272	103,272	103,250	-
Other assets	1,861,588	429,478	768,952	104,868	145,053	166,088	87,349	101,304	48,633
	35,368,894	7,807,042	4,963,021	1,572,066	1,491,338	1,707,171	4,526,829	5,686,847	3,898,894
									3,715,686
Liabilities									
Bills payable	279,493	279,493	-	-	-	-	-	-	-
Due to Financial Institution	125,000	125,000	-	-	-	-	-	-	-
Deposits and other accounts	27,980,906	7,405,730	4,193,212	2,371,048	11,423,347	542,588	779,710	942,770	322,501
Other liabilities	943,230	562,199	157,670	106,939	43,420	16,524	33,146	21,667	1,665
	29,328,629	8,372,422	4,350,882	2,477,987	11,466,767	559,112	812,856	964,437	324,166
Net assets	6,040,265	(565,380)	612,139	(905,921)	(9,975,429)	1,148,059	3,713,973	4,722,410	3,574,728
									3,715,686
Share capital	6,776,030								
Accumulated loss	45,347								
Advance against future issue of share capital	(781,130)								
Surplus on revaluation of assets	18								
	6,040,265								

40.4 Operational Risk

The management understands the importance of sound operational risk management and has drafted an operational risk management policy, in line with best practices, calling for clearly documented strategies and oversight by the Board and senior management, a strong operational risk culture, reporting and formation of an operational risk management department overlooking the coordinated operational risk management function across the Bank. Pertinent Service Level Agreements with departments bank-wide have been put in place while the Risk Control and Self Assessment Program have also been initiated. In order to strengthen our Operational Risk Management Framework, an Operational Risk reporting system by the name of "Operational Risk Management System" ORMS has also been acquired.

In addition to the above, the Operational Risk Policy is supported by Operation Manuals, Anti Money Laundering, Fraud Risk Framework, Know Your Customer policies (AML/KYC), Technology Controls, Internal Control and IT security policies.

41. GENERAL

41.1 Captions, as prescribed by BSD Circular No. 04 of 2006 dated February 17, 2006 issued by the SBP, in respect of which there are no amounts, have not been reproduced in these financial statements, except for captions of the statement of financial position and profit and loss account.

41.2 The figures in the financial statements are rounded off to the nearest thousand of rupees.

42. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 28, 2011 by the Board of Directors of the Bank.

President / Chief Executive

Director

Director

Director