



Dubai Islamic Bank  
Pakistan Ltd.



بنك دبي الإسلامي  
الباكستان المحدود

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

DUBAI ISLAMIC BANK PAKISTAN LIMITED  
BALANCE SHEET  
AS AT DECEMBER 31, 2009

	Note	2009 ----- Rupees in '000 -----	2008
<b>ASSETS</b>			
Cash and balances with treasury banks	8	2,932,264	2,691,572
Balances with other banks	9	2,430,437	3,273,878
Due from financial institutions	10	2,591,905	1,329,832
Investments	11	2,822,723	3,019,266
Financing	12	20,589,613	18,073,501
Operating fixed assets	13	1,727,298	1,740,923
Deferred tax assets	14	413,066	512,474
Other assets	15	1,861,588	1,408,627
		<u>35,368,894</u>	<u>32,050,073</u>
<b>LIABILITIES</b>			
Bills payable	16	279,493	283,188
Due to financial institutions	17	125,000	-
Deposits and other accounts	18	27,980,906	25,458,910
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	19	943,230	1,241,848
		<u>29,328,629</u>	<u>26,983,946</u>
<b>NET ASSETS</b>		<u>6,040,265</u>	<u>5,066,127</u>
<b>REPRESENTED BY</b>			
Share capital	20	6,776,030	6,017,780
Reserves	21	45,347	-
Accumulated loss		(781,130)	(962,520)
		<u>6,040,247</u>	<u>5,055,260</u>
Advance against future issue of share capital	22	18	18
Surplus on revaluation of assets – net of tax	23	-	10,849
		<u>6,040,265</u>	<u>5,066,127</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	24		

The annexed notes from 1 to 44 form an integral part of these financial statements.

\_\_\_\_\_  
President / Chief Executive

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Director

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Director

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Director

DUBAI ISLAMIC BANK PAKISTAN LIMITED  
 PROFIT AND LOSS ACCOUNT  
 FOR THE YEAR ENDED DECEMBER 31, 2009

	Note	2009	2008
		----- Rupees in '000 -----	
Profit / return on financing, investments and placements earned	25	3,647,145	2,723,796
Return on deposits and other dues expensed	26	1,805,943	1,377,542
Net spread earned		1,841,202	1,346,254
Provision against non-performing financing	12.4	(115,136)	(156,077)
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		(115,136)	(156,077)
Net spread after provisions		1,726,066	1,190,177
<b>OTHER INCOME</b>			
Fee, commission and brokerage income		232,619	142,308
Dividend Income		-	-
Income from dealing in foreign currencies		129,177	133,573
Gain on sale of securities	27	-	7,499
Unrealized gain / (loss) on revaluation of investments classified as held for trading		-	-
Other income	28	3,557	52,172
Total other income		365,353	335,552
		2,091,419	1,525,729
<b>OTHER EXPENSES</b>			
Administrative expenses	29	1,724,467	1,791,282
Other provisions / write offs	15	2,251	-
Other charges	30	12,651	6,253
Total other expenses		1,739,369	1,797,535
		352,050	(271,806)
Extra ordinary / unusual items		-	-
<b>PROFIT / (LOSS) BEFORE TAXATION</b>		352,050	(271,806)
Taxation – Current		(20,062)	-
– Prior years		-	-
– Deferred		(105,251)	89,984
	31	(125,313)	89,984
<b>PROFIT / (LOSS) AFTER TAXATION</b>		226,737	(181,822)
<b>Accumulated loss brought forward</b>		(962,520)	(780,698)
<b>Accumulated loss carried forward</b>		(735,783)	(962,520)
<b>Basic earnings / (loss) per share – Rupees</b>	32	0.38	(0.35)
<b>Diluted earnings / (loss) per share – Rupees</b>	32	0.38	(0.35)

The annexed notes from 1 to 44 form an integral part of these financial statements.

\_\_\_\_\_  
 President / Chief Executive

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 Director

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 Director

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 Director

DUBAI ISLAMIC BANK PAKISTAN LIMITED  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2009

	<b>2009</b>	<b>2008</b>
	----- Rupees in '000 -----	
Profit / (loss) for the year	<b>226,737</b>	(181,822)
Other comprehensive income	-	-
<b>Total comprehensive income / (loss) for the year</b>	<b><u>226,737</u></b>	<b><u>(181,822)</u></b>

The annexed notes from 1 to 44 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, 2009

	Share capital	Statutory Reserves	Accumulated loss	Total
	----- Rupees in '000 -----			
<b>Balance as at January 01, 2008</b>	<b>5,126,230</b>	-	<b>(780,698)</b>	<b>4,345,532</b>
Net loss for the year	-	-	(181,822)	(181,822)
Other comprehensive income	-	-	-	-
<b>Total comprehensive loss for the year</b>	-	-	(181,822)	(181,822)
Issue of right shares during the year	891,550	-	-	891,550
<b>Balance as at December 31, 2008</b>	<b>6,017,780</b>	-	<b>(962,520)</b>	<b>5,055,260</b>
Net profit for the year	-	-	226,737	226,737
Other comprehensive income	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	226,737	226,737
Issue of right shares during the year	758,250	-	-	758,250
Transfer to Statutory reserves	-	45,347	(45,347)	-
<b>Balance as at December 31, 2009</b>	<b>6,776,030</b>	<b>45,347</b>	<b>(781,130)</b>	<b>6,040,247</b>

The annexed notes from 1 to 44 form an integral part of these financial statements.

\_\_\_\_\_  
President / Chief Executive

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Director

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Director

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Director

DUBAI ISLAMIC BANK PAKISTAN LIMITED  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2009

	Note	2009	2008
----- Rupees in '000 -----			
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit / (loss) before taxation		352,050	(271,806)
Adjustments:			
Depreciation	13.2	198,209	197,046
Amortization	29.2	111,574	54,892
Provision against non-performing financing	12.4	115,136	156,077
Liability no longer payable written back		-	(51,870)
Other provision / write offs	15	2,251	-
Gain on sale of fixed assets		(63)	(302)
		427,107	355,843
		779,157	84,037
(Increase) / decrease in operating assets			
Due from financial institutions		(1,262,073)	(1,329,832)
Financing		(2,631,248)	(6,881,599)
Others assets		(507,967)	577,410
		(4,401,288)	(7,634,021)
Increase / (decrease) in operating liabilities			
Bills payable		(3,695)	(64,333)
Due to financial institutions		125,000	(383)
Deposits and other accounts		2,521,996	9,344,449
Other liabilities		(298,618)	803,175
		2,344,683	10,082,908
		(1,277,448)	2,532,924
Income tax paid		(8,319)	(9,430)
Net cash (used in) / generated from operating activities		(1,285,767)	2,523,494
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net investments in available for sale securities		179,852	(43,548)
Investments in operating fixed assets		(259,826)	(874,048)
Sale proceeds of property and equipment disposed-off		4,742	64,693
Net cash used in investing activities		(75,232)	(852,903)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Amount received against issue of right shares		758,250	891,550
<b>(Decrease) / increase in cash and cash equivalents</b>		(602,749)	2,562,141
Cash and cash equivalents at beginning of the year	33	5,965,450	3,403,309
<b>Cash and cash equivalents at end of the year</b>	33	5,362,701	5,965,450

The annexed notes from 1 to 44 form an integral part of these financial statements.

\_\_\_\_\_  
President / Chief Executive

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Director

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Director

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Director

DUBAI ISLAMIC BANK PAKISTAN LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**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 35 branches and 1 sub-branch as at December 31, 2009 (2008: 23 branches and 2 sub-branches). 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).

**2. BASIS OF PRESENTATION**

- 2.1 These financial statements have been prepared in accordance with the requirements of the SBP's vide BSD Circular No. 4 dated February 17, 2006.
- 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 except that certain investments have been marked to market and are carried at fair value as stated in note 5.3 below.

#### 5. SIGNIFICANT ACCOUNTING POLICIES

##### 5.1 Change in accounting policy and disclosure

The accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of previous financial year except for the changes resulting from the adoption of the following accounting standards as described below:

- **IAS 1 - Presentation of Financial Statements (Revised)**

The revised standard became effective for accounting period beginning on or after 1 January 2009. The standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line item in the statement of changes in equity. In addition, the standard introduces the statement of comprehensive income which presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Bank has adopted two statement approach and, has accordingly, presented profit and loss account and statement of comprehensive income separately. However, in accordance with the requirements of the Companies Ordinance, 1984 and SBP directives, surplus / (deficit) on revaluation of available-for-sale investments is reported under separate account shown below equity and is not taken to the statement of comprehensive income and statement of changes in equity.

