DUBAI ISLAMIC BANK PAKISTAN LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed statement of financial position of **Dubai Islamic Bank Pakistan Limited** as at December 31, 2011 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the un-audited certified returns from the branches except for seven branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

(a) in our opinion, proper books of account have been kept by the bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;

(b) in our opinion:

   (i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

   (ii) the expenditure incurred during the year was for the purpose of the bank's business; and

   (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the bank and the transactions of the bank which have come to our notice have been within the powers of the bank;

(c) in our opinion and to the best of our information and according to the explanations given to us the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair

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view of the state of the bank's affairs as at December 31, 2011, and its true balance of profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and

(d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Emphasis of matter paragraph

We draw attention to note 1.5 to the accompanying financial statements which describe the matter relating to shortfall in minimum capital requirements of the bank as at December 31, 2011 and the State Bank of Pakistan's extension in timeline in this regard till April 30, 2012. Our opinion is not qualified in respect of this matter.

The financial statements of the bank for the year ended December 31, 2010 were audited by another firm of Chartered Accountants. Their audit report dated February 28, 2011 contained an emphasis of matter paragraph on the same issue as described above.

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Chartered Accountants

Audit Engagement Partner: **Rashid A. Jafer**

Dated: **March 5**, 2012

Karachi

DUBAI ISLAMIC BANK PAKISTAN LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011

	Note	2011	2010
		------- Rupees in '000 -------	
ASSETS			
Cash and balances with treasury banks	6	3,429,994	3,197,884
Balances with other banks	7	1,116,928	3,455,665
Due from financial institutions	8	3,826,084	1,020,725
Investments	9	12,937,179	5,945,370
Financings	10	23,340,602	22,764,954
Operating fixed assets	11	1,597,770	1,703,588
Deferred tax assets -net	12	377,691	447,788
Other assets	13	1,570,201	1,352,762
		48,196,449	39,888,736
LIABILITIES			
Bills payable	14	394,426	411,944
Due to financial institutions	15	1,898,500	950,000
Deposits and other accounts	16	38,491,607	31,414,908
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	17	1,177,867	1,063,545
		41,962,400	33,840,397
NET ASSETS		6,234,049	6,048,339
REPRESENTED BY			
Share capital	18	6,776,030	6,776,030
Reserves	19	85,058	46,961
Accumulated losses		(622,281)	(774,670)
		6,238,807	6,048,321
Advance against future issue of share capital		18	18
Deficit on revaluation of assets - net	20	(4,776)	-
		6,234,049	6,048,339
CONTINGENCIES AND COMMITMENTS	21		

The annexed notes 1 to 41 and annexure 1 form an integral part of these financial statements.

President / Chief Executive **Director** **Director** **Director**

DUBAI ISLAMIC BANK PAKISTAN LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2011

	Note	2011	2010
		------- Rupees in '000 -------	
Profit / return earned	22	4,632,785	4,071,552
Profit / return expensed	23	2,395,995	2,129,570
Net spread earned		2,236,790	1,941,982
Provision against non-performing financings - net	10.3	10,075	181,224
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		10,075	181,224
Net spread after provisions		2,226,715	1,760,758
OTHER INCOME			
Fee, commission and brokerage income		241,195	236,015
Dividend Income		76,792	-
Income from dealing in foreign currencies		69,189	127,376
Gain on sale of securities	24	55,008	2,661
Unrealized gain on revaluation of investments classified as held for trading		-	-
Other income	25	14,952	283
Total other income		457,136	366,335
		2,683,851	2,127,093
OTHER EXPENSES			
Administrative expenses	26	2,337,312	2,095,563
Other provisions / write offs		21,380	769
Other charges	27	9,030	13,030
Total other expenses		2,367,722	2,109,362
		316,129	17,731
Extra ordinary / unusual items		-	-
PROFIT BEFORE TAXATION		316,129	17,731
Taxation			
- Current	28	50,899	44,379
- Prior years	28	2,076	-
- Deferred	28	72,668	(34,722)
		125,643	9,657
PROFIT AFTER TAXATION		190,486	8,074
Accumulated loss brought forward		(774,670)	(781,130)
		(584,184)	(773,056)
Basic earnings / (loss) per share – Rupees	29	0.28	0.01
Diluted earnings / (loss) per share – Rupees	29	0.28	0.01

The annexed notes 1 to 41 and annexure 1 form an integral part of these financial statements.

President / Chief Executive Director Director Director

DUBAI ISLAMIC BANK PAKISTAN LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011

	2011	2010
	------- Rupees in '000 -------	
Profit for the year	190,486	8,074
Comprehensive income transferred to equity	190,486	8,074
Components of comprehensive income not reflected in equity :		
Deficit on revaluation of available for sale investments - net of tax	(4,776)	-
Total comprehensive income for the year	185,710	8,074

The annexed notes 1 to 41 and annexure 1 form an integral part of these financial statements.

President / Chief Executive **Director** **Director** **Director**

DUBAI ISLAMIC BANK PAKISTAN LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2011

	Note	2011	2010
		------- Rupees in '000 -------	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		316,129	17,731
Less: Dividend Income		(76,792)	-
		239,337	17,731
Adjustments for:			
Depreciation	26	219,096	210,252
Amortisation	26	90,626	116,470
Provision against non-performing financings - net	10.3	10,075	181,224
Other provisions / write offs		21,380	769
Gain on sale of securities	24	(55,008)	(2,661)
Liabilities no longer required written back	25	(8,741)	-
Gain on sale of fixed assets	25	(4,245)	(258)
		273,183	505,796
		512,520	523,527
(Increase) / decrease in operating assets			
Due from financial institutions		(2,805,359)	1,571,180
Financings		(584,223)	(2,356,565)
Others assets (excluding taxation)		(217,146)	464,749
		(3,606,728)	(320,636)
Increase / (decrease) in operating liabilities			
Bills payable		(17,518)	132,451
Due to financial institutions		948,500	825,000
Deposits and other accounts		7,076,699	3,434,002
Other liabilities		123,063	120,315
		8,130,744	4,511,768
		5,036,536	4,714,659
Income tax paid		(52,764)	(38,383)
Net cash generated from operating activities		4,983,772	4,676,276
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		(6,944,148)	(3,119,987)
Dividend received		45,981	-
Investments in operating fixed assets		(201,981)	(272,694)
Sale proceeds of property and equipment disposed-off		9,749	7,253
Net cash used in investing activities		(7,090,399)	(3,385,428)
(Decrease) / increase in cash and cash equivalents		(2,106,627)	1,290,848
Cash and cash equivalents at beginning of the year		6,653,549	5,362,701
Cash and cash equivalents at end of the year	30	4,546,922	6,653,549

The annexed notes 1 to 41 and annexure 1 form an integral part of these financial statements.

President / Chief Executive | Director | Director | Director

DUBAI ISLAMIC BANK PAKISTAN LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011

	Share capital	Statutory Reserves	Accumulated loss	Total
	Rupees in '000			
Balance as at January 01, 2010	6,776,030	45,347	(781,130)	6,040,247
Profit after taxation for the year transferred from Statement of Comprehensive Income	-	-	8,074	8,074
Transfer to Statutory reserve	-	1,614	(1,614)	-
Balance as at December 31, 2010	6,776,030	46,961	(774,670)	6,048,321
Profit after taxation for the year transferred from Statement of Comprehensive Income	-	-	190,486	190,486
Transfer to Statutory reserve	-	38,097	(38,097)	-
Balance as at December 31, 2011	6,776,030	85,058	(622,281)	6,238,807

The annexed notes 1 to 41 and annexure 1 form an integral part of these financial statements.

President / Chief Executive **Director** **Director** **Director**

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 shari'a.

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. The Bank commenced its operations as a scheduled Islamic Commercial Bank with effect from March 28, 2006 on receiving certificate of commencement of business from the SBP. The Bank is principally engaged in Corporate, Commercial and Consumer banking activities and investing activities.

1.3 Based on the financial statements of the Bank for the year ended December 31, 2010, JCR-VIS Credit Rating Company Limited determined the Bank's long-term rating as 'A' and the short term rating as 'A-1'.

1.4 The Bank is operating through 75 branches as at December 31, 2011 (2010: 51 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).

1.5 The State Bank of Pakistan (SBP) vide circular no.7 dated April 15, 2009 has set the Minimum Capital Requirement (MCR) for banks upto Rs. 10 billion to be achieved in a phased manner by December 31, 2013. As per this circular, MCR (free of losses) and Capital Adequacy Ratio (CAR) requirements as of December 31, 2011 is Rs. 8 billion and 10% respectively. However, the paid-up capital of the Bank (free of losses) as of December 31, 2011 amounts to Rs.6.154 billion although its CAR stands at 20.85%.

Last year the Bank was granted exemption from meeting the MCR for a period of two years i.e. December 31, 2010 and December 31, 2011 subject to compliance of certain conditions as mentioned in SBP letter no. BSD/BAI-3/608/1329/2011 dated February 2, 2011. In addition the Bank was also required to submit a capital enhancement plan to SBP which was duly submitted during the current year after the approval of the Board of Directors of the Bank.

SBP in its letter no. BSD/BAI-3/608/6918/2011 dated May 31, 2011 intimated that it may offer the Bank extension till December 31, 2012 subject to a firm commitment from the sponsor to enhance capital as per the following schedule:

- The paid up capital (free of losses) will be rasied to Rs 6.4 billion by December 31, 2011;
- The paid up capital (free of losses) will be raised to Rs 7.5 billion by December 31, 2012; and
- The paid up capital (free of losses) will be raised to Rs 10 billion by December 31, 2013.

The Bank was requested to submit its request for exemption from MCR till December 31, 2012 along with a modified capital enhancement plan so as to process the request for approval, if the Bank agrees with the above proposal.

The Bank vide its letter dated February 1, 2012 requested the SBP to allow extension in timeline to the Bank for meeting its MCR (free of losses) of Rs 6.4 billion till April 30, 2012. The SBP vide its letter no. BSD/CSD/2215/12/2012 dated February 17, 2012 has granted extension in timeline to the Bank for meeting the aforementioned MCR (free of losses) till April 30, 2012 subject to the conditions as stipulated vide BSD letter dated February 2, 2011. The Bank has also been advised to submit concrete time bound capital enhancement plan, duly approved by the Board of Directors along with firm commitment from the sponsors for meeting the MCR (free of losses).

2 BASIS OF PRESENTATION

2.1 The Bank provides financing mainly through Murabaha, Musharaka cum Ijara, Istisna cum Wakala and other Islamic modes. The transactions of purchases, sales and leases executed 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 Standards - 1. The income on such financing is recognised in accordance with the principles of Islamic shari'ah. However, income, if any, received which does not comply with the principles of Islamic shari'a is recognised as charity payable if so directed by the Shari'a Advisor / Shari'a Supervisory Board.

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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 Standard -1 "Murabaha", issued by the Institute of Chartered Accountants of Pakistan, as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or directives issued by the SECP and SBP differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said directives prevail.

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

3.3 SBP through its BSD Circular No. 07 dated April 20, 2010 has clarified that for the purpose of preparation of financial statements in accordance with International Accounting Standard - 1 (Revised) 'Presentation of Financial Statements', two statement approach shall be adopted i.e. separate 'Profit and Loss Account' and 'Statement of Comprehensive Income' shall be presented, and Balance Sheet shall be renamed as 'Statement of Financial Position'. Furthermore, the Surplus / (Deficit) on revaluation of Available-For-Sale Securities (AFS) only may be included in the 'Statement of Comprehensive Income' but will continue to be shown separately in the Statement of Financial Position. Accordingly, the above requirements have been adopted in the preparation of these financial statements.

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

3.5 New and amended standards and interpretations that are effective in the current year:

The following revised standards and amendments to existing standards have been published and are mandatory for the Bank's accounting period beginning on or after January 1, 2011:

- IAS 24 (revised), 'Related party disclosures' issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government - related entities to disclose details of all transactions with the government and other government - related entities. The revised standard does not have any significant effect on the Bank's financial statements.

- IFRIC 14 (amendments), 'Prepayments of a minimum funding requirement'. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning on or after January 1, 2011. The amendment does not have any significant impact on the Bank's financial

There are other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2011 but are considered not to be relevant or to have any significant effect on the Bank's operations and are, therefore, not disclosed in these financial statements.

3.6 New and amended standards and interpretations that are not yet effective:

The following amendment to existing standard has been issued and is not mandatory for the Bank's accounting periods beginning on January 1, 2011 and not early adopted:

IAS 19, 'Employee benefits' was amended in June 2011 applicable for periods begining on or after January 1, 2013. The impact on the Bank will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in other comprehensive income as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. The management is yet to assess the full impact of the amendments.

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There are other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2012 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

3.7 Early adoption of standards

The Bank has not early adopted new or amended standard in 2011.

4 BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention, except that certain investments, foreign currency balances and commitments in respect of foreign exchange contracts have been marked to market and are carried at fair value.

These financial statements are presented in Pakistani Rupees, which is the Bank's functional and presentation currency. The amounts are rounded to the nearest thousand.

4.2 Critical accounting estimates and judgments

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

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

i) classification and provisioning against investments (notes 5.2 and 9)
ii) classification and provisioning against financings (notes 5.3 and 10)
iii) current and deferred taxation (notes 5.6, 12 and 28)
iv) determination of useful lives and depreciation / amortisation (notes 5.4 and 11)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These have been consistently applied to all the years presented, unless otherwise specified.

5.1 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement comprise of cash and balances with treasury banks and balances with other banks in current and deposit accounts.

5.2 Investments

5.2.1 Classification

Investments of the Bank, other than investments in associates are classified as follows:

(a) Held-for-trading

These are investments, which are either acquired for generating a profit from short-term fluctuations in market prices or are securities included in a portfolio for which there is evidence of a recent actual pattern of short-term profit taking.

(b) Held- to-maturity

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

(c) Available-for-sale

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

5.2.2 Regular way contracts

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

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5.2.3 Initial recognition and measurement

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

5.2.4 Subsequent measurement

Subsequent to initial recognition investments are valued as follows:

(a) Held-for-trading

These are measured at subsequent reporting dates at fair value. Gains and losses on remeasurement are included in the net profit and loss for the year.

(b) Held-to-maturity

These are measured at amortized cost using the effective profit rate method, less any impairment loss recognized to reflect irrecoverable amount.

(c) Available for sale

Quoted securities are measured at fair value. Surplus / (deficit) arising on remeasurement is taken to a separate account shown in the statement of financial position below equity. The surplus / (deficit) arising on these securities is taken to the profit and loss account when actually realized upon disposal.

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

(d) Investments in associates

Associates are all entities over which the Bank has significant influence but not control. Investments in associate is carried at cost less accumulated impairment losses, if any.

5.2.5 Impairment

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

5.2.6 Gains or losses on sale of investments are included in profit and loss for the year.

5.3 Financing

These are financial products originated by the Bank and principally comprise of Murabaha, Musharaka, Musharaka cum Ijara, Wakala, Wakala Istithmar, Istisna cum Wakala, Ijara Muntahiya Bil Tamleek and Shirkat ul Milk. These are stated net of general and specific provisions.

Specific provision

The Bank maintains specific provision for doubtful debts based on the requirements specified in the Prudential Regulations issued by the SBP.

General provision

The Bank also maintains general provision at the rate of 5% against unsecured consumer portfolio and at the rate of 1.5% against secured consumer portfolio in accordance with the requirements of the Prudential Regulations issued by the SBP.

The net provision made / reversed during the year is charged to the profit and loss account and accumulated provision is netted off against financings. Financings are written off when there are no realistic prospects of recovery.

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Murabaha to the purchase orderer is a sale transaction wherein the first party (the Bank) sells to the client / customer a shari'a compliant asset / good for cost plus a pre-agreed profit after getting title and possession of the same. 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).

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 an undivided share of an asset from the customer by the bank. Thereafter, the customer / co-owner purchases / undertakes to purchase the share of the bank from the bank in a manner that the Bank would recover its cost plus the desired profit till the maturity of the facility. At the end of the facility term the Bank at its own discretion may sell its share to the customer at a nominal price.

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

Istisna cum Wakala product has two legs: first the bank acquires the described goods by way of Istisna to be manufactured by the Customer from raw material of its own and once the goods are delivered to the bank, the customer through an independent agency contract, sells 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.

5.4 Operating fixed assets and depreciation

5.4.1 Property and equipment

These assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation, is charged to income by applying the straight line method over the estimated useful lives, using the rates specified in note 11.2 to the financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. Depreciation is charged from the month of acquisition and up to the month preceding the month of disposal.

The assets residual values, if significant, and their useful lives are reviewed and adjusted, if appropriate, at each reporting date.

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

Gains and losses on disposal of property and equipment if any, are taken to the profit and loss account.

5.4.2 Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Such intangible assets are amortized using the straight-line method over their estimated useful lives. The useful lives and amortization method are reviewed and adjusted, if appropriate at each reporting date. Intangible assets having an indefinite useful life are stated at acquisition cost, less impairment loss, if any. Amortization is charged from the month of acquisition and upto the month preceding the month of deletion.

5.4.3 Impairment

At each reporting date, the Bank reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. Recoverable amount is the greater of net selling price and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately in the financial statements except for impairment loss on revalued assets, which is adjusted against related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

Where an impairment loss reverses subsequently, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognized as income immediately except for impairment loss on revalued assets which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of assets.

5.5 Deferred costs

As allowed by SBP pre-operating / preliminary expenses are included in deferred costs and these are amortized over a maximum period of five years on straight line basis from the date of commencement of business.

5.6 Taxation

Current

The provision for current taxation is based on taxable income for the year, if any, at current rates of taxation, after taking into consideration available tax credits, rebates and tax losses as required under the seventh schedule to the Income Tax Ordinance, 2001. The charge for current tax also includes adjustments, where considered necessary relating to prior years, which arises from assessments / developments made during the year.

Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and amounts used for taxation purposes. In addition, the Bank also records deferred tax asset on available tax losses. Deferred tax is calculated using the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The carrying amount of the deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

The Bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of securities which is adjusted against the related deficit / surplus in accordance with the requirements of the International Accounting Standard 12 - Income Taxes.

5.7 Staff retirement benefits

5.7.1 Defined benefit plan

The Bank operates an approved funded gratuity scheme for its permanent employees. The liability recognised in the statement of financial position in respect of defined benefit gratuity scheme, is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. Contributions to the fund are made on the basis of actuarial recommendations. The defined benefit obligation is calculated periodically by an independent actuary using the projected unit credit method. Last valuation was conducted as on December 31, 2011.

5.7.2 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 recognised as employee benefit expense when they are due.

5.8 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 a time proportionate basis.

- Profit on Musharaka cum Ijara, Ijara Muntahiya Bil Tamleek, Service Ijara and Shirkatulmilk is recognized on the basis of the reducing balance on a time proportionate basis.

- Profit on Wakala is accounted for on a time proportionate basis.

- Profit of Musharaka financing is recognised on an 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.

- Profit on investment is accounted for on a time apportioned basis over the terms of the underlying investments.

- Commission on letters of credit, acceptances and guarantees is recognized on receipt basis.

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

- Fee, commission and brokerage income are recognised when earned.

5.9 Financial Instruments

5.9.1 Financial assets and financial liabilities

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

5.9.2 Offsetting of financial instruments

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

5.9.3 Derivatives

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

5.10 Fiduciary assets

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

5.11 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

Foreign currency transactions are recorded in rupees at exchange rates prevailing on the date of transaction. Monetary assets, monetary liabilities and contingencies and commitments in foreign currencies, except forward contracts, at the year end are reported in Rupees at exchange rates prevalent on the reporting date.

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Translation gains and losses

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

Commitments

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

5.12 Provisions

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

Contingent assets are not recognised, and are also not disclosed unless an inflow of economic benefits is probable. Contingent liabilities are disclosed but not recognised unless the probability of an outflow of resources embodying economic benefit is not remote.

5.13 Allocation of profit

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

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

5.14.1 Business segments

Corporate banking

Corporate banking includes services provided in connection with mergers and acquisition, underwriting, privatization, securitisation, 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, Ijara, financing and issuing guarantees.

5.14.2 Geographical segment

The Bank has 75 branches as at December 31, 2011 (2010: 51) and operates only in Pakistan.

6 CASH AND BALANCES WITH TREASURY BANKS

	Note	2011	2010
		------- Rupees in '000 -------	
In hand			
- local currency		729,649	523,477
- foreign currency		321,018	337,982
		1,050,667	861,459
With the State Bank of Pakistan in			
- local currency current account	6.1	1,665,271	1,731,920
- foreign currency current account		4,966	8,017
- foreign currency deposit accounts			
Cash Reserves Account	6.2	213,441	228,907
Special Cash Reserve Account	6.3	256,111	274,671
		469,552	503,578
With National Bank of Pakistan in			
- local currency current account		239,538	92,910
		3,429,994	3,197,884

6.1 The local currency current account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve in the current account opened with the SBP at a sum not less than such percentage of its time and demand liabilities in Pakistan as may be prescribed by SBP.

6.2 As per BSD Circular No. 15 dated June 21, 2008, cash reserve of 5% is required to be maintained with State Bank of Pakistan on deposits held under the New Foreign Currency Accounts Scheme (FE-25 deposits).