- **IFAS 2 – Ijarah**

The standard became effective during the year and deals with the accounting for Ijarah financing contracts undertaken by the Bank. The standard is applicable prospectively for Ijarah contracts entered into on or after 01 January 2009. However, the Bank has not entered into any Ijarah contract after the effective date of this standard, therefore, there is no financial impact on these financial statements due to the applicability of this standard.

##### 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 balance sheet 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.

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 at each balance sheet date 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 at each balance sheet date 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 balance sheet 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 balance sheet 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 balance sheet in respect of defined benefit gratuity scheme, is the present value of the defined benefit obligation at the balance sheet 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 independent actuaries using the projected unit credit method. Last valuation was conducted as on December 31, 2009.

### 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 balance sheet mainly includes 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 balance sheet. The resultant gains and losses are taken to income currently.

## 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 balance sheet 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 balance sheet 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 balance sheet date and are adjusted to reflect the current best estimate.

Provisions for guarantee claims and other off balance sheet 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 Related party transactions**

Transactions with related parties are at arm's length prices except for transactions with executives that are undertaken in accordance with their terms of employment. Subsidy is given out of shareholder's funds.

**5.16 Impairment**

The carrying amount of assets is reviewed at each balance sheet 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.

**5.17 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.

**5.17.1 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.

**5.17.2 Geographical segment**

The Bank has 35 branches and 1 sub-branch as at December 31, 2009 (2008: 23 branches and 2 sub-branches) 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:

	<b><u>Note</u></b>
Classification of investments	5.3 & 11
Provision against non-performing financing (see note 6.1)	5.5 & 12.4
Residual Values, useful lives of assets and methods of depreciation (see note 6.2)	5.6 & 13
Current and deferred taxation	5.7 & 14
Defined benefit plan	5.8.1 & 35.1.1

- 6.1** During the year, the management has changed the method of computing provision required against non-performing financings consequent upon the revision in Prudential Regulations and exemption given by the SBP to the Bank as disclosed in note 12.4.1 and 12.4.2 respectively.
- 6.2** During the year, the management has revised the useful life and depreciation rates of certain operating fixed assets as disclosed in note 13.2.1.

## **7. ACCOUNTING STANDARDS NOT YET EFFECTIVE**

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

<b>Standard or interpretation</b>	<b>Effective date (accounting periods beginning on or after)</b>
IAS 24 Related Party Disclosures (Revised)	January 01, 2011
IAS 27 Consolidated and Separate Financial Statements (Amendment)	July 01, 2009
IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Ammendment)	February 01, 2010
IFRS 2 Share-based Payments: Amendments relating to Group Cash-settled Share-Based Payment Transactions	January 01, 2010
IFRS 3 Business Combinations (Revised)	July 01, 2009
IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 01, 2011
IFRIC 17 Distributions of Non-cash Assets to owners	July 01, 2009
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	July 01, 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 as a result of its annual improvement project in April 2009. Such improvements are generally effective for accounting periods beginning on or after January 01, 2010. 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	2009 ----- Rupees in '000 -----	2008
<b>8. CASH AND BALANCES WITH TREASURY BANKS</b>			
In hand			
- local currency		439,806	302,192
- foreign currency		435,652	248,407
		<u>875,458</u>	<u>550,599</u>
With the State Bank of Pakistan in			
- local currency current account	8.1	1,517,659	1,804,409
- foreign currency current account	8.2	44,103	9,372
- foreign currency deposit accounts - Cash Reserves		198,979	127,507
- Special Cash Reserve		239,196	153,008
	8.1	438,175	280,515
With National Bank of Pakistan in			
- local currency current account		56,869	46,677
		<u>2,932,264</u>	<u>2,691,572</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	2009 ----- Rupees in '000 -----	2008
<b>9. BALANCES WITH OTHER BANKS</b>			
In Pakistan			
- on current accounts		6,684	5,250
- on deposit accounts	9.1	50,010	1,100,010
		<u>56,694</u>	<u>1,105,260</u>
Outside Pakistan			
- on current accounts	9.2	1,952,535	2,168,618
- on deposit accounts	9.3	421,208	-
		<u>2,373,743</u>	<u>2,168,618</u>
		<u>2,430,437</u>	<u>3,273,878</u>

9.1 Represents deposits with various banks under Modaraba arrangements. Expected return on these arrangements is 5.66% per annum (2008: 7.34% to 9.50% per annum).

9.2 Includes Rs. 430.075 million (2008: 495.609 million) deposited with the holding company.

9.3 Represents deposits with the holding company under Wakala arrangements. Expected return on this arrangement is 1.50% per annum (2008: Nil).

	Note	2009 ----- Rupees in '000 -----	2008
<b>10. DUE FROM FINANCIAL INSTITUTIONS</b>			
Mudaraba placement	10.1	190,000	-
Wakala placement		-	200,000
Commodity Murabaha	10.2 & 10.3	2,401,905	1,129,832
		<u>2,591,905</u>	<u>1,329,832</u>

10.1 This carries expected profit at the rate of 12.25% per annum (2008: 17.5%) and is due to mature by January 07, 2010.

10.2 The Bank has entered into Commodity Murabaha agreements under which the Bank purchases an underlying commodity from open market through an agent and sells it to a financial institution on credit with profit. The profit rate on the Commodity Murabaha ranges from 11.45% to 11.75% per annum (2008: 12.5% to 16%) and have a maturity ranging from January 06, 2010 to February 12, 2010.



- 11.3.1** These carry profit at the rate of six months KIBOR plus 35 basis points (2008: 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.
- 11.3.2** These carry profit at the rate of six months KIBOR minus 25 basis points (2008: 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.
- 11.3.3** These carry profit at the rate of three months KIBOR plus 170 basis points (2008: KIBOR plus 170 basis points) receivable quarterly with final redemption on March 2012.
- 11.3.4** These carry profit at the rate of six months KIBOR plus 150 basis points (2008: KIBOR plus 150 basis points) receivable semi-annually with final redemption on March 2016.
- 11.3.5** These carry profit at the rate of three months KIBOR plus 40 basis points (2008: KIBOR plus 120 basis points) receivable quarterly with final redemption on July 2012.
- 11.3.6** These carry profit at the rate of six months KIBOR plus 40 basis points (2008: 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.
- 11.3.7** These carry profit at the rate of three months KIBOR plus 140 basis points (2008: three months KIBOR plus 130 basis points) receivable quarterly. The principal will be redeemed in fifteen quarterly installments starting from December 2008. This sukuk is restructured during the year and the final redemption has been extended from September 2012 to July 2014.
- 11.3.8** These carry profit at the rate of six months KIBOR plus 150 basis points (2008: 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.

	Note	2009 ----- Rupees in '000 -----	2008
<b>12. FINANCING</b>			
Financing in Pakistan			
- Murabaha	12.1	2,430,861	2,559,791
- Musharaka cum Ijara – Housing		5,514,369	5,148,476
- Musharaka cum Ijara – Autos		5,095,718	4,653,991
- Ijara Muntahiya Bil Tamleek– Autos		216,259	221,479
- Musharaka cum Ijara – Other		1,315,603	1,835,915
- Wakala Istithmar		104,359	232,023
- Shirkatulmilk		1,241,136	376,389
- Service Ijarah		700,000	-
- Musharaka		1,431,250	1,183,750
- Istisna cum Wakala		2,908,627	1,996,850
- Financing against bills - Wakala Istithmar		3,410	121,680
<b>Financing – gross</b>		<b>20,961,592</b>	18,330,344
Less: Provision against non-performing financing		<b>(371,979)</b>	(256,843)
<b>Financing – net of provisions</b>		<b>20,589,613</b>	18,073,501
<b>12.1 Murabaha sale price</b>		<b>6,964,817</b>	8,664,720
Purchase price		<b>(6,603,760)</b>	(8,286,289)
		<b>361,057</b>	378,431
<b>Deferred Murabaha income</b>			
Opening balance		64,507	48,410
Deferred during the year		361,057	378,431
Recognized during the year		<b>(376,834)</b>	(362,334)
		<b>48,730</b>	64,507



2009                      2008  
----- Rupees in '000 -----

**Murabaha receivable**

Opening balance	2,559,791	2,205,258
Sales during the year	6,964,817	8,664,720
Received during the year	(7,093,747)	(8,310,187)
	2,430,861	2,559,791

**12.2 Particulars of financing**

12.2.1 In local currency	20,513,971	17,880,928
In foreign currencies	447,621	449,416
	20,961,592	18,330,344
12.2.2 Short-term (for upto one year)	5,864,361	4,986,492
Long-term (for over one year)	15,097,231	13,343,852
	20,961,592	18,330,344