6.3 Special cash reserve of 6% is required to be maintained with State Bank of Pakistan on FE-25 deposits as specified in BSD Circular No. 15 dated June 21, 2008. During the year this deposit was not remunerated (2010: Nil).

7 BALANCES WITH OTHER BANKS

	Note	2011	2010
		------- Rupees in '000 -------	
In Pakistan			
- on current accounts		5,506	5,343
- on deposit accounts	7.1	10	10
		5,516	5,353
Outside Pakistan			
- on current accounts	7.2	1,111,412	1,309,394
- on deposit accounts		-	2,140,918
		1,111,412	3,450,312
		1,116,928	3,455,665

7.1 This represents saving deposits carrying profit at the rate of 5% (2010: 5%) per annum.

7.2 This includes an amount of Rs. 44.055 million (2010: Rs 317.727 million) deposited with the holding company.

8 DUE FROM FINANCIAL INSTITUTIONS

	Note	2011	2010
		------- Rupees in '000 -------	
Mudaraba Placement	8.1	1,300,000	1,000,000
Commodity Murabaha	8.2	2,526,084	-
Call Deposit Receipt		-	20,725
		3,826,084	1,020,725

8.1 These carry expected profit rates ranging from 11.50% to 12.60% per annum (2010: 13.50% per annum) and are due to mature latest by January 26, 2012.

8.2 These carry expected profit rates ranging from 11.40% to 11.75% per annum and are due to mature latest by January 16, 2012.

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		2011	2010
		------- Rupees in '000 -------	
8.3	Commodity Murabaha sale price	136,276,091	45,260,775
	Purchase price	(135,970,000)	(44,830,000)
		306,091	430,775
	Deferred Commodity Murabaha income		
	Opening balance	-	19,751
	Deferred during the year	306,091	430,775
	Recognised during the year	(298,420)	(450,526)
		7,671	-
	Commodity Murabaha		
	Opening balance	-	2,401,905
	Sales during the year	136,276,091	45,260,775
	Received during the year	(133,750,007)	(47,662,680)
		2,526,084	-

8.4 Particulars of amounts due from financial institutions with respect to currencies:

	2011	2010
- In local currency	3,826,084	1,020,725
- In foreign currency	-	-
	3,826,084	1,020,725

9 INVESTMENTS

9.1 Investments by types

	Note	2011 Held by the Bank	2011 Given as collateral	2011 Total	2010 Held by the Bank	2010 Given as collateral	2010 Total
		(Rupees in '000)					
Available for sale securities							
Sukuk Bonds / Certificates	9.2	11,744,526	-	11,744,526	5,945,370	-	5,945,370
Units of Open-end mutual fund	9.2	1,200,000	-	1,200,000	-	-	-
Total investment at cost		12,944,526	-	12,944,526	5,945,370	-	5,945,370
Less: Provision for diminution in value of investments		-	-	-	-	-	-
Investments (net of provisions)		12,944,526	-	12,944,526	5,945,370	-	5,945,370
Deficit on revaluation of available-for-sale securities	20	(7,347)	-	(7,347)	-	-	-
Total investments at market value		12,937,179	-	12,937,179	5,945,370	-	5,945,370

9.2 Investments by segments

	Note	2011	2010
		------- Rupees in '000 -------	
Federal Government Securities			
GOP Ijarah Sukuks	9.3.1	10,000,000	3,000,000
Sukuks			
WAPDA Sukuks	9.3.3	790,518	790,695
Other Sukuks	9.3.3	954,008	2,154,675
Fully paid up ordinary shares / Units			
Units of Mutual Funds	9.3.2	1,200,000	-
Total investment at cost		12,944,526	5,945,370
Less: Provision for diminution in value of investments		-	-
Investments (net of provisions)		12,944,526	5,945,370
Deficit on revaluation of available-for-sale securities	20	(7,347)	-
Total investments at market value		12,937,179	5,945,370

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9.3 Available for sale securities

9.3.1 Particulars of Federal Government Securities - Unquoted, Secured

Particulars	Collateral	Profit Rate	Profit payment	2011 Nominal value	2010 Nominal value
				Rupees in '000	Rupees in '000
GOP IJARA SUKUK 10,000,000 (2010: 10,000,000) certificates Maturity: November, 2013	Government of Pakistan Sovereign guarantee	6 months T-Bill plus zero basis points	Semi-annually	1,000,000	1,000,000
GOP IJARA SUKUK 20,000,000 (2010: 20,000,000) certificates Maturity: December, 2013	Government of Pakistan Sovereign guarantee	6 months T-Bill plus zero basis points	Semi-annually	2,000,000	2,000,000
GOP IJARA SUKUK 20,000,000 (2010: Nil) certificates Maturity: May, 2014	Government of Pakistan Sovereign guarantee	6 months T-Bill plus zero basis points	Semi-annually	2,000,000	-
GOP IJARA SUKUK 50,000,000 (2010:Nil) certificates Maturity: December, 2014	Government of Pakistan Sovereign guarantee	6 months T-Bill plus zero basis points	Semi-annually	5,000,000	-
				10,000,000	3,000,000

9.3.2 Particulars of investments in mutual funds:

2011 Number of shares / units	2010 Number of shares / units	Mutual funds - Face value of Rs. 50 each	2011 Rupees in '000	2010 Rupees in '000
23,701,362	-	Meezan Sovereign Fund	1,200,000	-
			1,200,000	-

9.3.3 Particulars of Sukuk Certificates - Unquoted, Secured

Particulars	Collateral	Profit Rate	Profit payment	2011 Nominal value	2010 Nominal value
				Rupees in '000	Rupees in '000
WAPDA I 67,000 (2010: 67,000) certificates Maturity: October, 2012	Government of Pakistan Sovereign guarantee	6 months KIBOR plus 35 basis points	Semi-annually	335,143	335,320
WAPDA II 91,075 (2010: 91,075) certificates Maturity: July, 2017	Government of Pakistan Sovereign guarantee	6 months KIBOR minus 25 basis points	Semi-annually	455,375	455,375
				790,518	**790,695**
SITARA CHEMICAL INDUSTRIES LIMITED Nil (2010: 30,000) certificates	N/A	N/A	Quarterly	-	37,175
ENGRO CHEMICALS PAKISTAN LIMITED 60,000 (2010: 60,000) certificates Maturity: March, 2016	Tangible Assets	6 months KIBOR plus 150 basis points	Semi-annually	300,000	300,000
ENGRO CHEMICALS PAKISTAN LIMITED 75,000 (2010: 75,000) certificates Maturity: June, 2017	Tangible Assets	6 months KIBOR plus 211 basis points	Semi-annually	375,000	375,000
SUI SOUTHERN GAS COMPANY LIMITED 165,000 (2010: 165,000) certificates Maturity: July, 2012	Tangible Assets	3 months KIBOR plus 40 basis points	Quarterly	45,835	229,167
KARACHI SHIPYARD AND ENGINEERING WORKS Nil (2010: 185,000) certificates	N/A	N/A	Semi-annually	-	925,000
K.S. SULEMANJI & SONS (PVT) LIMITED 20,000 (2010: 20,000) certificates Maturity: July, 2014	Tangible Assets	3 months KIBOR plus 140 basis points	Quarterly	53,173	95,000
QUETTA TEXTILE MILLS LIMITED 40,000 (2010: 40,000) certificates Maturity: September, 2015	Tangible Assets	6 months KIBOR plus 150 basis points	Semi-annually	180,000	193,333
				954,008	**2,154,675**
				1,744,526	**2,945,370**

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9.3.4 Quality of Available for Sale Securities

	2011	2010	2011	2010
	Long / Medium Term Rating (Where available)		---------- Rupees in '000 ----------	
Sukuk Bonds / Certificates - (at cost)				
WAPDA First Sukuk Certificates	Unrated	Unrated	335,143	335,320
WAPDA Second Sukuk Certificates	Unrated	Unrated	455,375	455,375
Sitara Chemical Industries Limited	-	Unrated	-	37,175
Engro Chemicals Pakistan Limited	Unrated	Unrated	300,000	300,000
Engro Chemicals Pakistan Limited	Unrated	Unrated	375,000	375,000
Sui Southern Gas Company Limited	AA	AA	45,835	229,167
Karachi Shipyard and Engineering Works	-	Unrated	-	925,000
K.S. Sulemanji &Sons (Pvt) Limited	Unrated	Unrated	53,173	95,000
Quetta Textile Mills Limited	BBB+	BBB+	180,000	193,333
GoP Ijara Sukuk - Maturity: November, 2013	Government Guaranteed	Government Guaranteed	1,000,000	1,000,000
GoP Ijara Sukuk - Maturity: December, 2013	Government Guaranteed	Government Guaranteed	2,000,000	2,000,000
GoP Ijara Sukuk - Maturity: May, 2014	Government Guaranteed	-	2,000,000	-
GoP Ijara Sukuk - Maturity: December, 2014	Government Guaranteed	-	5,000,000	-
			11,744,526	5,945,370
Units of open-end mutual funds (at market value)				
Meezan Sovereign Fund	AA+(f)	-	1,192,653	-
			1,192,653	-
			12,937,179	5,945,370
Less: Provision for diminution in the value of investments			-	-
			12,937,179	5,945,370

10 FINANCINGS

	Note	2011	2010
		------- Rupees in '000 -------	
Financings in Pakistan			
- Murabaha	10.1.2	2,824,901	3,033,796
- Musharaka cum Ijara – Housing		5,159,555	5,493,212
- Musharaka cum Ijara – Autos		5,810,997	5,610,713
- Ijara Muntahiya Bil Tamleek– Autos		186,642	172,699
- Musharaka cum Ijara – Other		656,502	921,526
- Export Refinance under Islamic Scheme		1,563,196	950,000
- Wakala Istithmar – Pre manufacturing		781,305	297,574
- Wakala Istithmar – Post manufacturing		4,638	23,116
- Shirkatulmilk		1,815,622	1,184,212
- Service Ijarah		700,000	700,000
- Musharaka		330,667	369,417
- Istisna cum Wakala		4,068,355	4,561,892
Financings – gross		23,902,380	23,318,157
Less: Provision against non-performing financings	10.2 & 10.3	561,778	553,203
Financings – net of provisions		23,340,602	22,764,954

10.1

	2011	2010
Murabaha sale price	6,202,381	7,441,922
Purchase price	(5,917,374)	(7,100,462)
	285,007	341,460

10.1.1 Deferred Murabaha income

	2011	2010
Opening balance	64,229	48,730
Arising during the year	285,007	341,460
Recognised during the year	(277,129)	(325,961)
	72,107	64,229

10.1.2 Murabaha receivable

	2011	2010
Opening balance	3,033,796	2,430,861
Sales during the year	6,202,381	7,441,922
Received during the year	(6,411,276)	(6,838,987)
	2,824,901	3,033,796