12.3 Financing include Rs. 719.088 million (2008: Rs. 286.024 million) which have been placed under non-performing status as detailed below:

	2009								
	Classified Financing			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
<b>Category of classification</b>	(Rupees '000)								
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

	2008								
	Classified Financing			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
<b>Category of classification</b>	(Rupees '000)								
Substandard	194,918	-	194,918	48,729	-	48,729	48,729	-	48,729
Doubtful	27,252	-	27,252	13,626	-	13,626	13,626	-	13,626
Loss	63,854	-	63,854	63,854	-	63,854	63,854	-	63,854
	286,024	-	286,024	126,209	-	126,209	126,209	-	126,209

12.4 Particulars of provision against non-performing financing:

	2009			2008		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	126,209	130,634	256,843	14,856	85,910	100,766
Charge for the year	308,371	14,982	323,353	159,529	44,724	204,253
Reversals	(127,135)	(81,082)	(208,217)	(48,176)	-	(48,176)
	181,236	(66,100)	115,136	111,353	44,724	156,077
Closing balance	307,445	64,534	371,979	126,209	130,634	256,843

**12.4.1** The SBP vide BSD Circular No. 10, dated October 20, 2009, amended Prudential Regulations in respect of provisioning against non-performing advances. The revised regulations 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. Previously, the Banks were only allowed to take the benefit of 30 percent of FSV of pledged stocks and mortgaged commercial and residential properties. Up until the previous year, the bank was not taking any benefit of FSV while determining the amount of provision required against non-performing financings. However, during this year, the Bank has taken benefit of 30 percent of FSV (against allowed limit of 40 percent of FSV as stated above) while determining the amount of provision required against non-performing financings.

Further, the SBP vide BSD Circular No.2, dated January 27, 2009 amended Prudential Regulations for consumer financings, which allowed the benefit of 50 percent of FSV of mortgage property in determining the amount of provision required against non-performing advances. Up until the previous year, the Bank did not avail such benefit, however, during the year, the Bank has taken the benefit of 50 percent of FSV while determining the amount of provision required against non-performing financings.

The above changes resulted in an increase in the aggregate net financings and profit before tax by Rs. 131.08 million and a decrease in the deferred tax asset by Rs. 45.87 million in the current year.

**12.4.2** The Bank maintains a general reserve (provision) in accordance with the applicable requirements of the Prudential Regulations for consumer financing issued by the SBP and for potential losses on financing. During the year, the SBP through its letter No. BPRD/BLRD-03/2009/6877 dated October 15, 2009 has granted exemption from general reserve required against the auto finance portfolio. This has resulted in reversal of general provision against the said portfolio amounting to Rs. 72.764 million during the year. This has resulted in an increase in the net financings and profit before tax by Rs. 72.764 million and to decrease the deferred tax asset by Rs. 25.467 million in the current year.

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

	2009			2008		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
In local currency	307,445	64,534	371,979	126,209	130,634	256,843
In foreign currency	-	-	-	-	-	-
	<u>307,445</u>	<u>64,534</u>	<u>371,979</u>	<u>126,209</u>	<u>130,634</u>	<u>256,843</u>

2009                      2008  
----- 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	1,106,070	848,934
Financing granted during the year	255,073	565,654
Repayments	(269,194)	(308,518)
Balance at end of year	<u>1,091,949</u>	<u>1,106,070</u>

The maximum total amount of financing outstanding including temporary financing granted during the year was Rs. 1,106.809 million (2008: 1,106.070 million). The maximum amount has been calculated by reference to the month end balance.

Note                      2009                      2008  
----- Rupees in '000 -----

### 13. OPERATING FIXED ASSETS

Capital work-in-progress	13.1	33,235	19,549
Property and equipment	13.2	1,186,143	1,203,372
Intangible assets	13.3	507,920	518,002
		<u>1,727,298</u>	<u>1,740,923</u>

2009                      2008  
----- Rupees in '000 -----

**13.1 Capital work-in-progress**

Civil works	-	2,200	
Equipment	291	2,559	
Advances to suppliers and contractors	<b>32,944</b>	14,790	
	<b>33,235</b>	<b>19,549</b>	

**13.2 Property and equipment**

2009								
	COST			DEPRECIATION			Net book value as at December 31, 2009	Rate of 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		
-----Rupees in '000-----								
Lease-hold Land	-	47,932	47,932	-	-	-	47,932	-
Furniture and fixture	156,501	3,482	159,983	27,902	15,737	43,639	116,344	10
Electrical, office and computer equipment	745,107	77,379 (409)	822,077	209,027	111,655 (335)	320,347	501,730	10 – 33.33
Vehicles	37,697	- (7,254)	30,443	19,016	6,178 (2,657)	22,537	7,906	25
Leasehold Improvements	621,761	56,866 (10)	678,617	101,749	64,639 (2)	166,386	512,231	10 – 20
	<b>1,561,066</b>	<b>185,659 (7,673)</b>	<b>1,739,052</b>	<b>357,694</b>	<b>198,209 (2,994)</b>	<b>552,909</b>	<b>1,186,143</b>	

2008								
	COST			DEPRECIATION			Net book value as at December 31, 2008	Rate of depreciation %
	As at January 01, 2008	Additions/ (disposals)	As at December 31, 2008	As at January 01, 2008	Charge for the year / (disposals)	As at December 31, 2008		
-----Rupees in '000-----								
Furniture and fixture	112,032	44,469	156,501	13,546	14,356	27,902	128,599	10
Electrical, office and computer equipment	479,779	265,410 (83)	745,106	94,245	114,816 (35)	209,026	536,080	10 – 20
Vehicles	144,776	1,641 (108,720)	37,697	46,801	16,593 (44,377)	19,017	18,680	25
Leasehold Improvements	390,610	231,152	621,762	50,468	51,281	101,749	520,013	10 – 20
	<b>1,127,197</b>	<b>542,672 (108,803)</b>	<b>1,561,066</b>	<b>205,060</b>	<b>197,046 (44,412)</b>	<b>357,694</b>	<b>1,203,372</b>	

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

During the year, the Bank has made a change in accounting estimate in respect of residual values and useful lives of certain fixed assets. The residual values of these assets are now being considered as follows:

Electrical, office and computer equipment 0%-25%

The useful lives of mobile phones and computer equipment were also reviewed which resulted in the revision of depreciation rates of mobile phones from 20% to 33.33% and computer equipment from 20% to 25%. The management considers that the revision would result in a more accurate reflection of depreciation charge over the useful lives of the related asset. The change has been accounted for as change in accounting estimate in accordance with the requirements of International Accounting Standards (IAS) – 8 “Accounting Policies, Changes in Accounting Estimates and Errors” whereby the effect of these changes are recognized prospectively.

Had the Bank not made the above referred change in accounting estimates, profit before tax for the year would have been lower by Rs. 25.898 million and the carrying value of operating fixed assets would have been lower by the same 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) -----						
<b>Vehicles</b>							
Toyota Corolla	903	120	783	783	-	Bank Policy	Ahmed Fawad Malik (Employee)
Honda Civic	1,200	500	700	700	-	Bank Policy	Majid Aziz Khan (Employee)
Honda Accord	2,401	1,120	1,280	1,280	-	Bank Policy	Azhar Aslam (Employee)
Toyota Camry	2,750	917	1,834	1,834	-	Bank Policy	Syed Mujtaba Abbas (Employee)
	<b>7,254</b>	<b>2,657</b>	<b>4,597</b>	<b>4,597</b>	<b>-</b>		

### Electrical, office and computer equipment

Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000

	<b>419</b>	<b>337</b>	<b>82</b>	<b>145</b>	<b>63</b>
	<b>7,673</b>	<b>2,994</b>	<b>4,679</b>	<b>4,742</b>	<b>63</b>

### 13.3 Intangible asset

	2009							Rate of amortization %
	COST			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	
	----- Rupees in '000 -----							
Computer softwares	<u>537,159</u>	<u>60,480</u>	<u>597,639</u>	<u>19,157</u>	<u>70,562</u>	<u>89,719</u>	<u>507,920</u>	11-33.33
	2008							Rate of amortization %
	COST			AMORTISATION				
	As at January 01, 2008	Additions	As at December 31, 2008	As at January 01, 2008	Charge for the year	As at December 31, 2008	Net book value as at December 31, 2008	
	----- Rupees in '000 -----							
Computer softwares	<u>12,952</u>	<u>524,207</u>	<u>537,159</u>	<u>5,277</u>	<u>13,880</u>	<u>19,157</u>	<u>518,002</u>	11-33.33

	2009	2008
	----- Rupees in '000 -----	
<b>14. DEFERRED TAX ASSETS</b>		
<b>Deferred tax debits arising in respect of:</b>		
Tax losses	483,279	606,951
Minimum tax credit carried forward	27,362	8,100
Provision against non-performing financing	8,039	72,366
Others	788	-
<b>Deferred tax credits arising due to:</b>		
Accelerated depreciation allowance	(97,199)	(159,341)
Surplus on revaluation of available-for-sale securities	-	(5,842)
Preliminary expenses	(9,203)	(9,760)
	<u>413,066</u>	<u>512,474</u>

- 14.1** The management based on financial projections prepared during the year, estimates that sufficient taxable profits would be available in future against which this deferred tax assets could be realised.

	Note	2009	2008
		----- Rupees in '000 -----	
<b>15. OTHER ASSETS</b>			
Profit / return accrued in local currency		382,443	370,294
Profit / return accrued in foreign currency		2,001	1,170
Advances, deposits, advance rent and other prepayments	15.1	718,634	676,515
Advance taxation (payments less provisions)		10,637	20,341
Unrealized gain on forward foreign exchange promises		956	-
Deferred costs	15.2	51,413	92,425
Advance for assets to be acquired for Musharaka		99,643	100,174
Advance for assets to be acquired for Murabaha		139,456	104,242
Receivables from group companies		5,993	12,688
Commission receivable		31,191	23,880
Receivable from customer	15.3	407,038	-
Others		14,434	6,898
		<u>1,863,839</u>	<u>1,408,627</u>
Provision against advance for assets to be acquired for Murabaha		(2,251)	-
		<u>1,861,588</u>	<u>1,408,627</u>

- 15.1** Includes Rs. 303.296 million (2008: Rs. 219.288 million) for advance rent, Rs. 162.415 million (2008: Rs. 147.433) 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. 229.430 million (2008: Rs. 269.966 million) as prepaid tracker maintenance cost amortized over period of six years.

	2009	2008
	----- Rupees in '000 -----	
<b>15.2 Deferred costs</b>		
Balance at the beginning of the year	92,425	133,437
Amortisation during the year	(41,012)	(41,012)
Balance at the end of the year	<u>51,413</u>	<u>92,425</u>

- 15.3** This represents receivable from a customer against payment made by the Bank on its behalf to the negotiating bank as the customer did not acknowledge the payment request on the maturity date of the letter of credit issued in its favour. The total amount of receivable from the customer against the said default was Rs. 493 million against which the Bank has received Rs. 85.97 million till the year end. Further, subsequent to the year end the Bank has received Rs. 20.90 million against the outstanding amount and expects to receive the remaining amount in due course. The Bank has evaluated and concluded that it did not foresee any problem in the recovery of the remaining balance and accordingly, no provision has been made against this receivable in these financial statements. The above balance is secured against pledge of stock of the customer and the Bank also holds joint first charge ranking pari passu on all present and future current assets of the customer.

	Note	2009 ----- Rupees in '000 -----	2008 ----- Rupees in '000 -----
<b>16. BILLS PAYABLE</b>			
In Pakistan		278,696	282,793
Outside Pakistan		797	395
		<u>279,493</u>	<u>283,188</u>

### 17. DUE TO FINANCIAL INSTITUTIONS

#### In Pakistan – Unsecured

Wakala placement	17.1	<u>125,000</u>	<u>-</u>
<b>17.1</b>			
This carries expected profit at the rate of 12.10% per annum (2008: Nil) and is due to mature by January 02, 2010.			

		2009 ----- Rupees in '000 -----	2008 ----- Rupees in '000 -----
<b>17.2 Particulars of due to financial institutions with respect to currencies</b>			
In local currency		<u>125,000</u>	<u>-</u>

### 18. DEPOSITS AND OTHER ACCOUNTS

#### Customers

Fixed deposits	15,566,897	12,859,402
Savings deposits	7,338,714	5,741,548
Current accounts - non-remunerative	4,694,637	4,110,266
Margin accounts - non-remunerative	256	69,795
	<u>27,600,504</u>	<u>22,781,011</u>

#### Financial Institutions

Remunerative deposits	367,189	2,651,164
Non-remunerative deposits	13,213	26,735
	<u>380,402</u>	<u>2,677,899</u>
	<u>27,980,906</u>	<u>25,458,910</u>

### 18.1 Particulars of deposits

In local currency	24,412,035	23,048,992
In foreign currencies	3,568,871	2,409,918
	<u>27,980,906</u>	<u>25,458,910</u>

	Note	2009	2008
		----- Rupees in '000 -----	
<b>19. OTHER LIABILITIES</b>			
Profit / return payable in local currency		435,601	379,054
Profit / return payable in foreign currency		687	741
Deferred income - Murabaha Financing	12.1	48,730	64,507
Deferred income - Commodity Murabaha	10.3	19,751	7,381
Accrued expenses		6,663	73,823
Advance from customers		180,107	163,914
Unrealized loss on forward foreign exchange contracts		-	2,337
Unremitted head office expenses		-	447,936
Security deposits against musharaka cum ijara		5,389	6,211
Retention money		5,842	8,220
Withholding tax payable		62,030	1,682
Charity payable	19.1	13,808	11,816
Others		164,622	74,226
		<u>943,230</u>	<u>1,241,848</u>
<b>19.1</b>			
Opening balance		11,816	1,093
Additions during the year		21,092	14,709
Payments during the year	19.1.1	(19,100)	(3,986)
Closing balance		<u>13,808</u>	<u>11,816</u>

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

	2009	2008
	----- Rupees in '000 -----	
Shaukat Khanum Memorial Cancer Hospital	4,000	2,000
Indus Hospital - TB	2,800	1,000
- Internally displaced people (IDP)	1,500	-
Sindh Institute of Urology and Transplantation	2,900	-
Chippa Welfare Association	1,900	-
Government of Punjab – IDP	800	-
Government of Sindh – IDP	2,300	-
Liaqat Tarkai Trust	2,000	-
Layton Rahmatulla Benevolent Trust	900	300
Al-Shifa Trust	-	686
	<u>19,100</u>	<u>3,986</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

2009	2008		2009	2008
Number of shares			----- Rupees in '000 -----	
<u>800,000,000</u>	<u>800,000,000</u>	Ordinary shares of Rs.10/- each	<u>8,000,000</u>	<u>8,000,000</u>

### 20.2 Issued, subscribed and paid up capital

2009	2008	Note	2009	2008
Number of shares			----- Rupees in '000 -----	
<b>Ordinary shares of Rs. 10/- each</b>				
<b>Fully paid in cash</b>				
601,778,000	512,623,000	Balance as at January 01	6,017,780	5,126,230
<u>75,825,000</u>	<u>89,155,000</u>	Right shares issued during the year	<u>758,250</u>	<u>891,550</u>
		20.2.1		

<u>677,603,000</u>	<u>601,778,000</u>	Balance as at December 31	<u>6,776,030</u>	<u>6,017,780</u>
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**20.2.1** During the year, the Board of Directors of the Bank in their meeting held on December 27, 2009 have resolved to issue 75,825,000 ordinary shares to the holding Company at par value of Rs.10/ each as right shares under section 86 of the Companies Ordinance, 1984. However, legal formalities such as filing of return of allotment etc. were completed subsequent to the year end.

**20.3** The Bank's shares are held 100 percent by Dubai Islamic Bank PJSC, UAE – the holding Company and its nominee directors.

	Note	2009 ----- Rupees in '000 -----	2008 ----- Rupees in '000 -----
<b>21. RESERVES</b>			
Statutory reserves	21.1	<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.

	2009 ----- Rupees in '000 -----	2008 ----- Rupees in '000 -----
<b>22. ADVANCE AGAINST FUTURE ISSUE OF SHARE CAPITAL</b>		
Opening Balance	18	18
Received during the year	758,250	891,550
Share capital issued during the year	<u>(758,250)</u>	<u>(891,550)</u>
	<u>18</u>	<u>18</u>

### 23. SURPLUS ON REVALUATION OF ASSETS

During the year, the Bank based on the recommendation of SBP has recorded the WAPDA Sukuk Certificates (sukuks) at its cost as there has been no movement in the rate available at the Reuters. Accordingly, the Bank has reversed the surplus on revaluation amounting to Rs. 16.691 million. These sukuks were recorded at their market value as at December 31, 2008.