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10.2 Financings include Rs. 2,107.709 million (December 31, 2010: 1,858.799 million) which have been placed under non-performing status as detailed below:

Category of Classification	2011								
	Classified Financings			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees in '000								
Substandard	944,046	-	944,046	17,590	-	17,590	17,590	-	17,590
Doubtful	289,304	-	289,304	65,682	-	65,682	65,682	-	65,682
Loss	874,359	-	874,359	422,396	-	422,396	422,396	-	422,396
	2,107,709	-	2,107,709	505,668	-	505,668	505,668	-	505,668

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

10.3 Particulars of provision against non-performing financings:

	2011			2010		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	492,593	60,610	553,203	307,445	64,534	371,979
Charge for the year	138,304	-	138,304	292,691	667	293,358
Reversals	(123,729)	(4,500)	(128,229)	(107,543)	(4,591)	(112,134)
	14,575	(4,500)	10,075	185,148	(3,924)	181,224
Write off	(1,500)	-	(1,500)	-	-	-
Closing balance	505,668	56,110	561,778	492,593	60,610	553,203

10.3.1 Particulars of provision against non-performing financings:

	2011			2010		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	501,141	56,110	557,251	489,652	60,610	550,262
In foreign currency	4,527	-	4,527	2,941	-	2,941
	505,668	56,110	561,778	492,593	60,610	553,203

10.3.2 During the year the State Bank of Pakistan (SBP) has introduced certain amendments in the Prudential Regulations in respect of maintenance of provisioning requirements against non-performing loans and advances vide BSD Circular No. 1 dated October 21, 2011 (effective from September 30, 2011). Under the revised guidelines issued by SBP, banks have been allowed to avail the benefit as follows:

a. Prudential Regulation R-8 for Corporate / Commercial Banking and Prudential Regulation R-11 for SME Financing:

Category of Asset	**Benefit of FSV allowed from the date of classification**
Mortgaged residential, commercial, and industrial properties (land & building only)	75% for first year 60% for second year 45% for third year 30% for fourth year, and 20% for fifth year
Plant & Machinery under charge	30% for first year 20% for second year, and 10% for third year
Pledged stock	40% for three years

b. Prudential Regulations R-22 for Consumer Financing:

Mortgaged residential property	75% for first and second year 50% for third and fourth year, and 30% for fifth year

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However, as per the circular the additional impact on profitability arising from availing the benefit of forced sales value against pledged stocks, mortgaged residential, commercial and industrial properties and plant and machinery would not be available for payment of cash or stock dividend. Under the previous guidelines issued by SBP which were effective from September 30, 2009, banks were allowed to avail the benefit of 40% of forced sales value of pledged stocks and mortgaged residential, commercial and industrial properties held as collateral against all non-performing financings for 3 years from the date of classification for calculating provisioning requirement. However, the benefit of discounted forced sales value of plant and machinery was previously not available to banks for calculating provisioning requirement.

Had the provision against non-performing financings and advances been determined in accordance with the previously laid down requirements of SBP, the specific provision against non-performing financings would have been higher and consequently profit before taxation and advances (net of provisions) as at December 31, 2011 would have been lower by approximately Rs. 145.424 million. As allowed under the circular the Bank has availed benefit of forced sale values amounting to Rs. 548.565 million (2010: Rs 307.961 million) in determining the provisioning against non-performing financings as at December 31, 2011.

10.4 Particulars of write-offs

	2011	2010
	(Rupees in '000)	
Against provisions	1,500	-
Directly charged to the profit and loss account	-	-
	1,500	-
Write offs of Rs. 500,000 and above	1,500	-
Write offs of below Rs. 500,000	-	-
	1,500	-

10.4.1 Details of financings written-off of Rs. 500,000/- and above

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962, the Statement in respect of financings written-off or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2011 is given in Annexure - 1.

10.4.2 General provisioning is held against consumer finance portfolio calculated in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan except for Musharaka cum Ijara- Autos. The SBP vide its letter no BPRD/BLRD-03/2009/6877 dated October 15,2009 has allowed relaxation to the Bank from recognising general provision against Musharaka cum Ijara- Autos on the condition that the facility will be categorised as "Loss" on the 180th day from the date of default.

10.4.3 Particulars of financings to directors, executives or officers of the Bank or any of them either severally or jointly with any other persons:

	Note	2011	2010
		(Rupees in '000)	
Balance at beginning of year		983,551	1,091,949
Financing granted during the year		256,800	216,394
Repayments		(371,972)	(324,792)
Balance at end of year		868,379	983,551

11 OPERATING FIXED ASSETS

	Note	2011	2010
Capital work-in-progress	11.1	33,914	42,559
Property and equipment	11.2	1,153,950	1,179,864
Intangible assets	11.3	409,906	481,165
		1,597,770	1,703,588

11.1 Capital work-in-progress

	2011	2010
Civil works	3,314	16,232
Equipment	9,886	3,924
Advances to suppliers and contractors	20,714	22,403
	33,914	42,559

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11.2 Property and equipment

	2011							
	COST			DEPRECIATION				
	As at January 01, 2011	Additions (write off) (disposals)	As at December 31, 2011	As at January 01, 2011	Charge for the year (write off) (disposals)	As at December 31, 2011	Net book value as at December 31, 2011	Rate of Depreciation
	Rupees in '000							%
Leasehold land	47,932	-	47,932	-	-	-	47,932	
Furniture and fixture	170,761	31,334	202,095	60,348	19,266	79,614	122,481	10
Electrical, office and computer equipment	980,192	96,511 (5,919) (10,141)	1,060,643	446,703	122,310 (2,946) (4,637)	561,430	499,213	10-33.33
Vehicles	23,664	-	23,664	17,442	680	18,122	5,542	25
Leasehold Improvements	710,469	73,814	784,283	228,661	76,840	305,501	478,782	10 – 20
	1,933,018	201,659 (5,919) (10,141)	2,118,617	753,154	219,096 (2,946) (4,637)	964,667	1,153,950	

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

11.2.1 Disposal of operating fixed assets

	2011						
	Cost	Accumulated depreciation	Written down value	Sale price	Gain/(loss)	Mode of disposal	Particulars of buyer
	Rupees in '000						
Electrical, office and computer equipment							
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	10,141	4,637	5,504	9,749	4,245	Banks Policy	Various
	10,141	4,637	5,504	9,749	4,245		

11.2.2 The cost of fully depreciated fixed assets still in use amounts to Rs. 256.086 million (2010: Rs. 56.785 million).

11.3 Intangible asset

	2011							
	COST			AMORTISATION				
	As at January 01, 2011	Additions / (disposals)	As at December 31, 2011	As at January 01, 2011	Charge for the year	As at December 31, 2011	Net book value as at December 31, 2011	Rate of amortization
	Rupees in '000							%
Computer software	646,342	8,966	655,308	165,177	80,225	245,402	409,906	11.11 - 33.33

	2010							
	COST			AMORTISATION			Net book value as at December 31, 2010	Rate of amortization
	As at January 01, 2010	Additions / (disposals)	As at December 31, 2010	As at January 01, 2010	Charge for the year	As at December 31, 2010		
	Rupees in '000							%
Computer software	597,639	48,703	646,342	89,719	75,458	165,177	481,165	11.11 - 33.33

11.3.1 The cost of fully amortized intangibles still in use amounts to Rs. 14.005 million (2010: Rs. 4.408 million).

	Note	2011	2010
		Rupees in '000	
12 DEFERRED TAX ASSETS			
Deferred tax debits arising in respect of:			
Available tax losses	12.1	320,384	462,758
Minimum tax liability		115,341	64,441
Provision against non-performing financings		15,316	15,134
Deficit on revaluation of investments		2,571	-
Deferred tax credits arising due to:			
Accelerated tax depreciation on operating fixed assets		(81,079)	(90,905)
Others		5,158	-
Preliminary expenses		-	(3,640)
		377,691	447,788

12.1 The Bank has an aggregate amount of Rs. 915.385 million (2010: Rs. 1,307.556 million) in respect of tax losses as at December 31, 2011. The management carries out periodic assessment to assess the benefit of these losses as the Bank would be able to set off the profit earned in future years against these carry forward losses. Based on this assessment the management has recognised the entire deferred tax debit balance on losses amounting to Rs. 320.384 million (2010: Rs. 462.758 million) [including an unabsorbed tax depreciation of Rs. 249.654 million (2010: Rs. 249.654 million)]. The amount of this benefit has been determined based on the projected financial statements for the future periods. The determination of future taxable profits is most sensitive to certain key assumptions such as cost to income ratio of the Bank, deposit composition, kibor rates, growth of deposits and financings, investment returns, product mix of financings, potential provision against assets and branch expansion plan. Any significant change in the key assumptions may have an effect on the realisibility of the deferred tax asset.

	Note	2011	2010
		Rupees in '000	
13 OTHER ASSETS			
Profit / return accrued in local currency		440,992	433,420
Profit / return accrued in foreign currency		5,852	30,383
Advances, deposits, advance rent and other prepayments	13.1	521,361	631,426
Advance taxation (payments less provisions)		4,430	4,641
Unrealised gain on forward foreign exchange promises		-	3,397
Deferred costs	13.2	-	10,401
Advance for assets to be acquired for Musharaka cum Ijara		159,021	67,594
Advance for assets to be acquired for Murabaha		396,550	147,086
Receivables from group companies		-	1,364
Commission receivable		10,534	3,264
Dividend receivable		30,811	-
Others		15,386	19,786
		1,584,937	1,352,762
Less: Provision held against other assets	13.3	(14,736)	-
Other assets (net of provisions)		1,570,201	1,352,762

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13.1 This includes Rs 240.051 million (2010: Rs 265.929 million) for advance rent, Rs 138.488 million (2010: 166.119 million) against prepaid commission to staff and dealers in respect of auto and house musharaka. The prepaid commission paid to staff and dealers in respect of auto financings is charged over the period of musharaka agreements. However, the prepaid commission paid to staff and dealers in respect of home musharaka is charged over a period of fifteen years. This also includes an amount of Rs 102.519 (2010: Rs 161.472 million) pertaining to prepaid tracker maintenance cost which is amortised over the period of time.

		Note	2011	2010
			----------- Rupees in '000 -----------	
13.2	**Deferred costs**			
	Opening balance		10,401	51,413
	Less: Amortised during the year		(10,401)	(41,012)
	Closing balance		-	10,401
13.3	**Provision held against other assets**			
	Opening balance		-	2,251
	Charge for the year		14,736	-
	Reversals		-	(2,251)
	Closing balance		14,736	-
14	**BILLS PAYABLE**			
	In Pakistan		393,683	411,444
	Outside Pakistan		743	500
			394,426	411,944
15	**DUE TO FINANCIAL INSTITUTIONS**			
	In Pakistan		1,898,500	950,000
	Outside Pakistan		-	-
			1,898,500	950,000
15.1	**Details of due to financial institutions secured / unsecured**			
	Secured			
	Musharaka from State Bank of Pakistan under Islamic Export Refinance Scheme	15.1.1	1,548,500	950,000
	Unsecured			
	Wakala Placements	15.1.2	350,000	-
			1,898,500	950,000

15.1.1 The Musharaka is on a profit and loss sharing basis having maturity dates between January 30, 2012 to May 13, 2012 (2010: January 12, 2011 to June 11, 2011) and is secured against demand promissory note executed in favor of the State Bank of Pakistan (SBP). A limit of Rs 1,600 million (2011: 950 million) has been allocated to the Bank by SBP under Islamic Export Refinance Scheme for the financial year ending December 31, 2012.

15.1.2 This carries expected profit at the rate of 12.15% per annum and is due to mature on January 03, 2012.

15.2 Particulars of due to financial institutions with respect to currencies

	2011	2010
	----------- Rupees in '000 -----------	
In local currency	1,898,500	950,000
In foreign currencies	-	-
	1,898,500	950,000

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		Note	2011	2010
			------- Rupees in '000 -------	
16	DEPOSITS AND OTHER ACCOUNTS			
	Customers			
	Fixed deposits		17,762,396	15,555,400
	Savings deposits		12,079,175	10,081,322
	Current accounts - non-remunerative		8,604,317	5,707,385
	Margin accounts – non-remunerative		27,030	680
			38,472,918	31,344,787
	Financial Institutions			
	Remunerative deposits		5,437	34,783
	Non-remunerative deposits		13,252	35,338
			38,491,607	31,414,908
16.1	**Particulars of deposits**			
	In local currency		34,561,601	27,087,434
	In foreign currencies		3,930,006	4,327,474
			38,491,607	31,414,908
17	OTHER LIABILITIES			
	Profit / return payable in local currency		578,455	505,517
	Profit / return payable in foreign currency		-	716
	Deferred Murabaha Income - Financings	10.1.1	72,107	64,229
	Deferred Murabaha Income - IERS		8,315	-
	Deferred Murabaha Income - Commodity Murabaha	8.3	7,671	-
	Accrued expenses		103,403	71,983
	Advance from customers		216,281	213,688
	Unrealised loss on forward foreign exchange contracts		4,682	-
	Payable to group company		14,200	-
	Security deposits against musharaka cum ijara		9,957	2,530
	Retention money		7,407	4,092
	Payable to Contractors		3,898	95,730
	Charity Payable	17.1	24,198	22,371
	Worker Welfare Fund Payable		8,206	-
	Withholding tax payable		1,614	933
	Others		117,473	81,756
			1,177,867	1,063,545
17.1	Opening balance		22,371	13,808
	Additions during the year		13,827	21,004
	Payments during the year		(12,000)	(12,441)
	Closing balance		24,198	22,371

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

	Note	2011	2010
		------- Rupees in '000 -------	
Shaukat Khanum Memorial Cancer Hospital		2,000	750
The Indus Hospital		2,500	1,000
Sindh Institute of Urology and Transplantation		2,500	750
Chippa Welfare Association		500	400
Layton Rahmatulla Benevolent Trust	17.1.2	2,000	500
Al-Shifa Trust		500	-
Flood Relief		2,000	9,041
		12,000	12,441

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17.1.2 One member of the Board of Directors of the Bank is one of the trustees of the Donee.

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

18 SHARE CAPITAL

18.1 Authorised capital

2011	2010		2011	2010
------- Number of Shares -------			------- Rupees in '000 -------	
1,200,000,000	1,200,000,000	Ordinary shares of Rs.10 each	12,000,000	12,000,000

18.2 Issued, subscribed and paid up

Ordinary shares of Rs. 10/- each **Fully paid in cash**

2011	2010		2011	2010
------- Number of Shares -------			------- Rupees in '000 -------	
677,603,000	677,603,000	Opening Balance	6,776,030	6,776,030
-	-	Issue at Rs. 10 each	-	-
677,603,000	677,603,000	Closing Balance	6,776,030	6,776,030

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

18.4 The State Bank of Pakistan (SBP) vide BSD Circular No. 7 of 2009 dated April 15, 2009 has revised the Minimum Capital Requirement (MCR) for the Banks. As per this circular the Bank was required to have a minimum issued, subscribed and paid-up capital (free of losses) of Rs. 8 billion by December 31, 2011 and is required to raise it to Rs. 10 billion in a phased manner by December 31, 2013. The paid-up capital of the Bank (free of losses) amounted to Rs. 6.154 billion as at December 31, 2011. As more fully explained in note 1.5 to the financial statements, the SBP vide its letter No. BSD/CSD/2215/12/2012 dated February 17, 2012 has granted extension to the Bank in timeline for meeting MCR (free of losses) amounting to Rs 6.4 billion till April 30, 2012.

	Note	2011	2010
19 RESERVES		------- Rupees in '000 -------	
Statutory Reserves	19.1	85,058	46,961

19.1 Under section 21 of the Banking Companies Ordinance, 1962 an amount of not less than 20% of the profit is to be transferred to create a reserve fund till such time the reserve fund and the share premium account equal the amount of the paid up capital. Thereafter, an amount of not less than 10% of the profit is required to be transferred to such reserve fund.

	2011	2010
20 DEFICIT ON REVALUATION OF ASSETS	------- Rupees in '000 -------	
20.1 Deficit on revaluation of available for sale securities		
Units of open end mutual fund	7,347	-
Related deferred tax asset	(2,571)	-
	4,776	-

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	Note	2011	2010
		------- Rupees in '000 -------	

21 CONTINGENCIES AND COMMITMENTS

21.1 Transaction-related contingent liabilities

	2011	2010
Contingent liabilities in respect of performance bonds, bid bonds, warranties, etc. given favoring		
- Government	439,678	403,147
- Banking companies and other financial institutions	34,617	34,617
- Others	1,221,157	1,390,418
	1,695,452	1,828,182

21.2 Trade-related contingent liabilities

	2011	2010
Import Letters of Credit	1,371,808	962,405

21.3 Commitments in respect of promises to

	2011	2010
Purchase	3,672,473	1,434,666
Sale	3,678,113	1,430,733

	2011	2010
21.4 Commitments for the acquisition of operating fixed assets	43,637	48,902

21.5 Commitments in respect of financing facilities

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

	2011	2010
	------- Rupees in '000 -------	

22 PROFIT / RETURN EARNED

	2011	2010
On financings to Customers	3,249,392	3,155,317
On investments in available for sale securities	1,050,250	419,186
On deposits / placements with financial institutions	333,143	497,049
	4,632,785	4,071,552

23 PROFIT / RETURN EXPENSED

	2011	2010
Deposits and other accounts	2,249,277	2,078,422
Other short term fund generation	146,718	51,148
	2,395,995	2,129,570

24 GAIN ON SALE OF SECURITIES

	2011	2010
Sukuks certificates		
Federal government	27,225	-
Others	27,783	2,661
	55,008	2,661

25 OTHER INCOME

	Note	2011	2010
Gain on sale of property and equipment	11.2.1	4,245	258
Liability no longer required written back		8,741	-
Other		1,966	25
		14,952	283

	Note	2011	2010
		------- Rupees in '000 -------	
26 ADMINISTRATIVE EXPENSES			
Salaries, allowances, etc.	26.1	870,223	851,516
Sharia Remuneration		2,323	5,054
Charge for defined benefit plan		19,325	21,059
Contribution to defined contribution plan		28,315	31,805
Brokerage and commission		11,641	8,457
Rent, taxes, insurance, electricity, etc.		592,729	487,789
Legal and professional charges		52,399	23,821
Communications		138,273	111,912
Repairs and maintenance		144,268	106,948
Traveling		32,663	33,396
Stationery and printing		38,217	28,032
Subscription fees		3,621	3,775
Advertisement and publicity		28,564	14,955
Auditors' remuneration	26.2	4,070	3,986
Depreciation	11.2	219,096	210,252
Amortisation	26.3	90,626	116,470
Others		60,959	36,336
		2,337,312	2,095,563

26.1 This includes Rs. 2.939 million (2010: Rs. 2.170 million) in respect of Contribution to Employees' Old Age Benefit Institution.

26.2 Auditors' remuneration	Note	2011	2010
		------- Rupees in '000 -------	
Audit fee		700	575
Fee for the review of half yearly financial statements		300	275
Fee for review of compliance with CCG		165	150
Fee for review of Certificate relating to financial reporting and other certifications		2,523	2,732
Out-of-pocket expenses		382	254
		4,070	3,986

26.3 Amortisation

	Note	2011	2010
Intangible assets	11.3	80,225	75,458
Deferred cost		10,401	41,012
		90,626	116,470

27 OTHER CHARGES

Worker Welfare Fund	7,843	363
Penalties imposed by the State Bank of Pakistan	1,187	12,667
	9,030	13,030

28 TAXATION

For the year		
- Current	50,899	44,379
- Deferred	72,668	(34,722)
- Prior years	2,076	-
	125,643	9,657

28.1 Numerical reconciliation between the average tax rate and the applicable tax rate has not been presented as the Bank has accumulated losses in prior periods and provision for current taxation has been made under section 113 of the Income Tax Ordinance, 2001.

28.2 Under section 114 of the Income Tax Ordinance, 2001 (Ordinance), the Bank has filed the returns of income for the tax years from 2006 to 2011 on due dates. These returns were deemed completed under the provisions of the previaling income tax law as applicable in Pakistan during the relevant accounting years.

	Note	2011	2010
29 BASIC AND DILUTED EARNING PER SHARE		------- Rupees in '000 -------	
Profit after taxation for the year		190,486	8,074
		------- Number of shares -------	
Weighted average number of ordinary shares in issue - Number		677,603,000	677,603,000
		------- Rupees -------	
Earning per share - basic / diluted	29.1	0.28	0.01

29.1 There were no convertible / dilutive potential ordinary shares outstanding as at December 31, 2011 and December 31, 2010.