	2009 ----- Rupees in '000 -----	2008 ----- Rupees in '000 -----
<b>24. CONTINGENCIES AND COMMITMENTS</b>		
<b>24.1 Transaction-related contingent liabilities</b>		
Contingent liabilities in respect of performance bonds, bid bonds, warranties given favoring		
- Government	108,661	100,053
- Banking companies and other financial institutions	40,682	40,312
- Others	<u>1,705,974</u>	<u>1,295,520</u>
	<u>1,855,317</u>	<u>1,435,885</u>
<b>24.2 Trade-related contingent liabilities</b>		
Import Letters of Credit	<u>4,660,390</u>	<u>5,974,907</u>
<b>24.3 Commitments in respect of forward exchange promises to Purchase</b>	<u>664,504</u>	<u>3,304,298</u>
Sale	<u>663,522</u>	<u>3,306,309</u>
<b>24.4 Commitments for the acquisition of operating fixed assets</b>	<u>6,184</u>	<u>2,063</u>
<b>24.5 Commitments in respect of financing facilities</b>	<u>9,980,961</u>	<u>7,298,706</u>
<b>25. PROFIT / RETURN ON FINANCING, INVESTMENTS AND PLACEMENTS EARNED</b>		
On financing to:		
- Customers	3,054,597	2,244,058
On investments in available for sale securities	415,967	346,072
On deposits / placements with financial institutions	<u>176,581</u>	<u>133,666</u>
	<u>3,647,145</u>	<u>2,723,796</u>



	Note	2009	2008
		----- Rupees in '000 -----	
<b>26. RETURN ON DEPOSITS AND OTHER DUES EXPENSED</b>			
Deposits and other accounts		1,736,938	1,356,371
Other short term fund generation		69,005	21,171
		<u>1,805,943</u>	<u>1,377,542</u>
<b>27. GAIN ON SALE OF SECURITIES</b>			
Sukuk certificates		-	7,499
<b>28. OTHER INCOME</b>			
Gain on sale of property and equipment	13.2.2	63	302
Reversal of penalty imposed by State Bank of Pakistan		3,494	-
Liability no longer required written back		-	51,870
		<u>3,557</u>	<u>52,172</u>
<b>29. ADMINISTRATIVE EXPENSES</b>			
Salaries, allowances and other staff benefits		673,635	814,663
Charge for defined benefit plan		22,284	15,594
Contribution to defined contribution plan		30,747	31,936
Brokerage and commission		3,943	3,045
Rent, taxes, insurance, electricity, etc.		396,077	379,694
Legal and professional charges		7,598	6,940
Communications		89,717	80,584
Repairs and maintenance		100,260	86,498
Traveling		26,182	33,956
Stationery and printing		16,393	25,613
Subscription fees		3,403	2,898
Advertisement and publicity		16,864	40,449
Auditors' remuneration	29.1	3,069	2,990
Depreciation	13.2	198,209	197,046
Amortization	29.2	111,574	54,892
Others		24,512	14,484
		<u>1,724,467</u>	<u>1,791,282</u>
<b>29.1 Auditors' remuneration</b>			
Audit fee		575	575
Review of half yearly financial statements		275	250
Special certifications and sundry advisory services		1,120	1,385
Tax services		855	520
Out-of-pocket expenses		244	260
		<u>3,069</u>	<u>2,990</u>
<b>29.2 Amortization</b>			
Intangible assets	13.3	70,562	13,880
Deferred costs	15.2	41,012	41,012
		<u>111,574</u>	<u>54,892</u>
<b>29.3 Remuneration of Sharia Advisor / Sharia Board</b>			
No remuneration is being paid to the Sharia Advisor or the Sharia Board of the Bank.			

	2009	2008
	----- Rupees in '000 -----	
<b>30. OTHER CHARGES</b>		
Workers Welfare Fund	7,186	-
Penalties imposed by the State Bank of Pakistan	5,465	6,253
	<u>12,651</u>	<u>6,253</u>

**31. TAXATION****For the year**

- Current	(20,062)	-
- Deferred	(105,251)	89,984
	<u>(125,313)</u>	<u>89,984</u>

**31.1** 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.

**31.2** 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 and 2009 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	2009	2008
		----- Rupees in '000 -----	
<b>32. BASIC AND DILUTED EARNINGS / (LOSS) PER SHARE</b>			
Profit / (loss) after taxation for the year		<u>226,737</u>	<u>(181,822)</u>
Weighted average number of ordinary shares – Numbers		<u>603,232,178</u>	<u>516,531,164</u>
Earnings / (loss) per share – Rupee	32.1	<u>0.38</u>	<u>(0.35)</u>

**32.1** There were no convertible dilutive potential ordinary shares outstanding on December 31, 2008 and 2009.

**33. CASH AND CASH EQUIVALENTS**

Cash and balance with treasury banks	8	2,932,264	2,691,572
Balances with other banks	9	2,430,437	3,273,878
		<u>5,362,701</u>	<u>5,965,450</u>

**34. STAFF STRENGTH**

		----- Number -----	
Permanent – including probationary staff		549	588
Outsourced	34.1	435	238
Total staff strength		<u>984</u>	<u>826</u>

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

**35. DEFINED BENEFIT PLAN (GRATUITY SCHEME)****35.1 Staff retirement benefits****35.1.1 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, 2009.

The fair value of scheme's assets and the present value of obligation under the scheme at the balance sheet date were as follows:

	<b>2009</b>	<b>2008</b>
	----- Rupees '000 -----	
Present value of defined benefit obligation	<b>58,422</b>	45,921
Fair value of plan assets	<b>(63,822)</b>	(41,867)
Net Actuarial losses not recognized	<b>5,400</b>	(4,054)
Unrecognized past service cost	-	-
Liability recognized in the balance sheet	<u>-</u>	<u>-</u>

Amounts charged to profit and loss account:

Current service cost	<b>19,583</b>	13,930
Cost of fund	<b>6,888</b>	2,834
Return on plan assets	<b>(4,187)</b>	(1,262)
Actuarial loss recognized	-	16
Unrecognized past service cost	-	76
	<u><b>22,284</b></u>	<u>15,594</u>

Movement in the liability recognized in the balance sheet:

Opening balance	-	-
Expense for the year	<b>22,284</b>	15,594
Contribution to the fund	<b>(22,284)</b>	(15,594)
Closing balance	<u>-</u>	<u>-</u>

Movement in the present value of defined benefit obligation:

Opening balance	<b>45,921</b>	28,342
Current service cost	<b>19,583</b>	13,930
Cost of fund	<b>6,888</b>	2,834
Benefit paid	<b>(4,241)</b>	-
Actuarial loss	<b>(9,729)</b>	815
Closing balance	<u><b>58,422</b></u>	<u>45,921</u>

Movement in the fair value of plan assets:

Opening balance	<b>41,867</b>	25,244
Contributions	<b>22,284</b>	15,594
Return on plan assets	<b>4,187</b>	1,262
Benefit paid	<b>(4,241)</b>	-
Actuarial (loss) / gain	<b>(275)</b>	(233)
Closing balance	<u><b>63,822</b></u>	<u>41,867</u>

**Actuarial loss to be recognized**

Corridor limit

The limits of the corridor at the beginning of the year / period

10% of obligations	<b>4,592</b>	2,834
10% of plan assets	<b>4,187</b>	2,524
Which works out to	<u><b>4,592</b></u>	<u>2,834</u>
Unrecognized actuarial losses as at the beginning of the year	<b>(4,054)</b>	(3,022)

Excess	-	(188)
	<b>2009</b>	<b>2008</b>
	----- Rupees '000 -----	
Average expected remaining working lives in years	<b>11</b>	12
Actuarial loss to be recognized	-	(16)

**Unrecognized actuarial losses**

Unrecognized actuarial losses at the beginning of the year	<b>(4,054)</b>	(3,022)
Actuarial gain / (loss) on obligation	<b>9,729</b>	(815)
Actuarial (loss) on plan assets	<b>(275)</b>	(233)
Subtotal	<b>5,400</b>	(4,070)
Actuarial loss recognized	-	16
Unrecognized actuarial losses at the end of the year	<b>5,400</b>	(4,054)

**Principal actuarial assumptions used are as follows:**

	<b>Percentage per annum</b>	
Expected rate of increase in salary level	<b>13%</b>	15%
Valuation discount rate	<b>10%</b>	15%
Rate of return on plan assets	<b>11%</b>	10%

**Historical information:**

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

**2009**  
----- Rupees '000 -----

**Major categories / composition of plan assets are as follows:**

Term Deposit Receipts	-	20,663
Balance with Bank in deposit account	<b>64,039</b>	21,204
	<b>64,039</b>	41,867

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 balance sheet date.

The return on plan assets was assumed to equal the discount rate. Actual return on plan assets during 2009 was Rs. 3.541 million (2008: Rs. 1.029 million).

**Expected gratuity expense for the next year**

The expected gratuity expense for the year ending December 31, 2010 works out to Rs. 21.059 million.

**36. 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. 30.747 million (2008: Rs. 31.936 million) each.

**37. COMPENSATION OF DIRECTORS AND EXECUTIVES**

	President / Chief Executive		Directors		Executives	
	2009	2008	2009	2008	2009	2008
	-----Rupees in '000-----					
Fees	-	-	750	-	-	-
Managerial remuneration	21,492	13,992	-	-	227,035	200,202
Charge for defined benefit plan	1,166	1,166	-	-	15,879	16,684
Contribution to defined contribution plan	1,399	1,399	-	-	18,972	19,887
Rent and house maintenance	8,729	8,314	-	-	84,454	84,602
Utilities	1,399	1,399	-	-	19,355	20,020
Medical	340	40	-	-	5,083	5,717
Leave fare assistance	1,272	1,060	-	-	17,061	16,822
Car Allowance	-	-	-	-	45,507	-
Others	120	-	-	-	303	-
	<b>35,917</b>	<b>27,370</b>	<b>750</b>	<b>-</b>	<b>433,649</b>	<b>363,934</b>
Number of persons	<b>1</b>	<b>1</b>	<b>3</b>	<b>-</b>	<b>163</b>	<b>200</b>

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

**38. 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 (also see note 23).

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 42.2.4 and 42.3.1.

**39. 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-----					
<b>December 31, 2009</b>						
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)	(2,251)	(3,660,448)
Net income / (loss)	79,904	315,143	(1,146,006)	1,063,732	39,278	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%	-	-

	Corporate Banking	Trading & Sales	Retail Banking	Commercial Banking	Others	Total
	-----Rupees in '000 -----					
<b>December 31, 2008</b>						
Total income	54,803	350,040	1,309,058	1,267,546	77,901	3,059,348
Total expenses	(32,214)	(117,275)	(2,634,796)	(546,869)	-	(3,331,154)
Net income / (loss)	<u>22,589</u>	<u>232,765</u>	<u>(1,325,738)</u>	<u>720,677</u>	<u>77,901</u>	<u>(271,806)</u>
Segment assets (gross)	-	8,036,012	9,839,266	9,985,356	4,446,282	32,306,916
Segment non performing Financing	-	-	243,899	42,125	-	286,024
Segment provision required	-	-	115,678	10,531	-	126,209
Segment liabilities	-	-	23,500,220	2,241,878	1,241,848	26,983,946
Segment return on net assets (ROA) (%)	-	9.44%	16.46%	12.45%	2.79%	
Segment cost of funds (%)	-	6.54%	6.27%	8.78%	-	

#### 40. 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 37 are as follows:

	2009 ----- (Rupees '000) -----	2008 ----- (Rupees '000) -----
<b><u>Key management personnel</u></b>		
<b>Financing</b>		
At beginning of the year	10,487	7,938
Disbursements	-	10,775
Repayments	(178)	(8,226)
At the end of the year	<u>10,309</u>	<u>10,487</u>
Profit earned on financing	<u>1,793</u>	<u>1,405</u>
<b>Deposits</b>		
At beginning of the year	19,286	18,816
Deposits	133,668	186,359
Withdrawals	(128,878)	(185,889)
At the end of the year	<u>24,076</u>	<u>19,286</u>
Return on deposits	<u>393</u>	<u>515</u>
<b><u>Directors</u></b>		
<b>Financing</b>		
At beginning of the year	13,829	16,124
Repayments	(147)	(2,295)
At the end of the year	<u>13,682</u>	<u>13,829</u>
Profit earned on financing	<u>1,854</u>	<u>1,570</u>

	2009	2008
	----- Rupees in '000 -----	
<b>Deposits</b>		
At beginning of the year	624	1,262
Deposits	13,900	22,304
Withdrawals	(14,211)	(22,942)
At the end of the year	<u>313</u>	<u>624</u>
Return on deposits	<u>1</u>	<u>-</u>
<b><u>Holding company</u></b>		
<b>Placements</b>		
At beginning of the year	-	322,400
Placements	18,336,041	26,224,751
Repayments	(17,914,833)	(26,547,151)
At the end of the year	<u>421,208</u>	<u>-</u>
Profit earned on placements	<u>2,798</u>	<u>16,166</u>
<b>Deposits</b>		
At beginning of the year	26,735	817
Deposits	341,693	468,162
Withdrawals	(355,215)	(442,244)
At the end of the year	<u>13,213</u>	<u>26,735</u>
<b>Balance held abroad</b>		
At beginning of the year	495,609	9,033
Deposits	39,694,889	70,453,831
Withdrawals	(39,760,423)	(69,967,255)
At the end of the year	<u>430,075</u>	<u>495,609</u>
Other payables	<u>-</u>	<u>447,936</u>
Other receivables	<u>1,206</u>	<u>-</u>
Issue of right shares	<u>758,250</u>	<u>891,550</u>
<b><u>Employee benefit plans</u></b>		
Contribution to Employees Gratuity Fund	<u>22,284</u>	<u>15,594</u>
Contribution to Employees Provident Fund	<u>30,747</u>	<u>31,936</u>
<b><u>Group Companies</u></b>		
Other receivables	<u>21,499</u>	<u>28,568</u>
Income earned during the year	<u>832</u>	<u>780</u>

#### 41. CAPITAL-ASSESSMENT AND ADEQUACY

##### 41.1 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.

## 41.2 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.

	2009 ----- Rupees in '000 -----	2008 ----- Rupees in '000 -----
<b>Tier I Capital</b>		
Shareholders equity	6,776,030	6,017,780
Reserves	45,365	18
Accumulated loss	(781,130)	(962,520)
Less: Book value of Intangibles	(540,325)	(518,002)
<b>Total Tier I Capital</b>	<b>5,499,940</b>	<b>4,537,276</b>
<b>Tier II Capital</b>		
General Provisions subject to 1.25% of Total Risk Weighted Assets	64,534	130,634
Revaluation Reserve (upto 45%)	-	-
<b>Total Tier II Capital</b>	<b>64,534</b>	<b>130,634</b>
<b>Eligible Tier III Capital</b>		
<b>Total Regulatory Capital Base</b>	<b>5,564,474</b>	<b>4,667,910</b>

## 41.3 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, 2009	December 31, 2008	December 31, 2009	December 31, 2008
	----- Rupees in '000 -----			
<b>Credit Risk</b>				
<b>Portfolios subject to standardized approach (Simple)</b>				
Corporate Portfolio	1,222,151	792,595	12,221,510	8,806,611
Retail Portfolio	401,897	329,473	4,018,970	3,660,811
Mortgage Portfolio	187,020	157,963	1,870,202	1,755,141
Claims on Banks	212,668	167,920	2,126,675	1,865,773
Operating Fixed Assets	118,697	180,980	1,186,973	2,010,889
Others	249,589	236,915	2,495,890	2,632,386
<b>Market Risk</b>				
<b>Capital Requirement for portfolios subject to Standardized Approach</b>				
Profit rate risk	61,117	63,222	611,175	702,462
Foreign exchange risk	16,978	2,600	169,775	28,884
<b>Operational Risk</b>				
<b>Capital Requirement for operational risks</b>				
Operational Risk	304,699	97,507	3,046,988	1,083,415
<b>TOTAL</b>	<b>2,774,816</b>	<b>2,029,175</b>	<b>27,748,157</b>	<b>22,546,372</b>



	Note	2009 ----- Rupees in '000 -----	2008
<b>Capital Adequacy Ratio</b>			
Total eligible regulatory capital held	41.2	<u>5,564,474</u>	<u>4,667,910</u>
Total Risk Weighted Assets	41.3	<u>27,748,157</u>	<u>22,546,372</u>
Capital Adequacy Ratio		<u>20.05%</u>	<u>20.70%</u>

#### 41.4 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 (net of losses) of Rs. 6,000 million as of December 31, 2009 as prescribed by the SBP.

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 for CAR was 10% as of December 31, 2009 and the Bank is well above the said requirement.