	Note	2011	2010
30 CASH AND CASH EQUIVALENTS		------- Rupees in '000 -------	
Cash and balances with treasury banks	6	3,429,994	3,197,884
Balances with other banks	7	1,116,928	3,455,665
		4,546,922	6,653,549

	2011	2010
31 STAFF STRENGTH	------ Number of employees-----	
Permanent	765	581
Contractual basis	3	-
Bank's own staff strength at the end of the year	768	581
Outsourced	632	409
Total staff strength	1,400	990

32 DEFINED BENEFIT PLAN

32.1 Principal actuarial assumptions

The latest actuarial valuation of the Bank's gratuity scheme was carried out as at December 31, 2011. Projected unit credit method, using the following significant assumptions, was used for the valuation of the defined benefit plan:

	2011	2010
Discount factor used	12.50%	14.00%
Expected rate of return on plan assets	12.00%	12.00%
Expected rate of salary increase	9.50%	11.00%
Normal retirement age	60 years	60 years

	2011	2010
32.2 Reconciliation of payable to defined benefit plan	------ Rupees in '000 ------	
Present value of defined benefit obligations	71,317	67,299
Fair value of plan assets	(77,918)	(76,319)
Net actuarial losses not recognised	9,377	9,020
	2,776	-

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		2011	2010
		(Rupees in '000)	
32.3	**Movement in defined benefit obligation**		
	Obligations at the beginning of the year	67,299	58,422
	Current service cost	19,215	20,485
	Cost of Fund	9,421	7,595
	Benefits paid	(23,859)	(13,202)
	Actuarial (gain) / loss on obligation	(759)	(6,001)
	Obligations at the end of the year	71,317	67,299
32.4	**Movement in fair value of plan assets**		
	Fair value at the beginning of the year	76,319	63,822
	Expected return on plan assets	9,158	7,020
	Contributions	16,548	21,059
	Benefits paid	(23,859)	(13,202)
	Actuarial gain / (loss) on plan assets	(248)	(2,380)
	Fair value at the end of the year	77,918	76,319
32.5	**Plan assets consist of the following:**		
	Balance with Banks in deposit accounts	77,918	76,319
		77,918	76,319
32.6	**Movement in payable to defined benefit plan**		
	Opening balance	-	-
	Charge for the year	19,325	21,059
	Bank's contribution to fund made during the year	(16,549)	(21,059)
	Closing balance	2,776	-
32.7	**Charge for defined benefit plan**		
	Current service cost	19,215	20,485
	Cost of fund	9,422	7,594
	Expected return on plan assets	(9,158)	(7,020)
	Actuarial gains recognized	(154)	-
		19,325	21,059
32.8	**Actual return on plan assets**	7,642	4,850

32.9 Historical information

	2011	2010	2009	2008	2007
	(Rupees in '000)				
Defined benefit obligation	71,318	67,299	58,422	45,921	28,342
Fair value of plan assets	(77,918)	(76,319)	(63,822)	(41,867)	(25,244)
Deficit	(6,600)	(9,020)	(5,400)	4,054	3,098
Experience adjustments on plan liabilities	(759)	(6,001)	(9,729)	(815)	(1,278)
Experience adjustments on plan assets	(248)	(2,380)	(278)	(233)	737

33 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 amounted to Rs. 28.315 million each (2010: Rs. 31.805 million).

34 COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2011	2010	2011	2010	2011	2010
	Rupees in '000					
Fees	-	-	2,375	750	-	-
Managerial remuneration	8,335	28,073	-	-	184,593	243,738
Charge for defined benefit plan	-	721	-	-	15,383	17,039
Contribution to defined contribution plan	-	865	-	-	18,459	20,447
Rent and house maintenance	4,934	14,916	-	-	77,470	89,606
Utilities	834	2,993	-	-	18,459	20,747
Medical	40	40	-	-	5,004	5,350
Leave fare assistance	621	1,166	-	-	15,484	17,407
Car allowance	-	-	-	-	46,787	48,491
Others	1,933	1,626	-	-	1,224	930
	16,697	50,400	2,375	750	382,863	463,755
Number of persons	1	2	4	3	170	172

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

35 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of quoted investments is based on quoted market prices. Unquoted equity securities are valued at lower of cost and break-up value as per the latest available audited financial statements. Other unquoted securities are valued at cost less impairment losses. The provision for impairment in the value of investments has been determined in accordance with the accounting policy as stated in note 5.2.5 to these financial statements.

Fair values of financings cannot be determined with reasonable accuracy due to absence of current and active market. The provisions against financings have been calculated in accordance with the accounting policy as stated in note 5.3 to these financial statements. The repricing, maturity profile and effective rates are stated in note 39 to these financial statements.

Fair values of all other financial assets and liabilities cannot be calculated with sufficient accuracy as an active market does not exist for these instruments. In the opinion of the management, fair value of these assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short term in nature and in case of financings and deposits are frequently repriced.

35.1 Off-balance sheet financial instruments

	2011		2010	
	Book value	Fair value	Book value	Fair value
	Rupees in '000			
Forward purchase of foreign exchange	3,674,745	3,675,386	1,433,896	1,437,377
Forward sale of foreign exchange	3,676,785	3,680,068	1,432,712	1,433,980

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36 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Others	Total
	Rupees in '000					
2011						
Internal Income	-	(1,188,938)	2,339,782	(1,153,868)	3,024	-
Total income	105,265	1,377,513	1,952,719	1,633,859	20,570	5,089,926
Total expenses	(35,359)	(144,910)	(4,177,595)	(517,673)	(23,903)	(4,899,440)
Net income (loss)	69,906	43,665	114,906	(37,682)	(309)	190,486
Segment assets (gross)	-	16,910,220	13,658,614	13,453,898	4,750,231	48,772,963
Segment non performing Financings	-	-	1,022,922	1,072,173	32,616	- 2,127,711
Segment provision required	-	-	441,403	123,943	11,168	576,514
Segment liabilities	-	-	37,869,638	2,192,358	1,900,404	41,962,400
Segment return on net assets (ROA) (%)	-	10.50%	19.03%	13.15%	4.60%	-
Segment cost of funds (%)	-	12.28%	6.67%	8.45%	-	-

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Others	Total
	Rupees in '000					
2010						
Internal Income	-	(702,988)	1,848,875	(1,148,338)	2,451	-
Total income	50,443	795,360	1,905,670	1,663,565	22,849	4,437,887
Total expenses	(30,058)	(100,784)	(3,782,511)	(991,071)	(25,300)	(4,929,723)
Net income / (loss)	20,295	(8,412)	(27,966)	24,156	-	8,074
Segment assets (gross)	-	11,104,292	11,611,757	13,765,853	3,960,037	40,441,939
Segment non performing Financings	-	-	887,405	943,444	27,950	- 1,858,799
Segment provision required	-	-	395,171	82,040	15,382	492,593
Segment liabilities	-	-	31,150,450	1,626,402	1,063,545	33,840,397
Segment return on net assets (ROA) (%)	-	8.04%	17.76%	13.01%	4.74%	-
Segment cost of funds (%)	-	11.21%	6.72%	6.30%	0.00%	-

37 RELATED PARTY TRANSACTIONS

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

The Bank has related party relationship with Dubai Islamic Bank P.J.S.C, U.A.E, the holding company, shareholder, directors, related group companies and associated undertakings, key management personnel including Chief Executive Officer and Staff Retirement Funds.

A number of banking transactions are entered into with related parties in the normal course of business. These include financing and deposit transactions. These transactions are executed substantially on the same terms including profit rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk.

Contributions to staff retirement benefit plan are made in accordance with the terms of the contribution plan. Remuneration to the executives are determined in accordance with the terms of their appointment.

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 34 are as follows:

	Note	2011	2010
Key management personnel		----------- (Rupees '000)	----------
Financings			
At beginning of the year		144,101	146,349
Disbursements		63,552	46,434
Repayments		(98,843)	(48,682)
At the end of the year		108,810	144,101
Profit earned on financings		5,034	7,794
Deposits			
At beginning of the year		21,432	24,076
Deposits		165,140	192,355
Withdrawals		(146,460)	(194,999)
At the end of the year		40,112	21,432
Return on deposits		807	281
Directors			
Financings			
At beginning of the year		13,425	13,682
Transferred from staff financings		(13,425)	(257)
At the end of the year		-	13,425
Profit earned on financings		513	1,871
Deposits			
At beginning of the year		182	313
Deposits		-	11,903
Withdrawals		(182)	(12,034)
At the end of the year		-	182
Return on deposits		-	3
Holding company			
Placements			
At beginning of the year		2,140,918	421,208
Placements	37.1	10,735,835	6,442,397
Repayments		(12,876,753)	(4,722,687)
At the end of the year		-	2,140,918
Profit earned on financings		3,067	33,426
Fee charged by the holding company in respect of outsourcing arrangement		32,802	-

37.1 These include placements made by the holding company under Wakala arrangement on behalf of the Bank.

	2011	2010
Deposits	----------- (Rupees '000)	----------
At beginning of the year	35,338	13,213
Deposits	620,280	502,455
Withdrawals	(642,366)	(480,330)
At the end of the year	13,252	35,338
Balance held abroad		
At beginning of the year	317,727	430,075
Deposits	20,316,894	44,954,769
Withdrawals	(20,590,566)	(45,067,117)
At the end of the year	44,055	317,727
Other payables	14,200	-
Other receivables	-	31,070
Employee benefit plans		
Contribution to Employees Gratuity Fund	19,325	21,059
Contribution to Employees Provident Fund	28,315	31,805

38 CAPITAL ASSESSMENT AND ADEQUACY

38.1 Capital management

Capital Management aims to safeguard the Bank's ability to continue as a going concern so that it could continue to provide adequate returns to shareholders by pricing products and services commensurately with the level of risk. For this the Bank ensures strong capital position and efficient use of capital as determined by the underlying business strategy i.e. maximizing growth on continuing basis. The Bank maintains a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

This process is managed by the Asset Liability Committee (ALCO) of the Bank. The objective of ALCO is to derive the most appropriate strategy in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movement, liquidity constraints and capital adequacy and its implication on risk management policies.

38.2 Goals of managing capital

The goals of managing capital of the Bank are as follows:

- To be an appropriately capitalised institution, considering the requirements set by the regulators of the banking markets where the Bank operates;

- Maintain strong ratings and to protect the Bank against unexpected events; and

- Availability of adequate capital at a reasonable cost so as to enable the Bank to operate adequately and provide reasonable value addition for the shareholders and other stakeholders.

38.3 Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No. 7 dated April 2009 requires the minimum paid-up capital (free of losses) for Banks / Development Finance Institutions to be raised to Rs. 10 billion by the year ending December 31, 2013. The raise is to be achieved in a phased manner requiring Rs. 8 billion paid-up capital (free of losses) by the end of the financial year 2011. The paid-up capital (free of losses) of the Bank for the year ended December 31, 2011 stood at Rs. 6.154 billion. As more fully explained in note 1.5 to the financial statements, the SBP has granted extension to the bank for meeting MCR (free of losses) amounting to Rs. 6.4 billion till April 30, 2012. In addition, banks are also required to maintain Capital Adequacy Ratio (CAR) of 10 percent of the risk weighted exposure of the Bank. The Bank's CAR as at December 31, 2011 was approximately 20.85 percent of its risk weighted exposure.