## 42. 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 & 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.

### 42.1 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.

#### 42.1.1 Segments by class of business

	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	1,922,764	11
Chemical and pharmaceuticals	1,900,273	9	1,036,532	4	3,061,690	17
Cement	167,000	1	995	-	349,600	2
Sugar	-	-	140	-	-	-
Food	1,444,826	7	629,129	2	1,692,701	9
Footwear and leather garments	88,371	-	2,536	-	5,374	-
Automobile and transportation equipment	60,000	-	10,724	-	6,905	-
Electronics and electrical appliances	-	-	32,048	-	150,951	1
Construction	776,748	4	766,522	3	57,548	-
Power (electricity), gas, water, sanitary	11,942	-	317,865	1	1,626,433	9
Wholesale and retail trade	462,473	2	233,641	1	733,210	4
Exports / imports	140,699	1	177,645	1	578	-
Transport, storage and communication	2,346,486	11	980,265	4	4,156,022	24
Financial	-	-	15,633	-	2,330,636	13
Insurance	-	-	260,784	1	-	-
Services	335,301	2	3,795,042	14	81,142	1
Individuals	10,826,347	52	17,193,823	60	-	-
Others	424,211	2	2,258,000	8	1,655,324	9
	<b>20,961,592</b>	<b>100</b>	<b>27,980,906</b>	<b>100</b>	<b>17,830,878</b>	<b>100</b>

2008

	Financing (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent %	Rupees In '000	Percent %	Rupees in '000	Percent %
Agriculture	2,601	-	147,782	1	-	-
Textile	1,612,003	9	166,361	1	1,465,260	7
Chemical and pharmaceuticals	1,030,072	6	116,403	-	3,480,120	16
Cement	280,941	2	1,845	-	123,323	1
Sugar	-	-	234	-	-	-
Food	1,833,815	10	436,345	2	1,106,759	5
Footwear and leather garments	84,524	-	2,462	-	132,000	1
Automobile and transportation equipment	60,000	-	2,973	-	15,000	-
Electronics and electrical appliances	-	-	764	-	150,000	1
Construction	-	-	1,386,938	5	100,000	-
Power (electricity), gas, water, sanitary	37,833	-	100,580	-	750,501	4
Wholesale and retail trade	628,450	3	242,888	1	311,211	1
Exports / imports	360,944	2	149,474	1	230,842	1
Transport, storage and communication	1,398,416	8	1,186,418	5	5,283,196	25
Financial	-	-	2,677,899	11	6,845,424	32
Insurance	-	-	44,776	-	-	-
Services	533,494	3	2,183,490	8	56,305	-
Individuals	10,023,946	55	14,267,862	56	-	-
Others	443,305	2	2,343,416	9	1,272,227	6
	<b>18,330,344</b>	<b>100</b>	<b>25,458,910</b>	<b>100</b>	<b>21,322,168</b>	<b>100</b>

## 42.1.2 Segment by sector

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	771,610	4
Private	20,961,592	100	23,334,179	83	17,059,268	96
	<b>20,961,592</b>	<b>100</b>	<b>27,980,906</b>	<b>100</b>	<b>17,830,878</b>	<b>100</b>

2008

	Financing (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	-	-	3,539,408	14	759,891	4
Private	18,330,344	100	21,919,502	86	20,562,277	96
	<b>18,330,344</b>	<b>100</b>	<b>25,458,910</b>	<b>100</b>	<b>21,322,168</b>	<b>100</b>

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

	2009		2008	
	Classified financing	Specific provisions held	Classified financing	Specific provisions held
	----- Rs. In '000 -----		----- Rs. In '000 -----	
Textile	119,322	58,620	13,000	3,250
Wholesale and retail trade	20,830	-	19,638	4,909
Exports / imports	-	-	9,487	2,372
Transportation, storage & communication	4,369	1,092	-	-
Individuals	574,567	247,733	243,899	115,678
	<b>719,088</b>	<b>307,445</b>	<b>286,024</b>	<b>126,209</b>

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

	2009		2008	
	Classified financing	Specific provisions held	Classified financing	Specific provisions held
	----- Rs. In '000 -----		----- Rs. In '000 -----	
Public / Government	-	-	-	-
Private	719,088	307,445	286,204	126,209
	<u>719,088</u>	<u>307,445</u>	<u>286,204</u>	<u>126,209</u>

## 42.1.5 Geographical segment analysis

	2009			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- Rupees in '000-----			
Pakistan	<u>352,050</u>	<u>35,368,894</u>	<u>6,040,265</u>	<u>17,830,878</u>
	2008			
	Loss before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- Rupees in '000-----			
Pakistan	<u>(271,806)</u>	<u>32,050,073</u>	<u>5,066,127</u>	<u>21,322,168</u>

Total assets employed include intra group items of Rs. 862.687 million (2008: Rs. 49.506 million).

## 42.1.6 Credit risk - General disclosures

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

**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	2009		
	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	2009			2008		
		Amount Outstanding	Deduction CRM	Net amount	Amount Outstanding	Deduction CRM	Net amount
----- Rs. In '000 -----							
<b>Funded</b>							
Corporate	1	1,400,000	-	1,400,000	25,000	-	25,000
	2	1,146,667	-	1,146,667	1,089,254	-	1,089,254
	3,4	-	-	-	84,187	-	84,187
		<b>2,546,667</b>	<b>-</b>	<b>2,546,667</b>	<b>1,198,441</b>	<b>-</b>	<b>1,198,441</b>
Banks	1	2,706,091	-	2,706,091	948,672	-	948,672
	2,3	2,373,120	-	2,373,120	2,325,201	-	2,325,201
		<b>5,079,211</b>	<b>-</b>	<b>5,079,211</b>	<b>3,273,873</b>	<b>-</b>	<b>3,273,873</b>
Mortgages		5,224,636	-	5,224,636	5,014,689	3,278	5,011,411
PSEs		-	-	-	46,682	-	46,682
Retail		5,342,990	-	5,342,990	4,878,645	-	4,878,645
Unrated		7,539,859	1,090,618	6,449,241	6,952,545	682,195	6,270,350
		<b>25,733,363</b>	<b>1,090,618</b>	<b>24,642,745</b>	<b>21,364,875</b>	<b>685,473</b>	<b>20,679,402</b>
<b>Non Funded</b>							
Corporate	1	-	-	-	2,776,852	-	2,776,852
	2	650,669	31,215	619,454	321,527	7,176	314,351
		<b>650,669</b>	<b>31,215</b>	<b>619,454</b>	<b>3,098,379</b>	<b>7,176</b>	<b>3,091,203</b>
Banks	1	-	-	-	453	-	453
	2,3	1,000,930	-	1,000,930	989,707	-	989,707
		<b>1,000,930</b>	<b>-</b>	<b>1,000,930</b>	<b>990,160</b>	<b>-</b>	<b>990,160</b>
PSEs	1	166,611	-	166,611	-	-	-
Retail		62,277	34,250	28,027	25,200	6,886	18,314
Unrated		4,641,405	137,621	4,503,784	3,297,055	137,464	3,159,591
		<b>6,521,892</b>	<b>203,086</b>	<b>6,318,806</b>	<b>7,410,794</b>	<b>151,526</b>	<b>7,259,268</b>

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.

#### 42.2 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.

#### 42.2.1 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.

	<b>2009</b>			
	<b>Assets</b>	<b>Liabilities</b>	<b>Off- balance Sheet items</b>	<b>Net foreign Currency exposure</b>
	----- 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
	<b><u>35,368,894</u></b>	<b><u>29,328,629</u></b>	<b><u>-</u></b>	<b><u>6,040,265</u></b>
	<b>2008</b>			
	<b>Assets</b>	<b>Liabilities</b>	<b>Off- balance Sheet items</b>	<b>Net foreign Currency exposure</b>
	----- Rupees in '000 -----			
Pakistan rupee	28,892,574	24,566,456	712,052	5,038,170
United States dollar	2,875,762	1,807,280	(1,048,894)	19,588
Great Britain pound	86,984	273,415	186,425	(6)
Japanese yen	5	-	-	5
Euro	103,710	251,762	150,417	2,365
Swiss franc	899	-	-	899
U.A.E Dirham	90,139	85,033	-	5,106
	<b><u>32,050,073</u></b>	<b><u>26,983,946</u></b>	<b><u>-</u></b>	<b><u>5,066,127</u></b>

#### 42.2.2 Equity Position Risk

The Bank had no exposure to equities as at the balance sheet date

#### 42.2.3 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 balance sheet due to change in profit / return on investment and financing products. Yield / profit rate risk review of the balance sheet 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.

## 42.2.4 MISMATCH OF YIELD / PROFIT RATE SENSITIVE ASSETS AND LIABILITIES

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 -----												
<b>On-balance sheet financial instruments</b>												
<i>Assets</i>												
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		1,861,588	-	-	-	-	-	-	-	-	-	1,861,588
		<u>33,228,530</u>	<u>4,310,904</u>	<u>9,234,217</u>	<u>6,184,637</u>	<u>5,145,934</u>	<u>1,248</u>	<u>-</u>	<u>114,915</u>	<u>120,967</u>	<u>844,510</u>	<u>7,271,198</u>
<i>Liabilities</i>												
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
		<u>29,328,629</u>	<u>19,781,417</u>	<u>2,974,745</u>	<u>474,419</u>	<u>167,219</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,930,829</u>
<b>On-balance sheet gap</b>		<b><u>3,899,901</u></b>	<b><u>(15,470,513)</u></b>	<b><u>6,259,472</u></b>	<b><u>5,710,218</u></b>	<b><u>4,978,715</u></b>	<b><u>1,248</u></b>	<b><u>-</u></b>	<b><u>114,915</u></b>	<b><u>120,967</u></b>	<b><u>844,510</u></b>	<b><u>1,340,369</u></b>
<b>Off-balance sheet financial instruments</b>												
Foreign currency forward purchases		-	-	-	-	-	-	-	-	-	-	-
Foreign currency forward sales		-	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet gap</b>		<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Total Yield / Profit Risk Sensitivity Gap</b>			<b><u>(15,470,513)</u></b>	<b><u>6,259,472</u></b>	<b><u>5,710,218</u></b>	<b><u>4,978,715</u></b>	<b><u>1,248</u></b>	<b><u>-</u></b>	<b><u>114,915</u></b>	<b><u>120,967</u></b>	<b><u>844,510</u></b>	<b><u>1,340,370</u></b>
<b>Cumulative Yield/Profit Risk Sensitivity Gap</b>			<b><u>(15,470,513)</u></b>	<b><u>(9,211,041)</u></b>	<b><u>(3,500,823)</u></b>	<b><u>1,477,892</u></b>	<b><u>1,479,140</u></b>	<b><u>1,479,140</u></b>	<b><u>1,594,055</u></b>	<b><u>1,715,022</u></b>	<b><u>2,559,532</u></b>	<b><u>3,899,901</u></b>
----- Rupees in '000 -----												
<b>On-balance sheet financial instruments</b>												
<i>Assets</i>												
Cash and balances with treasury banks	2,691,572	-	-	-	-	-	-	-	-	-	-	2,691,572
Balances with other banks	3.36%	3,273,878	1,100,010	-	-	-	-	-	-	-	-	2,173,868
Due from financial institutions	14.69%	1,329,832	1,129,832	200,000	-	-	-	-	-	-	-	-
Investments	12.12%	3,019,266	485,179	1,261,525	1,272,562	-	-	-	-	-	-	-
Financing	13.78%	18,073,501	3,289,133	5,011,080	4,000,771	4,398,614	-	1,963	106,998	146,024	826,769	292,149
Other assets		1,408,627	-	-	-	-	-	-	-	-	-	1,408,627
		<u>29,796,676</u>	<u>6,004,154</u>	<u>6,472,605</u>	<u>5,273,333</u>	<u>4,398,614</u>	<u>-</u>	<u>1,963</u>	<u>106,998</u>	<u>146,024</u>	<u>826,769</u>	<u>6,566,216</u>
<i>Liabilities</i>												
Bills payable		283,188	-	-	-	-	-	-	-	-	-	283,188
Due to financial institutions	13.66%	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	6.49%	25,458,910	17,311,524	1,831,458	1,397,132	712,000	-	-	-	-	-	4,206,796
Other liabilities		1,241,848	-	-	-	-	-	-	-	-	-	1,241,848
		<u>26,983,946</u>	<u>17,311,524</u>	<u>1,831,458</u>	<u>1,397,132</u>	<u>712,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,731,832</u>
<b>On-balance sheet gap</b>		<b><u>2,812,730</u></b>	<b><u>(11,307,370)</u></b>	<b><u>4,641,147</u></b>	<b><u>3,876,201</u></b>	<b><u>3,686,614</u></b>	<b><u>-</u></b>	<b><u>1,963</u></b>	<b><u>106,998</u></b>	<b><u>146,024</u></b>	<b><u>826,769</u></b>	<b><u>834,384</u></b>
<b>Off-balance sheet financial instruments</b>												
Foreign currency forward purchases		-	-	-	-	-	-	-	-	-	-	-
Foreign currency forward sales		-	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet gap</b>		<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Total Yield / Profit Risk Sensitivity Gap</b>			<b><u>(11,307,370)</u></b>	<b><u>4,641,147</u></b>	<b><u>3,876,201</u></b>	<b><u>3,686,614</u></b>	<b><u>-</u></b>	<b><u>1,963</u></b>	<b><u>106,998</u></b>	<b><u>146,024</u></b>	<b><u>826,769</u></b>	<b><u>834,384</u></b>
<b>Cumulative Yield/Profit Risk Sensitivity Gap</b>			<b><u>(11,307,370)</u></b>	<b><u>(6,666,223)</u></b>	<b><u>(2,790,022)</u></b>	<b><u>896,592</u></b>	<b><u>896,592</u></b>	<b><u>898,555</u></b>	<b><u>1,005,553</u></b>	<b><u>1,151,577</u></b>	<b><u>1,978,346</u></b>	<b><u>2,812,730</u></b>

## 42.3 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 balance sheet from a balance sheet integrity and sustainability perspective and monitoring the Bank's liquidity profile and associated activities.

### 42.3.1 MATURITIES OF ASSETS AND LIABILITIES

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 -----										
<b>Assets</b>										
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	-	-	-	-	-	-	413,066	-	
Other assets	1,861,588	429,478	768,952	104,868	145,053	166,088	87,349	101,304	48,633	
	35,368,894	7,798,436	4,945,809	1,546,248	1,439,702	1,603,899	4,423,557	5,996,663	3,898,894	
									3,715,686	
<b>Liabilities</b>										
Bills payable	279,493	279,493	-	-	-	-	-	-	-	
Due to financial institutions	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	
									-	
<b>Net assets</b>	<b>6,040,265</b>	<b>(573,986)</b>	<b>594,927</b>	<b>(931,739)</b>	<b>(10,027,065)</b>	<b>1,044,787</b>	<b>3,610,701</b>	<b>5,032,226</b>	<b>3,574,728</b>	<b>3,715,686</b>
Share capital	6,776,030									
Reserves	45,347									
Accumulated loss	(781,130)									
Advance against future issue of share capital	18									
	<b>6,040,265</b>									



Total	2008									
	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										
<b>Assets</b>										
Cash and balances with treasury banks	2,691,572	2,691,572	-	-	-	-	-	-	-	
Balances with other banks	3,273,878	3,273,878	-	-	-	-	-	-	-	
Due from financial institutions	1,329,832	1,129,832	200,000	-	-	-	-	-	-	
Investments	3,019,266	5,000	11,794	11,794	122,754	252,175	266,342	995,062	1,354,345	
Financing	18,073,501	2,044,308	1,711,392	1,159,344	59,942	595,094	1,199,441	3,751,773	3,692,556	
Operating fixed assets	1,740,923	23,179	46,299	69,451	121,331	238,263	233,229	454,216	554,955	
Deferred tax assets	512,474	-	-	-	-	-	-	512,474	-	
Other assets	1,408,627	220,622	349,076	121,166	125,346	193,118	92,145	175,523	115,622	
	32,050,073	9,388,391	2,318,561	1,361,755	429,373	1,278,650	1,791,157	5,889,048	5,717,478	
									3,875,660	
<b>Liabilities</b>										
Bills payable	283,188	283,188	-	-	-	-	-	-	-	
Deposits and other accounts	25,458,910	6,710,516	2,791,916	7,583,875	5,624,818	606,256	354,259	1,654,461	132,809	
Other liabilities	1,241,848	264,637	551,672	22,397	44,794	89,587	89,587	179,174	-	
	26,983,946	7,258,341	3,343,588	7,606,272	5,669,612	695,843	443,846	1,833,635	132,809	
									-	
<b>Net assets</b>	<b>5,066,127</b>	<b>2,130,050</b>	<b>(1,025,027)</b>	<b>(6,244,517)</b>	<b>(5,240,239)</b>	<b>582,807</b>	<b>1,347,311</b>	<b>4,055,413</b>	<b>5,584,669</b>	<b>3,875,660</b>
Share capital	6,017,780									
Accumulated loss	(962,520)									
Advance against future issue of share capital	18									
Surplus on revaluation of assets	10,849									
	<u>5,066,127</u>									

#### 42.4 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.

#### 43. GENERAL

43.1 Previous year's figures have been rearranged and reclassified wherever necessary for the purpose of comparison. Major changes are as follows:

<u>Reclassification from</u>	<u>Reclassification to</u>	<u>Reason for reclassification</u>	<u>Rupees in '000</u>
<u>Component</u>	<u>Component</u>		
Operating fixed assets – Electrical, office and computer equipment	Other Assets – Advances, deposits, advance rent and other prepayments	For better presentation	269,966
Administrative expenses – Depreciation	Administrative expenses – Rent, taxes, insurance, electricity, etc.	For better presentation	47,420

**43.2** 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 balance sheet and profit and loss account.

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

**44. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on March 04, 2010 by the Board of Directors of the Bank.

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President / Chief Executive

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Director

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Director

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Director