38.4 Capital Structure

The Banks Regulatory Capital has been analysed into three tiers i.e.:

- Tier I Capital, which includes fully paid-up capital, general reserves and unappropriated profits (net of losses) etc. after deductions for certain specified items such as book value of intangibles etc.

- Tier II Capital, which includes general provision for loan losses (upto a maximum of 1.25% of total risk weighted assets) and reserve on revaluation of equity investments after deduction of deficit on available for sale investments (upto a maximum of 45%).

- Tier III Capital has also been prescribed by SBP for managing Market Risk. However, the Bank does not have any Tier III capital.

The total of Tier II and Tier III capital has to be limited to Tier I capital.

Banking operations are categorised in either the trading book or the banking book and risk weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off balance sheet exposures. The total risk weighted exposures comprise the credit risk, market risk and operational risk.

38.5 Capital adequacy ratio

The capital to risk weighted assets ratio, calculated in accordance with the SBP guidelines on capital adequacy using Basel II Standarsied approach for credit and market risk and basic indicator approach for operational risk is presented below:

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Regulatory Capital Base

		2011	2010
		--------- Rupees in '000 ---------	
Tier I Capital			
Issued, subscribed and paid-up capital		6,776,030	6,776,030
Reserves as disclosed on the Statement of Financial Position		85,076	46,979
Accumulated loss		(622,281)	(774,670)
Other deductions:			
Book value of intangible assets (computer software)		(427,531)	(481,165)
Shortfall in provisions required against classified assets irrespective of any relaxation allowed		(191,250)	-
Deficit on account of revaluation of investments held in AFS category		(4,776)	-
Total Tier I Capital		5,615,268	5,567,174
Tier II Capital			
General provisions for loan losses-up to maximum of 1.25% of Risk Weighted Assets		56,110	60,610
Revaluation Reserves up to 45%		-	-
Other Deductions		-	-
Total Tier II Capital		56,110	60,610
Eligible Tier III Capital		-	-
Total Regulatory Capital Base	(a)	5,671,378	5,627,784

Risk-weighted exposures		2011		2010	
		Capital Requirement	Risk adjusted value	Capital Requirement	Risk adjusted value
Credit risk		---------- Rupees in '000 ----------		---------- Rupees in '000 ----------	
Portfolios subject to standardized approach (Simple Approach for CRM)					
Banks and securities firms		144,340	1,443,400	221,139	2,211,385
Corporate portfolio		1,131,973	11,319,730	957,099	9,570,993
Retail non mortgages		468,691	4,686,909	441,455	4,414,551
Mortgages – residential		177,892	1,778,920	152,745	1,527,449
Fixed assets		117,024	1,170,239	122,242	1,222,424
Other assets		195,155	1,951,553	304,543	3,045,432
Market risk					
Capital requirement for portfolios subject to standardized approach					
Interest rate risk		91,826	918,258	74,466	744,662
Equity position risk		-	-	-	-
Foreign exchange risk		6,454	64,538	35,870	358,700
Operational risk					
Capital Requirement for operational risks subject to Basic Indicator Approach		386,657	3,866,573	387,126	3,871,260
Total	(b)	2,720,012	27,200,120	2,696,685	26,966,856

Capital adequacy ratio

		2011	2010
Total eligible regulatory capital held	(a)	5,671,378	5,627,784
Total risk weighted assets	(b)	27,200,120	26,966,856
Capital adequacy ratio	[(a / b) x 100]	20.85%	20.87%

39 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 and 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 and strategies, (b) Organizational Structures and Procedures and (c) Prudent Risk Measurement and Monitoring Processes which are closely aligned with the activities of the Bank so as to give maximum value to the shareholders 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 this 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.

The 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 and adhered for quantifiable risks by those who accept risks on behalf of the organization. Further, they also ensure that the non-quantifiable risks are communicated as guidelines and adhered to in management business decisions.

RISK APPETITE

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

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

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

39.1 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.

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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.

39.1.1 Segments by class of business

	2011					
	Financings (Gross)		Deposits		Contingencies and Commitments *	
	Rupees in '000	Percent	Rupees In '000	Percent	Rupees in '000	Percent
Agriculture	-	-	2,473	0.01%	-	-
Textile	4,965,207	20.77%	164,183	0.43%	217,006	2.07%
Chemical and pharmaceuticals	2,258,555	9.45%	274,295	0.71%	59,220	0.57%
Cement	398,941	1.67%	4,337	0.01%	-	-
Sugar	-	-	140	0.00%	-	-
Food	1,397,532	5.85%	76,326	0.20%	282,182	2.70%
Footwear and leather garments	84,155	0.35%	2,801	0.01%	-	-
Automobile and transportation equipment	59,000	0.25%	15,930	0.04%	-	-
Electronics and electrical appliances	2,006	0.01%	12,687	0.03%	-	-
Construction	775,000	3.24%	212,187	0.55%	-	-
Power (electricity), gas, water, sanitary	428,466	1.79%	262,659	0.68%	605,610	5.79%
Wholesale and retail trade	262,023	1.10%	274,744	0.71%	-	-
Exports / imports	89,838	0.38%	155,848	0.40%	-	-
Transport, storage and communication	1,124,000	4.70%	401,907	1.04%	454,156	4.34%
Financial	-	-	5,437	0.01%	8,366,736	79.98%
Insurance	-	-	229,142	0.60%	-	-
Services	87,511	0.37%	4,368,613	11.35%	120,626	1.15%
Individuals	11,157,194	46.68%	31,085,552	80.77%	-	-
Others	812,952	3.39%	942,346	2.45%	355,947	3.40%
	23,902,380	100%	38,491,607	100%	10,461,483	100%

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

	2010					
	Financings (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees In '000	Percent	Rupees In '000	Percent
Agriculture	-	-	616,133	1.96%	-	-
Textile	3,767,855	16.16%	62,172	0.20%	116,196	2.04%
Chemical and pharmaceuticals	2,624,209	11.25%	531,692	1.69%	164,031	2.88%
Cement	400,000	1.72%	8,637	0.03%	-	-
Sugar	-	-	140	0.00%	-	-
Food	1,341,072	5.75%	142,792	0.45%	207,167	3.63%
Footwear and leather garments	59,847	0.26%	10,870	0.03%	-	-
Automobile and transportation equipment	75,000	0.32%	16,939	0.05%	-	-
Electronics and electrical appliances	-	-	5,767	0.02%	-	-
Construction	778,340	3.34%	965,946	3.07%	92,791	1.63%
Power (electricity), gas, water, sanitary	-	-	192,245	0.61%	421,758	7.39%
Wholesale and retail trade	476,356	2.04%	239,124	0.76%	-	-
Exports / imports	334,055	1.43%	155,755	0.50%	-	-
Transport, storage and communication	1,177,000	5.05%	328,863	1.05%	250,472	4.39%
Financial	-	-	34,784	0.11%	2,901,016	50.85%
Insurance	-	-	17,382	0.06%	-	-
Services	162,883	0.70%	3,374,955	10.74%	349,205	6.12%
Individuals	11,276,624	48.36%	22,239,380	70.80%	-	-
Others	844,916	3.62%	2,471,332	7.87%	1,202,252	21.07%
	23,318,157	100%	31,414,908	100%	5,704,888	100%

39.1.2 Segment by sector

	2011					
	Financings (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	400,000	1.67%	980,920	2.55%	600,000	5.74%
Private	23,502,380	98.33%	37,510,687	97.45%	9,861,483	94.26%
	23,902,380	100.00%	38,491,607	100.00%	10,461,483	100.00%

	2010					
	Financings (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	400,000	1.72%	3,595,004	11.44%	823,336	14.43%
Private	22,918,157	98.28%	27,819,904	88.56%	4,881,552	85.57%
	23,318,157	100.00%	31,414,908	100.00%	5,704,888	100.00%

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

	2011		2010	
	Classified financings	Specific provisions held	Classified financings	Specific provisions held
	Rupees In '000			
Textile	82,850	37,661	129,022	60,759
Chemical	765,000	-	765,000	-
Wholesale and retail trade	42,831	20,960	47,430	19,289
Transportation, storage andcommunication	1,497	1,497	-	-
Services	1,055,537	385,842	1,992	1,992
Individuals	159,994	59,708	915,355	410,553
	2,107,709	505,668	1,858,799	492,593

39.1.4 Details of non-performing financings and specific provisions by sector:

	2011		2010	
	Classified financings	Specific provisions held	Classified financings	Specific provisions held
	Rupees In '000			
Public / Government	-	-	-	-
Private	2,107,709	505,668	1,858,799	492,593
	2,107,709	505,668	1,858,799	492,593

39.1.5 GEOGRAPHICAL SEGMENT ANALYSIS

	2011			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments *
	Rupees In '000			
Pakistan	316,129	48,196,449	6,234,049	10,461,483

	2010			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments *
	Rupees In '000			
Pakistan	17,731	39,888,736	6,048,339	5,704,888

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

Total assets employed include intra group items of Rs. 16.602 million.

39.1.6 Credit risk - General disclosures

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

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Credit Risk: Disclosures for portfolio subject to the Standardised Approach and 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

	2011		
Exposures	**JCR - VIS**	**PACRA**	**S and P**
Corporate	✔	✔	N/A
Banks	✔	✔	✔
Sovereigns	N/A	N/A	N/A
SME's	✔	✔	N/A

Credit Exposures subject to Standardised approach

		2011			2010		
Exposures	**Rating Category**	**Amount Outstanding**	**Deduction CRM**	**Net amount**	**Amount Outstanding**	**Deduction CRM**	**Net amount**
		---------- Rupees in '000 ----------					
Funded							
Corporate	1	2,783,145	-	2,783,145	1,510,500	-	1,510,500
	2	1,600,293	-	1,600,293	1,634,758	-	1,634,758
	3,4	-	-	-	-	-	-
		4,383,438	-	4,383,438	3,145,258	-	3,145,258
Banks	1	4,748,579	-	4,748,579	1,157,097	-	1,157,097
	2,3	433,882	-	433,882	3,412,230	-	3,412,230
		5,182,461	-	5,182,461	4,569,327	-	4,569,327
Mortgages		4,501,388	-	4,501,388	4,827,287	-	4,827,287
PSEs		-	-	-	400,000	-	400,000
Retail		6,218,952	9,075	6,209,877	5,919,388	4,109	5,915,279
Unrated		9,294,054	853,154	8,440,900	8,533,631	931,494	7,602,137
		29,580,293	862,229	28,718,064	27,394,891	935,603	26,459,288
Non Funded							
Corporate	1	600,000	-	600,000	457,432	-	457,432
	2	69,227	-	69,227	10,327	-	10,327
		669,227	-	669,227	467,759	-	467,759
Banks	1	-	-	-	-	-	-
	2,3	1,016,149	-	1,016,149	1,004,652	-	1,004,652
		1,016,149		1,016,149	1,004,652	-	1,004,652
PSEs	1	-	-	-	-	-	-
Retail		51,311	17,057	34,254	55,538	21,096	34,442
Unrated		1,330,573	85,793	1,244,780	1,311,540	38,542	1,272,998
		3,067,260	102,850	2,964,410	2,839,489	59,638	2,779,851

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.

39.2 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.

39.2.1 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 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.

	2011			
	Assets	Liabilities	Off-balance Sheet	Net foreign currency exposure
	------- Rupees in '000 -------			
Pakistan rupee	45,504,652	38,026,157	597,856	8,076,351
United States dollar	2,388,621	2,885,592	(1,433,466)	(1,930,437)
Great Britain pound	111,149	355,952	328,674	83,871
Japanese yen	88	-	-	88
Euro	94,226	259,318	506,936	341,844
Swiss franc	2,251	-	-	2,251
U.A.E Dirham	95,462	435,381	-	(339,919)
	48,196,449	41,962,400	-	6,234,049

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

39.2.2 Equity Position Risk

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

39.2.3 Yield / Profit Rate Risk

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

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

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39.2.4 MISMATCH OF YIELD / PROFIT RATE SENSITIVE ASSETS AND LIABILITIES

2011

	Effective Yield / Profit rate	Total	Exposed to Yield / Profit risk: 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	Non-profit bearing financial instruments
			Rupees in '000									
On-balance sheet financial instruments												
Assets												
Cash and balances with Treasury Banks	-	3,429,994	-	-	-	-	-	-	-	-	-	3,429,994
Balances with other Banks	6.70%	1,116,928	10	-	-	-	-	-	-	-	-	1,116,918
Due from financial institutions	12.54%	3,826,084	3,826,084	-	-	-	-	-	-	-	-	-
Investments	13.38%	12,937,179	1,701,203	525,833	10,710,143	-	-	-	-	-	-	-
Financings	15.42%	23,340,602	3,708,120	6,199,114	6,762,419	4,064,687	20,877	21,212	114,003	51,699	623,194	1,775,277
Other assets	-	488,839	-	-	-	-	-	-	-	-	-	488,839
		45,139,626	9,235,417	6,724,947	17,472,562	4,064,687	20,877	21,212	114,003	51,699	623,194	6,811,028
Liabilities												
Bills payable	-	394,426	-	-	-	-	-	-	-	-	-	394,426
Due to financial institutions	10.11%	1,898,500	398,000	978,500	522,000	-	-	-	-	-	-	-
Deposits and other accounts	6.65%	38,491,607	29,859,524	-	-	-	-	-	-	-	-	8,632,083
Other liabilities	-	858,991	-	-	-	-	-	-	-	-	-	858,991
		41,643,524	30,257,524	978,500	522,000	-	-	-	-	-	-	9,885,500
On-balance sheet gap		3,496,102	(21,022,107)	5,746,447	16,950,562	4,064,687	20,877	21,212	114,003	51,699	623,194	(3,074,472)
Total Yield / Profit Risk Sensitivity Gap			(21,022,107)	5,746,447	16,950,562	4,064,687	20,877	21,212	114,003	51,699	623,194	(3,074,472)
Cumulative Yield/Profit Risk Sensitivity Gap			(21,022,107)	(15,275,660)	1,674,902	5,739,589	5,760,466	5,781,678	5,895,681	5,947,380	6,570,574	3,496,102

2010

	Effective yield / Profit Rate	Total	Exposed to Yield / Profit risk: 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	Non-profit bearing financial instruments
			Rupees in '000									
On-balance sheet financial instruments												
Assets												
Cash and balances with Treasury Banks	-	3,197,884	-	-	-	-	-	-	-	-	-	3,197,884
Balances with other Banks	1.33%	3,455,665	1,712,783	428,183	-	-	-	-	-	-	-	1,314,699
Due from financial institutions	11.74%	1,020,725	1,000,000	20,725	-	-	-	-	-	-	-	-
Investments	13.21%	5,945,370	455,375	854,675	4,635,320	-	-	-	-	-	-	-
Financings	15.13%	22,764,954	2,865,533	5,972,126	6,295,408	5,198,220	-	40,776	67,490	78,403	753,414	1,493,584
Other assets	-	488,217	-	-	-	-	-	-	-	-	-	488,217
		36,872,815	6,033,691	7,275,709	10,930,728	5,198,220	-	40,776	67,490	78,403	753,414	6,494,384
Liabilities												
Bills payable	-	411,944	-	-	-	-	-	-	-	-	-	411,944
Due to financial institutions	9.75%	950,000	-	325,000	625,000	-	-	-	-	-	-	-
Deposits and other accounts	6.69%	31,414,908	25,671,506	-	-	-	-	-	-	-	-	5,743,402
Other liabilities	-	784,695	-	-	-	-	-	-	-	-	-	784,695
		33,561,547	25,671,506	325,000	625,000	-	-	-	-	-	-	6,940,041
On-balance sheet gap		3,311,268	(19,637,815)	6,950,709	10,305,728	5,198,220	-	40,776	67,490	78,403	753,414	(445,657)
Total Yield / Profit Risk Sensitivity Gap			(19,637,815)	6,950,709	10,305,728	5,198,220	-	40,776	67,490	78,403	753,414	(496,029)
Cumulative Yield/Profit Risk Sensitivity Gap			(19,637,815)	(12,687,106)	(2,381,378)	2,816,842	2,816,842	2,857,618	2,925,108	3,003,511	3,756,925	3,260,896

39.3 Liquidity Risk

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

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

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

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

39.3.1 MATURITIES OF ASSETS AND LIABILITIES

	2011									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	Rupees in '000									
Assets										
Cash and balances with treasury banks	3,429,994	1,309,179	-	-	-	2,120,815	-	-	-	-
Balances with other banks	1,116,928	1,116,928	-	-	-	-	-	-	-	-
Due from financial institutions	3,826,084	3,826,084	-	-	-	-	-	-	-	-
Investments	12,937,179	1,192,653	55,833	-	382,643	3,155,984	7,153,858	503,333	492,875	-
Financings	23,340,602	2,198,533	4,117,992	3,765,008	665,942	1,731,579	1,885,910	4,044,501	1,824,025	3,107,112
Operating fixed assets	1,597,770	23,996	45,916	67,471	129,495	267,444	228,683	428,057	358,776	47,932
Deferred tax assets	377,691	15,736	31,474	47,211	94,422	188,848	-		-	
Other assets	1,570,201	439,929	236,057	563,955	110,377	104,122	57,299	43,296	15,166	-
	48,196,449	10,123,038	4,487,272	4,443,645	1,382,879	7,568,792	9,325,750	5,019,187	2,690,842	3,155,044
Liabilities										
Bills payable	394,426	394,426	-	-	-	-	-	-	-	-
Due to financial institutions	1,898,500	398,000	978,500	522,000						
Deposits and other accounts	38,491,607	6,620,955	4,037,908	4,030,868	6,897,269	4,562,633	7,282,476	4,263,731	795,767	-
Other liabilities	1,177,867	650,689	228,345	115,961	81,299	47,372	19,230	24,346	10,625	-
	41,962,400	8,064,070	5,244,753	4,668,829	6,978,568	4,610,005	7,301,706	4,288,077	806,392	-
Net assets	6,234,049	2,058,968	(757,481)	(225,184)	(5,595,689)	2,958,787	2,024,044	731,110	1,884,450	3,155,044
	-									
Share capital	6,776,030									
Reserves	85,058									
Accumulated loss	(622,281)									
Advance against future issue of share capital	18									
Surplus on revaluation of assets	(4,776)									
	6,234,049									

	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	2010									
	Rupees in '000									
Assets										
Cash and balances with treasury banks	3,197,884	3,197,884	-	-	-	-	-	-	-	-
Balances with other banks	3,455,665	3,027,482	428,183	-	-	-	-	-	-	-
Due from financial institutions	1,020,725	1,000,000	20,725	-	-	-	-			
Investments	5,945,370	14,176	63,921	57,254	125,429	691,173	3,389,360	1,036,182	567,875	-
Financings	22,764,954	2,502,151	3,201,931	2,341,993	1,111,143	2,685,933	1,483,632	3,983,704	2,085,064	3,369,403
Operating fixed assets	1,703,588	17,975	35,951	53,927	107,852	215,705	215,705	424,461	632,012	-
Deferred tax assets	447,788	12,439	24,878	37,317	74,634	149,268	149,252	-	-	-
Other assets	1,352,762	213,848	396,168	233,162	131,442	150,782	114,795	89,702	13,157	9,706
	39,888,736	9,985,955	4,171,757	2,723,653	1,550,500	3,892,861	5,352,744	5,534,049	3,298,108	3,379,109
Liabilities	-									
Bills payable	411,944	411,944	-	-	-	-	-	-	-	-
Due to financial institutions	950,000	-	325,000	625,000	-	-	-	-	-	-
Deposits and other accounts	31,414,908	9,217,371	3,954,737	1,829,251	13,443,679	954,957	957,094	556,321	501,498	-
Other liabilities	1 063,545	544,520	505,854	12,310	861	-	-	-	-	-
	33,840,397	10,173,835	4,785,591	2,466,561	13,444,540	954,957	957,094	556,321	501,498	-
Net assets	6,048,339	(187,880)	(613,834)	257,092	(11,894,040)	2,937,904	4,395,650	4,977,728	2,796,610	3,379,109
Share capital	6,776,030									
Reserves	46,961									
Accumulated loss	(774,670)									
Advance against future issue of share capital	18									
	6,048,339									

39.4 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.

40 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 27 FEB 2012 by the Board of Directors of the Bank.

41 GENERAL

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

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

41.3 Corresponding figures

Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate comparisons. No significant reclassifications were made during the current year.

President / Chief Executive	Director	Director	Director

DUBAI ISLAMIC BANK PAKISTAN LIMITED

STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF FIVE HUNDRED THOUSAND RUPEES OR ABOVE PROVIDED DURING THE YEAR ENDED DECEMBER 31, 2011

ANNEXURE-1

S. No.	Name and address of the borrower	Name of director (with NIC No.)	Father's / Husband's Name	Outstanding liabilities at beginning of year				Principal written-off	Profit written-off	Other financial relief provided	Total
				Principal	Profit	Others	Total				
				Rupees in '000							
1	AFZAL WEAVING FACTORY CHAK NO.217/RB, SULTAN TOWN, NARWALA ROAD, FAISALABAD	MUHAMMAD AFZAL 33100-2340435-3 SAMINA AKHTAR 33100-4902721-4	HAJI MUHAMMAD SADDIQ MUHAMMAD AFZAL	6,500	345	-	6,845	1,500	346	-	1,846

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